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Community: Voluntary Accord Near on Steel Production Cutbacks

The Common Market's leading steelmakers have agreed on the essential points of an accord on voluntary production cutbacks. The agreement is crucial to the industry's efforts to cope with excess capacity and declining demand. Several points still remain unsolved, notably with respect to independent steelmakers that are not members of the European Steel Manufacturers' Association (Eurofer). Here the problem is to get the independents to join the accord and commit themselves to cut back production of steel rods and a range of other small-gauge steel products. Etienne Davignon, Commissioner in charge of industrial policy, keeps applying pressures so that this and the other problems can be solved. If signed, the accord would take effect on July 1, 1981, when the mandatory steel production quota system expires.

Last October the Commission sought and, after long debates, received from the Council the go-ahead to impose production quotas, monitor price discipline, and levy fines for noncompliance. The system has worked fairly well, but an extension was never envisaged. In fact, Germany consented to the measure only on the condition that the obligatory production curbs be lifted

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after June 30. Pressures from the Commission and the Member State governments brought steel mill executives back to the negotiating table. The steelmakers' experience with the red tape involved in the mandatory system convinced them that the mills would fare far better with a voluntary arrangement.

Western Europe's 15 largest steel producers reached full agreement on raising minimum prices for the second quarter of 1981 by between 10% and 20%, depending on the type of steel or steel product. The Commission would police the price practices. A price strategy after July 1 was also agreed on. Both the production cutbacks and price increases are important elements of the Commission's and the Member State governments' policies to shore up the steel market. West European steel mills are using only 55% of their possible annual production capacity of 200 million tons.

Speaking With One Voice on Commodities Agreements

The Council and the Commission have agreed on a plan for joint participation by the Community and the Member States in international commodities agreements. The Community and the States will be represented by a joint delegation, and in conferences the national and Community delegates will be listed together under "EEC." Although the Commission delegate will do the talking at the negotiating table, both he and the Member States' representatives will sign the agreements.

Council and Commission attorneys are pleased with the small element of progress inherent in the agreement, especially these days when the Community appears to be stagnating. The accord brings a new element to the still incomplete commercial policy, although it is not covered by Articles 113 or 116 of the EEC Treaty *(Common Market Reports, Pars. 3815, 3816, 3895, 3896).*

Commission President Gaston Thorn advanced the idea of joint participation at a Council meeting in January. There was considerable resistance from the Member States because accepting the plan meant setting aside legal and institutional considerations concerning participation by the Community and the States in international commodities accords. These considerations always played and still play an important part in the Community's external relations, commercial policy, and other fields. As the arrangement turned out, the Member States agreed to this role at the negotiating table. This is significant because the European Court of Justice gave the States a better position in its opinion on the proposed international rubber agreement. A major objective of that accord is to offset price fluctuations of natural rubber on world markets, among other things by establishing buffer stocks that are financed by the countries that import and export rubber. The Court said that the EEC's powers to conclude the agreement are exclusive if contributions come from the EC budget. If the States pay all of the costs directly, they could become parties to the accord along with the Community (Opinion No. 1/78, Oct. 11, 1979).

ACP Countries Disappointed Over Trade Developments

Government representatives from many of the 61 African, Caribbean and Pacific (ACP) countries expressed concern and disappointment over several aspects of the Lomê II Convention at their April 9-10 meeting with Community and EEC Member State officials in Luxembourg. According to the representatives, duty-free access of ACP products and agricultural commodities to the Common Market does not really amount to as much as Community and State officials think it does. The reason: the EEC has been granting duty-free access or other preferential treatment (i.e., increased quotas) to a number of other developing countries that are not party to Lomê II. The most advanced of those countries are benefiting at the expense of many ACP countries.

Lomê II, which took effect on Jan. 1, 1981, confirms duty-free access to the Common Market for 99.5% of the ACP countries' products, half of which are exported to the EEC *(Common Market Reports, Pars. 10,173, 10,284)*. Lomê II broadens the range of products that qualify for support through Stabex, the export earnings stabilization system introduced under Lomê I to help ACP countries partially offset losses in export earnings whenever world market prices drop drastically.

Some ACP countries said at the Luxembourg meeting that the product range should be extended further to include commodities such as citrus fruits and goods made of sisal. Zimbabwe, the leading tobacco-growing country in Africa and one of the new parties to Lomê II, is seeking a better deal for its tobacco exports. Italy and Greece have been holding out against such an arrangement. No agreement was reached on that point or any other major issue, but groups of experts will look into some of the complaints made by the ACP countries.

Changing Budget Structure a Difficult Task

The Commission is having a hard time fulfilling the mandate given it by the Council of Ministers in May of last year to see to it that budget problems similar to that caused by the U.K.'s disproportionately high contribution share do not arise again. The major reason why the Commission is having problems is that the Council's request contains a number of inconsistencies. The EC executive was instructed to come up with proposals by the end of June 1981 "to prevent the recurrence of unacceptable situations." The Council also told the EC executive to look into ways of resolving the budget problem by means of structural changes - in other words, by changing the balance of the currently lopsided budget. This would mean cutting the costs of the common agricultural policy, which consumes 70% of the budget. However, the structural changes must not affect the basic principles of CAP, the Council emphasized.

One of the best ways of changing the balance, experts say, would be to develop and spend more money in other sectors, such as the regional, social, and energy policies. But, the Community's financial resources are restricted by the value-added tax revenue limit - 1% of the Member States' VAT assessment base - and opposition to a higher percentage *(Common Market Reports, Pars. 5012.11, 5042.07)*. Germany and the U.K. are the most outspoken opponents of providing the Community with additional funds. Bonn has reason to object: in the Commission's estimate, Germany will be the No. 1 net contributor in 1981, to the tune of $2.4 billion. Even under the temporary reduction settlement, Britain will take second place with a net contribution of $930 million. France will rank third with $530 million. All other Member States receive more than they pay in.

In Brief...

Commission and Member State officials are soon going to take up a preliminary draft regulation that would subject shipping liner conferences (cartels) to the EEC's competition rules. Last year the Commission's draft regulation on the same subject was defeated because of heavy opposition in the Council. To avoid a similar experience the second time around, Commission and State experts must resolve all major problems before the measure is presented to the Council. One particular difficulty is having to reconcile compliance with the mandatory rules of the U.N.'s Code for Liner Conferences and U.S. antitrust rules governing the North Atlantic liner conference. At the same time there must be effective application of Treaty Articles 85 and 86 as implied by the Court of Justice's 1974 judgment (Case No. 167/73; *Common Market Reports, Par. 8270)* + + + Willy Schlieder, head of the Commission's competition rules division for the past 10 years, has resigned to take up a post as visiting professor at Georgetown University, Washington, D.C. His successor is Manfred Caspari, an attorney, who formerly was deputy director-general of the external relations division and a member of the Commission's delegation in the negotiations involving the accession of Denmark, Ireland, and the U. K. + + + Commission and Indian government officials have wound up negotiations for a new commercial and economic cooperation agreement between the EEC and India. The accord would expand the range of the current pact in effect since 1974 by including scientific and technical cooperation in addition to trade matters. The agreement will probably be signed later this year + + + IBM has brought suit in the European Court of Justice against the Commission to void the latter's proceedings against the multinational brought under Reg. No. 17 (Case No. 60/81). Last

January, in a statement of objections, the EC executive alleged that IBM had violated EEC competition rules, but no formal decision has been taken yet. The multinational charges that the statement of objections fails to state precisely the terms of the order the Commission is planning to issue and to set out in detail how IBM violated competition rules. The corporation also maintains that the Commission must consider whether the Community should exercise its powers in the face of a potential conflict with the law of another country that has a substantial interest in the matter, in this case the United States.

Germany: Decision Due on Chemicals Law Enforcement

Chancellor Helmut Schmidt is expected to settle soon disagreement within his cabinet over which agency or agencies should be given the job of registering new chemicals and verifying manufacturers' test results. Five cabinet members have been discussing for months several models involving five agencies, among them the Federal Environmental Office and the Federal Health Office. Each minister hopes to get the powers and funds for new posts that the appointment would bring. The dispute has held up finalizing draft regulations that the chemicals industry has been awaiting for half a year. Manufacturers will know a great deal more about the content and form of registration and the scope of tests once the regulations are issued.

Schmidt's decision will probably be made by mid-May at the latest because the lower house budget committee must know by then how much money it must allocate in the 1982 draft budget. Originally the administration planned to hire about 500 scientists plus staff, but opposition in the upper house of Parliament forced a substantial cutback. Last month the Accounting Office too urged the government and Parliament to keep the number of new positions to 132.

Approved unanimously by both houses of Parliament in 1980, the new legislation commits manufacturers to testing new substances for their toxic properties and their effect on man and the environment. The measure is in line with a 1979 EEC Council directive that introduced a system for the notification of new substances prior to marketing so that their effects on man and the environment can be assessed *(Doing Business in Europe, Pars. 40,004, 40,070; Common Market Reports, Par. 3451).*

Under the new law, which takes effect on Jan. 1, 1982, a manufacturer may put a new dangerous substance on the market only if it has been tested and registered with the government agency yet to be designated. An importer must also register an imported substance, but the registration requirement may be waived if the substance is imported from another Common Market state and was subject to an equivalent registration procedure there. The federal government is empowered to ban or restrict the manufacture or marketing of dangerous substances in order to protect human life and health and the environment.

New Attack on White-Collar Crime

This month the German government plans to submit to Parliament amendments to the Criminal Code, the Bankruptcy Law, and a number of other acts in a new offensive on white-collar crime, in particular fraud committed through the use of computers. It is almost impossible for states' attorneys to obtain convictions in computer-connected crimes because the courts have been adhering to the constitutional principle that nobody can be tried for a crime for which there is no statute. An amendment to the fraud section of the Criminal Code would change this without encroaching on the rights guaranteed by the due process clause of the Constitution.

Embezzlement of employees' wages and salaries by the employer would also become a criminal offense. Failure to withhold and transmit to the government income and social security taxes is subject to heavy fines and/or imprisonment, but embezzling employees' pay is not. The employee merely has a contractual claim against the employer, which must be filed in a labor court.

Another amendment to the Law Against Unfair Competition would be expected to curb unfair investment promotion practices by individuals and companies. Investors are lured into becoming partners in unsound ventures or buying real estate that does not measure up to the claims in ads and other promotional material *(Doing Business in Europe, Par. 23,526).*

Most of the amendments were recommended by a government commission that has been looking into the types and extent of white-collar crime. It is estimated that white-collar crime in Germany costs DM 10-50 billion each year.

Britain: Post-War Peak for Unemployment; Overtime

Unemployment in the U.K. has reached a post-war peak, with 2,518,000 registered jobless, or 10.4% of the working population - a figure likely to rise even further. Sir Terence Beckett, director-general of the Confederation of British Industry, forecasts that unemployment will be "around three million by the end of the year, give or take 100,000 either way." Employment Secretary James Prior sees hopeful signs in wage settlements coming down to more moderate levels but emphasizes: "If we are to win back our markets, wage bargainers must keep settlements going in the right direction, and that means downwards. If they do not, they will be callously disregarding the plight of 2,500,000 people."

In related developments, the Trades Union Congress has published a working paper indicating that "the rise in unemployment since 1974 has had little effect on the amount of overtime being worked per overtime worker." The TUC study finds it particularly significant that this overtime is often being worked in industrial sectors where there has been an especially marked rise in unemployment over the past 12 months.

Over the last six years, average weekly overtime by male manual workers decreased only from 10.6 to 10.3 hours, despite the recession, and U.K. manual workers are in fact putting in more hours of work than those in any other industrialized Western country. However, the actual proportion of such employees who are on overtime went down from 60.7% in 1974 to 54.3% in 1980. In January 1980, 33% of workers in manufacturing industry averaged 8.3 hours of overtime per week, while in January of this year, 23% worked an extra 7.7 hours.

The unions are very concerned over the shortfall in jobs which this produces, in their view. Last November, according to the latest available figures, total overtime in the manufacturing sector was 9,187,600 hours, or the estimated equivalent of 229,700 full-time jobs - in an area where there were 592,536 registered unemployed. In mechanical engineering, 1,429,800 hours of overtime could have provided 32,000 new jobs and reduced by nearly half the number of employees without work in that field. TUC general-secretary Len Murray said that this situation is an affront to unemployed people. However, it has been pointed out that for many manual workers earnings from overtime work are regarded as essential to ensure them adequate wages and a reasonable standard of living.

France: Giscard d'Estaing, Mitterrand in Runoff Vote

As had been widely anticipated, the French presidential elections will culminate on May 10 in a runoff between the incumbent, Valêry Giscard d'Estaing, and his Socialist challenger, François Mitterrand. In the first round of voting on April 26, independent Republican Giscard won 28.27% of the vote and Mitterrand, 25.87%. The result confirmed late pre-election polls which had predicted a narrow margin between the two.

The real surprise of the elimination round was the resounding defeat of the Communists and their leader, Georges Marchais, who received only 15.37% of the vote and thus fared even worse than the representative of the neo-Gaullists, Jacques Chirac, with 17.96%. (A total of 10 candidates participated in the first round.) The Communists lost about one-quarter of their traditional vote and had the poorest result of any national balloting since 1936. They have now thrown their full support behind Mitterrand, while Chirac's "personal" backing of President Giscard d'Estaing is viewed as being more qualified.

As the date for the first ballot in France's presidential elections approached, the newest jobless figures revealed a continuation of the rapid upward trend that has made unemployment the principal issue of the campaign. With 1.67 million, or over 7% of the total workforce, out of work, the rate of unemployment is now rising 17.5% in annual terms, in contrast to 7.6% in April 1980. Unemployment compensation payouts are expected to mount to FF 44 billion in the current financial year, while job-creation subsidies will cost FF 12 billion and the treasury will lose FF 30-40 billion in tax revenues and social insurance contributions. Temporary employment programs introduced three years ago are reaching the limits of their effectiveness as young people once covered by them are being returned to the ranks of the jobless.

Unemployment is seen as a much greater threat to social stability in France than inflation, and President Valéry Giscard d'Estaing's major challengers from the left have published extensive, ambitious, and, some say, inflationary programs to achieve full employment. Socialist candidate François Mitterrand, whom opinion polls show running neck and neck with Giscard prior to the May 10 runoff balloting, proposes to create 210,000 additional jobs in the public sector by 1982, partly through a massive program of economic stimulation. This, according to independent economists, would require a doubling of the budget deficit to FF 65 billion. The ten largest industrial groups would be nationalized, minimum wages and social benefits raised, the workweek cut to 35 hours, and the male retirement age lowered to 60.

Instead of publicizing an employment program, Gaullist candidate Jacques Chirac had adopted a radical "supply side" tax policy, calling for the total abolition of corporate and capital gains taxes and the introduction of special new depreciation allowances for productive investment. Chirac would have freed from income tax all households earning less than FF 5,000 per month, with the aim of boosting economic growth rates 2% above present expectations. Giscard d'Estaing has adopted some of Chirac's plans in modified form by proposing a simplification of capital gains tax and an easing of the tax burden on the lower paid and young families.

Giscard has argued that the principal cause of France's unemployment problem lies in a demographic "bulge" bringing an unusually large number of young people into the labor market - a process that should work itself out by 1985. However, the recent acceleration in jobless rates indicates that a stronger factor at present is the economic slowdown that began last fall.

Denmark: Strikes Threaten Economic Strategy

With Denmark's influential farmers' lobby protesting the "catastrophic" situation caused by a strike of slaughterhouse workers, Prime Minister Anker Jörgensen has made known his refusal to involve the government in any of the "brushfire" walkouts that are currently causing as much discomfort as economic damage. In addition to the slaughterhouse workers' action, SAS airline pilots are "working to rule," which has been causing havoc with most domestic air services, while social workers and assistant hospital doctors have been doing only emergency work. The country's total newspaper circulation has shrunk from 1.8 million copies to 400,000 since late March because of strikes and lockouts involving the typesetters.

Observers said that Jörgensen cannot afford to show any signs of weakening on the wages front, following the agreement struck between employers and unions earlier this year for a mere 8% average wage increase over the next two years. The willingness of the major labor unions to accept what is effectively a cut in real-term wages was regarded as a major success for Copenhagen's economic strategy, in which wage moderation plays a key role. Only recently, following the wage settlement, central bank governor Eric Hoffmeyer for the first time spoke optimistically of the prospects for reducing Denmark's burgeoning foreign debt. An important part of the deal was the exclusion of energy price increases, indirect taxes, and devaluation effects from the quarterly indexation mechanism. It now appears that some workers are not satisfied with the agreements concluded at national level.

Before the slaughterhouse workers' strike, hog farmers usually sent out 250,000 animals to be processed, mostly for export. Now the hogs have to be kept on the farms instead, costing money in space and feed. Public-sector employees on strike, mainly doctors and social workers, are complaining of a growing differential between their own incomes and those in the private sector. The pilots' action is partly the result of complaints against reduced levels of manning following SAS's attempts to recover from last year's financial loss. In the case of the typographers, the employers resorted to a lockout to prevent the Communist-controlled typographers' union from dragging out negotiations so that last year's wage contract, including more generous indexation guarantees, would simply have to be prolonged.

Belgium: Tax Relief for Companies; Bank Rates Cut

Despite continuing squabbles over ways of reducing this year's budget deficit, the coalition partners in Belgium's new government under Mark Eyskens have managed to agree on some tax relief for companies. This is to be offset, however, by higher taxes on personal incomes.

The previous Martens administration had already decided to allow companies tax-free investment reserves of 5% of profits; this figure is now to be raised to 30% (as of 1982). Thus, the corporation tax rate on retained profits would decline from 48% to 34% on condition that the investments are implemented within three years and the works councils are informed accordingly.

The so-called solidarity levies on "excess profits" also are to be lowered. The 4.8% supplemental tax, introduced in 1976 *(Doing Business in Europe, Par. 21,326)*, is to be imposed only when net earnings exceed the average level of the years 1971-74 by 40% instead of the current 10%. The 4% supplemental levy, introduced last year, would apply only to net earnings above 75%, instead of 43% currently, of the previous year's results. In addition, businesses would benefit from tax-free allowances of BF 400,000 and 750,000, respectively, for each newly created job. Furthermore, book profits on active assets, if reinvested, would be freed of taxes.

To balance the revenue side as the result of these changes, the government intends to put a heavier tax burden on personal incomes and be less generous in the tax treatment of the forthcoming state bond issue. The split assessment of married couples with an annual income of up to BF 750,000, which was introduced last summer, in the future would apply to an income level of BF 680,000. The "crisis bond issue," to be floated before June 15, is not to be freed of all taxes, as initially proposed; it would be subject to the 20% withholding tax *(Doing Business in Europe, Pars. 21,329, 21,348)*, but not to income tax.

A tripartite conference of government representatives, the employers, and the unions was scheduled for May 1 to discuss other, more controversial aspects of the economic austerity package - a proposed loosening of the wage indexation system, lower employer contributions to the social insurance system, and the creation of new employment.

In other news, the National Bank as of April 16 reduced its discount and Lombard rates by one point each - to 15% and 17%, respectively - after having raised the discount rate only two weeks before by a record three points to counter speculation against the franc.

Belgium/Luxembourg: OECD Queries Monetary Policy

In its latest annual survey of the Belgian economy, the OECD is questioning the wisdom of the government's reluctance to use a franc devaluation as an economic policy tool. (The survey was prepared prior to the most recent government crisis.) Several suggestions are offered for alternative policy courses. An ambitious strategy aimed at rebuilding company profits and improving external competitiveness more quickly, the survey says, would involve a substantial reduction in employers' social insurance contributions, financed through higher taxation, combined with a devaluation of the franc.

The "belief shared by government, employers, and trade unions" that extensive index-linking of incomes to prices guarantees good industrial relations is considered by the OECD as an obstacle to the needed ambitious approach because it would tend to strengthen the negative effects of a devaluation. In the past, the organization says, the indexation system has prevented an appropriate adjustment of household incomes to foreign trade and productivity deteriorations. Whatever policy is eventually adopted, the OECD warns, economic recovery cannot come about without a shift of resources from consumption to investment.

The survey's economic forecast for this year promises no improvement on the poor results for 1980. Indeed, GNP is expected to fall by 0.5% after last year's rise of 1.4%, and unemployment may well increase beyond the present 9% level. Investment is expected to fall by 1.5%, and industrial production by as much as 5%. The latest calculations show the deficit of the current-account payments balance reaching $8-9 billion this year. Of all economic indicators, only inflation, currently at 6.5% in annual terms, is expected not to take a turn for the worse.

For Luxembourg, the OECD experts predict a slight decline of the GNP by 0.5%, combined with an equally slight downturn on the labor market. (Unemployment, however, would remain extremely low.) Consumer prices could rise at about the same rate as last year, i.e., by about 6.5-7%.

Italy: Phase II Austerity Measures; Tax Evasion

In an attempt to maintain the momentum of its economic austerity policy, the Italian government has published a Phase II package of measures to be put before Parliament. Its effect would be a 5,000-billion-lire reduction in the public-sector borrowing requirement to 39,000 billion lire in the current financial year. Proposed is a 3,900-billion-lire cut in government subsidies to the national pension fund and health insurance systems and a 1,400-billion-lire increase in revenues through fiscal measures. Drug prescription charges and pension fund contributions would both rise as a consequence.

At the same time, the cabinet has approved several draft laws calling for large increases in spending over the next three years, including a three-year structural plan and a program for the recapitalization of Italy's state-owned enterprises. These measures likewise will need to be laid before Parliament before they can be implemented.

The still unresolved reform of the national wage indexation system, *scala mobile*, is expected to be dealt with in an as yet undefined Phase III of the austerity program. Its success depends on attempts to establish a negotiating basis for a meeting between the government and the unions, tentatively set for May.

6. Since the Communist party, which controls Italy's largest trade union federation, has come out fully against such negotiations, the establishment of a common labor front that could make the necessary compromises seems less likely than ever. Nevertheless, in an attempt to indicate a readiness to compromise on its own side, the government has delayed announcements of administrative price and rate increases for gasoline, electricity, and public transport.

In other news, Finance Minister Franco Reviglio has continued his campaign against tax evasion and avoidance by publishing three "red books" containing the names of suspected tax evaders for the years 1974 and '75. The lists include many familiar names from banking, trade, industry, and show business as well as some that have come to public notice through their involvement in financial scandals. A list of "top taxpayers" published earlier was generally notable for the absence of such better-known names. Altogether 1,600 billion lire is thought to have been lost through tax evasion in 1974 and 1975.

Rome May Consider Reforms of Banking System

Caught between the two prongs of tight credit volume curbs and high inflation, Italy's banks are beginning to take a critical look at their role in the country's economy, and the government also is turning its attention to that sector. The Treasury Ministry has appointed a commission under the chairmanship of Mario Monti, a Milan professor, to examine the structure of commercial banking in Italy and recommend possible reforms. Also, it has been reported that a Senate committee is planning to conduct hearings about banking legislation in the near future.

The problems of the Italian banks are closely linked with the fundamental weaknesses of the domestic economy: inflation, high public-sector deficits, and a strong emphasis on restrictive monetary policy as an instrument of economic management. The banks last year suffered a decline in the growth of deposits as a result of the competition for savings funds posed by short-term treasury bonds and indexed state savings certificates. At the same time, they had to cope with lowered ceilings on their lending volume, which effectively inhibited competition among them.

Because of their reduced status as lenders to private industry, the commercial banks have been increasingly forced to shift activities to public-sector financing. Lamberto Dino, managing director of the Bank of Italy, said recently that the share of bank loans to that sector has risen progressively from one-fourth to one-third of total loan volume within the past ten years. Despite this, the banks' importance as "collectors" of private funds for the public sector is diminishing: with inflation exceeding 21% and interest on deposits of only half that rate, many investors are opting for the direct purchase of high-yield state bonds. At the end of last year, private investors held about the same share of such papers, 40%, as the commercial banks.

Banking experts believe that the Monti Commission will find it difficult to come up with solutions to these fundamental problems. They see a more realistic chance of success, however, in dealing with certain legal and technical aspects of the banking system - for instance, banks' capital participations in industrial enterprises, which in Italy are not permissible. Another issue the commission could look into might be the fact that the differences between the six different types of banks operating in Italy have become increasingly diffuse and that today an institution's size is usually of more practical importance. The question is whether a reform should take cognizance of this situation or whether banks should be encouraged to specialize.

Netherlands: Cut in Living Standards Urged

A report prepared by the committee of economic experts of the Dutch Social Economic Council (SER) claims that a steady reduction in consumer buying power over the next few years is the only way to prevent a further rise in unemployment, now at 340,000. The council is an important government advisory body comprised of employer and labor representatives. According to the report, a 1.25% annual reduction in living standards would be needed just to stabilize employment at its present level. The committee claims such a cut would permit the government more room for economic stimulation and job creation.

The majority of the SER experts suggest that a reduction in working hours could provide additional employment and increase industrial profitability. A 2.5% cut in working hours every year for five years, combined with a 1% reduction in the average taxable income of 33,000 guilders annually, would lead to the creation of 330,000 new jobs. However, union representatives on the committee oppose income reductions; they have suggested a set of measures which include more selective use of investment subsidies and the introduction of other means of investment direction as well as a temporary increase in natural gas production combined with an increased government share in gas revenue.

Switzerland: Bill Due on Aliens' Real Estate Purchases

Having consulted the political parties, cantonal governments, and other organizations about the issue, the Swiss federal government now hopes to submit by the fall its draft for new legislation covering real estate purchases by aliens. A federal law in this area would end decades of provisional decrees regulating and "rationing" such purchases.

In drafting the final bill, Bern will have to find a compromise between the extreme positions taken by proponents and opponents of a liberal solution to the problem. At this point, no one cares to predict what the draft will look like. The so-called tourism cantons have questioned whether rigorous prohibitions of real property sales to nonresidents are even constitutional. They are asking to what extent other countries would retaliate against Swiss citizens wanting to purchase real estate abroad. Another touchy aspect is the question of how to solve the conflict of interest posed by the allocation of purchase permits by the federal government on the one hand and the cantonal authorities and the communities on the other. Many tourism cantons are opposed to the regular setting of fixed overall quotas by Bern.

The political forces advocating the strictest possible curbs are largely concentrated in the country's industrialized northern regions. The supporters of extensive liberalization represent most of the alpine cantons, where the population's prosperity depends to a great deal on the presence of foreign tourists and residents. In these areas, the construction of condominiums, vacation homes, hotels, and other tourism facilities provides year-around business and employment, without which many alpine communities could not exist.

Although observers believe that the government will meet its self-imposed deadline for submission of the draft this fall, many of them doubt whether it will be possible to have the law take effect in 1983, after the expiration of the current decrees. According to the newest figures, 4,432 purchase permits were issued during the first nine months of 1980, which means that the total for the year was again in excess of 5,000, despite tougher restrictions.

Norway: Statutory Fifth Vacation Week as of 1985

The Norwegian Labor government plans to put a bill before Parliament seeking to introduce a statutory fifth vacation week as of 1985. Oslo intends to implement the additional annual leave gradually, starting with one extra day next year. This proposed step removes one of the main bones of contention from this year's collective bargaining between the NAF employers' federation and the LO trade union federation. Both have expressed their satisfaction with the compromise formula. Previously, the LO had demanded that the full fifth week be implemented in 1982.

Sweden: Tax Reform Weighed to Break 'Stagflation'

Sweden's center-right coalition government hopes to present to Parliament next month draft legislation for a tax reform that would help to break the current economic "stagflation" and improve the Fälldin administration's chances for reelection next year. While the government still predicts an economic growth rate of 0.4% in 1981, trade union economists are now saying that real-term GNP will actually shrink by 0.3%. The major problem for the economy at the moment is lagging demand in almost all sectors, both domestically and for exports and imports. Consumer demand is expected to shrink by 2% this year, and the union economists are urging the government to stimulate investments most of all.

To offer more work incentives, the administration wants to reduce tax rates for nearly all income brackets, beginning at SKr 30,000 annually and going up to the top bracket of SKr 192,000, according to budget ministry sources. The average reductions would amount to 10-15%. At the very top, the tax savings would total 10%, for a new ceiling of 75%. Under Sweden's progressive tax system, the rates amount to 60-80% on average incomes, a level that the government wants to bring down to about 50% over a three-year period.

The administration's budget planners insist, however, that these tax savings of some SKr 7 billion will have to be financed via revenues from other sources, i.e., mostly indirect taxes. In the first year, 1982, it is considered to raise value-added tax and levies on oil and oil products (except gasoline). Higher payroll taxes and a possible levy on industrial production could follow in 1983 and '84, a ministry spokesman said.

The leaders of the LO labor federation and the Social Democratic opposition term the proposals unfair, charging that they would make the poor poorer and would favor high-income earners. The outcome of the tax reform plans could, in any event, be a decisive factor in the political future of the Fälldin coalition. According to the latest polls, the government would suffer a massive defeat if elections were to be held now, and the Social Democrats would return to power after five years in the opposition. The three-party coalition holds a majority of only one mandate in the 349-seat Parliament.

EURO COMPANY SCENE

Ford Motor Co. Ltd. plans to reduce its workforce in Britain by 10% annually over the next four years, which would mean a cut of more than 29,000 by 1985. Attrition and voluntary departures are to account for most of the reduction. At the same time, Ford announced it would invest a record £1.4 billion by 1985, even though profits before taxes dropped to £226 million last year from £386 million in 1979.

Paris reports said that the state-controlled French automobile group Renault and the private car maker Peugeot are close to agreement on Renault's 50% purchase of Peugeot's Dodge Truck division, formerly owned by Chrysler. The deal, for FF 120-150 million, would give Renault's RVI commercial vehicles division a controlling stake in Dodge.

The United States' Barnes group has been given approval by French government authorities to take over the leading French producer of specialty springs, Herckelbout-Dawson, with annual sales of about FF 135 million. The French company is a major supplier of the domestic car industry

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: Council Accord on Fifth Shipyards Directive

The Council of Ministers has adopted a draft directive that gives the Commission additional powers to scrutinize and bar illegal aids to national shipyards. These powers include the Commission's right to veto aid plans that encourage investors to place new orders. Formerly the EC executive could merely check whether state aids were discriminatory to the extent that a national government encouraged orders with domestic shipyards only. By virtue of the fifth directive on shipbuilding aids, the Commission will apply an additional criterion: aid may not lead to distortions of competition favoring one country's shipyards over those of another.

The fifth directive continues on the road charted by the previous four measures. (The fourth directive expired on Dec. 31, 1980, but was extended to allow a compromise; the fifth directive will expire on Dec. 31, 1982.) Thus, any aid to shipyards must not stop the adaptation process the shipbuilding industry has been going through over the past four years in response to declining world demand and tough competition, mainly from Japan and South Korea. The fifth directive goes one step further and stipulates that rescue and crisis aids are permissi-

This issue is in two parts. This is Part I.

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ble only if they are linked to capacity cuts and are designed to make shipyards competitive again and ultimately able to survive without aid. The Commission will see to it that the national adaptation programs remain in the same vein so that drawbacks inherent in such plans for each domestic shipbuilding industry stay on the same scale.

Commission attorneys are satisfied with the fifth directive. For years the EC executive has tried in vain to obtain the powers needed to make progress in the enforcement of EEC competition rules in the shipbuilding industry. Previous rules were not suited because Member States were merely required to tell the Commission about state aid plans *(Common Market Reports, Par. 2922.27)*. The Italian government's resistance to the fifth directive softened when the Commission promised to view national aid to yards doing ship repair in the light of general EEC rules governing state aids. The fifth directive does not apply to ship repairing.

Clampdown on Illegal State Aids to Industry

Making good on its promise to clamp down on illegal state aids to industries, the Commission has started preliminary proceedings against several Member State governments under Treaty Article 93 *(Common Market Reports, Pars. 2931, 2932)*. Each government has been given a deadline, usually a month, to rescind or modify its aid plans or otherwise face legal action before the European Court of Justice. In the Commission's view, these plans cannot be reconciled with Treaty Article 92 *(Common Market Reports, Pars. 2921, 2922)*.

The EC executive has told the U.K. that it finds only part of the planned £990-million grant for British Leyland acceptable. The £660 million that are slated to cover operational losses of the state-owned car maker are considered most objectionable. The Commission would go along with £130 million and would treat an additional £250 million as rescue aid that any shareholder - in this case the British government - could be expected to contribute.

The Belgian government has until the end of May to explain its proposed BF 6.4-billion program to help the domestic steel industry. The Commission wants to know how much of the money would be spent to allow steel mills to adapt to declining demand. In its letter the EC executive emphasizes the Council's March 27 accord that state subsidies should be given only to those steel mills that agree to modernize production facilities and cut capacity. The Commission is also objecting to Luxembourg's plan to help the privately-owned ARBED steel conglomerate.

Preliminary proceedings have also been opened against France over payments to French farmers to compensate them for inflation and loss of income due to increased prices for diesel fuel used in farm machinery. Interested parties other than the Member State governments have been asked to comment on the French payments. Replies are expected from the national farmers' organizations of the other States (Official Journal, No. C 95, April 25, 1981).

In Brief...

The Commission has proposed to the Council a draft directive that would commit Member States to controlling the volume of waste produced by the use of containers for liquids destined for human consumption. The States would be free to determine how waste would be controlled - through legislation or through agreements with industry. The objectives of the measure are protection of the environment and savings of energy and raw materials + + + Ireland will soon ratify the European Patent Convention and thus become the last EEC Member State to accede to the convention, which established a European patent law *(Common Market Reports, Pars. 5501, 5503)*.

Belgium: Price Freeze; Bank Rates; Radio, TV Ads

The Belgian cabinet on April 30 approved a one-month extension, in a selective form, of the price freeze that originally was to have been lifted at the end of April. To forestall sudden price pressures, the Economics Ministry has reserved the right to subject applications for price increases so far received to the approval of the appropriate authorities. The latest decree also provides that trade margins may not be raised beyond current levels by domestic producers or importers whose applications for price increases already have been approved. Otherwise, price control rules that prevailed prior to the freeze have been restored for various foodstuffs, including fruits, vegetables, beef, and pork.

In other news, the National Bank lowered its discount rate from 15% to 14% and the Lombard rate from 17% to 16% as of April 29. The Bank had already cut the rates by one point each on April 16, after raising them drastically by three points on March 31, during the government crisis. A bank spokesman said that the reductions were justified by the recovery of the Belgian franc, for which no interventions had been necessary since Easter.

Finally, the government continues to pursue its plans for the introduction of radio and television advertising beginning next September, despite objections by consumer organizations, labor unions, radio journalists, and newspaper publishers. Draft legislation has been completed and is being submitted to media organizations for review and comment. The government hopes for parliamentary passage before the summer recess. Although no details about the format and scope of such advertising have been worked out, it has been predicted that commercials for alcoholic beverages, drugs, and, possibly, tobacco products will be banned.

Germany: Improving Discharged Employees' Position in Court

The German Labor Ministry is contemplating amendments to the 1951 Law Protecting Against Unfair Dismissal that would allow a discharged employee to stay on the job while he fights his dismissal in court. This would be achieved by vesting labor courts with the power to issue an injunction compelling management to keep the fired employee on the payroll if the latter's suit has a reasonable chance of success.

There is nothing in the law now that could be invoked to force an employer to keep an employee who has been fired except Section 102(5) of the 1972 Works Council Act. If the works council has objected to giving notice and the employee files suit to obtain a ruling that the notice has not terminated employment, the employee may stay until the proceedings are concluded. In 1977 the Supreme Labor Court held that a discharged employee who fights the notice in court may not return to work until a final judgment in his favor. The high court is expected to rule on the issue again in June or July. If a chamber of the Supreme Court wants to depart from case law established by another chamber, it must seek a ruling from the combined panels of the high court that would be binding on all senates. This could take another year or so, and government attorneys say they would wait for the court's guidelines before finalizing the amendments.

Work has started, however, on drafting amendments to the Law Protecting Against Unfair Dismissal that would strengthen the works councils' position in exercising codetermination rights, which include the right to oppose the dismissal of an employee *(Doing Business in Europe, Pars. 23,436, 23,444)*. This would be achieved by setting out additional grounds for objections and by lowering the formal requirements that must be met in order to file a protest with the employer. Recent research into 1,500 cases revealed that works councils objected to only 120 dismissals. There are several reasons for the low percentage, according to government sources. One reason is that a works council may oppose a dismissal only on limited grounds, such as when the employee could be placed elsewhere in the company after retraining.

Netherlands: Central Bank Chief Warns on Economic Policy

Jelle Zijlstra, outgoing president of the Dutch central bank (he retires at the beginning of 1982), has used the preface of the bank's just published 1980 annual report to issue some strongly worded parting warnings on the future course of Dutch economic policy. The two principal problems facing the country, Zijlstra writes, are the rapid growth of unemployment from 250,000 to 350,000 and the continuing growth of the government's budget deficit. Using figures that support his plea for overall economic restructuring, Zijlstra warns The Hague of the dangers of a situation in which only 3.4 million persons actively employed in the private sector support 3.75 million who receive their incomes from the state, including public-sector employees, pensioners, and recipients of unemployment, disability, or sickness benefits.

Strongly criticizing proposed remedies for unemployment that would increase the number of state sector jobs or reduce the number of working hours, Zijlstra warns that the only long-term solution lies in wage moderation extended over a period of several years. In this respect, the central bank president supports the government's efforts, which resulted last year in a reduction of real-term incomes by between 0.5% and 2.5%, depending on income level. A policy of wage moderation aided by a reduction of the state deficit is, Zijlstra says, the best way to stimulate private investment.

Holland's public-sector deficit increased last year from 5.6% to 7.5% of GNP. In carrying the deficit, the contribution of central bank monetary financing rose in absolute terms from 4.7 to 5.7 billion guilders. If this trend continues, serious effects on both the balance of payments and on central bank monetary policy can be expected. Last year domestic money supply expansion proceeded at a 7.5% rate, down from 11% in 1978 and 10.25% in 1979, while real-term GNP fell by 0.5%, against a nominal growth rate of 6%. This is regarded by the central bank as still too big an increase, particularly since half of the increase was accounted for by the monetary financing of the state budget. For the current year, the central bank has set a 6% ceiling for domestic credit expansion, on the assumption of 6.5% nominal economic growth. The state is being called upon to reduce its demands for monetary financing of the deficit to 3 billion guilders.

Sweden: Social Spending Cut; Coalition Breaks Up

Cuts in social welfare spending announced by Budget Minister Rolf Wirten during the parliamentary debate on the new budget (which comes into force on July 1) aim at bringing Sweden's runaway government deficit back under control. Spending on homes for old-age pensioners will be reduced by half, and plans to build more accommodations for nurses will be scrapped entirely. The deficit for the financial year 1981-82, which in January was estimated at SKr 67.57 billion, is now expected to reach SKr 75 billion. Total spending is to rise to SKr 233 billion.

The revised figures are based on the newest official forecasts for 1981, which assume that an upturn in the fall will permit a 2% growth rate for the year as a whole, with inflation falling to 9.5%. Real disposable incomes are to shrink by about 2% as a result of savings measures expected to lower imports by 6%.

Efforts to finance the budget deficit, which the government fears may rise to SKr 100 billion by 1985, are the responsibility of the national debt management office. The office recently succeeded in raising $1.3 billion in London via a consortium of 63 banks and is now engaged in negotiations for a further credit of $600 million in New York. Many Swedish economists have expressed concern, however, that most of the proceeds from such foreign loans are finding their way into consumption rather than investment.

To what extent the Fälldin government will be able to implement the new budget remains to be seen: on May 5, the previous three-party coalition was reduced to a minority administration when the eight Conservative members of the cabinet quit in protest over the government's tax reform plans. Premier Thorbjörn Fälldin rejected demands for a resignation of the entire cabinet, ostensibly because of a strike of white-collar workers that hit the country's five key industrial companies on May 4 and halted operations of Sweden's merchant fleet in northern Europe.

Spain: Stagnation of Foreign Investments

Figures released by the Bank of Spain appear to prove the good timing of recent government moves to liberalize foreign investment, embodied in the two new decrees 622/1981 and 623/1981. Although the peseta value of foreign investments increased to 172.1 billion in 1980 from 162.5 billion in 1979, the dollar value showed a slight decline, from $2,419 million to $2,407 million. Government approvals last year of investments involving the purchase of shareholdings in excess of 50% were extended in 97.4% of all cases, involving total investments of 85.4 billion pesetas. This represents a 26% increase in the number of approvals over 1979 and a 5.7% increase in their total value at current prices, but a slight fall in constant prices.

Some 28.4% of all investments last year originated in the United States (42.1% in 1979), 17% in Switzerland (5.1%), 11.8% in France (10.7%), and 11.7% in West Germany (8.5%). The sectors benefiting from the largest concentrations of foreign investment were the metal working and precision engineering industries (29.8 billion pesetas), commerce, hotels, and catering (17 billion), and mineral extraction and chemicals (16.7 billion).

As reported earlier, the two new decrees easing conditions for foreign investments in Spain took effect last month. (See also *Doing Business in Europe, Par. 28,151.)*

Britain: Guidelines on Foreign Exchange Risk Control

After previous papers on bank liquidity and capital adequacy, as part of a series on prudential aspects of banking, the Bank of England has now circulated a further paper on foreign exchange risk control. This relaxes to a marked extent the proposed guidelines on the way in which banks and licensed deposit-taking institutions operating in the U.K. should guard against risks on their foreign exchange exposure.

In earlier discussion documents, the Bank of England had recommended limits of 3.5% for individual currencies and 10% for net positions, which had met with a distinctly unfavorable response. The new higher limits are supposedly much more flexible. However, it is stressed that they are intended only for "experienced" banks, while those institutions with less specialized knowledge and experience should function within "more conservative" parameters. The Bank says that it will generally agree on dealing position guidelines with each bank individually.

Among the provisions of the document, it is stated that the extent of the exposure of banks in any one currency, such as the degree to which they have surplus dollar assets or liabilities, should not be greater than 10% of shareholders' funds. In addition, the aggregate of a bank's long or short positions in all currencies should likewise not exceed 10% of such funds. These limits relate particularly to dealing positions in currencies and generally exclude exposure with regard to fixed assets and long-term liabilities.

The document states that the U.K. branches of foreign banks will not normally be subject to the guidelines, provided they can satisfy the Bank that their internal controls and domestic supervision are sufficient. However, U.K. banks and licensed deposit-taking institutions will have to give details of their exposure each month, and they should disclose any occasion on which they went beyond the individual limit agreed with them.

EURO COMPANY SCENE

As they did several years ago, R.J. Reynolds Industries, the top U.S. cigarette producer, and Britain's Rothmans International have once again broken off exploratory talks toward a possible merger. Instead, Philip Morris, Inc., No. 2 on the world cigarette market, has agreed to acquire a $350-million equity in Rothmans Tobacco (Holdings).

For an undisclosed price, Royal Bank of Canada has agreed in principle to enlarge to 100% its existing 20% stake in London's Orion Bank by acquiring the remaining equity from the other five shareholders (Chase Manhattan, Credito Italiano, Mitsubishi Bank, National Westminster, and Westdeutsche Landesbank).

Orion, a consortium bank that plays a leading role on the Euromarket, is to be merged with Royal Bank of Canada (London) Ltd. The investment bank emerging from this deal reportedly would have a capital in the approximate equivalent of $141 million, subordinated debts of $60 million, and total assets of about $3 billion.

In a "major bid" for a larger share of the U.K.'s traveler's checks market, Citibank of New York is issuing a pounds sterling traveler's check in partnership with Britain's Co-operative Bank. As of this month, the checks are available at the Co-op Bank's 68 regional branches as well as at Co-op stores and travel bureaus.

Holland's Fokker and the United States' McDonnell Douglas Corp. have announced an agreement to develop jointly a 150-passenger airliner, MDF-100, by 1986. Final assembly of the medium-range aircraft would be in both countries.

With the Dutch government having offered an emergency loan of 1.5 million guilders and talks continuing with the labor unions about a rescue plan, the financially troubled Dutch paper and board producer Van Gelden has suspended plans for the closure of three paper factories. The shutdown of the plants would mean the dismissal of up to one quarter of the company's 4,700 workers. Van Gelden is a 50% subsidiary of the American paper manufacturer Crown Zellerbach.

Also in the Netherlands, workers at Ford Motor Co.'s truck assembly plant on April 29 called off their protest occupation of the plant after the company suspended its decision to shut down the operation by the end of September. Some 1,325 jobs are at stake. Management has now set a June 30 deadline for a rescue plan to be negotiated with the unions and the works council.

Representatives of Italy's state-owned IRI-Finsider steel group and U.S. Steel Corp. have signed in Rome contracts valued at up to $1 billion for the Italians. The deal calls for delivery by IRI-Finsider's Dalmine subsidiary of 120,000 tons of seamless steel pipe over a five-year period as well as construction of a mill in the United States for the production of similar pipe. The plant would go on stream in 1984 and would require an investment of up to $650 million.

According to London press reports, a 50:50 joint venture, Guilford Kapwood, is to be formed by Britain's Carrington Viyella Knitting and Guilford Mills of the U.S., two textile groups. Guilford Mills reportedly is the largest western warpknit supplier.

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EUROMARKET NEWS

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IN THIS ISSUE

Community: EEC Units Favor Active Competition Policy

The Economic and Social Committee (ESC) and the European Parliament (EP) have come out in favor of a more active competition policy on the Commission's part. In an opinion adopted on April 30, the ESC underlines the fact that the challenges of the '80s require a new impetus for all EEC policies but even more so for the competition policy in order to reflect changing socio-economic circumstances in the Community and the world. The ESC believes that competition policy has a basic, specific, and vigorous role to play in a climate characterized by a change in economic relations and industrial structures, concentration of economic power, the advance of multinational companies, and changing relations between governments and national economies. This trend in both the EEC and world economies demands a broader approach that takes into account relations between the Common Market as a whole and other countries, according to the ESC.

The Committee supports the Commission's tendency to apply Article 85 also to agreements involving companies headquartered outside the EEC but operating in the Common Market through subsidiaries. However, an analysis of restrictive effects of such agreements should not be confined to the Common Market alone, the ESC emphasizes.

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In a resolution passed on May 8, the European Parliament calls on the Commission to take a more vigorous role in implementing a competition policy that adapts to the economic and social changes and at the same time ensures genuine competition among manufacturers and benefits the economy as a whole. The EP would like to see application of competition rules extended to the transport sector, especially the airlines. Financial institutions should also be covered by competition rules, Parliament says; the Commission, together with the Member State governments, should examine the obstacles to free movement of capital within the Common Market.

Once again the EP is pressing for strict application of competition rules in the insurance sector, and it points out that the Commission's Ninth Competition Policy Report does not say anything on the matter. Parliament is disappointed that the report lacks a balance sheet of actions taken against multinationals. Three years ago the EP had called for action to control the activities of multinationals, and it is now preparing a resolution calling for action on transfer pricing among companies belonging to one corporate group.

Planned TV Commercials Via Satellite Worry Commission

The Commission is worried at the prospect that, a few years from now, half a dozen satellites may be broadcasting daily television programs and commercials into more than 100 million European households. Commission attorneys believe that only action on the Community level, through a Council directive or an international convention, can protect consumers against an onslaught of commercials.

What Radio Luxembourg is doing now in terms of commercial television is just a beginning, according to officials of the Commission's consumer affairs division. Radio Luxembourg and a consortium of German publishers are planning a TV program of their own that would be broadcast from a yet-to-be-launched satellite. This plan has brought sharp reactions from both the French and the German governments, which are searching for ways to prevent the plan from being implemented.

Television programs beamed from satellites would offer Continental viewers more entertainment and information, but there also would be many drawbacks, according to Commission officials. There is concern that the Member States' laws restricting the broadcasting of commercials, enacted despite heavy resistance from industry, would become redundant. At the present time, German law bars TV commercials before 6 p.m. and limits them to only 20 minutes a day; in Holland, commercials are not allowed before 7 p.m. The French government has proposed legislation that would completely bar radio and TV commercials for alcoholic beverages.

In Brief...

The EEC is pushing for a commitment by the Spanish government to phase out protective and discriminatory taxes on imports of Community products. These taxes, coupled with export subsidies for Spanish products, are considered a breach of the EEC's 1970 preferential trade agreement with Spain. So far Madrid has promised only to look into specific cases involving higher taxes on imported Community products. Spain maintains that discrimination will disappear when the neutral value-added tax system is introduced. However, in the current Community-Spain negotiations, the Spanish delegates are trying to bring about a delay in the introduction of VAT until some time after Spain joins the EC, which is expected in 1984 + + + In an unusual move, the European Court of Justice has reopened the oral proceedings in a case involving disclosure of privileged information. A British company brought an appeal against a Commission decision ordering a subsidiary to submit certain correspondence between company lawyers and the attorneys counseling the company. The case has caused a great stir among business lawyers in Europe (*AM and S Europe v. Commission*, Case No. 155/79).

France: Stock, Money Markets Hit by Mitterrand Win

Share prices fell in reaction to near-panic selling and the franc dropped sharply vis-à-vis the dollar and the D-mark on May 11 following the victory the day before of Socialist leader François Mitterrand in the French presidential elections. On the Paris Bourse, the quotation of numerous shares was temporarily suspended, and the central bank was forced to intervene massively on behalf of the franc. Also, the Banque de France raised its key intervention rate, the treasury bill discount rate, from 13.5% to 16%. The reaction of the markets and the business community generally to Mitterrand's victory contrasted with the elation shown by France's political left.

Mitterrand won the May 10 runoff by scoring 51.83% of the vote, compared with 48.17% for Valêry Giscard d'Estaing, the incumbent. The first Socialist president of the Fifth Republic, Mitterrand will assume office either on May 24 or 26. He will then appoint a new prime minister to succeed Raymond Barre and is expected to dissolve the National Assembly and call for parliamentary elections, probably to be held next month. Mitterrand must aim for a realignment of powers in Parliament, where the Gaullist RPR and the centrist UDF now hold the majority. Until the elections, a transitional government will be installed.

At the start of the new president's seven-year term, the most sensitive political question is whether the Communists will participate in the Mitterrand government. Prior to the presidential vote, Mitterrand had refused to commit himself, making a possible collaboration dependent on the outcome of parliamentary elections and the successful conclusion of negotiations over a joint program.

During his campaign, the Socialist candidate had emphasized repeatedly that he and his party had no intention of changing the basic free-enterprise concept of the French economy. However, Mitterrand does favor gradual expansion of the state-controlled industrial sector by nationalizing several major private groups. Named on his list are the following 12 companies: Usinor, Sacilor (steel), Rhône-Poulenc (chemicals), Roussel-Uclaf (drugs), ITT-France, CII-Honeywell Bull (electronics), Cie. Gênérale d'Electricitê (electrical engineering), Thomson-Brandt (electronics, armaments), Matra (armaments), Pechiney Ugine Kuhlmann (metals), Saint-Gobain (glass, conglomerate industries), and Dassault (aerospace). Also nationalized would be the remaining parts of the banking and insurance sectors, both of which are already largely under state control.

Germany: Ruling Due on Government's Responsibilities

A test case brought by several former depositors of the defunct Herstatt bank against the German government will go into its final phase on May 25. Several thousand former Herstatt customers are awaiting the Cologne Court of Appeals's judgment in the hope they will get all of their savings back. A rescue operation by a number of private banks previously had enabled depositors to recover at least up to DM 30,000 of their savings. The outcome of the case could have implications beyond the banking sector with respect to government liability. Observers are especially eager to hear what the appellate court will say about the responsibilities of government agencies in general and what the latter can be expected to do to protect citizens' rights, including the right to own property.

Herstatt, a small Cologne-based bank, got into trouble in early 1974 and collapsed several months later after excessive speculating on foreign exchange markets. The Federal Banking Supervisory Agency, located in West Berlin, revoked the Herstatt license. Subsequently two private banks that had sustained losses sued the Bundesbank for damages. A lower court found in favor of the two banks, but the Supreme Civil Court overturned the decision, clearing the Bundesbank and its officials of any wrongdoing. The high court took the view that the Bundesbank's duty was to assure a smooth currency clearing system, but not to close the Herstatt bank.

Other former Herstatt depositors took the government to court, alleging that the banking agency had neglected its duties. The case eventually came before the Supreme Civil Court, which reaffirmed the principle of the government's liability. The Supreme Court remanded the case back to the Cologne court to ascertain whether there was evidence that agency officials did not fulfill their duties. The high court held that the agency must act when there is a suspicion of wrongdoing and not wait until it has all the details about a bank's precarious situation. In testimony before the Cologne court, former Bundesbank president Karl Klasen stated that there was a constant flow of information about the Herstatt bank between the Bundesbank's state office in Düsseldorf and the agency.

The business community is hoping the appellate court will say something about how a government agency should respond to information it receives, no matter where the information comes from - an official body or private citizens.

Netherlands: OECD Favors Some Tax Reductions

In its recently published survey of the Dutch economy, the OECD forecasts a 1.4% drop in GNP for the current year, following last year's weak growth of 0.8%. A fall in overall demand is expected, resulting from decreases of 2.2% in private consumption and 5.6% in gross fixed capital formation. This would be ameliorated only slightly by a 0.3% rise in government consumption (1.6% in 1980). Inflation is expected to reach 6.7% this year, compared with 4.9% in 1980. Only in the area of foreign trade can the Netherlands be expected to show a substantial improvement. According to the OECD, the balance on the current account will remain in deficit, but only by 0.6 billion guilders, instead of last year's 6.4 billion.

Overall, the OECD secretariat is generally pleased with Dutch economic policy, especially with regard to the fight against inflation, and recommends only minor alterations. These would include a reduction in social security payments for the inactive section of the population, higher wage differentials in favor of manufacturing industry, and a modification of wage indexation arrangements. The OECD also believes that tax cuts would boost incentives and help lower the share of total taxation in GNP. The government's rising revenues from natural gas exports would justify such a step.

Italy: Rome Raises Administrative Prices

The Italian government has decided on a series of administrative price increases, apparently in preparation for a third phase of its austerity program. Gasoline prices will rise by 30 lire to 900 lire per liter, and the cost of heating oil, methane, and diesel will also increase. Airline fares will go up by 12% on June 1 and telephone charges by 11% on July 1. Rome reports said that the government views the increases as a necessary measure prior to any system of price controls that might be introduced as part of a possible reform of the wage indexation system, *scala mobile*.

The future of the dialogue between the government and the unions over a reform of that system will probably be determined by the outcome of current negotiations among the labor federations themselves. The Communist CGIL, which appears to be hostile to any reform, and the CSIL and UIL, which are both linked to government coalition parties, are trying to work out a common stand, without which further negotiations with the government would be pointless. All unions, however, are under heavy pressure from rank-and-file members to avoid any compromise. A record three-month wage boost will raise average pay checks by 33,500 lire at the end of May, following the latest index adjustment. The effect on industry will be an additional burden of 3,000 billion lire on the 1981 wage bill.

Steel Crisis Declaration; Chemicals Industry

As apparently interminable delays continue in securing parliamentary approval for industrial finance and rationalization plans, the Italian government has been forced to declare an official emergency in the steel industry in order to avoid imminent bankruptcy for Italsider and other state-controlled companies in that sector. Under EEC rules, the declaration enables the companies to transfer parts of their workforces to the *cassa integrazione*, a special state unemployment fund compensating workers for their full wages.

Italy's crude steel production in the first quarter of this year dropped by nearly 15% to 6.14 million metric tons. Italsider, controlled by the government through the IRI and Finsider holding companies, trebled its losses to 747 billion lire in 1980, while debt service charges climbed to 777 billion, equivalent to one-fifth of total sales of 3,828 billion.

In other industrial news, Rome has succeeded in ending several years of bitter warfare between state-sector and private chemicals companies. The 16.6% state shareholding in the industrial giant Montedison is to be sold off to private interests, including the Agnellis of Fiat, Pirelli, the Bonomi family, and the Brescia steel-maker Lucchini. This will complete the separation of the chemicals industry into a private-sector group around Montedison, dealing with refined chemical products, and a basic chemicals group headed by state-owned ENI. Montedison shares will benefit from a large capital increase, from 355 billion to 1,000 billion lire, in the course of the sale. Also, the firm will receive a large part of the 850-billion-lire package of special aid for chemicals industry restructuring recently implemented by administrative decree. Access to Saudi Arabian petrodollars and oil through the 10% share in Montedison held by Saudis might help to attract new private shareholders.

Denmark: Another Try for Profit-Sharing System

Since the early 1970s, Denmark's governing Social Democrats and the country's labor federation have repeatedly failed with various proposals for obligatory employee profit-sharing legislation. Nevertheless, Labor Minister Svend Auken is willing to give it yet another try with a bill based on a proposal by the unions. To be presented to Parliament in the fall, the draft legislation would obligate enterprises to contribute one-tenth of their after-tax profits to an "investment and employment fund" on behalf of employees. The fund would serve the double aim of strengthening the workers' influence in their companies and providing businesses with a broader financing base. In practical terms, the accumulated capital would be used for share purchases, low-interest loans, and new business establishments, and to facilitate the takeover of businesses by employees.

Most observers again hold out little hope for passage and implementation of the latest proposal. The non-Socialist opposition parties in the Folketing might be at odds with each other in many respects (thus enabling the Jörgensen administration to continue functioning as a minority government), but they have always formed a united front against any attempts to introduce a collective profit-sharing system. Auken apparently is attempting to win over the Left Liberals as well as the People's Socialists: both parties in principle are in favor of worker participation, though on a different basis.

Britain: CBI Survey on Trade Union Immunities

The results are now available of a survey conducted by the Confederation of British Industry among its members on the government's views on restricting trade union immunities in civil legal actions, set out for discussion in a recent Green Paper. The majority of employers would welcome a change in the law, so that it would be possible to sue union members who resort to strike action before the agreed dispute procedures have been exhausted.

The CBI director-general, Sir Terence Beckett, said his members were "nearly unanimous" that the present state of the law was unsatisfactory, but there was a difference of views on how quickly the change could be introduced. Some felt that it would be better to wait until after the next election, when there would be a fresh mandate for reform if a Conservative government were returned to power.

Although the CBI is likely to recommend this course to the government, there are practical difficulties, which were noted in the Green Paper. Earlier measures to bring in legally binding agreements have been markedly unsuccessful, and the document foresees that unions would try and get around any new legislation by refusing to commit themselves to any new agreements and even by withdrawing from existing procedures. In practice, such agreements are often difficult to interpret precisely and are not rigorously adhered to.

The survey showed that CBI members were generally not of the view that U.K. labor law should be completely redrafted, so that positive rights for trade unions would take the place of the current negative immunities. A substantial number of Conservative Members of Parliament are pressing for tighter controls on unions, particularly in the area of closed shop agreements, arguing that the U.K. cannot afford to be held back by restrictive practices when pulling out of a recession. However, observers believe that the government will oppose further major union reforms at present, while watching how the 1980 Employment Act operates in practice. *(Doing Business in Europe, Pars. 40,062, 40,150.)*

Sweden: Political Confusion Unresolved

Following the May 8 resignation of Prime Minister Thorbjörn Fälldin, who headed a coalition of Liberals, Centrists, and Conservatives, there was no clear indication of the outcome of Sweden's government crisis. Fälldin, the Center party leader, quit following the Conservative's departure from his cabinet in a dispute over a reform of the tax system. The three coalition partners had previously decided on a maximum 50% rate of income tax for the future, but unexpectedly Liberal and Center party ministers joined in an agreement with the opposition Social Democrats reinstituting tax rates well above this level. The Conservatives promptly left, and the Social Democrats, instead of supporting a Center-Liberal minority government as Fälldin evidently had expected, demanded immediate elections, which otherwise would not be due until fall 1982.

The overall political situation has been worsened by strike action on the part of the white-collar PTK trade union, which complains that the arbitration award made to its members in recent wage negotiations does not match that received by the blue-collar workers of the LO unions. The PTK called out 17,000 workers in five key industries, and employers retaliated by threatening a lockout. Arbitrators are trying to avert a full-scale showdown. If a new pay award to the white-collar workers were to approach their 8.4% demand, the LO unions could be expected to demand renegotiation of their own agreement.

Common Market Reports
EUROMARKET NEWS

Issue No. 645 *Report No. 423, May 29, 1981*

IN THIS ISSUE

Community: Commission Reaffirms Need for Competition

Free competition must remain the major regulative of the economy even in times of crisis, according to the Commission's recently published Tenth Competition Policy Report for 1980. However, the EC executive also says that the free competition philosophy should never be elevated to a dogma condemning any type of restraint on the freedom of enterprises. In the present economic situation, marked by the far-reaching effects of soaring oil prices, shrinking demand for European products, and increased competition from manufacturers outside the EEC, competition policy must not only sustain effective competition but also support the necessary adaptation and restructuring process of European industry, according to the report.

Since state aid has been and still is a major method of helping national industries and individual enterprises adapt to the new situation, the Commission insists that the Member States' aid policies follow Community rules, which are designed to prevent further imbalances that would jeopardize the functioning of the Common Market. Some Member State governments are not living up to the Treaty obligations to notify the EC executive in advance of any state aid plan *(Common Market Reports,*

This issue is in two parts. This is Part I.

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Pars. 2931, 2932), the report points out. The Commission emphasizes, however, that it is always prepared to look favorably on aids granted to promote protection of the environment, energy savings, and know-how and aids given to future-oriented industries and small businesses. In the Commission's view, these types of aids are important for the Community's economic development and employment.

Transport is a sector where restraints on the freedom to compete have been most evident, and the Commission says that it will not go on tolerating them. Most European airlines are government-owned, so the governments set the fares and are against an open-skies policy that would allow other airlines to compete with established carriers. The Commission counts on the European Parliament's support to press for a change that would expose the airlines to genuine competition. It admits, though, that it is facing a long battle, and the Member States' opposition to a preliminary draft regulation giving the EC executive the power to investigate and punish carriers' infringements is just one example of what lies ahead. (Treaty Articles 85 and 86 are not directly applicable to airlines.) Still, this has not discouraged the Commission, which is pondering action under Article 90. This action would involve complex legal questions and time-consuming investigations. Article 90 subjects public enterprises, and other enterprises with special rights, to EEC competition rules *(Common Market Reports, Pars. 2351, 2361)*.

Environmental Impact Measure Taking Shape

The Council's working group deliberating the proposed environmental impact assessment directive has not reached the point that would allow sending the measure on for adoption. Council attorneys believe that what will emerge from the working group's discussions will be narrower in scope than the Commission's proposal but more precise and thus to the advantage of all concerned, especially businesses.

Under the Commission's proposal, a business planning to build a plant or expand an existing factory would have to submit a report to the licensing authority assessing the possible effects that the project would have on the environment and the quality of life. A public authority, such as a state road construction office planning to build a new highway, would have to do the same. The draft directive's Article 4, in conjunction with Annex I (listing 34 categories of projects that would be subject to impact assessment), would empower the Member States to exempt certain projects from the impact assessment requirement. The States would need the Commission's approval to grant the exemptions.

Critics have pointed out that, while the Commission's proposal purports to establish common principles governing assessment reports for the sake of a better environment and to avoid distortion of competition, it would not bring about real progress in harmonizing national rules because it does not establish any standards. Opposition to the measure has come from several Member States, but France and Germany have been the most outspoken.

France already has legislation requiring businesses applying for licenses involving projects costing more than a certain amount to submit an environmental impact assessment. French officials agree that a cost criterion may not be the best method, and they admit that other criteria such as production volume and pollution potential would be a better approach. Adoption of the proposal in its present version might prompt French manufacturers to invest in other Member States that apply no criteria whatsoever, the officials fear.

Germany bases its objections on constitutional considerations. Adoption of the Commission's proposal would mean that the federal law complying with the directive would not tell the 11 *Länder* how they could exercise the discretion left to them with respect to exempting certain categories of projects from the impact assessment requirements. Under the German constitution, application of laws is left almost entirely to state and local authorities.

Both France and Germany are pressing for a measure with limited scope for the time being but with standards applying to a number of activities. Council attorneys believe that the other Member State governments are coming around to accepting this view. It is indefinite how this view could be put into legislation. One way would be a directive establishing standards for a limited number of categories of industrial projects, to be followed by other directives covering additional categories. Another way would be a framework directive laying down general principles, to be followed by specific proposals for EEC standards on different categories of industrial activities.

In Brief...

The Council has failed to agree on a total ban on the use of hormones in meat production. Following a boycott of veal last summer in Belgium, France, and Italy because of residues from hormone injections to stimulate animal growth, the Commission submitted a proposal for a ban at the Council's request. Belgium, Ireland, and the U.K. are the most outspoken opponents of a ban. A compromise suggested by Germany would prohibit injections of hormones considered to be dangerous but would allow the use of those growth stimulants listed in the pending draft directive on animal drugs. The Council has agreed to take up the issue at its June 15-16 meeting + + + The Commission is planning to propose a new draft regulation on preventive merger controls. The measure would empower the EC executive to bar planned mergers that give the merged entity the potential to hamper effective competition. Adoption of the 1973 proposal has been blocked largely by the Commission's refusal to yield certain powers to the national governments *(Common Market Reports, Pars. 9586, 9845)*.

Germany: Assessment Boost Instead of Special Land Tax

The German government has dropped the idea of a special tax that was to be paid by real estate owners who do not plan to use property but hold on to it for speculative reasons. Complicated legal issues are reportedly the reason for abandoning the plan. Potential home buyers would have benefited from the plan, and even more so local governments, which need real estate for development to tackle the shortage of housing, especially in the big cities.

The government is planning instead to propose legislation that would substantially raise the assessed value of developed and undeveloped real estate. In 1976 the Federal Constitutional Court asked the administration and Parliament to get to work on such a change. The assessed property value is applied in computing net worth, real estate, and inheritance taxes *(Doing Business in Europe, Pars. 23,361, 23,363)*. A bill can be expected in 1982 at the earliest, according to government officials, and the new assessed values would be applied as of 1985. However, a special bill that would enact increased assessed values of undeveloped real estate before 1985 cannot be ruled out.

Prices of developed and undeveloped real estate have skyrocketed all over the country, but especially in the cities and surrounding areas. Real estate values were last upgraded in 1975, and even the 40% increase over 1964 values fell short of market prices. Government officials estimate that the present assessed values are 15-45% below real market value. Raising current assessed value to the level of real market value will make many homeowners net worth taxpayers because, in most cases, the upgraded value would exceed the DM 140,000 exemption that a couple may claim in filing the net worth tax return *(Doing Business in Europe, Par. 23,361A)*.

Netherlands: Higher Tax Revenues From Gas Profits

The Dutch government has announced plans to skim off excess profits made by production companies operating in the country's smaller natural gas fields. According to Economics Minister Gijs van Aardenne, the 2 billion guilders in revenue generated by a 70% levy on such profits in the next four years would be used to help industry. When corporation tax is taken into account, the companies would pay 85% of all excess profits to the government. Protests against the tax increase are being prepared by Holland's two biggest gas producers, Royal Dutch Shell and Esso, which operate through a jointly owned subsidiary, NAM, and sell one-quarter of total national gas output each. Last year these companies signed an agreement with The Hague to invest 36 billion guilders over the next 10 years if the treasury abstained from taking a larger share of gas profits.

Sales revenues from gas exported through the national distribution monopoly Gasunie rose by 29% to 19 billion guilders in 1980, following a 37% rise in the average sales price to 21.83 cents per cubic meter. Most customers also agreed to a formula that will link export prices of natural gas to international oil prices as of Oct. 1 this year. The rise in export revenues occurred despite a 3% drop in the volume of exports. Total sales, foreign and domestic, fell by 6% to 87.3 billion cubic meters.

Belgium: Coalition Compromise on Steel Aids, Tax Cuts

Belgium's one-month-old coalition cabinet of Christian Democrats and Socialists avoided an early collapse with a May 16 compromise on steel sector aids and tax reductions for industry. The agreement included a commitment to continued financial infusions for the Walloon steel industry and the pledge to cut employer contributions to the social insurance system by a total of BF 46 billion. Failure to come to a consensus almost certainly would have meant the end for the young Mark Eyskens administration and would have brought premature elections, which no one wanted.

Aside from the fact that its numerous details still require the approval of industry and trade union leaders, the compromise proposal fails to resolve the controversy over the need to modify the wage indexation system. The Socialist members of the Eyskens cabinet insisted that the mechanism of automatic inflation adjustments be left untouched if the combined effects of the measures did not raise the cost-of-living index by more than one percentage point.

France: Economy's Mitterrand Jitters Continue

The French stock and money markets took a severe beating throughout the first week after the election victory of Socialist leader François Mitterrand, and the Bank of France was forced to push the treasury bill discount rate to an historic high of 18%. Much of the pessimistic mood, financial observers said, was caused by the fact that the new president delayed the announcement of the date of his official installation in the Elysée Palace. This delay also served to heighten uncertainty over Mitterrand's economic policy aims. As a result, the franc dropped below its floor price in the European Monetary System, requiring massive intervention by both the French and German central banks. In the first three business days following the election, the Banque de France alone reportedly spent some $3 billion in supporting the currency. Along with the treasury bill discount, the Bank also raised compulsory reserve requirements for commercial banks by 0.5% to 1% for time deposits and by 1% to 5.5% for sight deposits. It abolished the 5% reserve requirement on nonresident deposits. The commercial banks put up their base lending rates to match, with Crédit Lyonnais boosting its rate to 14.75%.

Conditions on the currency markets as well as political considerations dictated the cancellation of the French part of the Franco-German international loan originally announced on April 8. This was to have involved the raising of FF 15 billion and DM 6.3 billion in a joint operation to finance energy savings and modern technology investments in both countries. Mitterrand had criticized the plan as inflationary and for its effects on foreign indebtedness. West Germany announced that it will go ahead with its part of the loan.

In other news, Mitterrand has indicated that he will halt work on 14 planned reactors to allow a "thinking pause" of 10-15 months in preparation for a national referendum on nuclear power. Twelve other reactors already under construction will be completed. The 14 reactors suspended include eight that were announced by Giscard d'Estaing in January of this year. Mitterrand, who regards France's ambitious fast-breeder reactor program as unnecessary, apparently will not receive the support of the Communists for his reservations against A-power. A poll conducted last April showed 56% of the population to be in favor of nuclear power.

Switzerland: Leutwiler Warning on Fiduciary Deposits

The head of the Swiss National Bank, Dr. Fritz Leutwiler, reportedly will use the occasion of the annual meeting of the foreign banks in Switzerland next month to discuss the subject of fiduciary deposits, over which the central bank is becoming somewhat concerned. The volume of such funds *(Treuhandgelder)* has grown to more than SF 150 billion, which was about the size of the entire Euromarket in the 1960s. Fiduciary funds are deposits placed by Swiss or foreign investors in Swiss bank accounts to be subsequently transferred abroad because of higher interest yields earned there. These transactions are effected in the name of the Swiss banks but at the expense and risk of the investors.

For the period during which the funds are invested abroad, they are not reflected in the balance sheets of the Swiss banks. The investors normally do not know what the recipient Eurobanks are doing with their money, and the Swiss banks generally do not care because they do not bear the risk. The enormous outflow of fiduciary funds currently is encouraged by the high interest rates prevailing on the Euromarket - up to 18% for dollars, up to 13% for D-marks, and nearly 10% for Euro-Swiss francs outside Switzerland. The yields earned are credited to the investor's account at the end of the investment period, without being subject to withholding tax. If the funds were deposited directly into Swiss bank accounts, the yields would be appreciably lower, and the 35% withholding tax would apply.

There are two basic problems that Leutwiler and his central bank colleagues want investors and banks to be aware of - the investment risk faced abroad and the possible consequences of a sudden, massive return of fiduciary funds to Switzerland. Despite contractual safeguards, Swiss banks could still face claims by investors - for instance, if a Eurobank were no longer able to meet its commitments. In many cases, funds are simply placed with Eurobank subsidiaries of Swiss banks (e.g., in Luxembourg), which means that the Swiss parent banks do assume a certain risk, anyway. In the event that fiduciary funds are returned suddenly and in large volume to Switzerland, this could dramatically inflate the balance sheets of the Swiss banks and lead to reserve ratio problems.

Sweden: Fälldin Reinstalled With Conservatives' Help

The agreement on May 15 of Sweden's Conservatives to abstain from voting against the formation of a Center-Liberal minority government has allowed Center leader Thorbjörn Fälldin to be reinstalled as prime minister. The Conservatives (Moderates) had walked out of Fälldin's administration two weeks earlier following a cabinet dispute over a tax reform; they have 73 seats in the Riksdag. The combined 102 Center/Liberal seats are outnumbered by the 174 Socialist/Communist mandates. However, a candidate premier stands elected if less than half of the deputies vote against him.

EURO COMPANY SCENE

Iveco, the commercial vehicles division of Italy's Fiat, and North American Rockwell have agreed to establish a joint venture for the production of rear axles at a plant in northern Italy. With a capital of about $200 million, the new company will provide part of its output for Iveco and the remainder for other manufacturers of heavy-duty trucks. In conjunction with the project, Iveco's capital is to be raised by $200 million later this year, according to Fiat finance director Francesco Mattioli. Fiat probably will then offer 49% of the company to the public via listings on major European stock exchanges.

The United States' Allis Chalmers has announced the closure of its lift truck activities in Dieppe, France, by early 1982. The company said it will then serve its European, Mideast, and African markets from its industrial truck division in Matteson, Ill.

Some 1,000 of the 7,500 jobs provided by General Motors in Britain will be lost as a result of the company's decision to discontinue its U.K. production of spark plugs, alternators, and air cleaners. The move will affect most of all GM's Southampton plant, where the workforce of 1,300 is to be cut by 64%. A company spokesman blamed the reduction in component production on the drastic drop in vehicle output in Britain and on slumping exports because of the high inflation rate and the high value of the pound.

The new management team appointed by Britain's leading computer company, International Computers Ltd. (ICL), has immediately ruled out any further discussions with foreign companies over merger or partnership deals. The United States' Sperry had revealed only recently that it had been holding preliminary talks with ICL over possibly taking a minority interest in a joint venture with ICL. Control Data said it had discussed an expansion of its joint venture with ICL, and Burroughs also had held talks with the British company.

London press reports said Morgan Guaranty Trust Co. intends to dispose of most of its 33% equity in Morgan Grenfell, the London merchant bank. The U.S. bank apparently plans to reduce its holding to below 10% and sell the remainder to insurance companies and pension funds. At the same time, Morgan Grenfell proposes a "substantial" increase of its own share capital.

Midland Bank, London, has received permission by the Greek authorities to open a branch each at Athens and Piraeus at the end of this year.

A new sterling traveler's check is to be issued in early 1982 by a British joint venture company to be established by Lloyds Bank and American Express. The two partners' existing sterling check operations will be absorbed by the new venture. American Express recently joined with several major French banks to issue franc-denominated traveler's checks and also entered into a cooperative agreement with German savings banks. As previously reported, other international credit card and traveler's check organizations lately have become very active in seeking cooperation deals with European counterparts and banks.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: Still Hopeful on Japanese Car Exports

Although the Japanese government has refused to commit itself toward the EEC to restricting car exports, Community officials are almost certain that this is not the final word on the subject. Japan had promised to lower its 1981 exports to the United States by 140,000 cars, a reduction of 7% under 1980 levels. Commission officials, fearing that these cars will be exported to the Common Market, had asked Tokyo to obligate the five major Japanese car makers to exercising self-restraint.

Japanese officials justify their refusal to make a promise to the EEC with the argument that the United States is a genuine market and the Community is not, at least not so far as the automobile sector is concerned. Commission officials concede that the Japanese may have a point but that it is irrelevant. Only Germany and the Benelux countries are completely open to Japanese cars; the other Member States are not. Italy's quota allowing the import of only 2,200 units from Japan each year antedates the Treaty of Rome; the Commission allowed extension of the quota system despite the commercial policy that the Treaty prescribes *(Common Market Reports, Pars. 3815, 3816)*. A French-

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Japanese agreement limits imports to 3% of the total of automobiles sold in France. Japan's major automobile makers have voluntarily agreed to keep their share of the U.K. market under 10%.

Thus, a large portion of the 770,000 Japanese cars exported to the Community in 1980 were sold in Germany and the Benelux countries. Cars from Japan account for 30% of the Belgian market, and as a result several thousand jobs in Belgian automobile factories were lost. In Germany, the impact of increased car imports from Japan has caused union leaders to demand measures restricting imports. Committed to free trade, the German government is opposed to quotas of any kind, but if the Japanese car manufacturers make further inroads on the German market, observers believe that Bonn might change its mind.

Second Consumer Protection Program Adopted

The Council of Ministers has adopted the second consumer protection program for the 1981-86 period. This program is built on the underlying aims, objectives, and principles of the first program, approved in 1975, and provides a basis for making further progress in consumer protection. Because of the present economic situation marked by high unemployment and slower rising incomes, more attention will be paid to prices and the quality of goods and services than has been paid in the past.

Adoption of the second program does not guarantee that the Council will adopt all of the legislation envisaged therein. The fact that it took the Council almost two years to agree on this fundamental program is a sign that the Member States are not prepared to move ahead with any speed. Indeed, some of the proposals submitted by the Commission in anticipation of a favorable response to the second program are either stalled in the Council or held up in the European Parliament. Although the program recognizes the need for additional legislation to shore up consumers' rights acknowledged in the first program, it also favors agreements between consumers and manufacturers' associations, such as in the area of after-sales service.

There seems to be a consensus among the Member States that consumer policy, until now of a defensive nature, should assume a more positive stance. What the drafters of the program have in mind is that consumers should be involved in the preparation and implementation of major economic decisions that are of importance to them.

In Brief...

Around 2.3 billion liters of table wine will be distilled into commercial alcohol this year, according to a Commission proposal recently approved by the Council. This process will cost roughly half a billion dollars since excess wine is siphoned off the market at prices far higher than world market prices, and the yield from the sale of commercial alcohol falls considerably short of what would be needed to break even + + + In accession negotiations, Commission and Portuguese officials have reached a basic consensus on a number of issues, including free movement of persons and capital. Portugal is scheduled to accede to the three Communities on Jan. 1, 1984, and the negotiators are now tackling the big problems involving the agricultural and fisheries policies and the customs union. Disagreement among the Member States about how long cheap Portuguese textile exports should be subject to duty and how long Portugal could curb imports of cars has held up progress on the customs union.

Britain: Stricter Accounting Controls Urged

The U.K.'s Accounting Standards Committee, in its latest report, "Setting Accounting Standards," advocates stricter control of company reports and accounts and a more rigorous enforcement of standards generally. The report stresses that "the touchstone of private-sector regulation lies in the degree of compliance"; if this was not sufficiently high, then the State would have to intervene. At present, compliance with accounting standards is deemed reasonably adequate, but as the standards' content becomes harder to swallow, the report warns, there is a further possibility of conflict "between the needs of users and the desires of some preparers."

The Committee therefore recommends that a panel be established to review noncompliance by quoted companies, since "the need for some supervisory body, beyond the deterrent of a qualified audit report, is seen as an important and vital adjunct to setting accounting standards." It is proposed that this body be of "undoubted standing in the community." It should comprise seven members, drawn from the Stock Exchange, the Confederation of British Industry, the Consultative Committee of Accountancy Bodies, and the Council for the Securities Industry, and be appointed for a three-year period.

Cases could be referred to the panel by the Stock Exchange itself, the disciplinary committee of one of the accounting bodies, or any interested party. If it was found that a company had deviated from one of the standards without justification, then the matter would be referred to the Stock Exchange for appropriate action. However, if it was felt that a standard itself was at fault, this would be examined by the Standards Committee.

These proposals have provoked disagreement among different branches of the accountancy profession, and there will be pressure to prevent the measures from being implemented.

The Committee emphasizes the continuing need for setting mandatory standards, despite growing complaints from companies that they are too restrictive and expensive to operate. However, it is most important that they be "seen to be set in the public interest, after wide and open consultation and debate." There are several standards in the pipeline, such as merger accounting, pension costs in accounts, and segment reporting. (See also *Doing Business in Europe, Par. 40,090.)*

Ireland: Close Outcome of Election Anticipated

General elections will be held in Ireland next week, on June 11, with still a year to run before the government's full term of office would be completed. Prime Minister Charles Haughey said he was seeking a fresh mandate "because in the present difficult political climate" it was necessary for the government to be able to pursue effectively its economic and social policies "with the full support and endorsement of the electorate."

In his campaign, Haughey has highlighted the need to find a political solution to the continually worsening situation in Northern Ireland. However, the leader of the opposition Fine Gael party, Garrett Fitzgerald, has concentrated on the government's alleged "mishandling" of the economy. Last year Haughey had emphasized that the country had not been paying its way internally or externally and that it had been borrowing on both fronts simply to keep going. Since then, the Irish economy has declined, with inflation now running at an annual rate of 21%. This gives the unions the contractual right to renegotiate pay increases agreed for the last six months of this year.

The number of unemployed, in excess of 10% of the working population, continues to rise, as do the level of borrowing by the central government and the deficit of the payments balance. In addition, it is increasingly difficult to maintain the parity of the punt (Irish pound) within the European Monetary System.

The outcome of the election is expected to be much closer than in 1977, and the creation of an additional 18 parliamentary seats is likely to benefit the opposition parties. Should Haughey's Fianna Fail party fail to obtain an overall majority, then a coalition of Fine Gael and Labour will form the next government.

Germany: Concern Over EEC's Tax Cooperation System

An official of the German finance ministry has told the worried business community that honest businessmen need not fear the consequences of international cooperation to fight tax evasion. Business executives are concerned that cooperation among tax authorities of various countries might endanger the statutory tax secret and that business and trade secrets might be divulged in the process. Two well-known German tax experts say these worries are not unfounded.

Since Jan. 1, 1979, the EEC Member States are committed to exchanging information and rendering mutual assistance in direct tax matters to enable their tax authorities to correctly assess taxes on income and capital. This mutual assistance was extended in December 1979, and since Jan. 1 of this year it also includes value-added tax *(Common Market Reports, Par. 3211.21)*. All of the Member States have complied with both Council measures. Officials of the German finance ministry are now writing administrative rules that the individual tax offices and the federal office of international taxation could follow when complying with a request for cooperation from the tax authorities of another Member State.

The Council's mutual assistance directive allows a Member State to refuse to cooperate if its laws prevent its own tax authorities from carrying out such inquiries or from collecting or using the information for its own purposes. Professor Klaus Tipke, an internationally known tax expert and a former member of the government's advisory council on tax matters, fears that the tax authorities of other Member States might be tempted to seek more information about businesses than they actually need. Tipke says that several Member States are rather lax in enforcing tax secrecy provisions, and some States have none at all. In France the tax authorities are not confined to collecting taxes but also have price and exchange control functions, and on behalf of the government they seek contract bids from enterprises. According to Professor Helmut Debatin, the principal architect of Germany's system to fight tax evasion, opening up information exchange channels could erode the protection that German taxpayers now have against the disclosure of business secrets.

France: Socialists Appointed to Key Cabinet Posts

Following the appointment as prime minister of Pierre Mauroy, previously the mayor of Lille, the first Socialist cabinet of the Fifth Republic has been formed. Almost half the ministerial posts have been occupied by members of President François Mitterrand's personal following, and no Communists have been included. Although the National Assembly has been dissolved and parliamentary elections are to be held on June 14 and 21, Mitterrand apparently does not want the new cabinet to be seen as transitional. Communist influence on the government is not expected to be any greater after the elections than before, especially since all attempts to set up a campaign alliance of Socialists and Communists had failed.

Among the most prominent of the new cabinet members are well-known Socialists such as Jacques Delors, Claude Cheysson, and Gaston Defferre. Delors, 55, previously the chairman of the

European Assembly's economic and monetary committee, is to be minister of economics and finance. (The two departments will be reunited after several years of separate existence.) Delors at one time served as the social affairs adviser to Chaban-Delmas and as a member of the general council of the Bank of France. The new foreign minister is Claude Cheysson, once a collaborator of former prime minister Mendès-France and since 1973 a member of the European Commission, where he became known for strong views on currency stability and on the urgency of slowing down inflation. The strongly anti-Communist mayor of Marseille, Gaston Defferre, is to be the new interior minister. The only non-Socialist in the cabinet will be Michel Jobert, who as foreign minister under Pompidou became known as a strong-willed opponent of then-U.S. Secretary of State Henry Kissinger. Jobert now takes up the position of foreign trade minister.

More Currency Controls to Stem Money Outflow

The new French government has introduced a set of currency controls aimed at buttressing the effect of the central bank's interest rate boosts in bringing back stability to the foreign exchange markets. The measures include the limitation of foreign currency coverage by importers to one month instead of two (except in the case of "essential" commodities, for which coverage remains at three months). Also, in settling transactions, importers may retain foreign currencies for only two days instead of eight. Retroactive to May 1, exporters must transfer foreign currency holdings with the Bank of France within one month; however, they may sell forward or borrow the necessary foreign exchange to settle their purchases abroad. In addition, the dollar-stock system has been reintroduced as a means of restricting foreign securities purchases by residents. In the future, 75% of direct French investments abroad exceeding FF 1 million will have to be financed through borrowing. Until now the ceiling was FF 5 million.

At the same time, the Bank of France has increased the discount rate on seven-day treasury bills from 18% to 22%, a historical high (the rate was only 13.5% in early May). Overnight money quickly moved up to 20%, and the Banque Nationale de Paris, the biggest state-owned bank, put up its base rate from 15.75% to 17%.

Opinions appear to differ even within government circles as to the value of measures to defend the franc. Many Socialists believe that the currency should be taken out of the European Monetary System, or at least devalued and permitted to float within a broader band. Others point to the political damage that a devaluation could do to the Socialists just before the upcoming parliamentary contest, and they warn that a devaluation might even worsen economic conditions. Still, most observers believed that a devaluation or EMS separation was imminent.

Denmark: Jörgensen Negotiates Economic Policy Deal

Denmark's Prime Minister Anker Jörgensen has stabilized the parliamentary status of his Social Democratic minority government until the end of 1982 by winning an economic policy agreement from three smaller political parties - the Social Liberals, Center Democrats, and Christian Democrats. The consensus concerns turnover tax increases for certain goods that are not index-linked, some aids to stimulate private business activity and the labor market, and the construction of 10,000 housing units in the public sector. In return, the Jörgensen administration agreed to abstain from introducing a mandatory employee profit sharing system or from modifying existing tax allowances for interest payments.

A year ago the Copenhagen government had come up with a similar deal, which at that time provided for a spending cut to DKr 8 billion and expanded credit facilities for businesses, among other things. The latest agreement is being viewed as a defeat for Jörgensen with regard to the profit sharing issue: while it would allow the government to draft legislation for an obligatory system, it would not permit enactment of such a law before 1983. Furthermore, each of the parties participating in the consensus may sponsor legislation prohibiting union contracts with individual employers (closed-shop agreements).

Italy: Forlani Government Resigns Over Masonic Scandal

Not unexpectedly, Italy's four-party coalition government under Premier Arnaldo Forlani resigned on May 26 in connection with the country's latest political and financial scandal involving a secret Masonic lodge, "Propaganda 2." Prior to the resignation, which was conditionally accepted by President Sandro Pertini, Forlani himself had revealed that several ministers and deputy ministers of his cabinet belonged to the "P2." The names of these officials were among some 960 others on a membership list found at the home of one of the lodge's grand masters, Licio Gelli. The lodge is being investigated for alleged illegal activities of some of its members and for being a "secret power" within the state; so far, no charges have been filed, however. Gelli fled Italy last year following exposure of his role in gasoline taxation evasion, a scandal that shook the country last fall.

Observers said that the suspicions raised by the "P2" affair were not the only reason for Forlani's fall. The Communists had been demanding the breakup of the center-left coalition for several months and had again campaigned for their own direct participation in the government. Forlani's Christian Democrats rejected these demands and were supported in this stand by the Socialists, their most important allies in the coalition. However, with top Socialists also represented in the lodge, Socialist leader Benito Craxi apparently considered the government crisis the only way of speedily clearing up the situation without implicating the party itself too much.

Meanwhile, President Pertini has asked Forlani to continue in a caretaker capacity, and it was not ruled out that Forlani would also be commissioned to attempt the formation of the next coalition administration.

Spain: OECD Warns on Rise of Non-Wage Labor Costs

The OECD's most recent annual survey of the Spanish economy predicts a GDP growth rate of 2% this year, a marginal rise over 1980's 1.7%. According to the OECD, the first months of 1981 have been characterized by falling private construction investment, rising unemployment, and a persistently high rate of inflation. A significant problem is seen in the rapid increase in non-wage labor costs, which results from the fact that the expansion in government revenue in recent years has been largely based upon rising social security contributions, which in turn has led to an erosion of corporate profits. The OECD calls for a more ambitious target for the reduction of non-wage labor costs than has yet been envisaged and urges the early introduction of value-added tax as a compensating source of revenue and as a prerequisite for joining the EEC.

Despite various economic problems, the OECD regards Spain as having considerable underlying growth potential, illustrated by the continuing interest of foreign firms in direct investment and the progress achieved in certain export sectors. This year's exports are predicted to rise by 5%.

In other news, the government has acted to tighten security in the face of mounting terrorism from both right and left by introducing a set of emergency measures which can be activated when necessary. The new powers will allow Madrid to arrest at will, search private homes, tap communications, close newspapers, suspend businesses, seize transport, ban strikes, and establish curfews.

Common Market Reports

EUROMARKET NEWS

Issue No. 647 *Report No. 424, June 10, 1981*

IN THIS ISSUE

Community: Reforming CAP Remains Tough Job

Time is running short for the European Commission to reach agreement on basic elements for the common agricultural policy (CAP) reform plan to be presented to the Member State governments by the end of June. There are reportedly two factions within the Commission: one is pushing for a vigorous reform, and the other, led by agriculture commissioner Poul Dalsager, favors a limited approach. Preparation of a policy document is part of the task given to the EC executive in May 1980 by the heads of goverment after they arrived at a temporary solution to the budget dispute between the U.K. and the other Member States.

The unsettled situation has been aggravated by a strongly worded document presented by the German government to the Commission that dwells on major aspects of how CAP should be reformed. Bonn reemphasizes that it is not willing to expand the Community's financial resources by raising the ceiling that keeps the Member States' contributions down to 1% of the value-added tax assessment base. New is the suggestion to loosen or even abolish price intervention, a key element of CAP. Keeping

This issue is in two parts. This is Part I.

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prices for farm commodities artificially high has been a major cause of excessive production and is the costliest item in the Community's budget. Germany believes that excess production should be coped with by letting producers assume a large portion of the costs incurred by buying up excess commodities, storing them, or selling them abroad below cost. In Bonn's opinion, farmers who would lose income through a CAP reform should be paid direct aid by the national governments.

Move Delayed to Scuttle 'Butter Boats'

The Council of Ministers has postponed action on the Commission's proposal to halt the flourishing offshore trade in EEC-subsidized butter, cheese, meat, and other products in order to await the European Court of Justice's judgment on the matter (Case No. 158/80). The so-called butter boats, which operate mainly from West Germany's North Sea and Baltic ports, stock up with food, liquor, and cigarettes and sail just beyond territorial limits to sell to passengers. No customs duties or import turnover tax is charged on certain quantities of liquor and cigarettes. This denies the German government an estimated DM 200 million each year. Butter and meat sold at sea are much cheaper since these commodities qualify for export refunds and monetary compensation upon leaving Community territory.

REWE, a large retail food store chain, brought suit in the Hamburg tax court, alleging that several Council rules allowing butter boat cruises are in breach of EEC law. In June 1980 the Hamburg court suspended proceedings and requested preliminary rulings from the Court of Justice. The Court is going to interpret the 1969 Council regulation on the tariff applicable to goods contained in travelers' personal luggage and the 1969 Council harmonization directive on exempting from VAT and excise duty the imports effected by travelers from third countries. REWE and other critics of the butter boats have received unexpected backing from Advocate General Francesco Capotorti. In his opinion, the Council directive is illegal.

Over the years the butter boat cruises have been attacked from several sides, especially by members of the European Parliament and Germany's national wholesalers' and retailers' associations. In response to the criticism, the Council adopted a regulation in December 1977 that was to put an end to abuses. But this regulation still empowers the Member States to grant an exemption from import duties for certain agricultural products sold on ships that depart from and return to a Community port without calling at a harbor outside the EEC's customs territory.

In Brief...

The Japanese government is reportedly prepared to commit domestic car manufacturers to holding Japanese car exports to the Benelux countries in 1981 down to last year's levels. Roughly 30% of all automobiles sold in 1980 in the three countries were of Japanese origin, the highest percentage in any Member State. Tokyo has told the Commission that it would consider Community-wide restraint only if France and Italy lifted their restrictions that keep Japanese car imports low + + + The mandatory steel production quota system enacted under Article 58 of the Coal and Steel Treaty will expire as planned on June 30 for all types of steel except coils. Germany's Klöckner Corp., a major coil producer, refused to accept the quota suggested by the Commission for the voluntary arrangement that will follow the mandatory system. According to a Commission proposal, all coil manufacturers throughout the Community would continue to be under official surveillance; the Council's consent to the measure is expected.

Germany: Handicapped Hiring Law Is Constitutional

The 1974 law compelling German employers with a workforce of more than 16 persons to reserve at least 6% of the jobs for severely handicapped persons or pay a monthly levy of DM 100 to the government for each handicapped person not hired is constitutional, according to the Federal Constitutional Court. Thus, the country's highest court dissipated the doubts about the validity of the law that a lower administrative court and many employers had challenged *(Doing Business in Europe, Par. 23,432)*.

Three companies fighting payment of the levy told the high court at a hearing last March that they thought the 6% requirement was too high. This requirement meant 1 million openings in 1975, the first year the law became applicable, and yet only about half a million handicapped people were employable. This picture changed somewhat in subsequent years, but the companies nevertheless felt that Parliament had an obligation to lower the requirement. The high court disagreed, saying that Parliament had stayed within the margin of discretion the lawmakers must be allowed in order to legislate.

The *Bundesverfassungsgericht* further did not find anything wrong with the levy or the way the revenue is spent. Some 52% of the annual revenue (DM 200-300 million) is spent to finance training centers and housing for the handicapped; less than one half is paid in the form of grants to employers to hire the disabled. The three companies argued that the money for these facilities should come from general tax revenue. The justices rejected this idea, but they acknowledged that the 52% portion did not directly benefit employers. In a deviation from most recent case law *(Doing Business in Europe, Par. 40,156)*, the high court declared that this aspect of financing must take a back seat to the two overall objectives pursued by the law - to induce employers to hire the handicapped and to tax those who do not, whatever their reason.

The thousands of employers who refused to pay the levy while their appeals were pending will now have to pay.

Britain: Revenue Ruling Could Hurt Foreign Investors

The Bank of England and other financial institutions in Britain have expressed grave concern over the implications of a ruling by the Inland Revenue that could make the U.K. less attractive to overseas investors. The tax authorities have indicated that foreign currency deposits held in London by nonresidents are liable to capital transfer tax upon the death of the holder, even if the latter was not resident or domiciled in Britain. Although no precise figures are available on the number of such deposits held by private individuals, the total sum of money is regarded as substantial. Originally, it had been hoped that the Chancellor of the Exchequer would take steps in the Budget to amend the relevant legislation, but this did not happen.

A test case is likely to be heard shortly. The question at issue is whether money in a British foreign-currency account is deemed to be held in the U.K. at the bank branch where the account is maintained or in the country of the currency concerned. U.K. banks argue that foreign currency deposited in a U.K. account is, in fact, held at the branch of the particular bank in the country of origin, as assets that are actually held in the U.K. by nonresidents will attract capital transfer tax. They hope that a favorable judicial ruling, or a change of heart by the Chancellor, will prevent a considerable outflow of capital from the U.K.

Belgium: Discount Rate Cut, But Franc Remains Weak

The somewhat improved health of the franc has enabled the Belgian National Bank to return its discount and Lombard rates to the levels they held at the end of last March before devaluation speculation forced a raising of the rates by an unprecedented three points. On May 27, the Bank lowered both rates by another point each, to 13% and 15%, respectively.

During the past few weeks, the franc had recovered to the point where the Bank could reduce to BF 5.5 billion its debt with the European Monetary Cooperation Fund (Fecom), which had reached BF 19.6 billion in early April. It was pointed out, however, that the replenishment of the currency reserves was essentially due to Belgium's rapidly growing foreign debt. In April alone, the state's currency debts expanded by BF 45.5 billion, for a total of BF 95.3 billion in the first four months of the year. Thus, the franc's standing remains fragile, and following the recovery of the French franc, the Belgian currency again ranks lowest within the European Monetary System.

Luxembourg: Pay Freeze for Steel Workers; Profit Curbs

Representatives of the Luxembourg government, the steel industry, and the labor unions have come to an agreement that effectively bars pay increases for the country's 21,000 steel workers until the end of 1983. The step was necessary to ease the financial problems of the Arbed steel group, the Grand Duchy's leading employer by far and Europe's No. 4 steel producer. Arbed last year reported net losses of LF 1.58 billion, up from LF 218 million in 1979.

Under the new agreement, the wages of Arbed's blue-collar workers will be frozen at the present level for the next two and one-half years, while white-collar employees will even have to accept a 3% salary cut. The deal represents a compromise: the Arbed management had pushed for pay reductions of 10% in order to slow the increase in production costs and to prevent an accelerated reduction in the company's labor force, which in Luxembourg alone totals 17,300.

In this connection, the Luxembourg government has announced that it is preparing certain measures within the "national solidarity" framework, among them a freeze of profit margins for all businesses. (It was not revealed in which way the authorities would expect to police such a step.) Also, the government intends to suspend temporarily the wage inflation index, which provides for automatic pay adjustments whenever the cost-of-living rise exceeds 1.5%. The next two adjustments would be cancelled, and any other pay adjustments would be postponed by one month.

Italy: Rome Imposes Stringent Import Deposit Scheme

Faced with a continuously worsening trade deficit and a sudden increase in speculative pressure on the lira following the resignation of Arnaldo Forlani's four-party coalition government, Italian authorities have introduced a stringent import deposit requirement which may well remain in force until the end of September or longer. With the sole exception of crude oil and grain, all imports must be covered by non-interest-bearing deposits with the Bank of Italy equivalent to 30% of their invoice value. The measure was implemented through a decree issued by the foreign trade ministry, with the agreement of the treasury and the finance ministry.

Pressure on the lira forced the central bank to intervene repeatedly in the foreign exchange market recently, and reports suggest that Italy's reserves of foreign currency are shrinking markedly. The import deposit requirement is expected to end the practice by which traders bring forward their import payments in the expectation of a coming lira devaluation. It seeks to reduce the overall level of imports by imposing an extra cost on them.

The new system will even further restrict credit availability, since 50% of bank credits taken out in order to cover import deposit requirements will come under the banks' credit ceilings. These were tightened in January and are now set individually for each separate credit institution. Italian tourists will also be affected, since the amount of money they can take out of the country will be further limited.

Forlani had resigned on May 26 following the refusal of Socialist members of the coalition to accept a minor cabinet reshuffle as a means of dealing with the consequences of the "P2" Masonic lodge scandal. President Sandro Pertini meanwhile has asked Forlani to attempt to form a new cabinet, perhaps with the inclusion of the small Liberal party. The attempt could be foiled, however, by the intransigent demands made by the Socialists, whose leader, Bettino Craxi, apparently wants the prime ministership for himself.

Netherlands: Election Leaves Coalition Problems

The recent general election in the Netherlands has left the country with a stalemated parliament, and several weeks or even months of negotiations may be required to build a governing coalition. Prime Minister Andries van Agt's center-right government of Christian Democrats and Liberals lost three seats and no longer has a parliamentary majority. Van Agt will, however, continue to run a caretaker government until a new coalition is formed. The opposition Labor party lost even more seats, leaving as the real winner of the election the relatively new liberal-progressive "Democrats '66" party, which increased its representation from nine to 17 seats. The party's leader, Jan Terlouw, has proposed a coalition with the Christian Democrats and Labor, but he refuses to consider any coalition that might include the Liberals, who occupy a political position close to the right wing.

The standard Dutch procedure is for the Queen to call in party and parliamentary leaders for consultations and then either appoint an "informateur" to sound out possibilities for a coalition or else directly name a "formateur" to head a new government. On this occasion it seems possible that Queen Beatrix will name two "informateurs," of which one may be central bank governor Jelle Zijlstra.

The Christian Democrats have given their leader, Van Agt, a free hand to lay down a set of conditions for the party's participation in any coalition. The conditions mainly attach to questions of economic management, and the most important one of them appears to be a call on the government, employers, and trade unions to conclude an agreement valid for several years, permitting an annual lowering of real-term incomes by an average of 2%. This would have the aim of permitting a reduction in the share of wage income in total national income, while also allowing funds toward the creation of some one million part-time jobs.

France: $1.2-Billion Public Works Plan; Currency Curbs

Following the first working session of France's new, Socialist cabinet, Prime Minister Pierre Mauroy announced ministerial approval for a $1.2-billion public works program, which will lay emphasis on construction of 50,000 new low-rent housing units as well as a large-scale buildup of the national telephone and telecommunications systems. Mauroy also promised that substantial upward revisions of the basic minimum wage (SMIC), family allowances, and other benefits for the poor and aged would shortly be announced. Expectations are that SMIC, currently FF 2,644 per month, will be lifted by 10%. The prime minister said he was confident the new measures would have a good effect on the Socialists' performance in the parliamentary elections this month.

Fears concerning the future of the franc have evaporated since the government imposed limited currency controls, Mauroy claimed. The controls involve a one-month limit on forward currency purchases by importers, a reduction to two days (from eight) in the time allowed to importers to hold such currency for cash deals, and a rule forcing exporters to dispose of foreign currency received in settlement within one month of the dispatch of goods. A dollar-premium system *(devise-titre)* was established for residents buying shares abroad. Finally, official authorization is required for foreign industrial and commercial investments in excess of FF 1 million (previously FF 5 million).

In his first major policy statement as finance and economics minister, Jacques Delors promised that the government would avoid measures that might discourage the further development of the equity market or deter foreign investment in France. Plans will be prepared, Delors indicated, to encourage long-term savings, including fiscal incentives favoring further growth of the bond market (which expanded in volume by 70% last year). Among other measures, the current FF 3,000 tax deductibility ceiling may be raised. Also to be prepared is a package of financial aid measures for small businesses hurt by the present credit squeeze.

Norway: Tax Relief Approved; Nordic Stock Market

The Norwegian parliament has given its approval to the government's white paper on industrial policy, which included a proposal to reduce the general investment tax rate from 13% to 10% as of July 1. This involves savings for industry and commerce in the equivalent of about $83 million this year and some $277 million in 1982 - a tax relief of about 10%.

Industry Minister Finn Kristensen said Oslo's goal is a gradual reduction of the general investment tax. The rate of this reduction is still to be debated, and this year's 3% cut is not meant to be a guide for future annual adjustments. Eventually, the tax may be phased out entirely.

In other news, a report prepared by the industrial federations of the four Scandinavian countries - Denmark, Norway, Sweden, and Finland - proposes the establishment of a common Nordic stock market "to encourage the establishment of Nordic-owned firms and those active on the Nordic market." The report is based on interviews with 50 industrial leaders in the four countries.

EURO COMPANY SCENE

After completing current transactions, Morgan Guaranty Trust Co. will have reduced its equity in Morgan Grenfell, the London merchant bank, from 33% to about 4%. According to London reports, Morgan is selling its shares at 255p each, which is higher than the 200p at which shareholders may take up a rights issue with which Morgan Grenfell plans to raise £12.5 million.

Continental Bank, Chicago, which a year ago converted its Madrid representative office to a branch, has now opened a branch in Barcelona as well. George P. Sutorius is the manager.

Merrill Lynch, the U.S. securities group, is test-marketing in London a "cash management account" service with which its hopes to lure high-income clients in the U.K. banking market. The company said it has some 300,000 of these accounts in the U.S., totaling about $6.5 billion in deposits. The accounts pay interest on the basis of the money market rates; withdrawals are effected via checks or Visa cards.

The success of the Irish Development Authority in attracting U.S. investors continues with the announcement that Nike, the sports footwear company, and Warner & Swasey, the Ohio machine tool company (Bendix Corp.), will set up production plants in Ireland. Nike is to establish an advance factory at Navan, northwest of Dublin, with an investment of $7.1 million. Warner & Swasey's plant, which requires an initial investment of $785,000, is to turn out precision tools for export to the U.K., France, and Germany.

Voest-Alpine, Austria's state-controlled steel and engineering group and the country's largest company, will set up with California-based American Mycrosystems a joint production plant in Styria province, Austria. The plant is to produce metal oxide semiconductors and large integrated circuits for the European market.

Common Market Reports

EUROMARKET NEWS

Issue No. 648 *June 16, 1981*

IN THIS ISSUE

Community: Steel Production Cuts; Aid Issue Unresolved

The Council of Ministers has agreed to phase out the mandatory steel production quota system as of June 30, as planned, and to replace it by a voluntary agreement among the Common Market's 15 major steelmakers. However, the mandatory system, which has been in effect since last October, will continue to apply to coils, which make up about half of the steel mills' production.

The voluntary agreement contains more elements than the mandatory system. In addition to pledging production cuts, the steelmakers also assumed the commitment to raise minimum prices and eventually bring European prices up to world levels. At the moment, prices of steel products from the Common Market are roughly 15-20% below those charged by U.S. and Japanese steel mills.

Government subsidies enable Belgian, French, and Italian mills to sell various steels at very low prices, which has caused Germany to insist on a firm commitment to phase out the aids. Last March the Council committed itself to such a phase-

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out but failed to tie the commitment to a firm time schedule. According to the commitment, aid would be given only to those steel mills that agree to restructure and to cut capacity.

In the meantime, the Commission has proposed a timetable for eliminating the subsidies: July 1, 1983, would be the last date on which Commission-approved subsidies (other than emergency aid) could be put into effect. Dec. 31, 1984, would be the deadline for payment of operational aids, and no aid except for guarantees and interest rebates on loans could be paid after Dec. 31, 1985. The German government is pressing for an earlier retirement of all aids to steel mills and is threatening measures of its own to bar imports of subsidized steel from other Member States. The Council is to take up the issue at its June 24 meeting.

EEC Bank's Financing Volume Reached 3 Billion UA

Total financing by the European Investment Bank (EIB) for industrial, energy, and infrastructure development reached nearly 3 billion units of account in 1980. According to the bank's 1980 activities report, the EIB concentrated on assisting in regional development *(Common Market Reports, Pars. 4111, 4112)* and financing investments serving the common interest of several Member States or the Community as a whole, particularly in the energy sector. Last year the EIB directed its lending to support policies deemed crucial for the Community's future development - encouraging new investments, combating unemployment, reducing economic disparities among the Member States, tackling structural changes, and trying to reduce dependence on oil.

The EIB helped finance fixed investments totaling 8.7 billion UA in 1980. Ireland and Italy received 3% interest aid, paid from the Community budget, on over 60% of the loans totaling 1 billion UA extended to those two countries. These subsidies were provided under arrangements made when Ireland and Italy joined the European Monetary System *(Common Market Reports, Pars. 10,095, 10,117)*. Two-thirds of the lending in the Community went toward investments in regions that are economically less developed, such as Italy's Mezzogiorno, the Republic of Ireland, and Northern Ireland. Loans in the energy sector totaling 1.1 billion UA helped finance a variety of projects, including hydroelectric, coal-fueled, and nuclear power plants, development of European oil resources, laying gas pipelines, and investments to save energy.

Although it was difficult to come up with accurate figures about the employment impact of investments financed by the EIB, the bank estimates that projects supported in 1980 contributed to the creation or safeguarding of some 50,000 jobs, mainly in industry. In addition, there were, and still are, temporary effects on employment during construction and also on jobs involved in the supply of necessary services.

Nearly 200 million UA lent for various projects came from the resources of the new Community instrument for lending and borrowing - the so-called Ortoli facility - for which the EIB handles lending operations on the EEC's behalf. The Commission has been authorized by the Council of Ministers to borrow up to 1 billion UA for purposes of promoting investments. Although the Commission does the borrowing, the EIB decides on the loans to be granted and the terms.

In Brief...

Two German and two Greek steelmakers have brought action against the Commission in the Court of Justice over the steel production quotas the EC executive imposed under the mandatory system in the second quarter of 1981. The manufacturers say the quotas are too low. The plaintiffs are Klöckner-Werke and Dillinger Hüttenwerke of Germany and Hayvoúrgiki and Metellurgiki Halyps of Greece. The actions of these four companies followed similar moves by Luxembourg's Arbed, the Italian firm Metallurgica Rumi, and the German steelmaker Krupp; the Court has not yet handed down a judgment in any of these cases + + + The Commission has imposed a 14.47% provisional antidumping duty on U.S.-made orthoxylene, a base product for plastics. The duty will be applied while the Commission winds up its investigation of complaints by EEC manufacturers over alleged dumping by U.S. producers.

Germany: Changes in Tax Treatment of Shareholders' Loans

Finance Ministry officials are drafting amendments to Germany's Corporation Income Tax Law (KStG) that would bring significant changes to the tax treatment of shareholders' loans to corporations.

Under current rules, a corporation that has obtained a loan from a shareholder may deduct as a business expense the interest paid to the lender. A precondition for deduction is that the interest rate is not excessive. (Furthermore, the corporation may disregard the shareholder's loan in computing its net worth and business capital taxes.) A new Section 8(3) KStG would treat the interest payments as a constructive dividend if, as a result of the loan agreement, the shareholder takes part in the corporation's profits in addition to receiving a fixed rate of interest. This means that the corporation would have to pay 36% corporate income tax on the payment. In turn the resident shareholder, whether corporation or individual, would have to pay income tax on the payment but would be entitled to a tax credit for the 36% paid by the corporation *(Doing Business in Europe, Pars. 23,329, 23,342)*.

Government officials estimate that contractual arrangements between corporations and shareholders that allow a shareholder to act like a silent partner cost the treasury several hundred million D-marks each year. Tax attorneys and accountants acknowledge this but point out that there is nothing illegal about this way of financing corporate needs. (The tax courts have held all along that a shareholder is free to deal with a corporation either as a shareholder or as a creditor.)

Some experts say that financing via loan agreements became popular after the 1977 corporate tax reform, which not only allowed resident shareholders to credit against their income tax liability the corporate income tax paid by the company from their dividends but also raised the tax on distributions from 25% to 36% *(Doing Business in Europe, Pars. 23,302, 23,331)*. Since then, shareholders who are not entitled to take the tax credit have increasingly resorted to granting loans as a substitute for equity financing. To avoid the higher tax burden that only resident shareholders can escape by means of the tax credit, a shareholder grants the corporation a loan in return for fixed interest plus a percentage of the profits. Thus, instead of receiving dividends, the creditor-shareholder receives interest that is taxed at a lower rate than dividends.

Britain: Benefits Seen in Manufacturers' Discounts

After a four-year inquiry, the U.K. Monopolies and Mergers Commission has reported that discounts made available by manufacturers to retailers do not generally operate against the public interest but, in fact, are passed on to the public through retail prices that "are lower than they would have been in the absence of this practice." The Commission's investigations were centered on the grocery industry, and "relatively few" suppliers were found who did not negotiate or grant "special terms or prices" to some of their customers, especially major retailers. However, the sheer size of the retail industry and the continual renegotiation of discounts make it impossible to give any precise figures, the Commission says.

The report finds that the practice of giving discounts has tended to "improve efficiency and induce economies" among manufacturers, although increased concentration on certain goods was a trend that probably would have continued in any case. It emphasizes that "powerful buyers in the retail trade have the resources to seek out and develop new sources of supply if they are required, sometimes from overseas."

The Commission has not found any evidence to suggest that large discounts are being distorted "to the extent that not the fittest, but the fattest, survive." Rather, the successful large retailers have exploited new techniques and responded efficiently to changing market conditions. Discounts have been beneficial in tending to break down traditional margins, stimulating the search for reduction in costs and improvements in service and in encouraging more competitive behavior.

The Commission has decided that there is no need at present for any legislation curbing the practice of discounts, which has not been prejudicial to the consumer in recent years. However, the Office of Fair Trading should closely examine under its statutory powers any particular instance of favorable treatment that might be anticompetitive. In view of the potentially harmful effects of increased power in the hands of major retail multiples, any merger between retailers likely to reduce competition "on a national or regional scale" should be closely scrutinized by the Trade Secretary and referred to the Commission, if necessary. (See also *Doing Business in Europe, Par. 40,076.*)

Netherlands: Registration of New Chemical Substances

New chemical substances may not be marketed in the Netherlands before 45 days have elapsed after registration with the Health and Environment Ministry. Substances produced within the country must be registered 45 days prior to the start of production. These, in essence, are the most noteworthy requirements contained in draft legislation recently submitted to Parliament's Second Chamber by the Ministry. With this step, the Dutch government abides by the 1979 EEC Council directive introducing a system for the notification of new substances prior to marketing so as to permit an assessment of their effects on man and the environment *(Common Market Reports, Par. 3451).*

At the time of registration, manufacturers would have to submit data concerning the composition of new chemical substances they planned to put on the market. The Ministry could issue regulations concerning the use, transport, and labeling of such substances, and it could prohibit immediately the marketing of any substances considered toxically too dangerous or which could be carcinogenic or cause genetic damage.

The draft legislation purposely exceeds the EEC norms in some respects, a fact strenuously objected to by the Dutch chemical industries federation (VNCI). According to VNCI spokesmen, the law would put Dutch industry at a disadvantage vis-à-vis foreign competitors because of the obligatory registration prior to production and the public procedure of the registration itself. In this way, the VNCI says, competitors would prematurely learn of production plans, which would tend to inhibit industrial innovation in Holland.

The Ministry in turn maintains that its bill does not encroach on the interests of domestic industry. The aim of the tougher registration rules would be to enable the government to announce as early as possible which requirements might be imposed with regard to new chemical substances, so that industry would have the opportunity to plan accordingly. Given the fact that it usually takes five to seven years from the time a new product is conceived until actual production begins, the Ministry notes, it would not be in industry's interest to face certain regulations only when a substance is nearly ready to be marketed.

Italy: Drug Prices to Be Inflation-Adjusted

Drug prices in Italy, which are administered by the government, in the future will be adjusted to inflation. The interministerial price commission (CIPI) in Rome has announced that manufacturers' price lists will be adjusted once a year or whenever the official consumer price index has risen by more than 10% against the previous adjustment.

In the past, adjustments were made at irregular intervals and only after persistent complaints by producers. This happened the last time in November 1979, when the adjustment resulted in average retail price increases of 21.3%. Just before the government acted at that time, the executive board of the national pharmaceutical manufacturers' association (Farmindustria) had collectively resigned in order to draw attention to the alarming financial plight of the drug sector. Legislation codifying the method of determining drug price changes had already been enacted in 1977.

Greece: Establishment of Foreign Bank Branches

In connection with the adjustment of the domestic banking system to Greece's new membership in the EEC, the Greek Currency Committee has issued a regulation spelling out the rules for the establishment of foreign bank branches in Greece (with retroactive effect from Feb. 12, 1981). A major point is the requirement of the importation of 1 billion drachmas in foreign exchange, which is the minimum capitalization prescribed for the establishment of a bank in Greece. These imported funds would constitute the total equity capital for all branch offices to be set up and could be exported only upon dissolution of the foreign bank.

Meanwhile, the reorganization of the Greek commercial banking system in conjunction with the country's EEC accession is nearly completed, and serious problems have not arisen, according to Athens reports. However, the government has negotiated with the Community certain transitional periods (until 1982 and, in some cases, until 1985) for the specialized banks - for instance, the investment banks, the Agricultural Bank, and the National Mortgage Bank. Also, it has been agreed with Brussels to continue exercising certain controls over capital transactions and, in particular, over possible foreign participations in Greek banks via the stock market. This means that the Currency Committee, which is a regulatory body operating under the aegis of the central bank and has jurisdiction in these matters, will continue in its role for the time being.

France: Social Measures Announced; Tax Package Due

Following a June 3 cabinet meeting, the French government announced decisions to raise the minimum wage (SMIC) by 10% to FF 2,909 per month as of June 1, minimum pensions by 20% to FF 1,700 per month, family allowances for 5.8 million families by 25% from July 1, and special housing allowances for low-income groups by 50% in two stages on July 1 and Dec. 1. The total cost of the measures, estimated at FF 9 billion for this year, is to be carried in as yet unspecified ways by the state budget (FF 4 billion) and the social security system (FF 5 billion).

The most important of the measures in terms of cost is the increase in the minimum wage, which employers fear will set in motion a new wave of general pay increases adding 4% to the total wage bill, as workers in all sectors try to maintain differentials. Indeed, the government has specifically called on trade unions to avoid attempts at leapfrogging. The increase is, in fact, far less than some government supporters had expected, and 3.3% of it is covered by planned inflation adjustments. In an effort to give some relief to small companies, the government has announced a special 50% cut in employers' social insurance contributions for workers whose wages are at or below 120% of the minimum wage.

Final decisions on how to finance the new social measures will have to be made before the planned July supplementary budget, the outlines of which were revealed by Budget Minister Laurent Fabius. Prime targets for taxation will be the windfall profits of banks and oil companies, followed by top-level incomes. During his election campaign, President François Mitterrand had suggested imposing a new tax of between 0.5% and 8% on nonbusiness fortunes above FF 3 million and putting a "super tax" on France's top 100,000-or-so taxpayers. The July budget measures will probably also include higher value-added tax charges on luxury goods and a new tax on companies' entertainment expenses.

In related news, the government is to go ahead after all with the French part of the $6-billion Franco-German international loan which was suspended shortly after the presidential election, although the proceeds will be put to somewhat different uses than originally planned. The Germans raised their DM 6.3-billion portion last month.

Other aspects of the Socialist party platform are being put aside for the moment. The nationalization plans will be discussed in a committee, and the introduction of the 35-hour week is to be left to negotiations between employers and unions. Mitterrand's immediate concern apparently was to make a successful showing in the parliamentary elections on June 14 and 21, observers said. One step in that direction was made with the conclusion of an electoral pact with the Communists, which called on the two parties to agree on one candidate for each district in the second round of the election. The Socialists have, however, made no promises concerning Communist participation in the government.

Belgium: Two Sets of Terms for Crisis Bond Issue

The Belgian government's so-called crisis bond issue, first announced last March, is to be open for subscription until the end of this month, by which time it is hoped that BF 80-100 billion will be raised for the state treasury. The finance minister intends to use the proceeds to consolidate short-term debts and reduce the overall interest payment burden.

Subscribers may choose between two sets of conditions. One of them is designed to satisfy the needs of institutional investors, offering an exemption of 5% of the interest yield from corporation tax as well as a 3% discount on par at issuance, bringing the real-term coupon to 14.5% over a seven-year term. The conditions for private investors differ in offering a maturity of 10 years and exemption from income and inheritance taxes. The bond may also be used at parity during its entire lifetime to offset inheritance duties on other items of estate. In addition, private investors are protected from devaluation of the franc by linkage of the bond's repayment value at maturity to the value of the Ecu, the European currency unit. The 13% coupon is just below the current market rate of 14%.

Earlier plans had proposed that investors' income from the bond be freed of capital gains tax and that a tax amnesty be attached in order to lure back to Belgium capital that had been illegally transferred abroad. Both of these ideas were dropped, however, and it now seems likely that most domestic investors will finance the purchase of the bond by selling treasury bills and liquidating savings deposits.

EURO COMPANY SCENE

Dow Banking Corp., Zürich, and three Scandinavian banks (Sweden's Sundsvallbanken, Finland's Bank of Helsinki, and Norway's Forretningsbanken) have established a new London-based bank, Dow Scandia Banking Corp. Dow Banking, of which the United States' Dow Chemical is the majority owner, holds a 52% stake in Dow Scandia, while the three other partners share the remainder of the £10-million equity capital.

Citibank has applied to the Finnish authorities for a license to convert its Helsinki representative office to a full banking subsidiary.

Common Market Reports

EUROMARKET NEWS

Issue No. 649 *Report No. 425, June 25, 1981*

IN THIS ISSUE

Community: Commission Probes Italy's Deposit Requirement

The Italian government's measure requiring importers of all goods except crude oil and cereals to deposit with the Banca d'Italia for three months a sum equal to 30% of the paid bill is keeping many Commission officials busy. While economists are trying to discover whether the measure is Italy's only option available and whether it is reasonable, Commission attorneys are checking whether the government decree conforms to the EEC Treaty. The measure, similar to those taken in 1974 and 1976, is designed to support the lira, which had come under pressure because of the deteriorating trade balance.

Several Commission economists hold the view that the Italian government had reason to take such a drastic step when the devaluation of the lira in March and continued intervention on the foreign exchange market did not restore confidence in the currency. However, the decree places the burden on importers only; a high interest rate policy would have produced the desired effect and would be easier to reconcile with the Treaty of Rome, according to Brussels sources.

This issue is in three parts. This is Part I.

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Treaty Article 109 authorizes a Member State to take the necessary protective measures whenever a sudden balance of payments crisis occurs *(Common Market Reports, Pars. 3781, 3782)*. But Commission attorneys emphasize that any measure must be kept to a minimum to avoid undue interference with the functioning of the Common Market. Theoretically, the Council of Ministers has the power under Treaty Article 109(3) to amend, suspend, or even abolish the Italian decree, but Brussels sources rule out such action. It is more likely that the Commission will approve the measure under Treaty Article 108 and demand that Italy take other steps to cope with the balance of payments crisis *(Common Market Reports, Par. 3732)*. Cutting back on government spending could be one of the steps.

Controls on Multinationals Again Before EP Unit

The European Parliament is expected to press again for Community action to control the activities of multinational companies when it takes up a draft resolution prepared by the Economic and Monetary Affairs Committee. A vote on the resolution may be taken late this month or in early July. The draft calls on both the Council of Ministers and the Commission to enact "a legally enforceable framework under which multinationals should operate." Committee members allege that the Commission has been dragging its feet in producing concrete proposals on multinationals. Commission attorneys say it is not that the EC executive does not want to do anything, but there are numerous complex legal issues ahead in the drafting and in enforcement.

In 1977 the European Parliament had called for action on the matter, and its resolution was attached to a Draft Code of Principles on Multinational Enterprises and Governments, drawn up jointly by members of the EP and the U.S. House of Representatives. Moreover, the United Nations is also preparing a draft code of conduct for multinational corporations; the work was to be wound up this summer, but now the delegates say they still need another year.

In the draft resolution prepared by the EP committee, the Commission is asked to pay particular attention to the areas of transfer pricing, disclosure, and mergers - especially how these three areas affect developing countries. Moreover, the proposed resolution calls on the Commission to report on transfer pricing abuses. (Since 1979, individual EP members have sent the Commission questions about such abuses without getting what they would consider satisfactory answers.) The Council is urged to adopt the Commission's merger control proposal *(Common Market Reports, Pars. 9586, 9845)*.

In Brief...

The Commission is annoyed by the understanding between the German and the Japanese governments to slow exports by Japan's major car manufacturers. (Japanese car exports to Germany in 1981 will not rise more than 10% over 1980 levels.) Germany thus became the fourth Member State to negotiate export limits with the Japanese; however, the restrictions on imports by France, Italy, and the U.K. are either outright quotas or similar in nature and are of a much older date. The EC executive sees hopes for a Community-wide arrangement fading because Tokyo is about to announce a similar promise to the Belgian government + + + The new French government is reportedly prepared to relent on the issue of potassium pollution of the Rhine River. France's government-owned potassium mines in Alsatia are major polluters of the Rhine, a source of drinking water for some 20 million people. Holland has been affected most by the pollution. A 1976 draft convention concluded by France, Germany, Luxembourg, the Netherlands, and Switzerland provides for dumping the potassium residues in deep mines in Alsatia. Under pressure from Alsatian members of Parliament, the previous French government had refused to initiate ratification of the draft. Other alternatives now under discussion are the construction of a pipeline to the North Sea or the barge transport of the residues to the North Sea or, even further, to the Atlantic Ocean.

France: Details of Tax, Spending Package Revealed

A recent cabinet meeting has given clearer contours to the package of tax and spending measures planned by France's new Socialist government. The proposals are to be presented to Parliament next month as a supplementary budget, in which FF 6.8 billion in extra expenditures on employment, industrial investment, and housing would be set against a series of new "interim" taxes. The bulk of new tax revenue, FF 3.4 billion, would be generated by a "supertax" bracket affecting the top 150,000 taxpayers who already pay more than FF 80,000 annually each. This year they would have to pay an additional 25% levy on the sum of their tax payments above the FF 80,000 threshold.

Further revenue is to be generated by a 10% tax on the value of meals, receptions, apartments, limousines, and other amenities provided on the expense accounts of a company's 10 highest-paid executives. This is expected to bring in FF 800 million. An increase in value-added tax on four-star hotels from 7% to 17.6% would add another FF 160 million. The treasury also expects to obtain FF 1.6 billion by taxing windfall profits of banks and oil companies. The oil firms would be taxed more heavily with regard to profits from oil exploitation on French territories, and the banks would have to pay an extra tax, averaging 0.2%, on deposits in non-interest-bearing and low-interest, fixed-rate accounts.

By covering all new spending by means of additional taxation, the government hopes to keep the budget deficit to FF 57 billion this year, well under the 2% of GNP that the Socialists regard as the maximum permissible level. The spending proposals follow earlier plans in principle, allocating FF 2.4 billion to hiring 54,000 new public-sector workers in health and social services, education, and the postal system and FF 3 billion to an industrial aid program. The previously announced plan to build 50,000 low-cost housing units would cost a total of FF 2.6 billion, of which FF 200 million would be spent this year. Additional funds would be set aside for job training for school leavers and farm aid measures.

The supplementary budget plans were announced a few days before the first ballot of the elections for the new National Assembly, with the Socialists attempting to capitalize on the groundswell of support generated by the victory of François Mitterrand in the presidential elections. Early returns indicated that the Socialists and their leftist allies could easily gain an absolute majority in Parliament on the second ballot, possibly even without the Communists' help.

Netherlands: Restore Collective Bargaining, Report Urges

With negotiations continuing toward the formation of a new government following the recent Dutch general elections, two official economic reports earlier commissioned by the outgoing Van Agt administration have just been published. Their findings are expected to influence the policy making by whatever new coalition is eventually assembled.

The advisory commission for industrial policy (the so-called Wagner Commission) urges the reestablishment of free and collective bargaining between employers and unions, thereby implicitly attacking the incomes policy of the Van Agt government over the past two years, when such bargaining was suspended. The change is necessary, says the commission, in order to reduce wage costs and free resources for industrial modernization.

The other report, issued by the inter-ministerial Central Economic Commission and based on contributions by each government department, recommends savings of up to 24 billion guilders in government spending by 1985. The report claims that 20% of projected outlays by government departments and 10% of spending on welfare, health care, salaries, and pensions for public-sector employees could be eliminated. One of the main recommendations is that benefits for the unemployed and sick be cut back to a basic minimum, on top of which bonuses would be paid according to seniority and family size of applicants. The report also calls for the salaries of public-sector employees to be "uncoupled" from industrial wages, while welfare premiums for public servants should be raised at the same time.

In other news, Ruud Lubbers and Jan de Koning, the two *informateurs* appointed to make soundings for a new coalition cabinet, have drawn up a 10-point program as a basis for talks among Christian Democrats, Laborites, and the Democrats '66 on economic and financial policies, energy, housing, education, and foreign policy priorities.

Italy: Republican Attempts to Form Coalition

After Christian Democratic ex-premier Arnaldo Forlani had to abandon his efforts to form the next Italian government, Republican leader Giovanni Spadolini was asked to make an attempt. Forlani's discussions appeared to have foundered on the unwillingness of the Socialists and Republicans to see him continue as prime minister. In the scandal over the "P2" Masonic lodge, which had brought down the Forlani administration last month, both parties wanted him officially to disband the organization.

Spadolini is only the third non-Christian Democrat since the war to even try to form a government, and he would be the first to succeed. Rome reports said that he would attempt to bring together the same combination of Christian Democrats, Socialists, Social Democrats, Republicans, and Liberals that was involved in the earlier coalition talks.

Britain: White Paper Spells Out Trade Policy Stand

The U.K. government is apparently reluctant to modify its position on tariff rates, the pricing of energy, and retaliation against infringements of the General Agreement on Tariffs and Trade. This is indicated in a White Paper, "Trade Policy," (Cmnd. 8247) published recently following earlier recommendations of the Parliamentary Select Committee on Industry and Trade. The need to balance the interests of consumers and manufacturers is emphasized, and so is the belief that "in all cases it (the government) can best protect and advance those various interests by reaching its decisions in a framework that supports and defends the open trading system."

The White Paper does not accept the committee's proposal that energy prices should be subject to government control. If the industrial use of energy were to be subsidized indiscriminately, prices would not give the "right economic incentive" for producers to develop new sources of supply and for consumers to invest in energy-saving equipment and to make the correct fuel choice for their future needs. Similarly, it rejects the committee's proposal that the import duty on components essential for U.K. manufacturers be lifted, since the common customs tariff militates against this.

Unilateral action is not envisaged in cases of unfair tariffs or competition, or dumping, and the inherent dangers of protectionism are emphasized. There has been increasing pressure recently to help the depressed U.K. textile industry by limiting imports, but the document stresses that there can be "adverse effects" on the whole of Britain's commercial relations with other countries and exports to them if protective action is taken in a single sector.

The White Paper indicates the government's faith in the operations of GATT and the determination not to undermine a system that encourages investment in trade-dependent enterprises "by providing reasonable security against arbitrary interruptions of trade flows." Over the past two years, excessive pay settlements have had a greater impact on competitiveness than the appreciation in sterling, it is noted.

Germany: Curbing Abuses of Unemployment Insurance Benefits

After the summer recess the Schmidt administration will propose legislation that would considerably tighten the conditions for receiving unemployment insurance benefits in Germany. Although the declared intent of the amendments is to fight abuses, Bonn sources say the real reason is to cut public spending. Employers would also be affected, especially when they ask for assistance to pay employees put on a short workweek. There are even discussions about letting employers shoulder a higher share of the financial burden incurred by unemployment and the economy's recession - for example, by raising the unemployment insurance rate *(Doing Business in Europe, Par. 23,456).*

An employer who notifies the local labor exchange that he has put employees on short time gets money from the government for four weeks, so that employees receive full pay at least for that period. He does not have to present reasons why he reduced working hours. This liberal approach reportedly invites abuses, and the government has evidence that often one division of an enterprise is working overtime, while another is on short time. An amendment under consideration would have outside certified public accountants check whether the introduction of a shorter workweek was justified. Also, if there were legitimate reasons for letting some employees work overtime while others work less than a regular week, the local labor office could deduct the number of overtime hours from the hours for which assistance was requested.

Several ways are being discussed to stop abuses committed in connection with early retirement. An estimated 50,000 employees quit each year at the age of 59 with works council agreement and thereafter receive unemployment benefits until the legal early-retirement age of 60 *(Doing Business in Europe, Par. 23,451).* The employee usually does not lose anything because the government continues paying into the health and old-age pension insurance funds during that year, and the difference between the unemployment benefits (68% of the last pay) and pension (a maximum of 75%) is often made up by the employer in the form of severance pay. One of the changes being talked about is that an employee would qualify for early retirement at age 60 only if he was unemployed for at least two years. Another suggestion, one that has been criticized by the business community, is to let the employer share part of the cost incurred by the government in paying unemployment benefits to prospective retirees. Yet another alternative: an employee who agreed to quit at 59 and then received severance pay would have to reckon with the fact that unemployment benefits would be reduced by that amount.

Switzerland: Equality for Women; Consumer Protection

Ten years after giving women the right to vote, the Swiss electorate has sanctioned an addendum to a constitutional article guaranteeing equal rights for men and women. Of the 35.5% of eligible voters participating, 60.3% supported the change and 39.7% rejected it. So far the constitution merely stated that all Swiss are equal before the law. The pertinent article now reads in addition: "Man and woman are equal. The law guarantees their equal standing, especially in the family, in education, and at work. Man and woman have a right to equal pay for equal work."

Parliament is now held to eliminate from existing law all inequities so far as they concern women. In Switzerland, laws governing marriage, marital contracts, and inheritances still contain many patriarchal elements, and work has already begun to apply the full equality principle here. Similar reforms are planned in the areas of education, social insurance, and labor law (equal pay).

In the same round of balloting, the voters also approved a constitutional addendum authorizing the federal government to improve consumer protection, though without encroaching on the freedom of trade and commerce.

Only Few Changes in Swiss Federal Finance Code

Switzerland's new federal finance code, which is to take effect in 1983 for a period of 12 years, has been passed by Parliament after a lengthy tug-of-war among the political parties and other groups. The code contains only few modifications of the existing system, mainly because final approval is still subject to a November referendum by the Swiss voters, who tend to frown upon "financial experiments," as one commentator put it.

Contrary to earlier plans seeking higher increases, turnover tax rates for retailers are to be boosted from 5.6% to 6.2% and for wholesalers from 8.4% to 9.3%. To offset partially the effects of income tax progression, tax-free family and insurance allowances would be raised, and rebates would apply to the first SF 1,000 of the annual tax debt. On the basis of these decisions, the federal treasury could count on only SF 300 million in additional revenues. Bern will now await the outcome of the November referendum before attempting to open up further revenue sources and to effect budget savings in order to balance its chronic deficits. (See also *Doing Business in Europe, Par. 40,168.*)

Spain: Pact Against Unemployment; VAT in 1983

Following negotiations of over three months, representatives of the two largest Spanish labor unions (CCOO, UGT), the CEOE employers' federation, and the government have concluded a national "pact against unemployment," the first of its kind. In basic terms, the agreement limits pay increases to 9-11% next year, raises state subsidies for the unemployment insurance system, and includes measures that are to lead to the creation of some 350,000 new jobs. For the first time, the unions will participate in the monitoring of such a program.

The signing of the pact occurred on the Calvo-Sotelo administration's 100th day in office after the aborted Feb. 23 military putsch and also marked an official policy change. In the past, Madrid had given top priority to the fight against inflation, with the result that the cost-of-living rise last year dropped to 15%, from a onetime 30% level. However, a change of course was indicated when, at the end of April, unemployment exceeded 1.65 million, or 12% of the workforce. With the expected addition of another 300,000 jobless this year, the government has become very much aware of the threat of social unrest.

The proposed pay increases of 9-10% compare to an officially projected inflation rate of 12% in 1982. Wages and salaries of public-sector employees are to be raised by a maximum 9% and old-age pensions by 10% on the average. The state contributions to the social insurance system are to be boosted by 150 billion to 350 billion pesetas, which would mean a cut of one percentage point in employer contributions. Unemployment insurance benefits would be paid to 200,000 jobless persons who previously were not covered or whose eligibility had expired. A special fund of 15 billion pesetas is to be created to deal with hardship cases of unemployment. Labor market measures would include the possibility of early retirement at age 64; the legal retirement age is 65.

In other news, the Spanish parliament has approved legislation introducing value-added tax as of Jan. 1, 1983. With this step, Spain is preparing to adjust its tax system to that of the European Community, which it expects to join in 1983.

Common Market Reports

EUROMARKET NEWS

Issue No. 650 *June 30, 1981*

IN THIS ISSUE

Community: EC Unit Supports Recognition of Drug Licenses

The Economic and Social Committee has given its support to the European Commission proposal to institute mutual recognition of drug marketing authorizations issued by the national authorities. The European Parliament is likewise expected to react favorably to the proposal prior to the summer recess. The ESC also urges the Commission to put forward proposals on advertising and pricing of pharmaceuticals.

Last December the Commission submitted to the Council of Ministers a proposal designed to amend existing EEC legislation on pharmaceuticals *(Common Market Reports, Par. 10,278)*. Community rules so far have established a common form for applications seeking authorization as well as common norms for the various tests that drugs have to undergo. This legislation has been unsatisfactory because it has failed to bring about progress in establishing a common market for pharmaceuticals. In particular, the committee procedure that a national drug manufacturer can invoke if he wants to sell his drug in another Member State has not produced the desired results. Community

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officials and drug industry executives had placed great hopes in this procedure to open up national markets *(Common Market Reports, Pars. 3501-3508E).*

Adoption of the Commission's proposal would be a major step forward because a drug duly authorized for sale in one Member State would be allowed on the market of any other State. Still, mutual recognition alone would not fully assure access to a single market because there is also the problem of prices. All Member State governments are trying to control rising health care costs, and keeping down prices of drugs has been one of several ways to do this. Some governments seek to slow the rise of prices through persuasion, while others hold down drug prices by legislation. Although the Treaty of Rome leaves intact the Member States' powers in the health sector, a government that keeps prices artificially low violates the Treaty if its practice prevents manufacturers from other States from selling at a profit.

Basic Accord on Measure to Fight Oil Spills at Sea

The Council of Ministers has reached agreement in principle on a Community information system to help prevent and combat oil pollution of the seas. The information system is set forth in a proposal prepared by the Commission upon the Council's request following the wreckage of the tanker Amoco Cadiz off the coast of Brittany in mid-1978. The system would enable the Member States to improve the coordination and effectiveness of measures to deal with oil spills at sea.

Each Member State would be required within six months to inform the Commission about its pollution control resources. The information would have to include an up-to-date compendium of national and regional contingency plans and the number of staff and the mechanical and chemical means available to the national authorities to combat oil spills. Once the Commission had obtained the information from each State, it would prepare an inventory of the human and technical resources available to prevent or combat coastal pollution. This inventory would enable the States and the Commission to identify gaps and take appropriate remedial action.

Another compendium kept by the Commission and utilizing data provided by the Member States would describe the properties of hydrocarbons. If a pollution accident happened, the States would be able to assess the nature of the hazard and determine the most appropriate means of dealing with oil pollution. To this end, the compendium would describe the characteristics of hydrocarbons, such as density and wax content, their physiochemical behavior in seawater, their impact on maritime flora and fauna, and characteristics likely to affect recovery and pollution control measures.

There would be a Community file on all tankers carrying crude oil and other hydrocarbons to Member State ports. It would list the owners, the maritime conventions to which a tanker entering a Community port would be subject, and the results of any on-board inspections and any accidents and/or oil spills in which the tanker was involved. The file would enable the national authorities to have rapid access to relevant data about a particular vessel so they could take preventive action.

In Brief . . .

The Commission has expressed misgivings over Switzerland's plan to further restrict automotive exhausts. In a note to the Swiss government, the EC executive says that the tightened standards to be imposed in 1982 and 1986 and in effect incorporating those applied in the United States and Japan could be met only with unleaded gasoline or the use of catalyzers. (Only the U.S. and Japan produce lead-free gasoline.) Although the Commission supports environmental protection, it sees added costs ahead for the Common Market's car manufacturers and fears a 75% decline in their sales to Switzerland + + + The Council has not yet reconciled all differences over the proposed indemnity insurance directive that would remove obstacles to providing insurance services across national frontiers *(Common Market Reports, Pars. 9803, 9959)*. France wants to impose value-added tax on insurance premiums paid to insurance companies, whether domestic or foreign. Greek officials want more time for further study of this piece of proposed legislation, which will be of great significance for Greece, with its large commercial fleet. The U.K., more than any other Member State, is pushing for adoption because of the measure's potential for the British insurance industry. The Council will take up the proposal again in September.

Germany: Setback for Cartel Office in Metro-Kaufhof Case

The West German Federal Cartel Office has suffered a setback in court in the case of Kaufhof, the country's No. 2 retailing group, and its new Swiss minority shareholder, Metro, the powerful Swiss-German cash-and-carry group. The West Berlin Court of Appeals has invalidated the Cartel Office's order demanding full disclosure of the relationship between Kaufhof, Metro, and the Union Bank of Switzerland, Metro's house bank. The appellate court states that there was not enough evidence that Metro had in fact acquired a controlling influence over Kaufhof Corp.

In late 1980 the Cartel Office told Metro management that it would frown on any move by the Swiss group toward acquiring a controlling majority interest in Kaufhof or even a minority stake of 25%; Metro then contented itself with buying 24% of Kaufhof stock. At the same time the Union Bank of Switzerland also bought 24%, plus an option for an additional 2.3%, without saying who the ultimate buyer of the shares would be. For nearly six months the Cartel Office tried to establish that Metro had obtained a controlling interest in Kaufhof via a contract with the Union Bank. Raids on Metro's German head office to uncover documents did not produce the hoped-for evidence, and the Office was powerless to carry its search across the border into Switzerland. (Cartel Office attorneys say Switzerland is the most restrictive country in Europe when it comes to cooperating on the disclosure of information.)

With its recent decision addressed to Metro's German head office and demanding full disclosure of the triangular relationship, the Cartel Office hoped to obtain evidence of a cover-up of a full-fledged merger. The Office was of the opinion that, if Metro had acquired a majority interest in Kaufhof via a contractual arrangement with Union Bank, the completed merger could have been rolled back because Metro would have attained a market-dominating position *(Doing Business in Europe, Par. 23,510C)*.

Ireland: Early Election Results in Deadlock

The results of Ireland's general election on June 11 have proven inconclusive, thus confirming earlier predictions that there would be a neck-and-neck race between Prime Minister Charles Haughey, leader of the governing Fianna Fail party, and Garrett Fitzgerald, head of the main opposition party, Fine Gael. Although Fianna Fail emerged as the largest single party with 78 seats, this was six seats short of the 84 required for an overall majority in the 166-seat Dail (parliament). Fine Gael and Labour, which are likely to form a coalition, obtained 65 and 15 mandates, respectively, making a total of 80. Thus, the balance of power is held by eight independents. Of these, two are members of the Irish Republican Army who are serving long sentences in Northern Ireland and will be unable to take up their seats.

The makeup of the next Irish government could be influenced by the fact that Labour on June 17 elected Michael O'Leary, a European Parliament deputy, as its new leader in succession of Frank Cluskey, who lost his mandate in the general election. O'Leary is strongly in favor of a coalition with Fine Gael and said he would begin negotiations with Fitzgerald, which could lead to the latter's becoming the premier of a Fine Gael-Labour coalition government. The new parliament was to convene on June 30.

Haughey, in the meantime, said he would try to form a government with the support of independent members. If successful, he would be dependent for support on deputies who are regarded as hard-line Republicans, and this could prejudice Haughey's present good relations with the U.K. government.

The voting pattern of the June 11 election was undoubtedly influenced by the emotive support for the prisoners in Northern Ireland. There was a 4-8% swing against the Haughey government, which also reflected a lack of confidence in the administration's handling of economic problems. A relatively high turnout of 76% of the 2.5 million eligible voters declined to give Haughey the mandate that he had sought in calling the election a year earlier than he needed to.

France: Mitterrand's Socialists Win Absolute Majority

The Socialist Party became France's leading political force in the June 14 and 21 parliamentary elections, which were called after François Mitterrand's presidential election victory the month before. The Socialists swept no less than 285 of the 488 National Assembly seats, according to provisional results - 168 mandates more than they had held in the outgoing parliament. The Communists lost nearly half of their previous 86 seats, retaining only 44. The non-socialist parties will be weaker in the opposition role than the previous leftist minority: the Gaullist RPR was reduced from 155 to 83 mandates, the liberal UDF (the party of ex-president Giscard d'Estaing) from 119 to 64, and the remaining right-wing factions from 12 to eight.

Immediately after the results were known, Socialists and Communists negotiated a "political government agreement" pledging solidarity not only in the central government but also on the communal, departmental, and regional levels as well as in enterprises. Subsequently, four Communists were appointed to the cabinet of Premier Pierre Mauroy, including the party's deputy leader, Charles Fitermann.

Political commentators had a ready explanation for Mitterrand's decision to offer the Communists at least a small part in his government. The president's victory was to a large degree due to Communist support, which will be needed again in the communal elections two years hence. Additionally, the Socialists hope that the Communists in the cabinet will, in effect, ensure labor peace in the industrial enterprises, where the Communist CGT union plays a leading role. The just-concluded political agreement, according to Mitterrand, should offer some guarantee that the Communists, weakened as they are, will not be obstructive coalition partners.

Paris Helps Businesses to Meet Finance Costs

The French government has announced a new set of measures to help protect businesses from the effects of high interest rates and the continuing recession. Equity financing of industry has completely dried up as a result of the stagnation of the Paris stock market, and interest rates on industrial borrowing have risen to between 18% and 23%. The bulk of the aid will be provided by a new allocation of FF 4 billion to increase the low-interest, long-term loan facility to FF 17 billion, from 13 billion. Mainly distributed through the state-linked Crédit National financial institute, this facility offers credits at rates of between 12.75% and 14.75% and maturities of seven to

15 years. The lower rate is charged on a total of FF 6.5 billion in loans provided to high-priority sectors of industry which can help boost exports, employment, and energy savings.

In addition, the government is setting up a new crisis fund to inject urgent short-term finance (up to 18 months) into companies in acute difficulties as a result of the financial squeeze. The companies will be selected on a local basis by regional advisory boards, and each will be eligible to receive up to FF 500,000 in aid. Further, at the government's instigation, the central bank has informed the commercial banks that they would be allowed to increase their lending volume in June. As a result, FF 5 billion in additional loans can be made available.

Parallel government efforts aim to boost employment in the near term after unemployment rose in May to almost 1.8 million persons, 22% more than in May 1980. Financial aid to companies to help them expand employment is being increased from FF 4 billion to 6 billion. This will raise the number of employers who receive a 50% reduction in their social security contributions for hiring workers aged below 25 or above 45 who have been out of a job for more than a year. Another plan aims to help lift employment in the ailing machine-tool industry.

Italy: Authorities Halt Run on Milan Stock Market

Intervention by Consoc, the Italian equivalent of the U.S. Securities and Exchange Commission, prevented a mid-June avalanche of sell orders on the Milan stock exchange from turning into a panic. The authorities imposed a ban on forward trading and restricted transactions to a spot cash basis when turnover rocketed to 127 billion lire on June 16. Trading on one-third of the quoted titles had to be stopped that day when share values dropped below the daily limit of 20%. By the following day turnover was down to 5 billion lire, and by June 18 the Milan exchange index had recovered one-third of the week's losses.

Some observers regarded the dramatic slump in share values as overdue since it followed an almost uninterrupted speculative boom during which the index gained 100% in 1980 and another 64% in the first five months of this year. The selling wave was thought to have been triggered by uncertainties created by the current government crisis, the arrests of prominent financiers in the wake of the "P2" scandal, and the worsening economic situation. Italy's balance of payments deficit reached a record 1,661 billion lire in May, bringing the deficit for the first five months to 5,041 billion lire.

Luxembourg: Kickoff for Money Market Funds?

In what has been called a pioneer move, a money market fund is being launched in Luxembourg by Shearson Loeb Rhoades, the U.S.

brokerage firm, together with Provident International Corp. The "Shearson International Dollar Reserves Fund" is to be operated as an open-end investment fund on a dollar basis. Financial observers said the venture could be the kickoff for other money market funds, which should broaden the scope of the Luxembourg marketplace. In the United States, there are now 122 money market funds operating, with total deposits in excess of $118 billion. These funds have become very popular with investors because of their high interest yields from certificates of deposit and other papers and the fact that shares can be disposed of on short notice.

In going to Luxembourg with money market funds, financial commentators said, international brokers can take advantage of the Grand Duchy's flexible financial regulations in seeking to attract potential European investors, especially from Germany. In Germany itself, the investment laws prohibit the operation of special money market funds because short-term papers, on which they are based, are not quotable on the bourse.

Denmark: Compromise Ends Long Newspaper Dispute

Danish newspaper printers have accepted an offer made earlier this year by the owners, thus ending an 11-week lockout. The printers will receive no more than the 10% wage increase already agreed in national tariff negotiations, and they will not have a veto right over the introduction of new technology, which they had demanded. Communist-dominated printing workers in Copenhagen voted against the settlement, but they were narrowly outvoted by their colleagues in the provinces. Twenty-nine papers, including Copenhagen's main dailies, reappeared following the settlement. Nine provincial newspapers continued to be absent from the newsstands as a result of a journalists' strike, which, if not settled, could spread back to the capital.

The dispute, the longest national newspaper conflict since 1947, cost the Danish employers' federation some DKr 200 million in support funds to the companies involved. A similar amount was reportedly paid by the printers' union to its locked-out members.

Switzerland: Foreign Banks Grow; Fiduciary Deposits

At the end of 1980, Switzerland's 557 banks and "bank-like finance institutions" reported an overall balance sheet total of nearly SF 500 billion. Of this, the five major domestic banks accounted for almost half, but the foreign banks also held a relatively healthy share of 13%. In fact, the foreign banks have reported a higher growth rate over the past few years than the domestic banking system - about 75% since 1975. Also since that year, the number of bank-like finance companies from abroad has doubled, from 23 to 47, mostly because of the influx of Japanese institutions.

These and other statistics are contained in the latest annual report of the Association of Foreign Banks in Switzerland. The report notes that the member banks' combined balance sheets expanded by 21% to SF 54.6 billion last year, partly because of changes in foreign exchange rates. Bank-like finance companies did even better, in relative terms, with an improvement of 23.6% (to SF 8.8 billion). (By comparison, Swiss banks and bank-like finance companies showed an overall increase of 11.8%.) It also was reported that net profits of foreign banks in Switzerland rose by as much as 30% and their cash flow by 44% in 1980. Typically, some 50% of earnings came from interest income, 30% from commissions, and the remainder from foreign exchange operations. Foreign banks accounted for some 40% of total fiduciary accounts of SF 129.2 billion in Switzerland last year. These accounts rose by 46% to about SF 52 billion, which represented only slightly less than the actual assets of the banks involved.

In connection with the subject of fiduciary accounts, the Swiss lower house, in what took most observers by surprise, voted on June 18 to give close consideration to the question of whether the government should impose a 5% anticipatory tax on interest income derived from such accounts. The upper house previously had refused to discuss the issue at all. The government proposal for such a tax will now be taken up in committee. Financial commentators said that, while the government has thus managed to keep the issue "alive," it is doubtful whether the tax plan will ever be put into practice because of strong opposition by the banking community.

EURO COMPANY SCENE

Lack of funds will prevent the Dutch government from providing any more financial aid to the ailing paper and board producer Van Gelden, and Amsterdam reports said the company is "almost certain" to be broken up. A 50% subsidiary of U.S. paper manufacturer Crown Zellerbach, Van Gelden recently approached The Hague for 80 million guilders in guarantees. The firm employs some 4,700. Crown Zellerbach last year reportedly wrote off its holding in Van Gelden, which it had previously valued at $34 million. Van Gelden ran up a net loss of 54 million guilders in the first six months of 1980.

Common Market Reports
EUROMARKET NEWS

Issue No. 651 *Report No. 426, July 9, 1981*

IN THIS ISSUE

Community: Commission's Blueprint for CAP, Budget Reforms

In a report to the Council of Ministers, the European Commission has suggested a blueprint for major reforms of EEC policies, especially the common agricultural policy (CAP), and for a solution to the budgetary problem, which developed over the U.K.'s disproportionately high contribution to the Community budget. A surprising element in the report is that the U.K.'s large contribution does not result from its many imports (revenue from customs duties flows into the EEC budget) but from the fact that its farmers are not as efficient as their counterparts in other Member States. Since the farmers do not produce as much, less money is spent on price support and intervention buying in Britain. The Commission proposes that the U.K. should be compensated each year through revenue from a special levy imposed on the Member States' farm receipts.

Around 70% of the Community budget is spent in the farm policy sector, especially on price support and intervention buying. The Commission suggests abandoning the CAP system of maintaining farmers' incomes. Instead, EEC prices for agricultural commodities should be gradually lowered to world market prices. Small

This issue is in two parts. This is Part I.

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farmers, who are bound to suffer from such a policy shift, should be given direct income aid. Another suggestion is to establish production targets for individual commodities and gear price guarantees accordingly.

The EC executive believes that implementation of all these suggestions would keep the growth in farm spending below the rise in budget revenue and would free substantial revenue for other sectors, especially regional and social policies.

What will remain of the Commission's suggestions when it comes to translating them into proposals after the summer recess is the big question, according to Brussels observers. Negotiations are expected to start in September.

Council Agreement on Three-Part Steel Pact

The Council of Ministers has reached agreement in principle on three sets of new rules intended to help pull the Community's steel industry out of its present crisis. These rules concern limits on production, a timetable for phasing out state aids to steel mills, and financial contributions by the Member States to finance early retirement of steel workers in Belgium, France, and the U.K.

Starting from July 1, production in European steel mills will be governed for the next year by a system of mandatory quotas and voluntary restraints on steel output. Production of coils will be controlled by the Commission, and so will the output of reinforcing bars and merchant bars. This will make roughly 65% of the Community's steel output subject to quotas. Steel mills making reversing mill plate, wide flat products, heavy sections, and wire rod will control production themselves.

A breakthrough was achieved with a timetable to eliminate national steel aids: it was agreed that all aids should cease by the end of 1985. (Germany had threatened to take steps of its own to control heavily subsidized steel imports from other Member States.) Aids given to steel mills to modernize and rationalize, combined with cuts in production capacity, will have to be approved by the Commission by July 1, 1983, at the latest. Emergency grants given solely to stave off bankruptcy would not be permissible after June 30, 1982.

Since there is not enough money in the Coal and Steel Community's budget to finance the cost of short workweeks and early retirement plans, all States are being obligated to contribute a certain percentage to the funds needed for the $150-million operation in 1981-82.

In Brief...

The EEC has concluded a new five-year commercial and economic cooperation agreement with India calling for the diversification of trade and for the promotion of industrial cooperation and investment, especially in technology, energy, and environmental protection. While trade with India represents only 1% of the Community's world trade, the EEC is one of India's biggest customers, taking about 25% of its exports. Last year the EEC exported goods to India worth $2.4 billion, and imports were valued at $470 million + + + The Swiss government is seeking an amendment to the EEC-Swiss free-trade agreement that would restrict the imposition of quantitative restrictions on exports. The agreement provides for the removal of customs duties and similar levies on imports, but both sides retain the right to restrict exports. Switzerland wants to make sure that in a crisis situation the supply of free-trade products will not be endangered.

Britain: 'Disclosure of Interests in Shares'

The U.K. Dept. of Trade has had a change of heart after it had decided last August that it would not be feasible to include measures in the forthcoming Companies Bill concerning secret "concert parties." This describes individuals or groups acting together in acquiring separate stakes simultaneously to keep holdings below the disclosure threshold. Previously it had been held that this was too complex an area for legislation, but now the Department has issued a consultative document, "Disclosure of Interests in Shares," designed to prevent the accumulation of a substantial shareholding in a company in the names of different nominees acting in concert. This has been strongly urged by the Stock Exchange, in view of present deficiencies in the law and recent abuses.

The disclosure threshold is to remain at 5%, although the Secretary of Trade would be given the power to amend this subsequently, if so desired. Any purchaser of shares would have to disclose that he had such an interest. The definition of having an interest would be extended to include spouses as well as children under 18. Notification of a 5% holding would have to be made when the buyer is aware of its acquisition not only by other members of a concert party but also by an agent who had not yet officially transferred the deed. The new rules would apply to all public companies and not only to those listed. Purchasers also would have to disclose a holding by a company in which they had more than one-fifth of the voting shares (as they would be deemed to have control of the company) rather than one-third, as at present.

Companies are to be given wider powers to investigate the true identity of their shareholders, and shareholders with minority interests could require the company to undertake such an investigation. There would be penalties in cases of noncooperation, but it is not suggested that the undisclosed shareholder be deprived of his voting rights or that his shares be cancelled. However, the courts would be empowered to freeze the shareholder's rights until there was disclosure.

Very little time has been given for comment by interested bodies, and the government's draft proposals have been severely criticized by the Council for the Securities Industry, which is generally regarded as the principal City watchdog. The Council believes the proposals are too "convoluted" and that some of the sub-sections are likely to prove incomprehensible to the ordinary company administrator. In addition, it is charged that many clauses are merely a restatement of existing legislation but in a much expanded and more complex form. Similar criticisms have been voiced by the Consultative Committee of Accountancy Bodies, which regards the proposals as too complex and unlikely to be effective and which is urging the government to make them shorter and more straightforward.

Italy: First Non-Christian Democrat Heads Cabinet

Republican party leader Giovanni Spadolini presented on June 28 the first Italian cabinet since the war to be headed by a prime minister who is not a Christian Democrat. The new government is a coalition made up of the same combination of Christian Democrats, Republicans, Socialists, Liberals, and Social Democrats as the last one. Indeed, most of the ministerial positions are occupied by the same individuals as under the premiership of Arnaldo Forlani. Informed opinion, however, appears to regard the cabinet largely as a temporary affair, intended to tide the Italian political scene over the summer holidays and delay crucial decisions until the fall.

Socialist leader Bettino Craxi extended a special welcome to the new administration, apparently seeing it as a steppingstone to a government that he himself will head. The Socialists made a good showing in the recent local and regional government elections, which involved about 9 million voters (one-fifth of the Italian electorate). Their candidates generally attracted about one-third more voters than during the 1979 general elections, thus strengthening the party's position as the country's third-largest. Other, smaller parties also marginally increased their representation, while the Christian Democrats lost ground heavily in the big cities and barely managed to hold their positions in Sicily. The Communists succeeded in regaining the high level of voter support of the 1976 general election in the big cities but received little support in Sicily.

Employers' Attack on Wage Indexation System

One of Italy's three major employers' organizations, the small industries' association Confapi, has given notice of its intention to terminate the *scala mobile* (escalator) agreement with the unions at the end of the year. This agreement for the automatic adjustment of wages to the cost-of-living increases was signed in 1975 by the employers' organizations under the stewardship of Fiat boss Giovanni Agnelli, who at that time was also the head of the Confindustria industrial federation. Since 1975 the wages of some 15 million Italian workers have been inflation-adjusted at three-month intervals. This arrangement has been blamed as a principal cause of skyrocketing labor costs in Italy, not only by domestic industry but also by international organizations such as the OECD and the IMF.

By announcing its unilateral decision to withdraw from the pact, Confapi has put pressure on the other employer organizations to take a stand. The Confindustria leadership held meetings at the end of June, just prior to the half-year notice deadline, and, ironically, it was Agnelli who led the "hawks" faction that also favors termination of the agreement. If the system were allowed to lapse, it would have to be replaced by annual collective bargaining, which traditionally has been accompanied by labor disputes.

One of the original signatories of the *scala mobile* pact, Communist labor leader Luciano Lama, has already warned that the unions would regard termination of the system as a "provocation," which would be answered by full-scale strikes and disruptions. There are those observers who feel that the hardliners among the employers do indeed want to secure a modification of the *scala mobile*, but not necessarily its complete abolition, since this mechanism permits the regular renewal of collective contracts without the haggling over pay increases that is part of the process in most other industrial countries. In any event, the new Spadolini government is now trying to head off a major confrontation over this issue and has scheduled talks with both sides. (See also *Doing Business in Europe, Pars. 25,933, 25,944.)*

France: Talks Renewed on Worktime Reductions

Following an initial meeting between French employer and labor representatives, talks on a cut in the workweek were adjourned until July 6, when the employers were expected to present new proposals. Last year, negotiations on worktime reductions ended in a stalemate after the employers refused to countenance a general cut in hours.

The new Socialist government has put itself fully behind the demand for the introduction of a 35-hour workweek by 1985, with the aim of redeeming one of François Mitterrand's most important campaign pledges. Prime Minister Pierre Mauroy has hinted to employers that unless they come up with satisfactory proposals, the government will be forced to resort to legislative means. In response, the Patronat employers' federation has shown itself ready to negotiate a limited reduction in hours as well as an increase in annual paid leave, but it has also insisted that it will not tolerate a full cut to 35 hours.

The trade unions are divided on the issue according to their political allegiances. The Communist CGT has put forward radical demands for an immediate reduction, at full compensation, to 38 hours, and to 35 hours by 1985. The Socialist CFDT wants to discuss the situation on an industry-by-industry basis, while other, more moderate trade unions are additionally prepared to accept some reduction in the weekly wage in return for a cut in working hours.

Germany: Employers Sue Over Legality of Warning Strikes

All 13 regional employers' organizations of Germany's metalworking industry have filed suits in lower labor courts against the metalworkers'union in order to clarify the legality of warning strikes. Last spring's wage settlement was preceded by widespread warning strikes in which about 950,000 of the 3.7 million metalworkers took part, causing the loss of approximately 1.5 million working hours in some 800 enterprises. The strikers lost an estimated DM 24 million in pay, but loss in production was placed at DM 110 million.

The employers' organizations are not asking for damages (in the union contract they waived all claims), but they are seeking declaratory judgments to the effect that the strikes were illegal. The organizations contend that the extent of strikes was disproportionate to the objectives pursued and that the unions applied more than the "mild pressure" which the Supreme Labor Court held permissible in a 1976 landmark decision. Plaintiffs also want the courts to enjoin the unions from staging warning strikes in the future or, alternatively, they want the Supreme Labor Court in the next two or three years to come up with additional criteria as to what makes a warning strike illegal.

Until December 1976 any warning strike in Germany was considered illegal, but then the Supreme Labor Court ruled that a short warning strike is lawful if it is designed to apply mild pressure to speed up bargaining. Other conditions for making a warning strike lawful are that it is organized by a union, is not used too often, and is conducted without excesses. A warning strike may be illegal if the means deployed are out of proportion to the objectives sought, the high court added *(Doing Business in Europe, Par. 23,421)*.

Netherlands: Central Bank Drops Credit Curbs

Reacting to increasing sluggishness in domestic credit demand, the Dutch central bank has decided to drop its system of credit limitations for the remainder of 1981. It will consider at a later date whether to bring these curbs back into force or abandon them permanently at the end of the year. According to a communiqué issued by the bank, the main criteria to be weighed for that final decision will be prospects for financing the government's budget deficit, price developments, the balance of payments, and the general economic outlook. The central bank also hopes for an immediate drop in interest rates as a result of the ending of the curbs. High interest rates are thought to have been the main cause of falling credit demand. At the end of April, the commercial banks were 3.5 billion guilders below their permitted level of credit issuance.

Credit volume limits were imposed in May '77 when the money supply's rate of increase had reached 23% as a result of massive expansion in mortgage and consumer credits. The central bank set as its target a reduction to 37% in the banks' liquidity quota, from the 41% level reached in 1977. By the end of 1980 the quota was down to 36.7%. Under the rules, banks that went over a 6% annual limit on the increase in lendings not backed by borrowings of two years or more were forced to make interest-free deposits with the central bank.

Austria: Lower Tax Burden on Employment Incomes

Officials of the Austrian finance ministry and the national labor federation have agreed on the modalities of a two-stage easing of the tax burden on employment incomes next year and in 1983. In the first stage, the revenue losses would total 6 billion schillings and in the second stage an additional 3 billion. The federal government, the state governments, and the communities would have to share these losses on a 60:20:20% basis, respectively.

Individual tax-free allowances would be raised by about 1,000 schillings, so that no tax would be due on employment incomes up to 6,900 schillings per month for married heads of household (sole earners) and on old-age pension incomes of up to 5,200 schillings. Eligibility for the special annual 3,200-schilling allowance now given to sole earners *(Alleinverdiener)* is to be extended - for instance, to single working mothers. While these and other adjustments would ease the individual tax burden, they would not affect the tax assessment base and thus would have a leveling effect. Other tax "corrections" are planned but will not be announced until later this year.

Principal beneficiaries of the modifications would be employees with monthly earnings of 10,000-15,000 schillings; for them the tax savings would amount to a maximum 300 schillings or so in 1983. Higher taxes, however, would be levied on employment incomes of 18,000 schillings and more.

Business spokesmen have criticized the proposals as further evidence of increasing tax discrimination against the self-employed. They said the latter not only would not benefit from the relief but, in fact, would have to bear a heavier burden. This would be estimated for some 400,000 self-employed at about 800 schillings annually each. The proposals also are not fully satisfying to the unions, which originally had hoped for tax cuts totaling 12 billion schillings in 1982 alone. However, Finance Minister Herbert Salcher said the proposed relief touches on Vienna's budgetary limits, and independent experts even feel that the relief is totally uncalled for, given the precarious status of the federal finances.

EURO COMPANY SCENE

Conill Bank AG, the Austrian subsidiary of Continental Illinois National & Trust Co. of Chicago, will be dissolved by the end of this year. Reports from Vienna said that profitable operation of the bank proved difficult because of the restrictions of the Austrian banking system and the "disappointing development" of East-West trade. Continental Illinois in 1969 had acquired a small Viennese private bank, Belak, converting it to Conill Bank AG in 1970-71. Last year Conill Bank reported a balance sheet total of 3.3 billion schillings.

The Royal Bank of Canada on June 29 began operating its new London investment banking subsidiary, Orion Royal Bank, which combines the activities of the Orion Bank and a smaller merchant bank, The Royal Bank of Canada (London). Billed as an "all-purpose universal bank," the new venture starts with total assets of about £1.5 billion.

London press reports said that Britain's Banking, Insurance, and Finance Union is planning a membership drive among employees of the U.S. banks in the U.K., described as one of the largest non-organized sectors in the British finance industry. The union said it would solicit the support of trade unions generally in this campaign by calling attention to the "anti-union" practices of the U.S. banks and other multinationals, the reports said. The possibility of boycott action was not ruled out.

Protesting the threatened closure of the facilities, workers at the Amsterdam truck assembly plant of Ford Motor Co. have occupied the premises for a second time. According to the works council, production will be continued during the occupation but not deliveries to dealers. At the end of June, talks between the management and union representatives were broken off. The unions feared that Ford would soon apply for the dismissal of 1,325 workers.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: Condemnation of Italy's Cash Deposit Rule

In an unusually outspoken statement, the European Commission has denounced Italy's introduction last May 27 of a cash deposit requirement for importers and warned that it would not sanction an extension of this arrangement. In issuing its rebuke, the EC executive also made a number of urgent recommendations to Rome, the major ones calling for a fundamental overhaul of public sector financing and a cutback of excessive government spending. The Italian government had justified the imposition of the 30% cash deposit rule with the need to curb the rise in the country's payments deficit, which had taken a turn for the worse in the first months of 1981 despite credit clampdowns in January and March and a 6% devaluation of the lira within the European Monetary System.

Under Treaty Article 108(1), the Commission is empowered to investigate measures undertaken by a Member State in balance of payments difficulties and to recommend action to help that State regain its external trade equilibrium (*Common Market Reports*,

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Pars. 3731, 3732). In its statement, Brussels indicates that Rome overshot the mark with its cash deposit requirement because the situation of Italy's payments balance, while serious, was not so dramatic as to require emergency action. In no way, says the Commission, can Italy's basic economic problems be corrected with stopgap measures. In fact, it is pointed out, other Member States are experiencing more serious difficulties without resorting to similar measures.

In analyzing the Italian payments malaise, the Commission identifies two primary causes - excessive public spending, most of all on consumption, and the *scala mobile* wage indexation system, which has prevented the inflation rate from being pushed down to the EC average. In private industry, the Commission says, rigid employment conditions are preventing progress in productivity gains.

Brussels' recommendations to Rome give only a vague indication of how the wage indexation system could be loosened. However, the Commission makes itself very clear in advising a change in budget policy which, in the short term, should limit 1981 public sector borrowing to 37,500 billion lire. A close watch should be kept on the financial behavior of regional and local authorities. The aim should be that "public finances cease to burden the administration of short-term economic policy with a constant and disturbing threat." The Commission also would like to see an end to the Bank of Italy's buying up of treasury bonds and certificates not subscribed to by banks and the public. For the medium and long term, Rome is advised to observe strictly the legal constraints imposed on budget policy and to seek improved administration and understanding of budgetary mechanisms.

In Brief...

EEC steel manufacturers will have to reduce their output of products derived from steel coils by 17-28% and output of merchant bars and reinforcing bars by 30% by the end of September. Deliveries are to be cut by 23-31% and 35%, respectively. The Commission, on July 2, announced these steel output and delivery limits, which will facilitate price increases of 15-20% for the European steel industry in accordance with an agreement by the EEC governments the week before + + + The EC foreign ministers this month were again to take up the issue of sugar exports to the Community from developing countries. Sugar producers of the African, Caribbean, and Pacific (ACP) countries have rejected an EEC offer of a 7.5% price increase for cane imports. They want an 8.5% boost, which would correspond to the price guarantee extended to European beet farmers. The previous EEC-ACP sugar agreement has just expired + + + To cope with huge anticipated surpluses, the Commission wants to see milling wheat used as animal feed. It has suggested that some 2 million tons of the 1981 harvest (up to 50 million tons) be disposed of in that way.

France: Decentralization, Budget Issues in Parliament

Decentralization of government powers and passage of a supplementary budget for 1981 are the two most important current items on the agenda of the new French National Assembly, which convened on July 2 for the first time. The nationalization program of the Socialist administration will not be debated until October, after the summer recess.

The draft law providing for political and administrative decentralization, presented by Internal Affairs Minister Gaston Defferre, seeks to dilute to some extent the enormous concentration of powers historically vested in the central government since Napoleon. The aim would be to give more independence and self-reliance to communal and regional administrations and reduce the controls exercised by the Paris bureaucrats and technocrats. In practical terms, the legislation would diminish the powers of the government-appointed prefects, the administrative heads of the *departements*, and transfer more powers to the elected regional councils *(Doing Business in Europe, Par. 22,602)*.

Partly because of the social welfare and employment measures taken by the new Mitterrand administration, the Assembly also will have to approve a supplemental 1981 budget, which would raise this year's budget deficit from FF 29.4 billion to FF 56.6 billion. The increase would boost the total public expenditure to FF 653 billion, from FF 617 billion projected last year.

In anticipation of the government's plans for the nationalization of 11 key industrial enterprises and the remainder of the private banking and insurance sectors, Finance and Economics Minister Jacques Delors said the government's intention was not for the public sector's expansion per se but for a coordinated industrial policy. Even after coming under state control, the companies involved would continue to be subjected to international competition. The ratio of the state sector in the French economy would not exceed 16% of GNP, Delors asserted in an interview, and there would not be a "creeping nationalization" of the economy.

Borrowing Costs Down; Split Interest Rates Considered

The Bank of France on July 1 moved to bring down slightly the cost of borrowing by lowering the minimum reserve requirement for commercial banks. It was announced that this would amount to about FF 20 billion in additional liquidity for the banks. Sight deposits are now subject to a reserve ratio of 4.25%, instead of 5.5%, and for forward deposits the ratio was halved, from 1% to 0.5%. Also, the central bank reduced the rate for call money by one percentage point to 19%. In response, the leading banks immediately lowered their base lending rates from 17% to 15.9% - the first time that the rates have come down since President Mitterrand's election.

Against the background of a worsening economic climate, marked by rising unemployment and business failures, the French government apparently is considering a system of split interest rates, which would offer nonresident investors "internationally competitive" yields but would limit interest rates for domestic depositors to 12%. The commercial banks, which so far have placed short-term funds on the money market for up to 20%, would have to offer such surplus funds to the Bank of France. This would, in effect, reserve the higher yields available on the uncontrolled money market to foreign investors. It was reported that Finance and Economics Minister Jacques Delors has expressed skepticism, but he nevertheless has his experts studying the proposal.

Britain: Advantages of Cashless Pay Stressed

The U.K. government's "think tank," the Central Policy Review Staff, has produced a report entitled "Cashless Pay: An Alternative to Cash in Payment of Wages," which emphasizes the advantages to both employers and employees of payment by check or direct transfer. At present, over half of all U.K. employees are still paid in cash. In 1979, 78% of manual workers and 54% of the total workforce, amounting to more than 13 million, received cash - a far higher proportion than the 25% in France, 5% in West Germany and Canada, and 1% in the U.S. However, 10 years ago, 75% of all British employees were paid in cash, and each year some 400,000 are changing to a different form of remuneration.

The reason for cash payment is partly historical. The Truck Acts and Payment of Wages Act lay down that manual workers must be paid in cash, unless they request otherwise in writing. In addition, they have the right to revert to payment in cash, upon giving a month's notice, if they had previously elected payment by check. The report does not foresee that this would be an overriding obstacle but envisages a key role for the government in accelerating the trend toward "cashless pay," both by means of legislation and by adopting such a method of payment for its own employees.

The report believes that employers would save an average £30 annually per employee by this means, provided that payments were effected monthly rather than weekly. However, companies have stressed that such savings - for example, in the number of wage clerks - depend on the agreement of virtually the entire workforce not to be paid in cash, since a duplication of systems could involve extra expenditure. Another benefit would be greater security, thus reducing the scope for crime, while gains in efficiency would benefit the economy as a whole.

The CPRS emphasizes, though, that deep-seated social attitudes, particularly among manual workers, could slow down the process of change - for example, the desire for secrecy as regards one's spouse.

Germany: Business Complaints Over Lagging Tax Refunds

There have been mounting complaints lately by businesses in Germany over the alleged inability or unwillingness of public treasuries to pay out owed funds on time, particularly turnover tax refunds. Many of these complaints over delayed payments are coming from businesses entitled to value-added tax refunds for goods exported abroad *(Doing Business in Europe, Par. 23,373)*. Normally such refunds are remitted by the tax offices within a few weeks, but now it may sometimes take several months before companies receive their money, it has been reported. In these cases, the tax authorities often claim as the reason for the delay the necessity of special audits to verify eligibility for refunds, referring to frequent abuses of the VAT refund system.

In one particular case, the reports said, a tax office in North Rhine-Westphalia did indeed cite a lack of funds as the reason for not making a payment awarded through court action. The taxpayer involved reversed roles with the government, asking that the debtor - in this case, the state government - present a statement of assets and a liquidity report in return for being granted a deferment. This procedure is required by tax authorities when business taxpayers seek payments extensions.

Spokesmen for the state finance ministries have generally dismissed the notion that the treasuries are experiencing liquidity shortages, although an official in the Hesse finance ministry did concede occasional "bottlenecks." However, he was quoted as saying that the state treasury is always able to finance unusually high refund payments out of budgetary or credit funds. Rejected outright was the suggestion that tax offices or individual tax officials were intentionally delaying payments in order to ease the financial squeeze on the treasuries. Such action, it was explained, would be strictly illegal; also, only a handful of budget experts had an overview of the public cash flow situation.

In rebutting the complaints of the business community, tax officials have taken the opportunity to castigate the payments habits of some corporate treasurers. "Evidently," said one of them, " it is more rewarding not to pay taxes on time and accept surcharges of 12% than to pay 16% or 18% interest to a bank."

Economic Advisers Criticize Bonn's Policies

Pointed criticism of the federal government's economic and fiscal policies has been expressed in a special report on Germany's current economic condition by the independent Council of Economic Advisers. The paper was not commissioned by Bonn but was prepared at the own initiative of the five-man Council, which can take such a step whenever it believes that the country's overall economic situation is threatened by disequilibrium. The "five wise men" demand a gradual, but consistent reduction of the structural budget deficits of the federal and state governments and the communities. They blame the public sector's credit needs and the high payments deficit for the pressures on the Deutschmark, rising interest rates, and the "dilemma" posed for Bundesbank monetary policies.

The 39-page report takes issue with a budget deficit nearing the DM 70-billion level and describes the outlook for 1982 as even "more precarious." It suggests that the shortfall of the entire public-sector budget be trimmed by about DM 10 billion annually. This target could be achieved by keeping spending growth each year about two percentage points below the expansion of the economy's overall production potential. By limiting the expenditure rise to little more than 3% next year, the federal budget volume could be held to DM 239 billion, nearly DM 14 billion below current projections.

The Council is prevented by law from issuing concrete recommendations as to exactly where cuts in spending should be made. However, the report does name such areas as subsidies, tax privileges, public-sector wage contracts, and civil service remunerations. It should be investigated whether the "consolidation process" could not be speeded by linear reductions in social welfare benefits (unemployment, health insurance) and subsidies (housing, agriculture, public transport, among other areas).

Despite its critical and admonishing tone, the report has been welcomed as a "helpful contribution" in Bonn, where the coalition government is preparing to discuss major spending cuts for the 1982 budget. Economics Minister Otto Lambsdorff agreed that budget corrections were "unavoidable," while the political opposition described the report's findings as "a devastating condemnation of the government's finance policies."

Belgium: Bond Issue Result; Credit Curbs Suspended

Although the Belgian government professes to be satisfied with the outcome, most financial observers are disappointed with the results of the long-heralded "crisis bond issue," which closed for subscription at the end of June. Only BF 78 billion was raised, just BF 18 billion more than would be expected from an ordinary government issue, although a total of some one hundred billion francs was discussed when the issue was first planned in March. Last month government officials still gave BF 100 billion as the target.

The bond is ECU-linked and offers special tax advantages aimed at attracting back to Belgium capital deposited abroad to avoid the domestic 20% withholding tax. Most subscribers turned out to be private individuals, however, who liquidated other securities holdings in order to purchase the new issue. As a result, the bond market fell, with earlier state bonds losing up to 20% in value. Institutional investors appear to have largely ignored the new issue.

Belgium is now expected to have to go once more to the international market in order to raise another "jumbo" loan, and bankers are beginning to express doubts about the country's credit rating. Factors cited to explain this assessment include the frequent political crises, the economic policy impasse, the high social security burden, and the wage indexation system. In the past, Belgium always obtained a margin of 3/8% above Libor on at least part of each of its international borrowings. Recently the market has been becoming more competitive, however, and bankers suggest that for its next loan the government either may have to risk a flop by insisting on the 3/8% element in the pricing or suffer a loss of prestige by eliminating it.

Concerning the domestic credit market, observers have noted that this year's public-sector borrowing requirement is expected to reach BF 600-700 billion, and they have suggested that the government's credit demands are squeezing the private sector out of the market. On the other hand, however, the national bank announced early this month that it was suspending all remaining restrictions on credit issuance by commercial banks. These consisted of compulsory quotas for the purchase of state papers to match expanded credit volume. It now appears that private-sector credit demand has reached such a low point that the banks are investing most of their funds in state instruments in any case. The Belgian decision to suspend credit restrictions followed a similar Dutch move a few days earlier.

Ireland: FitzGerald Heads Coalition Government

Following the June general election, the Irish parliament on July 1 elected Fine Gael leader Dr. Garret FitzGerald, a professor of economics and former foreign minister, to serve as prime minister of the next government. The Fine Gael coalition with the Labour Party will command only a paper-thin majority, and there is speculation that FitzGerald will call a new general election after a few months to consolidate his position. Out of the 166 representatives in the Dail, FitzGerald received support from 81 (65 Fine Gael, 15 Labour, and one independent).

The new government's economic policies will be determined largely by the attempt to reconcile FitzGerald's monetarist approach with Labour's desire to stimulate the economy by boosting public spending. After taking a day to "look at the books," FitzGerald announced that the state of government finances was "worse than he had feared." Under the former prime minister, Charles Haughey, inflation rose to 21%, unemployment to 12%, and the national debt to a record $5.25 billion.

During the election campaign, FitzGerald had promised to cut the basic rate of income tax from 35% to 25% and provide subsidies for housewives who stayed at home, paying for both by increasing indirect taxes. Now, this plan is likely to be watered down by the need to reach agreement with the Labour Party, which also favors reintroduction of the wealth tax. In their joint economic program, which forms the basis of the coalition agreement, the two parties oppose deflation because of its serious effects on employment but nevertheless plan to eliminate the budget deficit by 1985.

The new finance minister is 34-year-old John Burton, whose low seniority had led to speculation that FitzGerald may wish to run economic policy himself. Labour holds four seats in the cabinet, and its leader, Michael O'Leary, who had wanted the finance minister position for himself, was given only the energy portfolio, in addition to being titular deputy prime minister.

EURO COMPANY SCENE

An Amsterdam court issued an order on July 7 to end within 24 hours the occupation by workers of the offices and truck assembly plant of Ford Nederland. At the same time, however, the company was admonished not to shut down the plant or substantially reduce the number of jobs (1,300). This status quo is to be maintained pending the results of an official inquiry on whether the planned closure in September would be justified. There was no prediction on how long this inquiry might take.

The scrapping of a proposed $200-million project at Rotterdam reportedly is the first step by Gulf Oil to withdraw from petrochemical production in Europe. The reports said that Gulf is estimated to be losing some $10 million on these activities, out of a total annual turnover of $300 million. Two weeks earlier, Esso Chemical said that it was considering the cancellation of a £360-million petrochemicals project at Fife, Scotland. Overcapacities and reduced demand are being blamed by both companies.

U.S.-based Hamilton Brothers, developers of the U.K.'s first North Sea oil field, is selling 20% of its Hamilton Oil Great Britain subsidiary via a £14-million public share offer. The subsidiary's principal asset is a 28.8% stake in Argyll Field.

Common Market Reports

EUROMARKET NEWS

Issue No. 653 *Report No. 427, July 24, 1981*

IN THIS ISSUE

Community: EP Continues Strasbourg-Brussels Shuttle

The European Parliament has decided to continue to meet in two different locations, despite criticism aimed at the high cost and inefficiency of this practice. On July 7, the majority of the Assembly supported a motion by its political committee to go on holding the plenary sessions in Strasbourg and the working sessions of the political factions and the committees in Brussels until such time as the Council of Ministers definitely decides on a single seat for EC institutions. The Parliament did, however, call on the governments of the Ten to fulfill their "contractual obligation" and no longer put off this long-overdue decision.

The actual loser of the debate, observers noted, was Luxembourg. Although Parliament's secretariat-general will remain in the Grand Duchy for the time being, chances are that it will eventually be relocated to either Brussels or Strasbourg: in principle, all political factions in the EP want the choice limited to these two cities only. As one consequence, Luxembourg from now on will no longer host any plenary sessions, which in the past had occasionally been held there.

This issue is in two parts. This is Part I.

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Last November the Parliament had "threatened" unilateral action to choose its permanent location if the Council failed to make a decision by June 15, 1981. Now, with that decision not having come forth, the EP members have adopted a more conciliatory position. By leaving open the alternative of Strasbourg or Brussels (with a majority evidently favoring the latter) the Assembly wants to avoid a confrontation and give the Council a free hand in settling the issue once and for all.

Critics are viewing the EP's "decision" for the continued status quo as further evidence of its inability to demonstrate political willpower and, by implication, of its ineffectiveness. In practical terms, there should be no reduction in Parliament's present annual cost of approximately $230 million, much of it incurred by the need to maintain a logistical shuttle service of files, documents, and staff between Strasbourg, Brussels, and Luxembourg. (In Luxembourg, the EP secretariat has some 2,000 employees.)

Study Probes Structure, Prospects of EC Auto Industry

Concerned with the future prospects and the continued international competitiveness of the Common Market's car manufacturers, the Commission has issued a study analyzing the situation and problems of that industry and setting out guidelines for coordinated action. The EC executive refers to the Japanese competition, the aims of U.S. industry, and the emergence of new manufacturers in saying that the European car sector "must maintain its place in the front rank and keep its competitive edge." To do so, it must adjust its industrial and commercial base, rationalize production, further develop technological know-how, and improve its sales networks.

The report, "The European Automobile Industry: Structure and Prospects," states that the carmakers themselves must bear the main burden of implementing these changes. Nevertheless, the Commission sees for itself the need to make a "fundamental contribution" in seeking to promote a "suitable economic environment." For instance, it intends to produce information on the problems of the components and distribution sectors, which would be updated regularly.

The Commission lists as its basic objectives the exchange of views with companies concerned, maintaining a dialogue with the other car-exporting countries, and providing an answer to the European Parliament's resolution on the European car industry of last Jan. 13, which urged more determination in restructuring and defending this sector.

Four broad types of measures being considered include a strengthening of the internal market, the encouragement of structural development, facilitating job mobility within the industry, and developing the dialogue with the Community's trading partners. To counter a "compartmentalization" of the EC market, remaining disparities in the tax and energy fields should be removed (VAT, car tax rates, energy saving measures). The legislative context should be adapted, and innovation should be promoted by cooperative action.

In Brief...

The European Court of Justice has rejected the bid by International Business Machines Corp. to suspend the Commission's antitrust proceedings against the computer giant pending the outcome of IBM's EC Court action against the Commission. Having declined the request for an injunction, the Court is now scheduled to hear on Sept. 16 arguments over IBM's allegation that the Commission acted illegally in bringing suit against the company for abusing its dominant position with its software supply policy + + + In what the German press has described as a "Trafalgar" for the country's "butter ship" operators, the European Court on July 7 ruled that German complainants may take their grievances to local courts because these operators were violating EC tax laws. Both German food groups and the Commission have been seeking to end the practice of such ships traveling just beyond territorial limits to sell butter, cheese, meat, liquor, cigarettes, etc., at cut-rate prices that exclude customs duties and import turnover taxes. To avoid hardships for boat operators and local employment, the Bonn government may allow a transitional period before these cruises are ended.

Germany: Fiscal Courts Overwhelmed by Case Load

The long succession of legislative changes, the steadily rising tax burden itself, and the growing determination of taxpayers to stand up for their rights are seen as major reasons why Germany's fiscal courts are being inundated by waves of cases, mounting from year to year. Last March the judges of the North Rhine-Westphalia fiscal courts took the unprecedented step of petitioning the state parliament for immediate staff additions, lest there be a "standstill of the judicial process."

According to the German tax consultants' association, tax litigation requires up to five years in 20% of all cases (as of 1979). The petition of the judges cited still-unsettled cases dating from the years 1972-74. At the level of the Supreme Fiscal Court (see also *Doing Business in Europe, Par. 23,565)*, the situation was similarly discouraging: for instance, Federal Fiscal Journal No. 11/1980 published decisions in appeals that had gone to the high court six to eight years earlier.

To ease the workload of the Supreme Fiscal Court, legislation passed in 1975 restricts appeals to cases with disputed taxes in excess of DM 10,000 or to those accorded "fundamental significance." Originally, this restriction was to have lasted only until 1980; then it was extended to 1984, and now it is proposed to retain it indefinitely, although the high court itself has disclaimed its effectiveness. Nevertheless, the bulk of cases (90-95%) are permanently settled in the courts of first instance because the DM 10,000 threshold is not reached.

The enormous proliferation of tax regulations has not helped matters. Since 1972, a reported total of 142 tax laws have been passed, and last year alone the income tax law was revised five times. A maze of exemptions, exceptions, and special clauses often give rise to class action suits to remove legal uncertainties. Contributing to the strained climate between taxpayers and fiscal authorities are frequent snarls and breakdowns of the tax offices' rationalization and automation efforts.

The tax consultants' association believes that, aside from the need for basic structural improvements of the tax and administrative systems, both taxpayers and the judiciary would benefit from a three-tier system of fiscal courts, similar to that of the civil and penal courts. The association strongly criticizes the Federal Justice Ministry, which in its draft of an administrative court reform this year chose to include the 1975 "relief law" as a permanent feature rather than move toward a reform of the fiscal court structure.

OECD Survey Predicts Economic Recovery in 1982

According to the latest OECD Survey, the German economy should begin to show signs of recovery at the end of next year and register a 2% rise in GNP for 1982, compared with a 1.5% drop predicted this year. Increases of 2% in public consumption and 0.75% in private consumption should combine with an 8% boost in exports to counterbalance a further fall of 1.5% in gross fixed investment. As a result of the better export performance, the current-account payments balance in 1982 should show a deficit of only $5.25 billion, in contrast to this year's predicted $17 billion.

A major factor contributing to the recovery forecast is the substantial fall of the D-mark against the dollar since the beginning of this year. The OECD prognoses rest on the assumption that the high interest rate levels will continue to maintain the existing parity of the German currency.

France: Mauroy Outlines Nationalization Schedule

Premier Pierre Mauroy, in presenting the French government's legislative proposals to the National Assembly, has announced that the Socialists' economic and social policy goals would be pursued in two stages - a two-year program to be detailed in full in December and a five-year program thereafter. The initial phase would give priority to the fight against unemployment, worktime reductions (see below), government decentralization and, last but not least, nationalization.

The nationalization efforts are to proceed in three phases. The first would involve the state takeover of banks still in private ownership, excluding the cooperative banks, small local banks, and foreign-owned banks. The main institutions affected would be Crédit Commercial de France, Crédit Industriel et Commercial, Crédit du Nord, Paribas, and Banque Suez. The last two would be taken under state control through their holding companies, and their industrial subsidiaries would be sold back to the private sector.

The second phase would aim at three groups of industrial firms. Initially affected would be Dassault and Matra, both defense groups that rely almost exclusively on government contracts. Then the government would take over Usinor and Sacilor, the two heavily indebted steel giants, which effectively are already under state control. The private sector would probably feel the most impact with the nationalization of the third group of companies - CGE, Pechiney, Ugine Kuhlman, Rhône-Poulenc, St. Gobain-Pont-à-Mousson, and Thomson-Brandt. In their case, only the holding companies and not their subsidiaries would be taken over, to prevent the emergence of a large state industry bureaucracy. Also not touched would be small foreign shareholdings in this group.

The final phase would affect three large and partly foreign-owned firms - CII Honeywell Bull (46% Honeywell), Roussel-Uclaf (57.9% Hoechst), and ITT France (99% ITT). In these cases, the government would plan negotiations with the foreign shareholders to come to "financially equitable" agreements.

Agreement Near on Worktime Reductions

France's employers' association, the Patronat, has cleared the way for an agreement with the trade unions on worktime cuts by proposing an immediate reduction from 40 to 39 hours in the legal workweek as well as an increase in paid annual leave to five weeks. The offer was welcomed by nearly all unions as a major step forward. Actually they themselves had paved the way for the agreement by dropping their demand that the employers accept at the outset of negotiations the principle of a 35-hour workweek by 1985.

Further talks are still needed at local levels to sort out such details as the distribution of holidays through the year and the amount of overtime permitted. Following the framework agreement, another meeting in the fall is to work out the basis for legislation. After the 39-hour week has been implemented, prospects for moving toward the 35-hour week are to be examined.

Belgium: Confidence Vote on Economy for Eyskens

Prime Minister Mark Eyskens' three-month-old Belgian coalition with the Socialists has survived its third test, in which the leader of the Walloon Socialist party, Guy Spitaels, tried to force Eyskens to delay further consideration of 1982 budget cuts until after the Socialists' conference on July 18. Spitaels' objections to the reductions were the culmination of several weeks of growing tension between the Walloon Socialists and the Flemish Christian Peoples' party, the two biggest parties in the coalition. However, Eyskens managed to hold the government together by demanding, and winning, a parliamentary confidence vote, 116-36.

Eyskens had insisted that the 1982 budget draft be ready before the summer recess, so that details of substance could be worked on as soon as Parliament meets again in the fall. Immediately following the vote of confidence, the inner cabinet met and accepted the budget framework set by Eyskens. This will require BF 110-130 billion in spending cuts or increased taxes in order to reduce the deficit from its current annual level of BF 350 billion to the target of BF 200 billion in 1982. The Socialists agreed to go along with these demands of their dominant coalition partners, since another full-scale government crisis would almost certainly lead to early elections, interrupting the reorganization of the steel industry, which the Socialists are anxious to see completed.

Italy: Social Pact Sought; Stock Market Decline

Working on the groundplan laid down by his predecessor, Arnaldo Forlani, Italy's new prime minister, Giovanni Spadolini, has proposed a social pact between the government, the unions, and the employers as his main economic policy aim. Speaking to the Senate, the premier explained that the pact would trade a government agreement to limit increases in administrative prices and public tariffs to the rate of inflation for trade union acquiescence in a reform of the national wage indexing system. Other government action would aim to bring this year's budget deficit back on course toward a 37,500-billion-lire target through a combination of cuts in health, welfare, and education spending. (In the first five months of 1981, the deficit accumulated at an annual rate of 50,000 billion lire.) Spadolini also wants to keep existing credit curbs in force and support the parity of the lira within the European Monetary System.

In other developments, the hopes of the Italian authorities for a recovery of the country's stock markets were not fulfilled when the exchanges reopened on July 13. Despite a number of support measures, the share index continued its plunge, by another 9.6%, and trading in some 60 shares had to be temporarily suspended because losses threatened to exceed the daily limit of

20%. On July 8, the Treasury Ministry had taken the drastic step of decreeing a three-day closure of the Milan bourse to stop a wave of panic selling that had built up since early June.

During the suspension, the government consulted intensively with the central bank, the CONSOB regulatory agency, broker organizations, and the banks in instituting further measures to shore up the market. For instance, banks were authorized to invest in shares 25% of their reserve funds for severance and social payments. When operating in the market on their own account, they are allowed to forego the 30% deposit on share purchases and the 70% deposit on sales that normally must be paid by other market operators on transactions. To make the market more attractive for savers, the Finance Ministry was instructed to draft a bill providing tax incentives for savings invested in securities. The tax freedom for the issuance of convertible bonds, which was to expire at the end of September, is to be extended by decree.

The latest developments are feared to return the market to the rudimentary level of a year ago. Since then, there had been, for several months, a strong inflow of savings funds in search of inflation-protected investments, which in turn had led to a number of new quotations. Numerous leading companies are currently engaged in substantial recapitalization operations, which are now called in question.

Bleak OECD View of Economic Prospects

Short-term forecasts for the Italian economy issued by the OECD in its latest economic survey predict that GDP will fall by 0.75% this year and recover by only 1.75% in 1982. In 1980 GDP rose by 4% following increases in gross fixed investment and private consumption of 10% and 4.9%, respectively. Gross fixed investment is expected to fall both this year and next by 2.75% and 1.5%, respectively, while private consumption should increase by only 0.5% and 1.5%. The effects of this slowdown are expected to show up both in unemployment, which will rise to 8.5% by 1982, according to the OECD forecasts, and inflation, which will remain above 20% during 1981 but should fall to 16.75% in 1982.

In its commentary, the OECD secretariat asserts that the present downturn is unlikely to come to an end by late '82. Italian economic policy is, in the meantime, heavily constrained by the need to deal with the external deficit, which reached over $9.9 billion in 1980, and by continuing high inflation. The latter's persistence reflects underlying structural problems, including the medium-term swing in resource use toward consumption and away from investment and the very extensive index-linking of wages and salaries. The secretariat urges that price rises directly attributable to steep rises in import prices be taken out of the wage index.

Britain: Company Bill Amendments on Share Disclosures

The U.K. Companies Bill 1981, now going through various parliamentary stages, is to be amended by the inclusion of 43 new clauses intended to protect a company against the clandestine acquisition of a significant shareholding. At present, a buyer of more than 5% of the issued voting capital of a company must disclose his interest; however, this rule does not curb the activities of concert parties. These are defined as purchasers who, by agreement and mutual reliance, acquire shares separately with the intent of having them form one holding later. The new amendments are designed to curb this practice.

Where investors do agree to act together, they would have to disclose in writing to the company any purchase that takes their holding above 5%. This information would have to be submitted within five days of obtaining the shares, together with particulars of the beneficial owners and the precise number of shares held by each investor. Any subsequent variation of the agreement would have to be notified as well. Also, every member of the group would be required to advise the other members of his share involvement. Failure to disclose could result in fines and/or imprisonment, with restrictions imposed on the shares in question.

There are certain exceptions to this rule, as in the case of financial institutions such as recognized banks and licensed deposit takers and members of the Stock Exchange who hold shares as security for particular transactions. However, the proposed legislation affords a possible loophole in that it would not apply where individuals decided to act in concert and then instructed a third party to obtain shares on their behalf, without telling that party of their mutual agreement.

Companies would be able to ask shareholders if they were concerned in "any agreement or arrangement relating to the exercise of any of the rights conferred by the holding of the shares," and they would also be empowered to question anyone who had an interest in their shares within the previous three years. However, they would not have the right to force stockbrokers to disclose details of share dealings.

These and other provisions are likely to be implemented early in 1982 after receiving Royal Assent at the end of this year. However, it was originally believed that such legislation would not prove effective in practice, which delayed its introduction. In fact, many observers remain skeptical.

Common Market Reports

EUROMARKET NEWS

Issue No. 654 *July 28, 1981*

IN THIS ISSUE

Community: Gearing Up for Attack on Air Fares Cartel

The Commission is gearing up for an attack on the high-fares cartel operated by the Common Market's airlines. The EC executive wants to find out whether the Member State governments' methods of approving air fares and routes proposed by the airlines are contrary to EEC competition rules. The ultimate objective is to reduce prices and improve services for air travelers, and thus the Commission has asked the Member State governments to spell out in detail by mid-October the methods and criteria they apply in approving tariffs and route proposals. It has also invited the airlines, mostly government-owned, to submit data used in calculating air fares before submitting them for government approval.

In a parallel move, and in what is perhaps the biggest challenge ever to the way air fares are set in the Community, the Commission has prepared a draft regulation that would subject the Common Market's airlines to EEC competition rules, which ban price fixing *(Common Market Reports, Pars. 2011, 2021,*

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2101, 2111). These rules apply to most economic sectors, but not to air and sea transport *(Common Market Reports, Par. 2014.07)*. Until now the Commission has been reluctant to propose specific competition rules for transport by air and sea, but this reluctance has been largely due to opposition in the Member State capitals.

Observers say that the Commission was more or less forced to act under pressure from the European Parliament and consumer organizations. Last December the *Bureau Européen des Unions des Consommateurs* asked the EC executive to apply the EEC Treaty's competition rules to the national airlines. In a formal complaint, the Brussels-based organization, representing the Member States' national consumer organizations, maintained that the airlines' fares cartel constitutes a flagrant breach of the Treaty's provision on price competition and abuses a dominant position. The BEUC threatened to take the matter before the European Court of Justice.

Commissioner Frans Andriessen, in charge of competition policy since early January, said that he would not wait for full approval of the draft regulation before attacking the problems of competition in court. Brussels observers say that taking court action without waiting for Council approval would be a daring move entailing the risk of confrontation with the Member State governments.

Multifiber Renewal Talks Heading for Difficult Times

For the current Multifiber Arrangement (MFA) renewal talks in Geneva the Commission has received negotiating directives from the Council of Ministers reflecting a tough bargaining position that is diametrically opposed to the aspirations of Third World countries. The MFA governs international trade of textiles and clothing exports from the developing countries to industrialized nations, including those of the EEC. The major objective of the MFA is to prevent mass layoffs in the importing countries' textile industries. First signed in 1973 and renewed in 1977, the current MFA expires at the end of this year.

Major issues in the current talks are, in addition to a five-year extension, further limits on the growth of textile imports and possible cuts in several sensitive products. Although the Commission's negotiating mandate no longer contains the tough language that most EEC Member States, led by France, originally insisted on, it still represents a firm position. For example, the 6% annual growth rate for low-cost imports in the current MFA is considered too high because the present rise in demand hovers around 1% annually. A 1% annual increase over the next five years would allow the Community's textile industry to continue its program of rationalization and adaptation to changed conditions. (Some 700,000 jobs were eliminated in the 1974-79 period.)

Meanwhile, the developing countries have put forward proposals that worsen the prospects for the talks. At the heart of the proposals is the demand that industrialized nations no longer differentiate between imports from low-cost countries and those from other supplier nations. Commission officials see here no chance of success whatsover because the negotiating mandate leaves no discretion on this point. Accepting such a demand would be difficult because it would mean putting imports from the United States on the same footing as those from Hong Kong, South Korea, India, and Brazil, the four principal supplier nations of textiles and clothing. Another Third World proposal would require an importing country to cut back imports from the largest supplier first whenever its domestic industry needs protection. Acceptance of this demand would mean that if the number of U.S.-made shirts exceeds those imported from Hong Kong, the EEC would have to restrict the American products. Yet another demand is that the industrialized nations stop discriminating between the far advanced and less advanced among the developing nations.

In Brief...

The Commission has proposed a regulation that would cut red tape in customs treatment of goods and equipment used temporarily in another Member State. The measure, which would primarily benefit tradesmen, artists, musicians, and journalists, is the first of a series that the EC executive promised to propose to ensure that the Common Market becomes a genuine internal market + + + Responding to a Council request, the Commission has drawn up new guidelines and priorities that would govern the Community's regional policy in the years ahead. With only limited financial resources available and no chance to augment them, the Commission says that regional policy must concentrate on solving the main problems. Priority would be given to creating productive jobs in labor-intensive industries using modern know-how and in the services sector.

Germany: Calling on Businesses to Hire the Handicapped

The German government has reminded employers of the various government grants they are entitled to when offering jobs to the handicapped. A business that employs a severely disabled individual (50% handicap or more) is entitled to grants of up to 80% of the employee's compensation for the period needed to train the person to be a fully effective employee. An enterprise may also obtain grants toward the creation of new jobs for the handicapped or toward the cost it incurs by adapting existing jobs to the needs of severely disabled persons. Roughly DM 200 million was spent in 1980 in grants to employers.

A 1974 law requires all businesses employing more than 16 persons to hire handicapped people (at least 6% of the workforce) or pay DM 100 per month to the government for each disabled person not hired. (Last May the *Bundesverfassungsgericht* ruled that the law is constitutional.) However, it is possible to hire an individual with a disability of 30-50% and yet be credited with the employment of a severely handicapped person *(Doing Business in Europe, Par. 23,432).* Since training a disabled person for a particular job may require more investment than usual, the employer may be credited with the employment of two or three handicapped persons.

The government's appeal to the business community coincides with publication of official statistics showing that last year out of roughly 120,000 businesses covered by the law on employment of the disabled, around 79,000 fulfilled the positive requirement by hiring handicapped persons. Approximately 41,000 businesses chose to pay the levy.

Netherlands: Modification of Stock Corporation Law

Changes in Dutch stock corporation law will take effect as of Sept. 1 to reflect adjustments to EEC legislation. The new rules pertain to the establishment of NVs *(naamloze vennootschap)*, for which minimum capitalization is set at 100,000 instead of 35,000 guilders *(Doing Business in Europe, Par. 26,712).* This requirement also affects existing NVs but allows a three-year transitional period for compliance. A contribution of 25%, instead of 10%, has to be made toward capital not fully paid in (again, with a three-year transitional period). When a limited liability company *(BV - besloten vennootschap)* is converted to an NV, there has to be Trade Registry confirmation that the company's assets amount to at least 100,000 guilders.

The new legislation also governs the issuance of shares and shareholders' preferential rights. As of Sept. 1, the ordinary shareholders' meeting may decide the issuance of shares following incorporation. The shareholders' meeting may, however, transfer this right to another corporate body (e.g., the supervisory board) for a period of five years, in what would constitute "approved capital." The issuance of preferred shares must be announced in the State Gazette. The purchase by an NV of its own shares is restricted to 10% of base capital instead of 50% as in the past; an exception applies to investment companies.

Noise Reduction in Dutch Production Plants

Holland's Social Affairs Ministry is currently consulting the government's Social-Economic Council (SER) in working out a decree seeking to limit to 80 decibels the maximum noise level to which industrial production workers may be exposed. However, the government would permit exceptions in situations "when this cannot be reasonably demanded." There would be for existing enterprises a transitional period of five years during which a 90-decibel limit would be permissible, to be reduced later to 85 and 80 decibels. Above a level of 80 decibels, employers would be required to furnish ear protectors.

France: New Taxes in Supplemental Budget; Wealth Tax

With the majority of the 302 Socialist and Communist parliamentarians, the French National Assembly on July 16 passed a supplemental budget of FF 6.8 billion. The original budget, approved last year, has been recalculated by the new administration and now shows a deficit of FF 56.8 billion, which is almost double the FF 29.4 billion originally projected be ex-Premier Raymond Barre. The underestimations involved particularly the areas of debt servicing (+ FF 7 billion), unemployment compensation (+ 4.2 billion), and subsidies to public-sector enterprises (+ 3.2 billion). According to its own calculations, the Mitterrand government thus inherited a deficit of FF 51.3 billion.

The new administration's additions to the shortfall so far consist of FF 5.5 billion in social welfare measures passed in early June and some fiscal relief to businesses. Subsequently approved measures toward job creation, social housing, and investment incentives total FF 7.7 billion and are to be wholly financed by new tax revenues.

Almost half of the proposed new expenditures are to be financed via a one-time special levy of 25% on tax payments above FF 100,000. Some FF 3.4 billion is to be realized from this levy, which is estimated to affect some 108,000 French taxpayers. Another FF 1.2 billion is to come from a 10% levy ("expense account tax") on general expenses of large companies involving business receptions, business transportation, and the maintenance of nonproductive real property. As previously reported, a surtax will be imposed on windfall profits of banks and oil companies (FF 2 billion). Four-star and other luxury hotels will suffer an increase in value-added tax from 7% to 17.6% (FF 160 million). Finally, FF 910 million in extra revenue will flow from a 6-centime price increase per liter of gasoline.

During the debate on the supplemental budget, Budget Minister Laurent Fabius confirmed that the government would seek to introduce wealth tax legislation in the fall. To forestall avoidance of that tax, Paris has now abolished tax advantages applying to family gifts *(donation-partage)*. According to reports, wealthy families lately have been resorting to this device in anticipation of the new tax, which is proposed to start at the level of FF 3 million. It was indicated that the tax would spare capital employed for productive investments.

Critical Reactions to Nationalization Program

While promising to seek a constructive relationship with the new Socialist administration, the president of France's employers' association, François Ceyrac, has responded to the government's nationalization plans with a stinging denunciation of what he called their "economic absurdity." Ceyrac fears that the nationalizations will prove "useless, costly and dangerous for France" and weaken precisely those parts of industry which are the most productive. He has accused the government of pursuing an incoherent set of economic policy aims, "proclaiming the values of a free-market economy and calling for the export industry to become more competitive, but simultaneously nationalizing the most competitive parts of industry."

The chairman of the small-business association PME was also unhappy about the government's plans and in addition expressed skepticism concerning Prime Minister Pierre Mauroy's promises for small and medium-sized companies. "We have heard a lot of good intentions," he said, "but seen little done. On the contrary, we have seen the burdens increase." Many business leaders fear that industry's willingness to invest will fall off as a result of the nationalization plans. The national statistical office has already registered a 12% fall in investment intentions.

Belgium: Compulsory Savings for High-Income Taxpayers

Belgians with an annual net income of BF 5 million or more will be compelled in the future to participate in a compulsory savings system established by royal decree. Such persons will have to invest a sum equivalent to 10% of their tax contribution for at least two years in either government bonds or shares of public enterprises issued after Jan. 1, 1981. The decree is based on an economic reform law passed last February and inspired by the coalition government's Socialist partners. It is estimated that only about 3,600 of the nation's 3.5 million income taxpayers will be affected, but the government hopes to generate BF 7-10 billion in extra revenues from the measure.

Italy: Cabinet Approves 1981 Spending Cuts

Just prior to his departure for the Ottawa economic summit, Italy's new prime minister, Giovanni Spadolini, succeeded in obtaining cabinet approval for various 1981 spending cuts totaling 9,300 billion lire. Of this amount, 8,000 billion in expenditures simply are to be postponed until the next fiscal year, while the remaining 1,300 billion would be "saved" through higher charges, especially in the health insurance sector, and in transfers to local authorities. The two cabinet decisions are still subject to parliamentary approval within 60 days.

Confronted with an inflation rate of 21%, the Rome government finds itself under strong pressure to whittle down its budget deficit and the concomitant public-sector borrowing requirement. The self-imposed PSBR ceiling of 37,500 billion lire is currently being exceeded by about one-third in annual terms, on the basis of data for the first five months. Budget cutbacks have been demanded by the country's labor unions as a precondition for talks with the government over ways of keeping down labor costs and modifying the *scala mobile* wage indexation system.

On a more positive note, a turnaround in the country's balance of payments was recorded for the month of June with a record surplus of 2,314 billion lire, compared with a deficit of 1,661 billion lire the month before. The sudden improvement was not, however, regarded as a signal for an overall recovery of Italy's foreign account, being only the second monthly surplus over the past 18-month period.

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EURO COMPANY SCENE

Engelhard Corp. of Edison, N.J., is to take a 50% equity in the share capital of a French precious metals company, Cie. Métaux Précieux, a subsidiary of Swiss Bank Corp. The American company, according to its own announcement, has an option to purchase the remainder within three years. Not disclosed were the financial terms of the deal, which still requires the approval of the French government.

Through an agreement with Société Européenne de Brasseries, a French brewery, the U.S. brewing group Anheuser-Busch will have its "Busch"-brand beer produced and nationally distributed in France. To be brewed and bottled at Rennes, the beer is now being test-marketed in Tours. Anheuser-Busch also is now test-marketing one of its beers in West Berlin.

One of Germany's leading producers of ski bindings, Hannes Marker, of Garmisch-Partenkirchen, in the future will be controlled by U.S. interests. Marker and North West Energy Corp., Salt Lake City, Utah, have jointly established Marker International, into which Marker will integrate all its companies in Germany and abroad.

A 50:50 joint operating company for offshore marine construction projects has been formed by Brown & Root Norway, subsidiary of the U.S. engineering and construction company, and Wilh. Wilhelmsen, a Norwegian shipping group. The new company, WilBaR, reportedly is hoping to win a part of the contract for laying a proposed gas pipeline from Norway's Statfjord and Heimdal offshore oil fields.

Esso AG, the German subsidiary of Exxon, is planning to shut down one of its four German refineries after accumulating losses of DM 360 million on these operations in the first half of this year. The company did not say which of the refineries (at Cologne, Hamburg, Ingolstadt, and Karlsruhe) would be affected.

In the meantime, Esso Chemical has approached the U.K. government with three major financial demands as a precondition for going through with its proposed £360-million petrochemicals complex at Mossmorran, Fife (Scotland). The company wants (1) exemption from petroleum revenue tax and supplementary petroleum duty on natural gas liquids to be processed at Mossmorran, (2) Inland Revenue acceptance of Esso's inter-company transfer price for ethane gas, and (3) considerable rate reductions for the plant.

Canada's Consolidated Bathurst group has acquired a U.K. paper production plant at Ellesmere Port (Cheshire) which had been closed down at the end of last year by Britain's Bowater. The Canadians intend to invest some £27 million in the plant, aiming at an annual output of 245,000 tons by 1983.

The United States' General Foods has boosted to about two-thirds its previous 34% stake in Simmenthal, the leading Italian producer of canned meat. General Foods had made the original purchase in 1979 and had an option for majority control at a later date. At the same time it had jointly established with the majority shareholders, the Sada family, a distributing company, Simfood.

Burroughs GmbH, German subsidiary of the U.S. computer company, has sued in a Bremen court for more than DM 10 million against Bremen University, the City of Bremen, and the federal government. Burroughs said it had delivered a large computer to the university, which did not accept the system even though it had ordered it in 1978. Instead, acting "obviously under political pressure," as Burroughs said in its suit, the university procured a Japanese system distributed in Germany by Siemens. Burroughs contends that the City of Bremen ignored the legitimate contract award to Burroughs in order to give the contract to Siemens.

Common Market Reports

EUROMARKET NEWS

Issue No. 655 *Report No. 428, August 5, 1981*

IN THIS ISSUE

Community: 'Butter Boats' Ruling With Broad Impact

The Court of Justice's decision in the "butter boats" case contains several important elements, but Council and Commission lawyers attribute the most significance to the broadened legal protection that the Court wants individuals and businesses to enjoy beyond what the Treaty and case law now provide. In effect the Court held that an individual or business must be in a position to challenge any act by the national authorities based on Community law under the same conditions that an administrative act based solely on national law may be challenged (judgment of July 7, Case No. 158/80).

A German supermarket in Kiel and a large retail food store chain sued the German government in the Hamburg tax court in an attempt to have the butter boat excursions banned. These boats, which operate mostly from West Germany's North and Baltic seaports, stock up with food, liquor, and cigarettes and sail just beyond territorial waters before selling their wares to passengers. No customs or excise duties are levied on certain quanti-

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ties. The plaintiffs, who wanted the tax court to order German customs to stop letting travelers disembark without paying duty, argued that German rules allowing such generous treatment are in breach of Council Regulation No. 169/69 and subsequent amendments.

A major issue for the Hamburg court was whether the 1969 regulation and its amendments create rights for the plaintiffs directly concerned by the German rules so that they could bring suit in a national court. The EC tribunal's answer to questions posed by the German tax court was that the scope of legal protection accorded by the Treaty, especially in Article 177, must include the opportunity to challenge Community law in the national courts in the same way that national law may be challenged.

Council lawyers say that the Court of Justice's ruling has made it easier to attack Community law in court. In the European Court an individual or business as a rule may challenge only regulations or decisions of direct and individual concern *(Common Market Reports, Pars. 4635, 4636)*, although suits challenging the legality of Council directives are also admissible so long as they are precise (Case No. 38/77, *Common Market Reports, Par. 8443)*.

Council Slashes 1982 Draft Budget

The Council of Ministers has slashed roughly one billion units of account from the Commission's preliminary draft budget of 23 billion UA for 1982. This is the first move toward putting the European Communities on the course of restraint in spending that the four large Member States - France, Germany, Italy, and the U.K. - agreed on at the Ottawa Summit with the United States, Canada, and Japan. The July 24 meeting of the ten finance ministers also marked the beginning of a tug-of-war over cutting back expenditures of the costly common agricultural policy, which takes up roughly 70% of the EC budget. Here Germany and the U.K. were pinned against France and Italy, which are opposed to major cutbacks. Council officials say that if the verbal exchanges at the meeting are any indication, there are going to be some battles ahead in the coming months over the CAP reform.

There was a change of sides when the ministers tackled the Commission's proposals for Community spending in regional development and social matters. Italy sided with Britain, and Germany and France united against British demands for increased Community funds for underdeveloped or depressed regions in the U.K. All in all, the Council cut some 150 million UA from the 1.9 billion UA sought by the Commission for the Regional Development Fund, and it slashed approximately 250 million UA from the 1.3 billion UA sought for the Social Fund. Parliament is expected to restore some of the cutbacks, but it has limited room to maneuver.

Prior to the July 24 meeting, the Member States, the European Parliament, and the Commission hammered out a compromise designed to end the impasse over three Member States' delayed payments to the 1981 budget. This compromise provides for savings totaling around 200 million UA, roughly the same amount that Germany, France, and Belgium have withheld so far. The three States refused to pay their full contributions to the extra spending approved by the European Parliament in a highly criticized decision late last year. Germany even brought suit against the EP to preserve its rights, but Bonn asked the Court of Justice to suspend proceedings pending a political solution. Now that a solution has been found, Brussels observers expect the EP to approve the compromise in September.

In Brief...

The Council has reached a compromise on the use of hormones to stimulate growth in animals and has banned the use of stilbenes and thyrostatic substances known to be dangerous to human health. The ban took effect on July 21. The Council also called on the Commission to prepare a study by April 1982 on the other substances still widely used in many Member States to promote growth in calves, heifers, and young steers. The Commission had originally proposed a total ban following an Italian court's decision last September banning sales of some baby foods containing veal + + + The Commission has proposed a draft regulation that would provide the legal basis for subjecting the airlines to EEC competition rules set forth in Treaty Articles 85 and 86 + + + The Luxembourgian government is going to take the European Parliament before the Court of Justice for having allegedly violated Treaty Article 216 and the 1965 protocol designating Luxembourg City, Brussels, and Strasbourg as the temporary working places of the European Communities. On July 7 a majority of the European Parliament resolved to continue holding plenary sessions in Strasbourg in order to force the Council to take a definite decision on the EP's final location.

Germany: Heating Oil Tax to Be Extended Indefinitely

The German government has decided to propose to Parliament an indefinite extension of the heating oil tax law that was to expire on Dec. 31, 1981. The decision to extend the law is part of the government's upcoming, yet-to-be-detailed strategy to reduce its budget deficit and to bring borrowing down to manageable margins. Lowering the country's oil import bill (DM 60 billion in 1980 and an estimated DM 70 billion this year) is another consideration. In 1980 the heating oil tax yielded DM 900 million.

The tax was introduced in 1960 to protect domestic coal against then-cheap oil, which had started to ease out coal as a primary source for heating in households and industry and to some extent also in power stations. The tax now amounts to DM 0.017 per liter of light heating oil, used mostly in homes, and DM 0.015 for heavy heating oil, mainly used in industry. A further increase cannot be ruled out, according to Finance Minister Hans Matthöfer.

Opposition Presents Bill on Unfair Practices Law

The Opposition in Bonn has again introduced its bill setting forth amendments to the Law on Unfair Competition (UWG), thus putting pressure on the German government to do likewise. The two measures introduced in 1978 got bogged down in committee in the previous legislative session, which ended with the election of a new Bundestag last October. The proposals have many elements in common: they would not only enable businesses to fight unfair practices by competitors but also would put consumers in a position to defend themselves against certain unfair acts. The differences lie in their approach and scope.

The Opposition's bill puts emphasis on extending protection to businesses. A broadened Section 1 UWG, with its general clause that may be invoked to stop unfair practices, would enable businesses to go to court to enjoin competitors from continued acts such as luring potential buyers onto the premises with an especially attractive offer without indicating that stock is limited. Another frequent practice is to announce special sales giving the public the impression that the enterprise is going out of business when this is not a fact.

Reactions to the Opposition's bill have been mixed. One example is the proposed ban on comparative advertising of prices in display windows or in stores. The government believes that such advertising should continue to be allowed on the narrow road charted by the Supreme Civil Court *(Doing Business in Europe, Par. 23,526)*. In contrast to the positive reaction of the national retailers' association, the country's wholesalers' and importers' organization contends that a business should be entitled to promote its lower prices against the higher prices of its competitors. The government and the business community are nearly united in their criticism of the proposed extension of Section 1 UWG that would empower the courts "to ban any behavior that is apt to work against genuine competition based on efficiency." They argue that here fairness is mixed with freedom of competition, which is covered by the Law Against Restraints on Competition.

France: Government Eases Credit Squeeze; 39-Hour Workweek

In an effort to prevent unprecedentedly high interest rates from forcing some smaller companies into bankruptcy, the French government has moved to relax further the severe limits on credit expansion imposed by its predecessor. Following the release of some FF 5 billion into the banking system in June, steps were taken toward the end of July to release another FF 10 billion, intended to benefit primarily small companies and sub-contractors. In a related measure, a scheme will be extended, under which subsidized loans are provided at 3% below the market rate to firms in the building and public works sectors with fewer than 100 workers.

In the course of July, the Bank of France reduced the minimum reserves of the commercial banks by a total of FF 25 billion, and by the end of the month it had succeeded in gradually lowering the money market rate by a few points, so that the banks were able to follow by marginally reducing their base rates, from 15.9% to 15.6%. Observers believe that, although it may as a result be necessary to change the parity of the franc within the European Monetary System, the government is no longer prepared to tolerate the effects of high world interest rates on the domestic economy.

In other news, the employers' association and the trade unions have,as expected,reached a framework agreement on worktime reductions and signed a protocol committing themselves to concluding negotiations on matters of detail by Dec. 1, which would permit passage of the appropriate legislation to take effect on Jan. 1, 1982. The framework agreement envisages a basic 39-hour workweek and an additional, fifth week of annual vacation. In return, the trade unions have accepted a greater degree of flexibility on overtime, which would permit a maximum workweek of 48 hours including overtime (a maximum average of 46 hours over a 12-week period). The employers hope that this will give them the chance to increase productivity by introducing a five-shift system, thus paying for the extra costs incurred by the introduction of the shorter workweek.

Netherlands: State Support for Microelectronics

Acting Dutch Economics Minister Van Aardenne has announced a series of measures designed to encourage the use of microelectronics-based technologies by companies with 500 or fewer employees. The measures will involve subsidized credits costing 10 million guilders, as well as aid to cover consultancy costs for which 5 million guilders have been set aside. The state is prepared to take over up to 70% of the risk involved in a development project where a smaller company wishes to use microelectronic technology to develop a new product but cannot carry the necessary costs entirely alone. Credit will be allocated up to a maximum of 250,000 guilders for each project and at a 5% interest rate. Up to 40% of the costs incurred in the course of employing outside consultants to advise on the feasibility of using microelectronics techniques may also be reimbursed by the state, below a maximum of 10,000 guilders. The measures are planned to remain in force until the end of 1982, although the volume of funds to be set aside for this purpose next year is not yet known.

Britain: Employees' Pension Rights Legislation Pondered

The British government is considering legislation to protect the pension rights of employees when they change jobs, although it is hoped that employers' associations would come up with a plan of their own, which would be cheaper to operate and would involve less red tape. If employers fail to come forward with a suitable solution, public opinion could force the government to propose legislation. Protection of pension rights would contribute to job mobility and add an element of freedom to the labor market, especially at middle and upper management levels, according to the government.

In related matters, the government announced on July 21 that it is going to introduce a bill that would bring an end to abuses involved in contracting-out arrangements of company pension schemes. Because of high interest rates and low stock market prices prevailing at this time, a company is able to gain substantial financial benefit at the expense of the National Insurance Fund by contracting out its pension scheme, buying back into the National Insurance Fund on attractive terms, and then contracting out again immediately thereafter. The bill would empower the Occupational Pension Board to revoke a new contracting-out certificate in a case of such abuse.

Italy: Net Worth Tax Would Be Introduced for First Time

The Italian government is planning to propose to Parliament legislation that would introduce a net worth tax in Italy for the first time. The net worth tax would be assessed on corporate and individual wealth, but emphasis would lie on real estate that contributes to a person's net worth. A number of details, such as the tax rate, are not yet known, but under the plan a person would be subject to net worth tax if the market value of his house or condominium exceeds 100 million lire. The tax would be levied by the communities where the real estate is located. The plan also provides for the repeal of the real property transfer tax, also assessed by local governments *(Doing Business in Europe, Par. 25,841)*. A bill is expected toward the end of the year.

In proposing a net worth tax, Rome is following a recommendation made by the European Commission a number of years back. Although harmonization of net worth tax rules is not an item on the Commission's action program, the EC executive has been trying to persuade the various Italian administrations in the past that Italy would do better to rely less on indirect taxes and more on direct taxes as a source of revenue. Some 60% of public revenue in Italy is derived from indirect taxes and 40% from direct taxes. In all other Member States the ratio is largely the opposite.

Portugal: Reprivatization Vetoed Once More

For the fourth time, the Portuguese Revolutionary Council, chaired by President Ramalho Eanes, has vetoed a government bill for the reprivatization of parts of the banking and insurance sectors, as well as the cement and steel industries, on the grounds that the proposal is unconstitutional. On this occasion, the Council handed down its decision by a majority of 10 to 4, although the bill had already been passed by Parliament, and even the advisory commission on constitutional law had declared the proposed law to be in accordance with the Constitution. According to the Council, the bill requires a constitutional amendment, for which a two-thirds majority in Parliament is necessary, which neither the government parties nor the opposition possesses.

Prime Minister Francisco Pinto Balsemao responded to the veto with outrage, describing it as a "rape of democracy" and calling for a reform of the constitution to remove the Revolutionary Council. In fact, however, it seems more likely that the coalition parties will begin to discuss the possibility of coming to some agreement with the Socialist opposition on a constitutional change which would permit at least some degree of reprivatization. Nevertheless, the setback has weakened the position of Balsemao, coming as it does at a time when a promised export boom has failed to materialize and the government is embarking on a series of austerity measures. The leading Christian Democrat in the coalition, Basilio Horta, has attacked Balsemao as lacking support even in his own party, and rumors of an attempt to replace him are circulating.

Meanwhile, Finance Minister Morais Leitao recently announced that government capital spending is to be reduced by 7% and the spending of state-owned enterprises reduced by 10%. Government-owned companies are also to be prohibited from raising loans on the euromarkets. The cost of servicing Portugal's foreign debt, which stood at $7.68 billion at the end of 1980, is expected to reach $3.7 billion this year. At the same time, the government has moved to tighten credit, increasing the banks' compulsory reserves from 7% to 10% of deposits, and pushing up interest rates by 1% to a new long-term range of 21-22%. Short-term rates have been increased by 2%.

Switzerland: Truck Bill Amended; Car Stickers Recommended

The tax committee of Switzerland's lower house of Parliament has reported to the floor a heavily amended bill providing for a tax on heavy domestic and foreign trucks. In contrast to the government's highly differentiated bill, the changes recommended by the committee call for an annual tax of SF 500 for trucks weighing 3.5-11 tons; owners of 11-16-ton trucks would be paying SF 1,000. The tax would be SF 2,000 for 16-19-ton trucks and heavy vehicles over 19 tons would be taxed SF 3,000 each year. There would be an additional levy ranging from SF 500-1,500 for trailers. Recommended by the committee, this approach would involve less red tape for truck operators, but it would also yield less revenue than the SF 350 million that the government estimates its measures would bring. The government's bill foresaw an annual tax ranging from SF 1,000-20,000 for each vehicle, depending on the weight and annual mileage *(Doing Business in Europe, Par. 40,168)*.

The tax committee has also drawn up a bill of its own that would provide for a SF 30 annual sticker that all cars traveling the highways would have to display. This would also mean that tourists vacationing in Switzerland and those just driving through would have to buy the sticker. Committee members believe that two-thirds of the estimated SF 240-250 million each year would be paid by foreigners.

Aside from the fact that both measures, if adopted by Parliament, are subject to two separate mandatory plebiscites, some experts have doubts about the constitutionality of a "sticker law." Article 37(1) of the Constitution reads: "No toll shall be collected on roads destined for public use. Parliament may legislate otherwise in exceptional cases." The article was approved in a 1958 referendum, and the legislative history of the constitutional amendment indicates that highways cannot be considered a special case.

Approval of both measures, observers say, would be a setback to international transport and tourism, resulting in much red tape and delays at border crossings because truck drivers would have to fill out forms writing down the mileage on the meter when entering and again when leaving the country. Several of Switzerland's neighbors tried to dissuade the Swiss government from proposing the truck tax in the first place. But after Austria introduced its tax on heavy trucks in 1978 despite protests from chambers of commerce in several countries and subdued criticism from several European governments and the European Commission, many observers felt at the time that other countries would follow suit.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: Still No Progress on Common Fisheries Policy

The Council of Ministers has unanimously agreed to lift the 1977 ban on herring fishing, but this does not mean the ministers are any closer to a consensus on a common fisheries policy. When the Council convened on July 27 for its last meeting prior to the summer recess, the ministers not only failed to agree on a fishing quota for each Member State, but they also remained divided on financial support for inshore fishing industries, a common market organization for fisheries products, and the initialed EEC-Canada agreement. These topics will thus appear again on the Council's agenda for its Sept. 29 meeting.

Britain keeps insisting on special protection for its fishermen within the 12-mile-wide strip along its coasts, a demand that France believes cannot be reconciled with the principles of a genuine common fisheries policy. Concerned over depletion of its traditional fishing grounds, the British government has been holding out against a proposed agreement with Canada and makes its signature dependent on fulfillment of its demands. This, in turn, has aggravated the German government because the pact with Canada is important for the German fishing fleet. (Fishermen

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the North Sea ports demonstrated again in Brussels on July 27.) Bonn has withheld its consent to a proposal that would provide financial support for inshore fishing industries; the U.K. would benefit most.

To prevent herring fishing from turning into a free-for-all competition among the Member States now that the ban has been lifted, the Commission has asked the ten States to limit their catches off the northwest coast of Scotland to two-thirds of the 55,000 tons that may be caught in the next two months and to report twice a week the details about actual catches. On the basis of Treaty Article 155 and a recent judgment from the Court of Justice, the Commission believes that it has the power to make such a request even in the absence of a common fisheries policy. On May 5, 1981, the European Court held that Member States do not regain jurisdiction in fishery policy matters when the Community lacks a positive solution to existing shortcomings and problems of that policy *(Commission v. U.K.,* Case No. 804/79). Several Member States and Council lawyers are challenging the Commission's interpretation of Treaty Article 155, which describes the EC's executive powers, and the judgment.

Japanese Industrial Offensive Only Starting

Japan's industry is in the process of intensifying efforts to apply new technologies to a variety of industrial sectors, especially machinery, according to a recent Commission study prepared at the request of the Council of Ministers. By the mid-1980s, when this process (involving major investments) will be completed, Japan will have firmly established itself as a very strong, if not the leading country manufacturing a widening range of high-caliber products, which will be highly competitive on international markets. Japan's technology-intensive products will tend to be exported more to other industrialized countries than to developing nations.

The Council requested the study because it felt there was a need for more knowledge and understanding in Europe of some of the specific features of Japan's development and the ways in which the Japanese industry and economy operate. Titled "The Industrial and Commercial Strategy of Japan," the study contains much new information uncovered mostly by Japanese researchers. The paper covers the development from a war-shattered economy to Japan's position today, and it describes the perspectives for the 1980s. There is little consolation for Europeans that steel, shipbuilding, and car manufacturing will no longer be the mainstays of Japan's exports to Europe and the U.S., according to the report, since the future growth industries are machinery and electronics.

As to the main question of how to correct the present lopsided trade picture between the Community and Japan (the EEC's trade deficit amounted to $40 billion last year), the answers given in the study are not new. According to the Commission paper, the only solution is to sell more products on the Japanese market. Also, much will depend on how efficiently and how fast Europe will be able to reorganize its own industrial structure in order to maintain its position on world markets as well as in the Common Market.

In Brief...

Acceding to demands from the European Commission and succumbing to pressure from several Member States, the Italian government on July 28 rescinded the deposit requirement for imported steel and steel products. (Since May 27, importers of all products except crude oil and cereals have been required to deposit with the central bank for three months an amount equal to 30% of the paid bill; the measure is scheduled to expire on Sept. 30.) To mollify Italy's steelmakers, the deposit requirement has also been rescinded for imports of base products used in steelmaking, such as iron ore, scrap, and coke + + + IBM has brought a second suit against the Commission, this time to obtain a declaratory judgment that the EC executive has violated the EEC Treaty (Case No. 190/81). IBM contends that the Commission violated Treaty rules by failing to accede to the corporation's earlier request to stop the administrative procedure and to annul the Statement of Objections. Last March IBM brought the first suit because the Commission had started to investigate the corporation's alleged restrictive practices (Case No. 60/81).

Germany: Government Reveals Plan to Cope With Public Debt

The Schmidt administration's plan to cope with the highest-ever German public debt by a combination of cutbacks in government spending, elimination or curtailment of tax deductions, and tax increases has been criticized by all sides, but most of all by the Opposition. According to the plan, the federal government's 1982 budget would be around DM 240 billion (a 4% increase over 1981) and borrowing would be kept down to DM 26 billion (as against DM 36 billion this year). Since the Opposition controls the upper house of Parliament and has vowed to present its own ideas about how to cut back government expenditures, many Bonn observers believe that the legislation eventually adopted by Parliament may differ substantially from the government's plan.

A number of features of the coalition's plan would involve the repeal or curtailment of tax deductions or tax privileges of significance for businesses and individuals alike. A 0.5% increase in the unemployment insurance contribution rate appears to be a sure thing because the Opposition does not object to this proposal. This would raise the contribution to 3.5% of assessable wages and salaries *(Doing Business in Europe,* *Par. 23,456)*. Businesses would benefit from the proposal to increase the current depreciation rate applied in the declining-balance method for movable assets. The present maximum rate is 20%, but under the plan it would rise to 25% *(Doing Business in Europe, Par. 23,336)*. The rule would be made retroactive to July 30, 1981.

There would be a substantial curtailment in the tax deduction that an employer may claim for the cost of granting stock bonuses and stock options to employees. A business buying a new car would be entitled to deduct from its turnover tax liability only half of the value-added tax paid to the car dealer; under present rules it may deduct the full amount *(Doing Business in Europe, Par. 23,375)*. The law that allows companies investing in developing countries a tax-deductible reserve of up to 100% of the investment would be repealed.

Still undecided is whether the governing coalition's plan will call for a surtax on individual and corporate income tax. The Social Democrats suggest that the revenue from a surtax (an estimated DM 6 billion at a 3% rate) be spent entirely on investment grants and other aids to businesses. The objective would be to bring down unemployment, which stood at 1.2 million at the end of July.

Ireland: Budget Boost for Indirect Taxes

The new Irish parliament on July 21 approved a tough Budget introduced by Finance Minister John Bruton. Prime Minister Garret FitzGerald regarded this as a vote of confidence: had the proposals been defeated, he would have called another general election.

Budget emphasis is on increasing indirect taxation. Value-added tax on most goods and services will rise from 10% to 15% as of Sept. 1, although the 25% VAT rate on certain items remains unchanged. There are substantial increases in duties on alcohol, gasoline, and diesel fuel, and excise duty on cars and motorcycles goes up from 40% to 50% immediately. The government predicts that these measures will raise the cost of living by 3%, a figure that is widely regarded as conservative. The FitzGerald administration has honored a campaign pledge not to increase income tax. However, a 1% levy is to be imposed on all incomes to help finance youth employment, and a rise in health insurance contributions later this year is highly probable.

The tax on industrial fuel oil, introduced in last year's Budget, is to remain at its present level. However, postal charges will rise by 20% in September, and at the same time there will be a Ł20 increase in the cost of connecting a telephone or telex. Stamp duty on checks goes up 2p to 5p, and there will be a new annual duty of Ł5 on credit cards.

A "temporary levy," which will be payable on Dec. 1 and raise Ŀ5 million, is to be imposed on banks, although the method of assessment has still to be decided. This tax is not particularly significant as a percentage of the total profits of the major banks and is lower than anticipated.

The Budget's principal strategy is to reduce the present high level of the public borrowing requirement from some 20% of GNP to about 16.5%. Current spending is to be cut by Ŀ148 million (Irish), and investment projects funded by the government will be postponed or abandoned, thus saving Ŀ176 million. The overall budget deficit is to be reduced from Ŀ950 million to about Ŀ800 million.

Trade union leaders have stressed that the inflationary effects of the Budget will have serious consequences for the negotiation of any future national understanding. Their members would be looking for pay rises to compensate for increases in the cost of living due to the wide range of tax increases and the extra VAT. The reactions of employers and industry have generally been more favorable. However, the Federated Union of Employers said that the Budget was only a "partial solution" to the urgent corrective action required, and it was essential to cut out unnecessary and wasteful expenditure in the public services.

Belgium: EC Commission Pressure on Budget Planners

Using for the very first time its powers to make economic policy recommendations to a Member State, the European Commission has urged the Belgian government to take decisive action to reduce its runaway public deficits to no more than BF 200 billion in 1982 and to cut its borrowing requirement to 5% (now at 12%) of GNP by 1984. Specifically, the Commission recommends a reform of Belgium's wage indexation system, which in times of accelerated inflation triggers pay adjustments in two-month intervals. The advice here is to limit such adjustments to two a year and to remove from the index base the effects of indirect taxes and state-administered prices, among other items.

The Commission's recommendations, revealed on July 24, come at a time when Belgium's government coalition partners and budget experts are struggling over the details of the 1982 budget proposals, which are to be presented to Parliament at the beginning of the new session this month. For Prime Minister Mark Eyskens, the strong advice by the Commission should not be unwelcome, since it supports the proposals of his Christian Democrats for at least BF 150 billion in budget savings, which would not spare social expenditures. The Socialist coalition partners maintain that next year's budget deficit will not exceed BF 300 billion, of which BF 200 billion would have to be financed. The remainder would be covered equally by spending cuts (BF 50 billion) and by additional taxes on high incomes and an intensified drive against tax evasion. The Socialists' position corresponds largely with that of the unions, spokesmen for which declared that any tampering with wage indexation would lead to a "revolt" of workers and recipients of old-age pensions.

Nevertheless, it is clear that the Commission's letter has touched on a most urgent issue. In July, the Belgian consumer price index rose by 1.6%, for an annual inflation rate of 7.8%. This meant that the 2% wage adjustment threshold was once again exceeded for the public services and in many other industrial sectors, leading to automatic pay raises totaling BF 56 billion as of Aug. 1.

Netherlands: Government Formation Efforts Hit Stalemate

After six weeks of negotiations, a stalemate has been reached between Holland's Christian Democrats and their prospective coalition partners on the defense policy issues that are the only remaining stumbling blocks on the path to forming a coalition. In the recent elections, the three parties involved in the negotiations received 109 of the 150 parliamentary seats (Christian Democrats, 48; Labor, 44; and Democrats '66, 17). The conservative wing of the Christian Democratic party, which was formed only two years ago through a merger of several smaller parties, has raised objections to the coalition formula worked out by the *informateurs*. The latter's compromise proposal would have involved delaying a decision on the stationing of new U.S. missiles in Holland until after the December deadline previously set.

Despite the stalemate, it still seems possible that the three parties will form a government and agree simply to leave the defense policy questions undecided for the moment. The three *informateurs* presented a final report to Queen Beatrix in early August, advising her to order the formation of a three-party coalition.

The question of who should become prime minister seems to have been ironed out with an agreement that acting Prime Minister Andries Van Agt should continue in office, while Joop den Uyl, the Labor party leader, should be deputy prime minister and minister for social affairs, with special responsibility for unemployment. Jan Terlouw, leader of the Democrats '66, would also be a deputy prime minister.

France: Government Halts More Nuclear Plants

France's Socialist government has suspended planning and construction on five more nuclear sites, involving 18 reactors, until a parliamentary debate on the future of A-power can be arranged in the fall. The move has no effect on 24 other reactors in various stages of construction, nor on the 29 reactors already in operation. France still expects to increase the proportion of nuclear-generated electricity from the present 40% to 50% by 1985, even if the newly suspended reactors are never built. The sites affected are at Chooz, Cattenom, Le Pellerin, Golfech, and Givaux. In addition, the heavily criticized Plogoff reactor site in Brittany is being disbanded, following the suspension of work there soon after the elections.

Despite President François Mitterrand's election commitment to a revision of the nuclear program, most commentators believe that economic circumstances will ensure the continuation of most of the country's nuclear power projects. The leading trade unions oppose any reduction in the program for fear of the effect this would have on employment, while businessmen point out the severe damage that heavy imports of coal and oil would do to the balance of payments.

Prime Minister Pierre Mauroy has already had to head off a cabinet conflict of jurisdiction on nuclear power. As a result, the commissariat for nuclear energy will come directly under Mauroy's authority, and he will delegate decisions for action to the respective ministers.

Strong Expansion of French Banking Sector in 1980

In the period from 1971 to 1980, the number of foreign banking establishments in France rose by about 25% and stands today at 122, according to the latest annual report of the government's Banking Control Commission (CCB). While the balance sheet total of all licensed private and state-controlled banks increased by an average of 18% annually during that period, the foreign banks alone reported a growth of 23% (for a total of FF 324.2 billion at the end of 1980). On the basis of business volume, the foreign banks jointly account for about 15% of banking activity in France, which corresponds approximately to the volume of one of the country's three major state-controlled banks. Nevertheless, at 11.4% and 6.4%, respectively, the foreign banks' share in credit issuance and deposit taking remains relatively modest; operations are mostly concentrated on currency transactions with other financial institutions and on serving large corporate clients.

The domestic banks, for their part, have also systematically expanded their foreign operations in the past few years. In 1980 alone, these activities increased by 71%, and the share of foreign subsidiaries and branches in the balance sheet total of all French banks rose from 13.4% at the end of 1979 to 18% (FF 479 billion) at the end of last year. The CCB attributes to this foreign growth a good deal of the 27% rate of expansion reported by France's 384 banks in 1980. Because of higher interest income, average net earnings were boosted by 30%, while costs rose by only 17%. The combined balance sheet total came to FF 2,661 billion, as compared with FF 2,098 billion in 1979.

In view of the proposed nationalization of banks that are still in private hands (with the exception of foreign-owned banks), the CCB survey has been accorded some political significance this year. The commission reports that the "Big Three" banks already under state control - Banque Nationale de Paris (BNP), Crédit Lyonnais, and Société Générale - account for 46% of the balance sheet total of the entire banking sector, for 58% of deposits, and for 47% of the credit business. (The three banks were nationalized shortly after World War II.)

Italy: Rising Indebtedness of State Holdings

According to a confidential study prepared by the office of the Italian minister for state participations, Gianni de Michelis, the debt situation of the three main government-owned industrial holding companies, IRI, ENI and EFIM, may be reaching a critical point. The study, recently leaked to the press, reveals that the total indebtedness of the three groups had reached over 35,800 billion lire at the end of 1980, with losses expected to accumulate to 3,853 billion lire in 1981, after 2,671 billion in 1980. IRI alone lost 2,770 billion lire last year. In the current year, interest payments are expected to amount to 6,000 billion lire, up from 3,500 billion lire last year.

Very large losses are continuing to pile up in the steel, chemicals, and motor vehicle sectors. The state holding companies have been greatly undercapitalized for several years, and now the high level of interest rates is penalizing them heavily for their reliance on short-term financing to cover their capital requirements. One-third of all outside capital consists of short-term borrowings, and De Michelis claims that the treasury's reluctance to recapitalize the companies is partly responsible for the worsening of the situation. Last May Parliament gave its approval for 1,750 billion lire to be used to help recapitalize IRI, but so far only 500 billion lire have actually been paid out by the treasury. De Michelis says that over 10,000 billion lire are needed for a complete financial overhaul.

An overall picture of the steady weakening of the state sector and its effect on the entire economy is supplied by the latest of Mediobanca's annual surveys of the financial state of Italy's largest 1,078 firms. The 1980 survey notes that the year saw a weakening in average profitability, largely as a result of a great increase in the losses of state-sector corporations. The figures also show that 60% of the loss-makers were state-sector firms, while 85% of the profit-makers were private-sector companies. The net result for all 1,078 companies was an aggregate loss of 3,032 billion lire, 60% higher than in 1979.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: Adoption of Insurance Proposal Held Up

Several major problems are holding up adoption of a 1975 proposal that would allow an insurance company established in one Member State to sell indemnity insurance in other States. Although life insurance and automobile insurance are not covered by the draft directive, approval of the directive by the Council would nevertheless help mold a common insurance market *(Common Market Reports, Par. 9803)*. A major issue is whether an insurance carrier established in one State would need a special license to render services in another State. All of the Member States except the U.K. and the Netherlands maintain that a special license is necessary. Britain and Holland, supported by the Commission, contend that any insurance company incorporated in a Member State within the meaning of the First Coordination Directive should be allowed to sell insurance without any special authorization from the State where services are rendered *(Common Market Reports, Par. 1349.35)*.

Several compromise formulas have been presented in recent months to overcome the impasse. The other eight Member States

This issue is in two parts. This is Part I.

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have softened their hard-line position and would now go along with the following concept: an insurance company would be formally granted permission by the authorities of the home State to sell insurance in another State after the authorities there had given their approval. The Commission, on the other hand, believes that the authorities of the State where services are to be provided should merely be informed before the company starts selling. The EC executive also suggests setting up an information exchange system between the supervisory authorities to monitor the activities of insurance carriers and to cope with abuses. The latest compromise proposed by the Council president provides as follows: the insurance company would apply to its government, which would send the application on to the other State. If the latter failed to respond by a yet-to-be-established deadline, the insurance company could bring suit in the other State for the right to sell.

The Member States are also divided about whether the freedom to provide services should accrue to both the company's head office and its agencies or only to the head office. Under the Commission's proposal, both would be able to sell, and this is also the position of Belgium, Denmark, Greece, the Netherlands, and the U.K. France, Germany, Ireland, Italy, and Luxembourg want only the head office to be able to sell.

Another issue involves taxation of insurance contracts. France has not taken advantage of the option to exempt insurance services from value-added tax. (This exemption is provided for in Article 13 of the Sixth VAT Directive, *Common Market Reports, Par. 3165N.)* The other nine Member States subject insurance contracts to lower, special taxes, and they do not want to make a change.

More Funds to Less Favored Regions in 1980

The Commission awarded roughly $1.1 billion in grants to 2,563 investment projects in the Community's less favored regions in 1980, according to a recently published annual report covering the activities of the Regional Development Fund. The Fund was established in 1975 to help reduce economic disparities between the Common Market's rich and poor regions *(Common Market Reports, Par. 3601.61)*.

Last year the volume of assistance increased by 22% over 1979, but the number of projects decreased. This trend reflects the change in policy that the Council had asked for - to concentrate the limited financial resources on fewer projects and thus enhance the impact of each grant. Three-quarters of the total grants went to infrastructure projects in Northern Ireland (a bridge in Londonderry), Ireland (electrifying a section of Dublin's subway), and the Mezzogiorno (several dams and a natural gas pipeline to Algeria). The remaining grants were awarded to help offset the cost of investments made by some 600 businesses in all Member States, but with the lion's share going to British, Italian, and Irish manufacturing and service companies. According to the report, the grants are expected to create or save an estimated 60,000 jobs.

The report does not touch on an issue that the Commission and the European Parliament have been stressing for some time: the money allocated by the Council each year is not nearly enough to make real progress in "a harmonious development of economic activities." Such a development was named by the authors of the EEC Treaty as one of the tasks of the Common Market and is part and parcel of the Community's regional development policy. According to the Commission's study, the economic gap between the Common Market's most advanced and backward regions has not narrowed, but has widened. Each year the pattern is the same, according to Brussels observers: the Commission allocates money for the Regional Development Fund in the draft budget, the European Parliament increases the amounts, and the Council of Ministers cuts them back. The planned budget reform could bring some improvement, observers say, but the plan has yet to materialize.

Belgium: Skepticism Over Proposed Budget Savings

Skepticism has been the main reaction to a "global" agreement announced by Belgium's government coalition partners on limiting the 1982 budget deficit. The Eyskens administration proposes to cut this deficit from BF 340 billion to BF 201 billion through rigorous reductions in social transfers and administrative costs, higher taxes, and new levies. Overall spending next year is now projected at BF 1,341 billion and revenue at BF 1,140 billion. The budget shortfall thus would be kept at 9% of GNP and the public-sector borrowing requirement below 12% of GNP - both targets previously set by Premier Mark Eyskens.

Tax measures proposed include:

- a 17% rate (so far zero) of value-added tax on the services of attorneys and notaries to private individuals;
- a higher VAT, from 17% to 25%, on certain banking services;
- a wealth tax on "external manifestations of wealth," such as second apartments, second cars, private pools, etc. (but not on real property);
- a "crisis contribution" by employees and self-employed individuals, the assessment base and amount of which are as yet undetermined but which would raise at least BF 15 billion.

Most Belgians would be more affected by the spending cuts, however, which would include reductions in family allowances for the first child, lower unemployment insurance expenditure (tougher eligibility standards and controls), and reduced public-sector construction. To whittle down health insurance subsidies (BF 13 billion), the government intends to impose restrictions, such as abolishing an upper limit on contributions and curbing expenditures on drugs and certain therapies.

Critics say that all these proposals have the disadvantage of being of a global nature, meaning that the difficult and controversial details remain to be negotiated. These negotiations will commence next month, after the parliamentarians return from the summer recess. It has been charged that the work done so far was "too hasty and too unrealistic" to stand up to closer scrutiny. In fact, there is speculation that the forthcoming budget talks will lead to a breakup of the coalition of Christian Democrats and Socialists, which would leave the burden of settling the details to the following government.

Government, Oil Industry Agree on Fuel Price Freeze

The Belgian Economics Ministry and the country's oil industry association have agreed to freeze as of Aug. 11 the prices for a number of oil products, excluding heavy-duty oil, diesel fuel, and liquid petroleum gas. In recent months, the system of contractually fixed price ceilings, fluctuating according to Rotterdam spot market prices, had led to a series of rapid price increases, sometimes within a single week. In mid-May, the Ministry and the oil industry had agreed to slow the rhythm of price adjustments for a three-month trial period. However, the steep climb of the dollar had neutralized this measure.

The price freeze instituted this month is of undetermined duration, but renewed discussions are expected in September. (In 1974, the government had unilaterally imposed a price freeze on oil products, which was answered by industry with a Belgian supply boycott.) The current liter prices for gasoline are BF 31.20 (premium) and BF 30.10 (regular).

Germany: Social Security Taxes Go Up Next Year

Many employers and employees in Germany will be paying higher social security taxes next year because the assessment ceilings for old-age, unemployment, and health insurance are going to be raised again. This has been a perennial procedure, and the government has the statutory power to raise assessment ceilings, and hence also the contributions, by decree. The draft regulation prepared by the Labor Ministry will be published later this month.

All employees, regardless of their incomes, are covered by the mandatory old-age pension system, and DM 4,400 of their monthly earnings are subject to contributions; the rate is 18%, shared equally by employer and employee *(Doing Business in Europe, Par. 23,453)*. As of Jan. 1, 1982, the assessment ceiling will be raised to DM 4,700, so that the maximum monthly contribution will increase from DM 792 to DM 846. Should the government's plan for lowering the rate by half a percentage point be approved by Parliament, the maximum monthly contribution would, however, be DM 822.50.

Contributions to the unemployment insurance fund will also go up next year, with the assessment ceiling to be raised from DM 4,400 to DM 4,700 as well. If the government is successful with its plan to reduce spending and borrowing, the contribution will be even higher because the rate would be increased by half a percentage point, to 3.5%. The higher assessment ceiling means that an employee with earnings of DM 4,700 or more will be paying DM 70.50 per month instead of DM 66, and the employer will pay the same. If Parliament approves the higher contribution rate, each would pay DM 82.25 per month *(Doing Business in Europe, Par. 23,456).*

Under the draft regulation, the assessment ceiling applied in computing contributions to the health insurance system will go up on Jan. 1 from the present DM 3,300 to DM 3,500 a month. Assuming an employee is insured by a fund charging 12% of the assessed wages or salary, the increased assessment ceiling will mean that employer and employee each will be paying DM 210 per month instead of the present DM 198 *(Doing Business in Europe, Par. 23,454).*

Denmark: Raising of Indirect Taxes Proposed

The Danish government is planning an additional boost in indirect taxes after the DKr 29-billion budget deficit in the first half of 1981 was DKr 5 billion higher than projected. Finance Minister Svend Jacobsen justifies the proposed increases - particularly on gasoline, alcohol, and tobacco - after the state's enormous expenditures to relieve unemployment, which now is in excess of 9%. The labor unions argue that the government action could actually contribute to higher unemployment because an additional loss of purchasing power might endanger jobs. The political opposition is accusing the Social Democratic minority administration of having failed to curtail state expenditure and of once more trying to make the taxpayers suffer for its neglect.

Previous austerity measures imposed by Copenhagen have been somewhat successful to the extent that private consumption declined by 3.5% last year and is predicted to drop by an additional 1.5% in 1981. At the same time, the payments balance deficit went down from DKr 15.3 billion in 1979 to 13.8 billion last year. However, unemployment has risen by some 40% within the last 12-month period and is estimated to exceed 275,000 this coming winter.

Against this background, many observers give credence to the worries of the labor unions, which in the most recent bargaining rounds accepted a considerable cut in real-term incomes and whose members now have to face additional burdens. These observers say that only by drastically curbing public expenditure can the government break out of the vicious circle posed by deficit-ridden state finances, economic stagnation, and increasingly higher spending on unemployment compensation.

France: Cabinet Approves 1982 Budget Outline

The outline draft budget agreed on by the cabinet this month projects France's 1982 public-sector deficit at between FF 95 billion and 105 billion - the highest since World War II and 40% higher than the shortfall forecast for this year. Public spending is to rise by 23% to FF 790 billion. This is a massive reflationary attempt to reverse the continuous upward trend of unemployment, which reached 1.8 million in July and threatens to exceed 2 million by the end of the year. The 1982 budget is to create 55,000 new jobs in the public sector, on top of 54,000 this year, and GNP is to grow by 3.3%, compared with this year's near-stagnation level of 0.5%.

The Socialist government claims it will be able to fully finance the higher deficit through borrowing operations on the bond market and without raising taxes or relaxing monetary controls. The only substantial alterations in taxation currently planned are ones that would shift a part of the income tax burden from lower-income families to higher-earning groups.

Budget Minister Larent Fabius says the budget is based on an economic forecast according to which the deficit will be no more than 2.6% of GNP (2.3% in 1981 and 1.3% in 1980). Inflation is to be brought down to 12.5%, compared with this year's estimated 13.5-14%.

The draft budget will be presented to the cabinet in more detailed form on Sept. 30 and then passed to the National Assembly for approval a week later.

Italy: Spending Cuts Planned as Credit Squeeze Tightens

Premier Giovanni Spadolini is to submit plans for extensive budget savings to the Italian parliament after the holidays. Envisaged are total savings of 8,500 billion lire in the current year, although most of these probably will take the form of a postponement of expenditures until 1982. The health service, however, is to be heavily affected, with 1,500 billion lire in savings to result from introducing charges for medical costs.

The plan proposes a 1,500-billion-lire reduction in central government grants to the regions. Some 500 billion lire would be cut from housing construction, 200 billion from highway construction, and another 200 billion from gas pipeline construction for southern Italy. The state-owned banks would lose 500 billion lire in planned capital increases. Spadolini's intention is to return government borrowing to the 1981 target of a 36,500-billion-lire deficit, following the release of figures showing that the public borrowing requirement doubled during the first half of 1981, to 21,000 billion lire.

In related news, the treasury has further tightened credit in response to statistics showing an overall trade deficit of 10,899 billion lire in the first half of '81, compared with 7,785 billion lire for the same period last year. The percentage of new deposits that commercial banks must deposit with the special mortgage credit bodies has been increased from 6.5% to 8%. The trade deficit is the result of rising import prices caused by the appreciating dollar. In June, in response to May's record trade deficit, the government introduced a 30% compulsory import deposit requirement, which had the effect of bringing the June deficit down to 790 billion lire, less than one-third of that in May. Traders now fear that Rome may decide to continue the import deposit rule indefinitely, beyond the originally promised termination date of Sept. 30.

Norway: Price Freeze Until Year-End; Tax Cuts Planned

Norway's minority Labor government, which faces a general election next month, has frozen all prices retroactively from Aug. 3 until Dec. 31. Prime Minister Gro Harlem Brundtland justified the move by drawing attention to the proximity of the current 13.7% rate of inflation to the threshold that will release a new supplementary wage rise under existing indexing agreements with employers. The present rate of inflation is also well beyond that on which Oslo calculated its budget and incomes policy earlier in the year. Brundtland wants to keep inflation below 14% for the year as a whole. (A previous 15-month price and wage freeze ended in January 1980, when inflation had come down to an annual rate of only 5%. By January 1981, the inflation rate was back to 15.2%.)

The government has also announced a proposed reduction in income taxes for low-income and middle-income families. Those earning up to NKr 100,000 per year in the future would pay 0.5% less tax, and those earning up to NKr 150,000 would pay 0.3% less. Income tax receipts would fall by NKr 750 million in the last quarter of 1981 as a result, but the loss would be covered by the increase in oil and gas revenues, thanks to the appreciation of the dollar on international markets. (The same factor is responsible for Norway's unexpected current-account surplus of NKr 6 billion.) The planned tax reduction has been greeted positively by trade unions and farmers' organizations, but less so by the employers. It would not be implemented until after the election, and, in any case, would require the formal approval of Parliament.

Portugal: Balsemao Government Quits After Eight Months

Lack of support within his own Social Democratic Party forced the resignation of Portuguese Prime Minister Francisco Balsemao on Aug. 10 after only eight months in office. Balsemao, 44, was Portugal's ninth premier since the 1974 revolution and headed a three-party coalition which included the Christian Democrats and the Monarchists as the other partners. In a late development the Social Democrats have asked him to form a new government, but he has not yet agreed to do so.

EURO COMPANY SCENE

Motorola, one of the major U.S. manufacturers of semiconductors, reportedly will invest some £50 million in building a new plant for the production of microchips in Scotland. The company already employs some 1,000 people at the same site, in East Kilbride, manufacturing integrated circuits. Other American firms making microchips in Scotland include General Instrument, Hughes, and National Semiconductor, while Japan's Nippon Electric Co. (NEC) has just started putting up a £40-million microchip plant at Livingston.

Chicago Bridge & Iron reportedly has made an agreement with the receivers of a bankrupt French engineering company, Constructions Métalliques de Provence (CMP) to purchase certain assets. The reports said Chicago Bridge will pay FF 130 million for CMP's Dunkirk and Sedan plants, which manufacture offshore equipment and oil and gas storage facilities. About half of CMP's 2,000 employees will be retained. Through the deal, the U.S. company is said to acquire foreign orders estimated at about FF 1 billion, including construction sites abroad.

France's Matra group (aerospace, armaments, publishing) and Texan-Tandy of the U.S. have agreed in principle to launch a joint production of mini-computers through a new French company, in which Matra would hold a 51% interest and Tandy the remainder. Most of the components are to be of French origin, which is expected to ease approval procedures by the French government.

Honeywell of Minneapolis, Minn., has announced its intention to invest some $9 million in its French subsidiary, Honeywell SA. These plans apparently are not affected by the fact that the new French government is considering the nationalization of CII-Honeywell Bull, the computer group, in which Honeywell has a 47% stake.

Cofacredit, a government-controlled French export organization, is to be majority-owned by Walter E. Heller International, which has reached agreement with the French government to acquire a 51% stake in that company. The price of the deal was not disclosed.

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EUROMARKET NEWS

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IN THIS ISSUE

Community: Commission Asks Modest Rise in Export Credit Rates

The Commission has suggested to the Member State governments a modest increase in the interest rates for export credits. An increase of 2-2.5 percentage points would be reasonable, according to the EC executive. The suggestion is made in a request for a mandate that the Commission needs to negotiate on behalf of the Community when representatives of 22 industrialized countries, including the ten Member States, resume talks within the OECD on Oct. 5-7 in Paris. In the Commission's view, an agreement in the upcoming negotiations is essential to avoid ruinous competition among OECD members in the area of export credit terms. The Council of Ministers is expected to grant the mandate some time in September.

Export credits granted by OECD members are governed by a gentlemen's agreement that took effect on April 1, 1978, and expired on May 1, 1980. However, the parties agreed to adhere to the conditions set forth in the expired pact. There are minimum interest rates for export credits to three categories of countries - underdeveloped, intermediate, and industrialized. The credit periods are 2-5 years, 5-8.5 years, and 8.5-10 years. A

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minimum interest rate of 7.25% for credits running 2-5 years must be charged regardless of the importing country's stage of economic development. If credits run longer than five years, the interest rates may not be less than 7.5% for underdeveloped, 7.75% for intermediate, and 8% for industrialized countries.

Major OECD members, especially the United States, not only want an extension of the agreement but also insist on tightening some of the provisions to be applied to exports to the Soviet Union and Czechoslovakia. The Commission has suggested that these two countries, now in the intermediate category, should be considered industrialized countries and thus be subject to the tighter credit conditions; most EEC Member States agree that interest rates should be raised somewhat. After the U.K. and Italy relaxed their stand against a change in treatment of credits benefiting the Soviet Union, France remained the sole Member State to hold out against a common position. The previous French government had argued that it need not follow the restrictions because the export credit line had been granted to the Kremlin before the effective date of the gentlemen's agreement. The new administration under President François Mitterrand has taken a more flexible position, so there is a good chance that the Ten will arrive at a common negotiating position, according to Brussels observers.

Lead Exposure Proposal Poses Many Problems

In early September the Council working group dealing with occupational safety legislation will again take up the lead exposure proposal and seek to clear the way for adoption. Several thousand enterprises employing some 400,000 people would be affected by the measure, which would help protect workers from exposure to lead and its ionizing compounds. The draft is the first specific measure proposed under a broader framework directive adopted by the Council of Ministers last November to protect workers from harmful exposure to chemical, physical, and biological agents. The lead exposure proposal would lay down atmospheric exposure limits and establish maximum permissible levels of lead on the job, and there would be special provisions for pregnant working women. The transport of lead outside the place of work would be restricted to a minimum.

Several serious legal problems must be solved. There is the question of whether mines should be included in the scope of application. The Commission wants them included, but those Member States that have mines operating on their territory already have legislation pertaining to hygienic and safety standards and see no need for Community legislation in this respect. Also in question is whether all women of childbearing age should be excluded from jobs where they come in contact with lead or products with a lead base (for example, in the glass industry).

A major problem is whether the EEC standards should be minimal ones, so that the Member States would retain the power to impose stricter limits. Denmark believes the States should have that power, but most of the other States are against this approach. These States favor uniform mandatory Community standards, but less stringent standards than those proposed by the Commission. To accept Denmark's position would be tantamount to erecting barriers to intra-Community trade, the other States say, because a State that subjects its industry to standards tighter than those applied in all other Member States would cause production costs to rise and thus make its products less competitive.

France: Government Explains Its Price Policy Position

French Economics Minister Jacques Delors, who belongs to the moderate wing of the Socialist Party, apparently has no intention of making major revisions of the price policies established by the previous Barre administration. However, Delors said he reserves the right to step in with administrative decrees - and, if necessary, penal sanctions - should the government encounter unjustified price increases and abusive trade practices. According to the new government's recent price policy declaration, all product prices not arising from competitive influences will be made subject to state controls.

In general terms, the Mitterrand government's price policy is based on four stages of action, according to Delors. Initially, the official Price Commission will seek to intensify price competition and its efficiency. Secondly, the government will invite individual industrial and commercial sectors to conclude so-called price moderation agreements. Businesses that choose not to sign such price protocols would run the risk of being denied state aid, should they ever require or seek such aid. The same risk is faced by businesses that violate price protocols. Finally, should these measures prove insufficient to achieve a general climate of price moderation, then the government would restore obligatory price ceilings and profit margins of the kind that had been suspended under the Barre administration.

To improve the systematic surveillance of price behavior, particularly at retail level, Delors has ordered an increase in staff from 2,200 to 2,350 civil servants in his ministry's general-directorate for competition and economic relations.

In the meantime, the government has reintroduced limited price curbs for some service sectors which allegedly have been guilty of unjustified price increases despite official warnings. Affected by the controls are cafés, lower-class hotels, and camping ground operators. They will be subject to a list of maximum prices established by local departmental authorities. (See also *Doing Business in Europe, Par. 23,005.)*

Return Next Year to Fixed Prices for Books

As of Jan. 1, 1982, fixed prices for books will be reintroduced in France. A new law passed unanimously by both chambers of the French parliament this month thus invalidates the "Monory decree" of the previous administration after less than three years. The chief promoter of the change, Culture Minister Jack Lang, said the new legislation defends "the higher freedom of the mind" over the "anarchist freedom of an uncontrolled market." Since the suspension of fixed book prices in 1979, inflation in this sector amounted to 16.2%, as compared with a general cost-of-living increase of 13.4%.

The publishing industry, the book trade, and authors' representatives have welcomed the return of price uniformity, even though the net prices *(prix net)* will not be absolutely fixed under the new law: rebates or surcharges of 5% will be permissible, but they may not be used in advertisements. The legislation will have a drastic impact on the business of book discounters, notably the nationally known FNAC chain. FNAC, which maintains two giant book centers in Paris and a network of branches around the country, has been offering a 20% discount on virtually all popular books.

Most publishers agree that the abolition of fixed net prices in 1979 has been benefiting the discounters of popular literature almost exclusively, at the expense of experimental and scientific literature. Book trade spokesmen say that the return to the previous system will make pricing easier, aside from curbing the competition of the "cultural supermarkets" in Paris and other major cities. FNAC director André Essel, who protested the new law, maintains that the reintroduction of fixed book prices will do nothing to improve the poor infrastructure of the book trade in France. There are no more than 400 bookdealers who deserve that name, Essel claims, which disadvantages mainly the book buyers in the provinces.

Germany: Industry Balks at Stricter Auto Exhaust Standards

The German government cannot expect support from the country's car makers in its drive for stricter automotive emission standards throughout the Common Market. Government officials and representatives of the auto industry at a recent meeting disagreed on the technical feasibility of a 50% reduction of carbon monoxide and nitrogen oxide exhausts that Bonn wants realized by 1985. Last June the government suggested such a drastic reduction to the Member States, but the reaction has not been very positive; only the EC Commission is backing the plan. Support from the German automobile industry would have given weight to the government's drive. Over the next 12 months, a group of government and auto industry experts will examine whether the goal is technically feasible.

German car makers believe that not just technical reasons would prevent a 50% reduction in noxious automotive exhausts by 1985: the government's demand in 1978 that by 1985 they come up with models that consume at least 15% less fuel has slowed development of "cleaner" engines, the manufacturers claim.

The auto industry is nevertheless continuing to strive for cars that emit fewer noxious gases and are quieter and more economical to drive. In a recent communique, manufacturers pledged jointly to further reduce automotive exhausts in stages, in line with the commitment assumed by all EEC Member States at the February 1980 meeting of the United Nations Economic Commission for Europe (ECE). The EC executive is still drafting amendments to existing EEC legislation that would reflect the commitment *(Common Market Reports, Par. 3371.06)*. The amendments are scheduled to take effect on Oct. 1, 1982.

In addition, German car makers have agreed to produce by 1985 models that will be quieter: 75-80 decibels, depending on the type, are envisaged. The government had suggested such a reduction in yet another memorandum addressed to the EEC institutions in July 1979. Industry executives also have pledged continued efforts to make cars more economical. In 1979 the manufacturers vowed that 1985 models would consume 10-12% less fuel; now a 15% reduction is the industry's goal.

Italy: Energy Program Emphasizes Coal, A-Power

Despite numerous setbacks in this sector by previous administrations, the new Italian government is launching a renewed drive to slow down consumption of costly imported oil by promoting the use of coal and nuclear energy. Industry Minister Giovanni Marcora has submitted to Parliament a revised, somewhat scaled-down energy program projected to cost 84,400 billion lire over a period of ten years. The savings in oil consumption are to be achieved mainly by building nuclear power plants and converting conventional plants to coal.

The proposed program lays special emphasis on the construction by 1990 of four new A-power plants generating a total of 4,000 MW. A decision on the locations of three of these would have to be made in the very near future. The fourth would be the giant 2,000-MW project at Montaldo di Castro, about 50 miles north of Rome. Marcora is also insisting on the completion this year of the Caorso nuclear power plant, near Piacenza, to boost that plant's output to its full capacity of 840 MW.

Of high priority in the program is the conversion of conventional power plants from oil to coal fuel. For this purpose, the plan provides for two new coal unloading terminals, one of them near Trieste and the other somewhere in the south. The conversion would affect 4,790 MW of existing coal-fueled capacities, while additional capacities of 16,000 MW would have to be created to meet the government's target of raising coal consumption from 18 million metric tons annually to 50 million tons in 1990. If these targets are realized, 18% of Italy's electric power supplies in 1990 would be generated from coal.

With the exception of Japan, Italy is the industrialized country most dependent on oil imports, which are estimated to cost 30,500 billion lire in 1981 - far more than the country's predicted trade deficit of 20,000 billion lire-plus. The latest program aims at reducing the share of oil in total fuel consumption from 67.2% today to 51% by 1990. The use of coal in electric power plants is to be boosted from 8.5% to 18.4%. The remainder would be made up by nuclear power (4.3%) and other energy sources.

Britain: Green Paper on Copyright Law Reform

The U.K. government has published a Green Paper on the Law of Copyright and ways in which this legislation may be reformed and modernized. In 1977, the Whitford Committee produced a report on this complex legal topic, at present covered by the Copyright Act 1956, after a four-year investigation. The government is now proposing to implement some of the committee's recommendations, although new legislation appears unlikely within the next two years.

The consultative document recognizes that the enormous technological developments since 1956 have brought on whole new areas of creativity where the owner's interests must be protected, while some of the criminal penalties for infringement of copyright have proven inadequate. Accordingly, it is proposed to substantially increase penalties where there has been piracy of copyright material and to introduce the new criminal offense of possession of an infringing copy (e.g., of a film) in the course of trade. However, in civil proceedings, the document proposes that the courts should no longer be able to award "conversion damages," which amount to the full value of the infringing copies. Instead, the scope for awarding penal damages would be broadened where there has been a flagrant infringement. The current restrictions on the import of books that infringe copyright would be extended to pirated films and records.

There are proposals that computer programs, including material stored in a computer, on magnetic tape, or in microcircuit chips, should be protected in the same way as a literary work. As regards the right to control the actual use of a computer, the owner of the copyright is sufficiently protected if he has control over the initial loading of the program into the computer, and any subsequent control should be exercised through licensing.

Changes in the present law are advocated to remove copyright protection from purely functional spare parts, to bring the U.K. in line with other countries. The Green Paper emphasizes that British manufacturers of spare parts are now at a disadvantage compared with foreign competitors. However, designs that are appealing to the eye and have an aesthetic aspect should continue to be protected.

The document does not favor the imposition of a levy on blank tapes or on recording equipment to compensate owners of copyrights for losses resulting from in-home taping, since the administrative costs involved would leave only a small net amount for distribution to owners, unless the levy were set at an unacceptably high level.

U.K. Economic Outlook 'Remains Difficult,' OECD Says

The OECD, in its latest annual survey, takes a distinctly cautious view of Britain's economic prospects over the next 18 months, saying that the outlook "remains difficult" despite some favorable features, such as the lower inflation rate. This is in marked contrast to the current optimism of the Chancellor of the Exchequer, Sir Geoffrey Howe, but in line with the majority of financial commentators.

The survey says that the moderation shown in recent private-sector pay bargaining is encouraging, "although the level of pay settlements has not yet come down enough to reverse the deterioration in unit labor cost competitiveness." The report stresses that, in the period ahead, real wages will need to fall "if the pressing need for a shift of resources to the corporate sector is to be realized."

Unemployment is likely to continue to rise, although at a slower rate than last year, and could reach 13% by the end of 1982, compared with 11% in mid-1981. Business fixed investment appears likely to fall despite some improvements in corporate profitability, and any further reduction in the inflation rate should be "relatively small" - perhaps to around 8.5% in the second half of next year.

The OECD report emphasizes the need for a sustained improvement in productivity to slow the rate of further business failures. The potential is there, according to the survey, as a result of the relatively high level of investment in plant and machinery, but there must be further reductions in overmanning and restrictive business practices and "acceptance by the social partners of new and internationally competitive methods of work."

Austria: Various Fiscal Changes in Next Year's Budget

Within its budget preparations for the coming year, the Austrian finance ministry has worked up an initial draft calling for "corrections" in income, corporation, turnover, and business taxation as well as changes in the federal fiscal code. One of the most important modifications would aim at the tax treatment of investments, where the ceiling for accelerated write-offs is to be lowered from 50% to 40% of purchase costs (from 25% to 20% for vehicles). For real estate, accelerated write-offs would be discontinued, and the tax-free investment allowance would be reduced from 20% to 15%. Businesses would be partially compensated through improvements in direct investment aids.

It is further proposed to curb abuses often encountered in the operation of limited partnerships *(Doing Business in Europe, Par. 20,704)*: following the German model, the Austrian government wants to restrict the possibilities of taxpayers to reduce taxable income by claiming losses they incur as partners of such ventures. According to the proposal, these losses could be offset only against future partnership gains and not against other taxable gains.

Also as of 1982, the government intends to impose a general obligation on businesses to issue detailed invoices for sales transactions, including down payments on future deliveries and services. The aim here is to curb widespread evasion of value-added tax, but also to make it easier to monitor income, corporate, and business tax obligations. The Finance Ministry is considering starting the invoicing requirement at 1,000 schillings, while trade union representatives are advocating a 300-schilling limit. In the latter case, most business lunches and dinners at restaurants would be affected.

Records and other documentation concerning taxable transactions would have to be kept for seven years by sellers, but not necessarily by purchasers. Violations of these new rules would result in a reversal of the burden of proof, and the fiscal authorities would have the right to base tax assessments on estimates.

Sweden: OECD Urges Shift of Resources

Sweden will be able to maintain a rising standard of living only if it succeeds in shifting employment into highly productive industries and reducing it in subsidized, state-aided sectors. "A shift of resources from the sheltered sector to the competing sector would be necessary" to achieve the main economic policy goal of reducing the current-account deficit, which is forecast to remain at $4.5 billion annually until the end of 1982. The OECD recommends that Sweden implement a series of structural measures, with the aim of improving labor mobility, promoting investments, providing risk capital to industry, encouraging energy savings, and developing alternative energy sources.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: EP Unit to Suggest Changes in Company Law Proposal

The European Parliament's legal affairs committee is going to recommend to the full house several significant changes in the Commission's fifth draft directive on company law coordination. Submitted in 1972, the proposal is designed to coordinate the Member States' company law on the structure of stock corporations; the tasks and powers of management, supervisory boards, and shareholders; the influence that employees exert on the supervisory board; and auditing and approval of annual reports *(Common Market Reports, Par. 1401)*. The proposed structure of corporations and labor representation on supervisory boards are the two major issues that have prevented the European Parliament from giving its opinion on the measure.

Under the Commission proposal, all stock corporations, regardless of their size, would be obliged to set up a supervisory board, in addition to the managing board, after a transitional period. However, during that time (the Commission has suggested five years), a company could choose between the two-board and the one-board system. So far as labor representation is concerned, Member States with legislation granting labor seats on supervisory boards in enterprises with more than 500 employees

This issue is in two parts. This is Part I.

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could choose between two ways of electing the representatives. Under one system, at least two-thirds of the board members would be chosen by employees or their representatives and the others would be appointed by the shareholders. Under the other system, the members of the supervisory board would be chosen by cooption.

The EP legal affairs committee objects to subjecting all stock corporations to the Community coordination drive. It would prefer to exempt from the scope of application all companies with 100 employees or less. The committee also believes that the introduction of the two-board system on an optional basis would be sufficient; this is exactly the opposite of what the Commission proposes. Still, the committee shares the Commission's position that the interests of employees would be served best by having people of their choice making decisions, along with the shareholders' representatives.

The Commission's proposal to provide for employee participation in corporations established in those Member States with a one-board system also found the committee's approval. However, since it considers this kind of participation equivalent to that provided in the measure for the two-board structure, the committee sees no need for a transitional period.

Legal Action on French Farm Aid Issue Imminent

Having examined the issue of farm aids being granted by the French government, the Commission has told France that its aid program,totaling roughly $1 billion for the current year,to maintain farmers' incomes at 1980 levels is incompatible with Treaty Article 92 and the relevant common market organizations and therefore must be abolished (Official Journal No. L 220, Aug. 6, 1981, page 37). In recent months the EC executive merely hinted that it might take the matter before the European Court of Justice, but now the threat of legal action against France has become more imminent. The Commission usually resorts to legal action only after all means of persuasion have failed. In this case, a victory before the EC tribunal could serve as a warning to other Member State governments toying with the idea of helping their farmers in a similar way.

Under the French program, a farmer may receive a maximum of FF 20,000 in aid this year, and the amount is computed as a percentage of his 1980 sales in meat and milk. The Commission, supported by several Member States, has said all along that the subsidies distort competition and ridicule the idea of a common and fair agricultural market. Since the French government was unable to provide any justification for the aid, and the Commission could not find any grounds that would have allowed an exception from Treaty Article 92's ban on illegal state aid, Paris had been under pressure for quite some time to abandon the system and not to wait for a formal decision by the Commission.

Such an exception could have been granted if the aid was intended to encourage economic development of regions with an abnormally low standard of living or serious unemployment or to remedy a serious disturbance in the French economy *(Common Market Reports, Pars. 2921, 2922)*.

In Brief...

The tentative truce reached by the French and Italian governments to stem further violence by French wine growers against imports of low-priced wines from Italy is in jeopardy. Italian customs refused clearance of several French milk trucks heading for the Milan region. This act was seen as retaliation for turning away an Italian truck carrying Sicilian grapes; French customs said the grapes were not ripe. Under the truce the French government agreed to clear through customs some 60,000 hectoliters of Italian wine impounded by the authorities to calm French wine growers who had seized several trucks and a tanker and destroyed the cargo. Italy promised to either hold back shipments of wine or raise prices. The compromise also provides that the Council of Ministers should make a special effort to end this latest "wine war"; one particular goal is the distillation of an additional 9 million hectoliters of wine in France and Italy + + + The European Court of Justice considers the German law prohibiting bakeries from doing any work between 10 p.m. and 4 a.m. compatible with Community law. The Court found that the ban on baking at night is designed to improve working conditions in an economic sector and thus is in line with general aims pursued by the Treaty of Rome. A German bread factory contended that the ban violates the Treaty principle of free movement of goods within the Common Market (judgment of July 14, 1981, Case No. 155/80).

Germany: New Attempt to Slow Rising Health Costs

Legislative plans by the German Labor Ministry to slow rising costs in the health sector have received heavy criticism, particularly from the unions and associations of physicians, dentists, pharmacists, and the drug industry.

Since the health insurance funds are expected to run up an estimated DM 1.7-billion deficit this year and the government does not want to see higher contribution rates, the plan would put an extra burden on the insured. Each patient would have to pay 20% of the cost of drugs and other medical aids, such as a wheelchair, or at least DM 4 for each prescription (now DM 1). Patients having dental work done could no longer count on reimbursement of 70-80% of the bill but only 40%. Treatment at a spa every third year at the government's cost, a widespread and expensive practice, would also be curtailed. Doctors would no longer be free to choose the drugs for their patients but would have to limit their choice to a list of medicines, generally low-priced, that the government would draw up. At present it is merely recommended that doctors prescribe cheaper drugs.

The national employers' association does not think the plan goes far enough, arguing that it tries to treat the symptoms instead of the cause. Employers have an interest in keeping health costs down because they pay half of the contributions *(Doing Business in Europe, Par. 23,454)*. (The employees pay the other half.) The association believes that the insured should bear a much higher percentage of the cost of restoring and maintaining their health.

Critics say the plan is an indirect admission by the government that an earlier attempt to put health insurance funds on a solid financial basis failed. In 1977, the government proposed and Parliament enacted far-reaching legislation deploying several means to slow the rise in costs, including raising the assessment ceiling applied to wages and salaries in computing contributions. Doctors, hospitals, and the self-governing bodies of the health insurance funds were supposed to become more cost-conscious, and there has been some success in this direction. But the measure failed to increase the cost-consciousness of the principal figure of the system, the insured person, and it is the objective of the latest plan to change this.

France: Employers Protest Amnesty Law Provisions

Spokesmen for the French employers' organizations have protested certain provisions of the new amnesty law, which has been enacted in conjunction with the political changeover from the Giscard d'Estaing government to the Mitterrand administration. General amnesties, traditionally granted in France by the newly elected president, usually cover those convicted of minor crimes. This time, however, the law also was extended to disciplinary sanctions by employers against employees - mainly reprimands, demotions, and dismissals - imposed between May 27, 1974, and May 22, 1981. Labor union or personnel representatives dismissed for non-economic reasons between Jan. 1, 1975, and May 22, 1981, may now reclaim their previous positions or similar ones. It is estimated that some 1,000 individuals could be affected.

The employers claim that this amnesty provision could cause grave disturbances within the companies affected. They also charge that the law benefits mainly employees, while offering no amnesty for white-collar offenses.

Applications for reinstatement must be submitted to the ex-employer by Nov. 4, at the latest. The employer then has one month within which to respond to the application, after consultation with the works council. A rejection of an application must be justified in writing, and a duplicate of this letter must be addressed to the labor inspectorate. A rejection may be challenged initially before the labor courts and in the final instance before the court of cassation.

Labor-management relations in France fall under civil law, which normally is not subject to presidential amnesties. (One exception was made by the People's Front government in July 1937, when it rescinded disciplinary actions against workers.) Accordingly, the Conservative opposition in the National Assembly has sharply criticized the amnesty's extension into civil law, calling it unconstitutional. However, it chose not to challenge it in the Constitutional Court, allegedly because it did not want to act as a standard bearer for the employers. Justice Minister Robert Badinter also had argued against the amnesty's extension, but he apparently had to yield to the pressure exerted by the parliamentary majority.

Legal experts, meanwhile, are debating how the new law's provision can be reconciled with existing labor law, which does not allow the arbitrary dismissal of representatives of trade unions or other institutional employee groups. In fact, the legal protection accorded these representatives nearly amounts to a form of immunity. Against this background, any dismissals of such representatives in the past were the result of painstaking legal proceedings. To rehabilitate these individuals would effectively annul the proceedings, the employers say, and lead to complicated legal situations.

Wealth Tax to Be Imposed at a Rate of 0.5-1%

The wealth tax, which is to be introduced as part of the French government's budget for 1982, reportedly would be levied at a rate ranging from 0.5% to 1% on assets of FF 3 million and more. Budget Minister Laurent Fabius estimates that 1-2% of all taxpayers would be affected by the measure. Exemptions from the tax would be held to a minimum, according to Fabius. The government does not intend, he says, to emulate the example of the previous administration whose capital gains tax permitted various avoidance schemes. The budget minister describes the introduction of a wealth tax as an "act of social justice" in the Mitterrand government's quest for greater tax equity. (As previously reported, Paris introduced in June a special one-time levy of 25% on all taxpayers who contributed more than FF 80,000 in taxes last year.) Depending on the percentage rate, the new tax would bring in an additional FF 5-10 billion in revenues, which is 1.5% of total government revenues, at most.

Britain: 'Protection of Hearing at Work'

In a consultative document, "Protection of Hearing at Work," the U.K. Health & Safety Commission has put forward various proposals and a draft code of practice to reduce the exposure of employees to excessive noise likely to result in permanent injury to their hearing. Current legislation which specifies maximum permissible noise levels applies only in a limited number of instances, such as the woodworking industry and offshore oil and gas exploitation. Other industrial sectors are covered by a voluntary code of practice set up by the Dept. of Employment as well as the provisions of the Health and Safety at Work Act.

It is estimated that at present some 600,000 workers in U.K. manufacturing industries are exposed to noise levels above 90 decibels, and a much greater number to levels in excess of 80 decibels. Research has shown that 11% of those subjected to 90 decibels suffer a loss of hearing of 50 decibels by the time they retire and, in the majority of cases, require hearing aids. A reduction in noise levels at the workplace even to 80 decibels would prevent the need for such aids.

Faced with "strongly held and differing views" on how best to improve the situation, the commission has looked for a solution "in which priority in the use of resources will bring the greatest benefit." Its proposals would impose a general duty on employers to lower the levels of potentially harmful noise as far as possible and ensure that no employee is exposed to an average noise level of more than 90 decibels over an eight-hour workday. If this is impracticable, then employees should be given protective devices.

If its proposals are adopted, the commission foresees a general reduction in deafness, fewer claims for disability benefits and damages, improved productivity and product quality, and a lower rate of absenteeism. Moreover, it notes that the European Commission is preparing a directive on the same subject, which the government would have to implement in due course.

The proposals have received a distinctly cool reception from the white-collar union, the Association of Scientific, Technical and Managerial Staff, which said that the envisaged noise level ceiling of 90 decibels would still leave one million employees at risk. It said the compulsory use of ear muffs would be strongly opposed. It would have been better if the commission had recommended progressive reductions over several years until a "truly safe level" is reached.

Belgium: Job Creation Program to Fight Unemployment

The Belgian government has augmented its most recent budgetary savings measures with a job creation program, which is aimed particularly at unemployed youths and individuals who have been without jobs for a long time. Of 400,000 unemployed persons in Belgium (about 9.6% of the working population), nearly one-third are below the age of 25, and 15% are women.

The proposed measures are to take effect next month. They provide bonus payments to employers who agree to prolong training periods and higher bonus payments to those who hire individuals who have suffered long-time unemployment. Special tax incentives are offered to companies establishing branches or plants in areas with high unemployment. The existing system of bonus payments for new hirings will be retained, though in a more selective form: companies with more than 500 employees will no longer be covered. The "special job schemes," which so far have concentrated mostly on short-term, unproductive employment, in the future are to include jobs for up to five years. Private-sector employment deemed "in the collective interest" is promoted with degressive state subsidies over a period of five years.

Questions still remain on the financing of the program. The government maintains that one unemployed person costs about BF 500,000 a year. Savings realized in the area of unemployment benefits would be used to finance the bonuses and subsidies. In addition, a "crisis levy" is being considered, but details have not been revealed.

Netherlands: New Bid to Form Center-Left Coalition

Three months after the May 26 parliamentary elections, Holland is still without a new coalition government. After Aug. 24, the negotiations among the parties continued without acting Prime Minister Andries van Agt, who on that day resigned as the Christian Democrats' floor leader. Van Agt said he had decided to quit that function, which he had assumed after the elections, in reaction to disputes within the party over the makeup of a future coalition. The acting premier apparently had found no majority support for his rejection of a coalition pact with the Social Democrats and the liberal-leftist Democrats '66. A few days earlier, Van Agt had been able to keep the party from voting for approval of such a pact only by threatening his resignation as acting prime minister.

In the wake of the latest developments, Queen Beatrix was expected once again to ask the Christian Democrat Appeal (CDA), the largest Dutch party, to try forming a coalition. With 48 seats for the CDA, 44 for the Social Democrats, and 17 for the Democrats '66, a coalition of these three parties would be the strongest alliance in the 150-seat lower house.

EURO COMPANY SCENE

The United States' Guardian Industries plans to buy a majority interest in Spain's leading flat glass manufacturer, Vidrieras de Llodio (Villosa). Reports from Madrid said the price would be about $40 million for 62% of the Villosa capital and for 77% of Villosa's marketing company, Central Vidrica. The acquisition will be accompanied by an additional investment of 6 billion pesetas for a new flat glass production plant.

Press reports said that Enpetrol, Spain's state-controlled energy group, will sell to the United States' Dow Chemical, a petrochemical plant at Tarragona. The price of the transaction was not revealed, but the reports mentioned estimates of $180 million. The plant has an annual capacity of 375,000 tons and produces ethylene. Dow already maintains a plastics production plant at Tarragona.

Germany's Seyfert Wellpappe has acquired 81.7% of the share capital of Weyerhauser Europe SA, Paris, subsidiary of Weyerhauser Co. of Tacoma, Wash. The French company operates three paper and board production plants and reported a turnover of FF 285 million for the last business year.

"Fundamental differences" in the British and U.S. tax systems reportedly have caused Britain's Sedgwick Group and Alexander & Alexander of the U.S. to call off merger talks, which were first revealed last December. The two firms rank among the world's largest insurance brokers. It was confirmed that it was the U.S. authorities' position on the tax treatment of dividends which led to the decision not to go ahead with the merger.

Price Waterhouse receivers and managers called in by Barclays Bank, the main creditor, have ordered the dismissal of about half of the 1,250 employees of Ronson Products Ltd., the insolvent U.K. subsidiary of the United States' Ronson Corp. At last report, the British company was still maintaining reduced production in two plants, while two other plants have been shut down. Ronson U.K. last year reported losses of about £4 million. One problem apparently has been the reduced demand for Ronson lighters as a result of the inroads made by disposable lighters. The receivers reportedly are trying to find a purchaser for Ronson while the company is still operating.

The leading Canadian producer of digital data communications equipment for the computer industry, Gandalf Data Communications, plans to build a £1-million plant at Warrington, in northwest England, which is expected to be completed next February.

Continental Reinsurance Corp., New York, will acquire 97% of the shares of Germany's Magdeburger Rückversicherungs-AG, Hannover, from the latter's parent group, Magdeburger Feuerversicherungs-AG, which is owned by Switzerland's Schweizer Rück Holding. The reinsurance company that is being taken over ranks 15th in Germany, with a gross premium income of DM 170 million a year.

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EUROMARKET NEWS

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Community: EC Court Makes Change in 'Butter Boat' Judgment

The European Court of Justice has made a change in its July 7 judgment on "butter boat" cruises and in doing so has reduced the decision's implications (Case No. 158/80). Upon the Commission's request, the Court amended a sentence in the opinion that could have been construed as a justification for any Member State wanting to impose duty on goods purchased by travelers in duty-free shops in the Community and brought to that State.

In addition to expanding the concept of legal protection for individuals and businesses against Community regulations and directives, the EC tribunal's July 7 judgment dwelled heavily on the interpretation of Council Directive No. 69/169. That measure provides for exemption from value-added tax and/or excise duty on certain quantities of goods bought by travelers in third countries and brought into the Community. The Court said an exemption must be granted regardless of the conditions under which the goods are acquired. As for travel within the Community, the Court emphasized that the traveler must be able to prove that the goods were acquired under the general conditions covering

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taxation. The opinion went on to say that if the traveler is unable to provide this proof, he qualifies only for the less favorable exemption applicable to goods acquired in travel between third countries and the EEC; this sentence was amended.

It was the first time that the Court of Justice made such a major substantive change, permissible under Article 40 of the Protocol, although there have been instances in the past in which the Court, either on its own or upon the request of a party directly involved, corrected mistakes and errors in calculation; this is permissible under Article 66 of the Rules of Procedure *(Common Market Reports, Pars. 4731, 4816)*.

Meanwhile, the Commission continues to evaluate the July 7 judgment for possible implications for duty-free shops in air- and seaports. Commission attorneys have said all along that the existence of duty-free shops, established long before the EEC's creation, can hardly be reconciled with the customs union established by the Treaty of Rome *(Common Market Reports, Pars. 201, 202)*. The Commission has not yet moved against duty-free shops, mainly for political reasons. Several Member State governments, especially Ireland and the Netherlands, have maintained that such a move would be unpopular, and the jobs lost by closing the shops would far overshadow any additional revenue. It seems unlikely, therefore, that the Commission would take the initiative, observers say, but the German government reportedly plans legislation that would ban duty-free sales to travelers within the EEC. A tourist who buys cigarettes or liquor in a duty-free shop in another Member State and imports them to West Germany would have to pay duty. Bonn is counting on the other States to act likewise.

Shortcomings of Wine Market Organization

When French winegrowers in southern France recently took the issue of cheap Italian wine imports to the streets by draining Italian wine trucks of their cargo, they once again pinpointed an old problem that the Community institutions so far have failed to solve: the imbalance between production and consumption of wine. Violence stemming from cheap wine imports recurs almost annually because neither the pre-1979 Community rules nor the 1979 Council regulation consolidating and adapting the earlier rules establishing a common wine market organization have coped effectively with what is actually a natural phenomenon.

If climatic conditions are ideal during pollination and the growing season, there will be a bumper crop. If there is plenty of sunshine during the ripening process, the crop will have quality. Quality wine always sells well; it is low-quality wines that have been at the root of the problem. There was a bumper crop in 1980, especially in Italy, though more quantity than quality, and French importers have been taking advantage of the low-priced offers to import wines in large quantities and blend them with better quality wines. All of this has angered French winegrowers.

Legislation aimed at limiting production of table wines and encouraging higher quality by restricting planting to areas more suitable for quality wines has not appreciably narrowed the gap between production and consumption because even reduced acreage cannot prevent record harvests. Moreover, in contrast to all other EEC agricultural organizations, the common wine market does not provide for intervention buying to remove large quantities from the market and thus keep prices up. Distillation of wine into alcohol has helped far more, and so have aids to winegrowers for storing wine over specific periods. Commission experts believe that the massive allocation of funds for the distillation of wine is the only way to solve the problem of surplus wine. However, once Spain and Portugal join the EEC, the problem is expected to worsen. Observers note that then a bumper crop's greater volume of wine would result in higher distillation costs, and asking for additional funds for this purpose might seem to be importune at a time when the Member States are trying to cut costs.

The Commission shares the Italian government's view that French customs' seizure and impounding of wine trucks violates the Treaty principle of free movement of goods. The French government's argument that some action had to be taken to prevent disturbance on its domestic wine market found no support. French customs may refuse clearance, the Commission says, when the import papers are incomplete. The 1970 regulation contained a safeguard clause, which was invalidated by the Court of Justice *(Common Market Reports, Pars. 525.80, 8485)*; the 1979 regulation no longer has such a clause.

In Brief...

Unemployment in the Common Market almost reached the 9-million mark in July. According to the Community's Statistical Office, an additional 400,000 people lost their jobs in July, bringing the total number to 8,923,000 unemployed, 2.2 million more than in July 1980 + + + The German Supreme Tax Court has turned down a taxpayer's claim on his 1979 turnover tax return for a value-added tax exemption reflecting his intermediary services in credit dealings. The taxpayer based his claim on Article 13 of the Sixth Council VAT Directive; the measure required compliance by Jan. 1, 1979, but Germany fell one year behind, so the VAT exemption for intermediaries' services in credit dealings applied starting in 1980 in Germany *(Common Market Reports, Par. 3165N; Doing Business in Europe, Par. 23,373)*. The tax court ruled that Council directives do not produce direct effects in national law, not even if a Member State failed to meet the deadline for compliance (judgment of July 16, 1981, Case No. VB 51/80) + + + Greenlanders will go to the polls next February to decide whether their island should stay in the EC. In 1972, when Greenland was part of Denmark, the islanders rejected the then proposed accession of Denmark to the three Communities by a 70% margin, while Danish voters on the Continent were overwhelmingly in favor. In 1979, Greenland was granted partial autonomy and thus also the right to let its 50,000 inhabitants decide by plebiscite whether they want to stay in. The Danish government has told the Greenlanders that in the event of rejection, it cannot guarantee in the future the volume of aid the island has received from the Community since 1973 (a total of $55 million).

France: Net Worth Tax Plan Shakes Business Confidence

With its plan calling for a net worth tax for the rich, the French government lost some of its credibility even before its campaign to gain back the confidence of the business community really got off the ground, according to observers. The nationalization program alone was enough to demoralize entrepreneurs, even though the extent is still not clear because of disagreement between the Socialists and the Communists, and even among the Socialist members of the cabinet. Several Socialists, led by Science Minister Chevenement, see the nationalization of industry as a vehicle to change society. The moderates, especially Finance Minister Jacques Delors, want to go easy to avoid a further deterioration of the French economy.

Business confidence has been ebbing since the Socialists' victory in the national elections last May. President François Mitterrand, who continues to enjoy high popularity, has launched a campaign aimed at more than just obtaining understanding among business leaders for the new administration's program to nationalize major enterprises and reflate the economy through deficit spending. The plan has not had a very positive echo, according to Mitterrand's critics. Business executives remain opposed to the idea of nationalization even if the government is inclined to leave management of nationalized companies enough freedom to run the business on sound economic principles. There is also a great deal of skepticism in the business community that the reflation program will work. Conservative sources suggest that if the experience gained in other countries run by Socialists is any indication, the tax and administrative burden on French enterprises is going to choke business initiative.

A First in Piercing the Corporate Veil

The French government has set a precedent that means a departure from the Continental law principle that only company assets are subject to bankruptcy proceedings and that assets of other, associated businesses are not affected, nor is the private property of the business owner(s). Finance Minister Jacques Delors obtained a court order sequestering the entire Agache-Willot holding, an industrial group controlling over 100 companies manufacturing a wide range of products, but with emphasis on textilemaking. Providing 33,000 jobs and with annual sales of FF 4.4 billion, the holding is owned by the four Willot brothers. In 1978, the holding acquired the Boussac group, another major textile manufacturer, and saved it from bankruptcy. Two days after François Mitterrand assumed the presidency, the Willot brothers filed bankruptcy with the commercial court at Lille on behalf of the Boussac group.

There were rumors in business circles for quite some time that in acquiring the heavily indebted Boussac group (FF 700 million in the red), the Willot brothers exceeded their financial strength. Several economists predicted the collapse as early as last March, although there were even earlier signs that the Willot brothers had taken on too much. The former French government helped last year by granting an extension for the payment of some FF 45 million in taxes due, and the government-owned banks agreed to a repayment schedule for the loans that was more favorable than that the contracts had provided. Reportedly the Willot brothers were hoping that the reelection of Valêry Giscard d'Estaing would mean further help.

For the new Socialist-Communist coalition, the filing of bankruptcy by Boussac-Saint Frêres (BSF) meant the first challenge for its program to fight unemployment and was all the more reason for the administration to set a deterring example for French business managers. In addition to sequestering the Agache-Willot holding, the government made the extension of a FF 100-million credit to pay the salaries of some 8,000 BSF employees dependent on the Willot brothers putting up their private assets (estimated at FF 3 billion) as collateral. Should the authorities be able to prove that the Willot brothers engaged in unlawful financial dealings to the detriment of BSF, they would have to pay the deficit out of their private assets.

Germany: Cartel Office Closes Metro-Kaufhof Case

The German Federal Cartel Office has stopped its merger control investigation surrounding the acquisition of 24% of Kaufhof Corp.'s stock by the Metro company. Kaufhof is Germany's No. 2 retailing group, and Metro is a large Swiss-German cash-and-carry enterprise. The decision to abandon the investigation came as a surprise because only a few weeks before, Cartel Office President Wolfgang Kartte announced that he was not deterred by the setback his office suffered in an appellate court and that he would take the case to the Supreme Court.

The investigation was launched because the Cartel Office suspected that the Union Bank of Switzerland, Metro's house bank, had acquired another 24% of Kaufhof stock, plus an option for an additional 2.3%, only to escape merger controls and that

Metro, through a contract, had in fact obtained a controlling interest in Kaufhof. Proof of such a contract would have entitled the Office to roll back the merger on grounds that Metro had acquired a market-dominating position *(Doing Business in Europe, Par. 23,510C).*

For months the Cartel Office tried to obtain evidence to confirm its suspicion. Metro's German head office was raided, and Kaufhof executives were questioned. The Berlin Appellate Court ruled last February that the Office had grounds to suspect a secret agreement between Metro and its house bank granting Metro effective control over Kaufhof, but in June the same court invalidated the Cartel Office's order demanding full disclosure of the relationship between both. The Office failed to present evidence proving that the merger was effected via unlawful means.

Environmental Agency Wants to Fire Unreliable Manager

For the first time since enactment of the 1974 Air Pollution Control and Noise Abatement Act, German authorities have issued an order to remove a business executive from his job because of his poor record in complying with environmental law. However, the manager has lodged an administrative protest and may remain on the job; he still may go to court to fight the order. Invoking Section 20(3) of the 1974 law, the state government of North Rhein-Westphalia told the executive (and a major shareholder) of a foundry near Düsseldorf that he lacked the reliability that the law assumes a person must have to run a business with a high pollution potential. This lack of reliability was demonstrated, according to the order, by the fact that since 1978 the company failed to comply with nine court orders confirming the state environmental agency's demands for lowering emissions, did not pay 13 fines imposed for failure to abide by administrative and court orders, and ignored 30 complaints from the local business supervisory office *(Doing Business in Europe, Par. 23,544A).*

State officials emphasized that they had shown great patience with the foundry. A shutdown of the enterprise could have been justified under Section 20(1) of the law, which allows this drastic step when the operator of a plant fails to comply with administrative orders. But for the sake of preserving about 400 jobs, the government chose to remove the technical manager. According to the law, the executive may be removed if he lacks reliability in complying with environmental rules and if his removal is in the public interest.

In the meantime the foundry has ordered pollution-reducing equipment worth DM 1.5 million that the authorities had been demanding all along. However, delivery will not be made until next January. It remains to be seen whether the administrative court under these circumstances would grant a stay in the enforcement of the order, should the manager decide to take his case to the courts.

Italy: Attempt to Lower Inflation Through Persuasion

The Italian government hopes to bring down inflation (now hovering around 20%) over the next three years by three or four percentage points, not with mandatory price controls but rather through publicity and persuasion. Government officials and representatives of the national trade organizations are still hammering out the details for reporting and publishing prices and markups of a broad range of items, including staple foods. Prices and markups would be published on the local and national level, depending on the type of product. Thus the local consumer would get first-hand information about what and where to buy to get the best value for money. If a retail business or a restaurant charges prices exceeding the usual markup, the authorities and the retail organization would try to persuade the owner or manager to lower the prices.

A return to mandatory price controls on a large scale has been ruled out because the government's 1973 control program was a complete failure. Price controls do exist, however, for a number of products, such as bread and milk, drugs, fuels, fertilizers, and newspapers, and the government intends to keep them. A price increase for these products is granted only after a thorough study of proof submitted by industry or trade that production costs have gone up. Sometimes it takes up to four months before the authorities accede to the request and allow the price to be increased.

Britain: New Record in Unemployment

Unemployment in the U.K. reached a new record high in August, bringing the total number of people out of work to 2.94 million, or 10.7% of total employment. According to the Labor Ministry's latest report, unemployment differs substantially in the various regions; Northern Ireland leads with 17%. Should the trend continue, and there are no signs it is slowing, unemployment could pass the 3-million mark this year. Last spring Prime Minister Margaret Thatcher publicly contradicted Labor Secretary James Prior after he had predicted such a development.

The 3-million mark would be a politically sensitive number with many implications for the country and the government, according to observers, and additional funds to pay more unemployment benefits would be not the least of them. The steady rise in joblessness upset the government's financial planning last year, and it is likely to happen again, critics predict. According to press reports, the Treasury is already reckoning with a much higher budget deficit for 1981 than originally calculated. Some observers predict an additional £5 billion deficit unless the government decides on further spending cuts in the coming months.

Ireland: Development Authority With Impressive Record

Ireland's Industrial Development Authority (IDA) helped create 12,200 new jobs in 1980, only 1,400 short of the 13,600 target set for the year. In its 1980 report, the government-financed agency in charge of industrial development is optimistic about attaining its goal set in 1977 to create a total of 68,000 jobs by the end of 1982. To reach that goal would mean 24,000 new jobs would have to be filled in 1981-82. Economists believe that the IDA might be successful in attaining its goal in spite of a generally deteriorating economic environment marked by two-digit inflation, a mounting budget deficit, and a continuously worsening balance of payments. Putting the IDA's success figures into a broader context, the economists are also considering the toll that the recession and rationalization in industry has taken on employment. Some 27,200 jobs were lost in 1980, 9,180 more than the IDA helped create in that year. In 1978 and 1979 the balance was still positive because the IDA could compensate for the losses by creating new jobs for 6,730 and 9,850 people, respectively.

Last year the IDA approved 1,850 industrial projects involving fixed-asset investments of £580 million. Construction of roughly 1,200 projects is still under way so that the ultimate impact on employment is yet to come.

Ireland has the highest birth rate in Europe and thus is almost forced to make a fast transition from an agricultural to an industrial country. Since 1970 the development authority has been concentrating on erecting complete factories and selling or leasing them to investors. Joining the Common Market has proven beneficial; it made the country even more attractive because it meant duty-free access of Irish products to that market. In addition to a low corporate tax rate of 10% (which the EC Commission considers too low) and generous depreciation rules (100% of the cost during the first year in an ideal situation), the completed factory program, generous grants, and financial assistance offer strong incentives to foreign and domestic investors. British corporations traditionally have been in the lead for years, followed closely by U.S. companies; German investors rank third *(Doing Business in Europe, Pars. 25,137, 25,401)*.