Common Market Reports

EUROMARKET NEWS

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Community: Paris Impatient Over EEC Approach to Japan

The Council of Ministers has expressed disappointment over the slow progress in the trade talks with Japan. At their Oct. 25-26 meeting, the EEC's foreign and economics ministers decided not to apply additional pressure on Japan at this point in order to avoid a further deterioration of the negotiation climate prior to the GATT conference starting on Nov. 24 in Geneva. Commission Vice-President Wilhelm Haferkamp convinced the majority of the Council that, before taking action, it would be better to wait for the outcome of the current bilateral phase of the negotiations under GATT Article 23.

The French government is getting impatient with the Community's cautious approach in seeking to make Japan ease up on imports of products from the Common Market by cutting tariffs and removing administrative obstacles. France's foreign trade minister, Michel Jobert, said that the GATT proceedings are taking too long, and he demanded Community measures against the import of Japanese cars, metalworking machines, TV sets and tubes, hi-

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fi equipment, and video recorders. Jobert provoked a lively discussion with his statement that free international trade should take a back seat when it comes to protecting national interests. He said, "It is childish to believe that economic growth would be achieved through trade."

In the meantime, the French government has introduced further steps to discourage imports. In addition to demanding from importers that the documents accompanying goods submitted for clearance be translated into French, Paris has devised a method of shielding France's fledgling video recorder industry against Japanese imports. All Japanese video recorders must be cleared through the customs office at Poitiers, a town in western France about 100 miles away from any major port. Previously, customs offices at any port could clear the merchandise.

The Japanese are expected to bring up the French government's latest move at the upcoming GATT ministerial review meeting. Also, the European Commission will investigate whether France should be brought before the Court of Justice under Treaty Article 169.

Completion of Fisheries Policy Depends on Denmark

Denmark has been holding the key to completion of a common fisheries policy since earlier this year, when the U.K. and France agreed on French access to British coastal waters. Since then, the Commission and the Council of Ministers have been trying to break the deadlock over Danish demands for larger quotas and increased access to British fishing grounds. At the Council's Oct. 25-26 meeting in Luxembourg, the Commission submitted yet another set of compromise proposals that would entitle Denmark to larger catch quotas for four of the EEC's seven most valuable species and allow Danish trawlers to fish closer to Britain's Shetland and Orkney islands. These proposals were accepted by nine Member States, and Denmark was given a ten-day period "to take it or leave it."

Many Brussels observers still do not believe that this approach will be the Council's last word. They point out that Denmark has been in a difficult position all along, and not just in fisheries matters. No other Member State faces such a strong anti-Community feeling at home - a feeling just as strong as when Denmark joined the Communities. Every Danish government must respect the decision of the Folketing's special committee on Community affairs, and the recently established administration must do so particularly because of its minority status and its close commitments to the country's fishing industry. A majority of the 17-member committee representing all political parties is enough to block government proposals or decisions on Community matters. The existence of this committee, the only one of its kind, has often prompted the Council to show patience with Denmark.

Greek Accession to Judgments Convention Signed

On Oct. 25, representatives of the ten Member State governments signed the convention on Greece's accession to the 1968 Convention on jurisdiction and enforcement of civil and commercial judgments and the 1971 Protocol on the Court of Justice's interpretation of the convention. A major purpose of the 1968 convention is to cut red tape in recognizing and enforcing civil and commercial judgments. The convention contains rules indicating where one party may sue another party in another Member State. Both the convention and the protocol have become increasingly important for businesses as national courts have handed down hundreds of decisions based on the convention, and the Court of Justice has settled fundamental questions of interpretation in a series of judgments *(Common Market Reports, Pars. 6001, 6003).*

Germany: More Taxes, Social Cutbacks in 1983 Draft Budget

The new German government has submitted to Parliament a DM 253.8-billion 1983 draft budget as well as several bills providing for further cutbacks in social security expenditures. These cutbacks, amounting to DM 5.6 billion, would be achieved by reducing children's allowances and grants to students, allowing only minor pay raises for civil servants, postponing pension increases for around 10 million recipients for six months, and compelling retired persons to make a contribution to the health insurance funds that pay their medical bills.

Among the bills sent to Parliament is a proposal to increase the VAT rate from 13% to 14% as of July 1, 1983. Single taxpayers earning more than DM 55,000 annually (married taxpayers, DM 110,000) would be subject to a 5% repayable levy imposed on their income tax due in 1983 and 1984 (the levy would be paid back without interest in 1987-89). Social security (old-age pension) contributions would go up from 18% to 18.5% as of Sept. 1, 1983, rather than on Jan. 1, 1984, as provided in legislation already enacted. This increase would produce an estimated DM 850 million in additional revenue for the old-age pension funds, whose reserves have plummeted in recent years. Unemployment insurance contributions would rise by 0.6% to 4.6% as of Jan. 1, 1983, instead of the 0.5% increase proposed by the previous government. The estimated DM 650 million in additional revenue from this source would go to the government's Labor Office to help reduce the high deficit resulting from unemployment benefit payouts *(Doing Business in Europe, Pars. 23,453, 23,456).*

The legislation accompanying the draft budget contains several elements designed to help revive the economy and cut unemployment. Businesses, especially smaller ones, would be entitled to some business tax relief in that only 60% of long-term debts would be included in the tax base for the 1983 tax year and 50% for 1984 *(Doing Business in Europe, Par. 23,385)*. Individual and corporate taxpayers would be allowed to set aside a nontaxable reserve of 30% of the cost of buying a bankrupt or almost bankrupt business. However, this reserve would be permissible only when the acquired business's annual sales are below DM 200,000. After five years, the reserve would have to be restored to income over a five-year period. In order to stimulate construction activity, individuals buying a home for private use could, over a period of three years, deduct mortgage interest payments of up to DM 10,000 annually from their taxable income.

Netherlands: Early Test for New Government Expected

Following the appointment of Christian Democratic (CDA) leader Ruud Lubbers as *formateur* and his designation as the next prime minister, a new center-right government was, as expected, formed in Holland at the end of the first week of November. The government coalition will control 81 of the 150 seats in Parliament and consist of eight Christian Democratic cabinet ministers and six ministers representing the right-liberal VVD.

The new cabinet, succeeding the caretaker administration of Andries Van Agt, also of the CDA, can expect to be faced immediately with severe problems on labor issues and conflicts with the unions. The civil servants' federation and the public-sector trade unions have joined in the organization of indefinite strikes this month, following intermittent stoppages in October. The workers are protesting government spending cuts, which they fear will lead to the loss of 80,000 jobs. Utility supplies and port operations are expected to be affected by the walkouts.

The new government was agreed upon after a week of difficult negotiations during which an economic program worked out by Lubbers with Ed Nijpels, leader of the Liberals, was subjected to the objections of the two parties' parliamentary factions. The principal area of contention was the proportion of purchasing power cuts to be distributed among different income groups. While the Christian Democrats wanted to freeze inflation adjustments of income tax levels at the same time as public-sector wages, the Liberals thought that this would have penalized the higher paid. In the end, the two parties agreed to limit adjustments of 1983 tax tables in such a way as to account for 80% of 1982 inflation. As a result, low wage earners would suffer a purchasing power reduction of 3.5-4%, while the loss for earners of medium incomes would be 4.5%. Those in the top income brackets would hardly be affected by the changes.

The remainder of the government program was accepted by both parties without any problems. Public spending is to be cut by 13 billion guilders next year, leading to a total of 34 billion guilders in expenditure reductions by 1986.

Britain: Accountants' Body Seeks 'Charter' Name

The U.K.'s Institute of Cost and Management Accountants plans to change its name to Institute of Chartered Management Accountants. Already accepted by the organization's governing body, the change now requires the consent of two-thirds of the 21,000 ICMA members before final approval can be given by the Privy Council. Thereafter, Institute members could describe themselves as chartered management accountants.

The ICMA, along with two other accounting bodies, had, in fact, received a royal charter in 1975. However, it had agreed at the time not to include the word "chartered" in its title because the chartered accountants in England and Wales and those in Scotland and Ireland had wanted to retain the exclusive right to its use. Since then, the ICMA's membership has grown by roughly 50%, and the organization has been working closely with the other accounting institutes through the Consultative Committee on Accountancy Bodies. "We feel we have proved conclusively," said ICMA president Derrick Willingham, "that we ought to be able to reflect our charter in our name."

There is not likely to be any opposition from the Institute of Chartered Accountants in England and Wales, whose chairman, Eddie Ray, said his principal concern was that there should be "no confusion between their kind of management accountants and members of our Institute." He would be more worried, Ray said, if the Association of Certified Accountants followed a similar path, since a title such as "chartered certified accountant" might be "too close for comfort."

More Details on U.K. Government's Job-Sharing Plan

Employment Secretary Norman Tebbit has provided further details of the British government's job-sharing proposal, for which parliamentary approval is now pending. The arrangement would affect jobs shared after Jan. 2, 1983, and up to March 30, 1984, and would make a £750 grant available to participating employers. The sum would be paid in four stages, with an initial £300 payment due when formalities are completed and the remainder at intervals of three, six, and 12 months.

The proposal lays down a minimum workweek of 15 hours for each part-time job, which previously must have been full-time and not have qualified for a government subsidy. These part-time appointments would have to be filled by either unemployed individuals or those facing a layoff. Any position could be shared once it has been held by a full-time employee for at least three months. In addition, the employer would have to guarantee that the particular job would remain split for at least 12 months and be filled only by those eligible. The total number of hours worked each week by the two job sharers should correspond roughly to that of the full-time position.

Tebbit has assured employers that employees who participate in the arrangement could be dismissed after one year, and companies would not be subject to a possible court action for unfair dismissal. He said that employers who have already experimented with job-sharing favored the flexibility it provided, while some employees near retirement age liked working part-time. Tebbit said the plan would not only provide "many thousands of people" with the kind of job that suits them but also create new opportunities for the unemployed.

The government expects that an extra 50,000 people will find work through the plan. Labor union leaders do not agree; they regard it as a means for employers to recruit cheap labor.

Ireland: Five-Year Economic Plan Sets Pay Limits

Irish Prime Minister Charles Haughey has announced a five-year plan designed to ease the country's severe economic problems and, at the same time, make industry more competitive. Drastic cutbacks in public expenditure are proposed, and spending programs are to be curtailed or cancelled. In 1983, capital spending would be reduced by 3%, before being allowed to rise slightly the following year. The overall aim is to eradicate the government's budget deficit by 1986 and to ensure that public-sector borrowing for capital expenditure will amount to no more than 5% of GNP by 1987.

Although it is anticipated that some 4,000 public-sector jobs will be lost and that unemployment will rise to around 200,000 by 1985, the plan emphasizes increased employment opportunities by encouraging new investment. The government would provide selective grants to companies that are ready to step up investments and create new jobs, although such grants would be specifically geared to the achievement of targets. Another key aim is to maintain the external value of the Irish pound and restore the international cost competitiveness of Irish industry.

Public-sector pay rises, which amounted to 35% in 1980 and 24% last year, would be limited to annual increases of 5% until 1986, and there would be reductions in health services and the real-term value of social welfare benefits. Observers believe that these proposals will be unacceptable to the independent left-wing deputies in Parliament on whom Haughey's minority government depends for support, and the possibility of early elections is not ruled out. In a recent opinion poll, 67% of those questioned were dissatisfied with the government's performance, and 52% wanted a change. Haughey himself trailed Garret FitzGerald, the opposition leader, by 20% in terms of personal popularity.

The European Commission's annual economic report just published expects unemployment in Ireland to rise to more than 14% in 1983 and inflation to decline to about 13%.

Belgium: Standard VAT Rate Goes Up Next Month

Under the authority of its economic emergency powers, the Belgian government has announced an increase in the standard rate of value-added tax from 17% to 19% as of Dec. 1. Exempted from the increase will be construction work, hotel rates, heating fuel, electric power, gas, and footwear. For electrical household appliances, cable television, watches, and leather goods other than shoes, the rate will rise from 17% to 25%, which is also the existing rate for automobiles. A 6% rate continues to apply to essential consumer items and services. (See also *Doing Business in Europe, Par. 21,384.*)

With the forthcoming changes, Belgium will have five different VAT rates (including the special 33% rate for luxury automobiles), although the European Commission has been encouraging the EC Member States to reduce the number of rates. Finance Minister Willy De Clerq gave as justification for the upcoming increases the need to raise an additional BF 15 billion annually in order to reduce the budget deficit. Earlier, the Martens administration had modified the 1982 income tax schedules to benefit families with children; the additional costs of this measure are to be borne partly by single persons and married couples without children.

Belgian Government Asks for Voluntary Pay Limits

The Belgian coalition government of Christian Democrats and Liberals has proposed reinstating pay indexation (which has been virtually suspended since the beginning of the year) in mid-1983, though in a more moderate form. The plan is to remove certain products from the price "basket" on which the cost of living is officially based. Also, inflation adjustments would be effected only every four months rather than monthly.

The government views the proposed return to modified indexation as a concession to the labor unions. In return, the unions are urged to accept a new incomes policy whereby nominal wage increases next year would be held at 7.2%, at most. In real terms, this would keep increases to about 3% below the inflation rate, now close to 10%. Both the Christian and the Social Democratic labor federations were quick to turn down this proposal and are demanding full inflation compensation. The Martens administration expects the talks with the unions over this issue to fail and may consider asking Parliament for an extension of the special economic powers, which will otherwise expire on Dec. 31.

Spain: Overwhelming Election Win for Socialists

Felipe Gonzâlez's Socialist Workers' Party (PSOE) emerged as the triumphant winner in the Spanish general elections on Oct. 29, taking 201 seats in the 350-seat Parliament, for an absolute majority. Banned under the Franco regime for 40 years, the Socialists had campaigned on a political platform of moderation. Following his party's landslide victory, the 40-year-old Gonzâlez will succeed acting Prime Minister Leopoldo Calvo-Sotelo in mid-December.

Calvo-Sotelo's Democratic Center was the biggest loser of the elections, dropping 156 of its previous 168 seats, including that of the premier. The Communists lost 18 of their previous 23 seats. On the right wing, however, the Popular Alliance made major gains by winning a total of 106 mandates (previously nine), which will make the party a strong conservative opposition force in Parliament.

EURO COMPANY SCENE

Quaker Oats, the U.S. breakfast foods group, has agreed in principle to take over the unprofitable pet food operations of the European consumer products division of St. Louis-based Ralston Purina. Ralston's pet food production facilities in Europe include major plants in West Germany and Holland, and annual sales total some $120 million. The terms of the deal were not disclosed.

After a six-month investigation, the U.K. Monopolies & Mergers Commission has ruled that the proposed merger between Nabisco Brands, New York, and Britain's Huntley & Palmer Foods is not against the public interest. Nabisco holds an interest of about 24% in H&P and is making an offer for the remaining shares. The proposed transaction values the British company at £83.8 million.

A £10-million plant for the British production of mobile telephone and communications equipment is to be built by the United States' Motorola at Basingstoke, Hampshire. By late 1985, Motorola expects to employ nearly 1,000 people at the new complex, which will replace a nearby plant that is to be phased out.

Germany's Continental Gummi and General Tire & Rubber Co., Akron, Ohio, have concluded a long-term cooperation agreement in the field of tire technology. The agreement will enable General Tire to produce 70%, instead of the present 12%, of German standard tires sold by Conti on the U.S. market for such import cars as Volkswagen, BMW, and Mercedes.

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Community: Proceedings Against France Over Import Measures

The Commission has started proceedings under Treaty Article 169 against France, contending that the French government's recent measures to reduce the country's negative trade balance are contrary to Article 30 of the Rome Treaty. This article bars quantitative restrictions and other measures having an equivalent effect. The ultimate objective of the proceedings is to make France rescind the contested import measures.

Last month the French government took several steps to cope with the FF 100 billion trade deficit anticipated for 1982. Paris decreed that not only the usual customs forms accompanying imported products but also promotional material, catalogs, instructions for use, and delivery slips be translated into French. Another measure made the customs office at Poitiers, an out-of-the-way inland town, the sole clearing post for all video recorders imported from abroad. Previously, any customs office was authorized to clear video recorders. Since the customs office at Poitiers is small and understaffed, importers estimate that the measure will delay clearance by about two months and push up retail prices by 10% because of the additional transpor-

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tation costs involved. Although the measure is largely aimed at curbing Japanese imports, which account for roughly 90% of all video recorders sold in France, it also affects imports from Germany and the Netherlands. (It is estimated that 550,000 units will be sold for a total of FF 2.2 billion in France this year.) The new regulation does not differentiate between imports from other Member States and those from third countries.

Commission lawyers admit that it will be a number of months before the Commission is able to obtain a judgment from the Court of Justice. (A case brought under Treaty Article 169 can take up to six months.) They suspect that this time element may fit into the French government's apparent plan to offer some temporary relief to the country's fledgling video recorder industry.

In numerous similar cases, the Court of Justice has reminded Member States that the Treaty of Rome bans any restriction having the equivalent effect of a quota, no matter how it is devised. For the most part, these measures were in the form of special taxes and administrative regulations; typical examples are health inspection fees and taxes for administrative formalities upon importation. In all these cases, the Court sided with the Commission, and the Member States concerned abolished the measures *(Common Market Reports, Pars. 322.42, 322.44)*.

EC Committee Urges New Investments to Overcome Crisis

The Economic and Social Committee believes that only joint efforts by all of the Member States can overcome the Community's current economic crisis, marked by a record level of unemployment, lack of economic growth, and a decline in orders from third countries. In its latest opinion prepared for this month's European Council meeting, in which it updates opinions given earlier this year on the economic situation, the ESC proceeds on the premise that the problems of unemployment, lack of economic growth, and competitiveness of European industry are equally important and must be resolved concurrently. Although the ESC recognizes the need to mold the Member States' basic economic, financial, and monetary conditions in order to reduce national budget and payments deficits, it gives new investments top priority as a way of solving the problems.

National initiatives along these lines should be supported in several ways at the Community level, the Committee says, for example, by concentrating the Community's financial resources, expanding the European Monetary System, coordinating national economic policies, and strengthening R&D and innovation policies. The Committee believes that, considering the reluctance of industry to invest, a surge in demand is needed to give businesses and consumers confidence in a future economic upturn. Current and planned national public demand programs would have to be coordinated, according to the ESC, so as to produce a maximum impact in terms of new jobs and avoid negative consequences for price development.

The sectors where investments are most needed, according to the ESC, are construction, energy, transport and communications, and environmental protection. The Committee recommends that national public program financing be backed by the Community. To this end, the ESC urges that the New Community (financing) Instrument *(Common Market Reports, Par. 3622.20)* be used primarily for this purpose and that the Council of Ministers approve an additional 3 billion ECU immediately.

The Council should also help increase private investments through jointly formulated industrial and social policies, the ESC believes. The Committee favors a policy that would allow Member States to grant temporary state aid to businesses if these aids tie in with the overall objective of aligning the performances of the national economies. Subsidies should not be used to safeguard or create jobs in one State at the expense of jobs or competitiveness of firms in another. The Committee also recommends job-related subsidies, such as grants and tax reductions, provided these measures create training opportunities and jobs for young people. (Of the 11.2 million unemployed in the EC, some 4.5 million are under 25.) However, it adds that the amount of these subsidies and the terms under which they are granted should be determined by the Commission in collaboration with enterprises and employees.

Britain: Few Surprises in Government's Legislative Program

The U.K. government's legislative program for the new parliamentary session, as announced in the Queen's Speech on Nov. 3, is briefer than usual and contains few surprises. Observers are generally forecasting a national election next year in the fall after the current session, although Prime Minister Margaret Thatcher may be tempted to call an election next spring if the opinion polls remain favorable to the Conservatives.

The privatization of British telecommunications is to go ahead through a flotation of shares in British Telecom, which would be the largest equity issue ever to take place in the U.K. A new regulatory body would be set up to ensure fair competition. Private companies would be able to establish businesses to generate and supply electricity to both the national network and individual enterprises.

Legislation is to be introduced to protect personal data stored in computers and to strictly govern their use. Individuals would be entitled to have access to their own files. The government's measures in this area are likely to follow the proposals set out in a White Paper earlier this year. Among other things, appointment of an independent registrar who would register and monitor users of electronic data was recommended.

In the wake of a recent decision of the European Court, which stated that the U.K. Equal Pay Act 1970 is out of step with the 1975 EEC directive in this field *(Common Market Reports, Pars. 3942.15, 3942.21)*, the government will amend the current law. As a result, where a claim for equal pay for equal work is submitted in a company, it would no longer matter whether an actual job evaluation study is available. An independent assessment would have to be made, taking into consideration jobs of equal value. While this is the only proposed legislation in the area of employment, a Green Paper is being prepared on secret ballots for electing trade union officials. The consultative document is expected to be published by the end of the year.

Ireland: Haughey Defeated; New Elections This Month

The Irish minority government of Premier Charles Haughey was defeated by two votes in a Nov. 4 vote of confidence in Parliament, and elections are to be held on Nov. 24 - the third to take place within 18 months. Haughey's Fianna Fail administration has been in office for only eight months and has been continuously plagued by Ireland's severe economic problems, disunity within the party, and various political scandals. Haughey lost the support of the three MPs of the leftist Workers' Party after his recently unveiled economic plan.

Ireland's complex election system of proportional representation means that the number of seats won by each party tends to change slowly, and it is by no means certain that there will not be another minority government. However, observers agree that the country's economic difficulties make it imperative that one party have a clear working majority in order to implement much needed strong economic measures.

Opposition leader Garret FitzGerald believes his Fine Gael party can achieve a 9% electoral swing and form an administration with an absolute majority. Such a result would obviate the need for an alliance with the Labour Party like that during his premiership last year. In terms of personal popularity, FitzGerald leads Haughey by 25% in the opinion polls. The former leader of the Labour Party, Michael O'Leary, has, in the meantime, joined the Fine Gael party. He was FitzGerald's deputy prime minister in the previous coalition government.

Haughey has said he will campaign on his new economic plan and feels he has an excellent chance in the elections. FitzGerald will also be concentrating his campaign strongly on the economy at a time when the government's foreign borrowing amounts to £1,200 (Irish) per capita. Observers believe that the new government, whatever its composition, may have to go to the International Monetary Fund for financial help. In such an event, it probably will have to accept harsh conditions in order to restore the economy.

France: Government Boosts Wage Bill, Investment Aids

French employers will have to pay over FF 7 billion of the FF 12 billion in extra contributions needed to cover the national unemployment insurance system's rising deficit. As of Nov. 1, contributions rose from 3.6% of the wage bill to 4.8%, with 60% of the additional sum coming from the employers and 40% from employees.

In an attempt to offset the effect of the increased contributions on industry, Premier Pierre Mauroy has announced measures to reduce businesses' financial costs and to stimulate investment. Immediate results are hoped for from a proposed arrangement to help companies hard hit by high interest rates. Aid is promised this year to firms that have borrowed long-term funds at fixed interest rates of over 12% to cover investment needs. The program is likely to affect about 13% of all private-sector debts. Looking ahead, a new investment incentive system is to be introduced in next year's budget to replace existing tax aids. An accelerated depreciation system would allow companies to write off investments at the rate of 30% to 40% from the first year.

Government action on unemployment insurance premiums brings to a climax a painfully long crisis for Unedic, the unemployment insurance system which was founded in 1958 to finance short-term unemployment compensation through worker and employer contributions as a proportion of the overall wage bill. The fund has failed to keep up with steadily rising unemployment in recent years, and the latest figures forecast a deficit of FF 7 billion by the end of 1982 and FF 30 billion in 1983. The system of Unedic's administration, based on the equal representation of employers and employees, broke down following the employers' threat to withdraw unless a plan for FF 20 billion in benefit cuts was accepted by the workers' representatives. Labor was prepared to go along with up to FF 10 billion in reduced benefits so long as these were accompanied by a rise in the level of contributions. Both sides agreed that the government should help to cover the deficit. In any event, the government appears to have used its weight to force through the workers' standpoint, so that FF 12 billion in new contributions will be combined with FF 10 billion in cuts, along with FF 4 billion in new revenue from the recently introduced contributions paid by civil servants.

The extent of investment aid offered to industry in return for the higher contributions has disappointed business leaders, who had expected the government to reduce employers' contributions to the family allowance fund to offset the rise in the unemployment insurance premium. Patronat chairman Ivan Gattaz, in a meeting with President François Mitterrand, expressed his fears over shrinking business profits and a foreign trade deficit which, according to predictions, will reach FF 100 billion by the end of this year.

French Cabinet Gives Go-Ahead for Cable TV Network

Following intensive studies, the French cabinet on Nov. 3 gave the green light for a project to establish within the next 30 years a national network of fiber optic cables for television and telecommunications. As an initial step, the government approved a plan to hook up 1.4 million households to cable TV by 1985, at an unofficially estimated cost of FF 5 billion. The project will come under the jurisdiction of the Post & Telecommunications Ministry. The government's decision for fiber optic cables - rather than traditional copper cables - was made to advance French industry in this sector and, eventually, to promote the export of technology and equipment.

The proposed completion of the project's initial phase by 1985 is timed to coincide with the introduction of satellite TV via a Franco-German satellite to be launched that year. Very small fiber optic cable networks already exist in some areas of France (notably Biarritz), albeit largely on an experimental basis.

Germany: Unemployment Nears 2 Million; Output Drops

Figures released early this month show that unemployment in Germany is moving toward the 2-million mark and that there has been a further slump in production and new orders. According to the government's Labor Office, around 1.92 million had signed up for unemployment benefits by the end of October, the highest figure since 1948. During October alone, an additional 100,000 people lost their jobs, thus pushing the jobless rate up from 7.5% in September to 7.9%. A year ago, unemployment stood at 1.4 million, accounting for 5.9% of the country's total work force of 23.7 million.

Also of concern to the Labor Office is the number of people on a short workweek - 245,000 in September, bringing the total up to 828,000. There was also a further decline in the number of job openings (now 69,000 as opposed to 81,000 in September). Government officials expect the number of unemployed to exceed the 2-million mark this month, and, should predictions of many research institutes come true, unemployment could top 2.5 million this coming winter.

Statistics compiled by the Federal Economics Ministry indicate that industrial output dropped by 3% in September compared with August and is now 5% below last year's level. New orders also fell by 3% from August to September. Domestic orders have been on the decline for over two years, and the slump in new foreign orders, evident since the beginning of the year, has become more pronounced. Last year, surging demand from abroad for German industrial products, notably capital goods, had compensated to some extent for weakening domestic demand. The capital goods industry has been affected the most by falling foreign and domestic orders, and the drop in foreign demand is largely attributed to the steep rise in the number of employees put on short-time work.

Italy: Hospital, Bank Employees Strike for Higher Pay

Italy earlier this month experienced a rash of disruptive strikes, mainly by hospital personnel and bank employees. More than 520,000 physicians and workers employed by the 1,200 state hospitals staged a six-day walkout to add emphasis to their demands for higher pay. The physicians are insisting on remuneration commensurate with that of non-hospital doctors. The strikers earlier had rejected a government offer to raise monthly pay (now between 820,000 and 1.2 million lire) by 100,000 lire across the board.

In the banking sector, the collapse of talks over a new collective contract set off a series of staggered strikes. The unions had urged the country's 300,000 bank employees to walk out for a total of 13 hours during five work days, ending on Nov. 12. The strikes especially affected foreign exchange dealings and the cashing of checks. Long queues formed at bank offices, and foreign businessmen and tourists exchanging foreign currencies for lire often had to accept losses of 20-25% on the official rates.

The government's central statistical institute, meanwhile, has published figures showing that labor conflicts led to the loss of 170,000 work hours in August (the traditional vacation month) and 8.5 million work hours in September. The September figure compared with 2.98 million hours in the same month of 1981, an increase of 5.52 million. In the first nine months of the year, the number of work hours lost through strikes was 73% higher than that for the same period in 1981.

Greece: Alteration of Foreign Trade Regulations

To enhance the competitiveness of Greece's exporters and improve the country's trade balance, Economics Minister Gerassimos Arsenis has announced the alteration of several foreign trade regulations. The new rules allow tax refunds for exported goods as well as an extension of the period (previously three months) during which certain exporters may avail themselves of loans with a preferred interest rate of 10.5%. The decree limiting export promotion costs for which no detailed accounting is necessary to between 3% and 1.5% of export revenues was rescinded. Also, the time span within which exporters must transfer foreign exchange receipts back to Greece was shortened from six to three months. Finally, importers are now prohibited from purchasing foreign currency earlier than four days prior to their actual need.

The changes have already taken effect, with the exception of the rule relating to export promotion costs, which has to be approved by Parliament.

Norway: Draft Budget Revised After Swedish Devaluation

Norway's Conservative minority government has been forced to revise its 1983 draft budget as a result of the 16% devaluation of the Swedish krona on Oct. 8 and objections voiced by the minority parties in Parliament on which the administration relies for support. The original draft budget projected a nominal spending increase of 10.9% to NKr 156 billion. The latest modifications would boost the deficit by NKr 614 million to NKr 19.26 billion and would reduce the extent of planned cuts in personal income tax.

The various modifications to boost employment include increased spending on roads, education, and social welfare, and allocation of a larger share of the defense budget to civil defense. In other concessions, family allowances as well as tax deductions for families with children would be higher. Measures to help industry withstand the effects of the Swedish krona's devaluation would cost a total of NKr 1.1 billion. They include an extension of investment tax exemptions, the exemption of timber products industries from a planned electric power tax (saving that sector NKr 55 million), subsidy increases for textile and apparel companies and new subsidies for the furniture industry, and a one-year extension of rural transport subsidies. Employers' social security contributions are to be cut by 1%, with a corresponding rise in employee contributions.

EURO COMPANY SCENE

R.J. Reynolds Tobacco International has announced the purchase of a share majority in ETS Gosset SA, Brussels, one of Belgium's oldest cigarette and tobacco companies. Gosset, with its St. Michel brand, is No. 2 on the Belgian market and last year had sales of $82 million. It has been marketing the Reynolds brands (Camel, Winston) in Belgium for the past 15 years.

American Cyanamid Co. has applied to the U.S. Federal Trade Commission for permission to acquire Swiss cosmetics producer Laboratoire La Prairie SA. The Swiss company manufactures skin care products which are distributed in the United States and Canada by Kansas City-based Bio Pharma.

Switzerland's Hoffman-La Roche, the chemical and pharmaceutical manufacturer, plans to sell its Panteen cosmetics group to the United States' Richardson-Vicks.

Common Market Reports

EUROMARKET NEWS

Issue No. 723 *Report No. 462, November 23, 1982*

IN THIS ISSUE

Community: Commission Urges Action to Advance Internal Market

Once again the Commission has called on the Council of Ministers to adopt some 30 draft regulations and draft directives to consolidate the Community's internal market and customs union. It is the second time within one year that the EC executive has urged the Council to act. The Commission believes that a consolidation of the internal (common) market could make a significant contribution toward the recovery of the national economies.

According to Commissioner Karl-Heinz Narjes, manufacturers should be able to depend on the internal market when planning their marketing strategies, without having to consider all kinds of trade barriers erected by national governments. Narjes believes the current economic situation is tempting Member State governments to devise methods for restricting imports, thus endangering the internal market. Since the volume of intra-Community trade represents about one-third of overall world trade, Narjes fears that if the Community's internal market were to deteriorate GATT and the world trade system would also no longer function.

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

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In order to make headway in the advancement of the common market, the Commission has asked the Council for powers under EEC Treaty Article 155(4) to implement rules adopted previously by the Council *(Common Market Reports, Pars. 4471, 4472)*. While it has granted the Commission such powers for the management of the common agricultural policy, the Council has largely denied them in the internal market and customs field. Among the 30 or so proposals actually ready for adoption are measures on harmonizing national rules on certification of third-country products, transmission of information on national technical rules and standards of products from other Member States, and reduction of red tape in customs clearance.

The Commission points out that none of the individual measures would conflict with the interests of individual Member States nor would any of the proposals entail costs for a State. Only the political will to adopt them is lacking, according to the Commission.

No Chance Seen for New Overseas Aid Strategy

Most of the Member State governments are reluctant to commit themselves to the new development aid strategy proposed by the Commission. This strategy does not contain any revolutionary ideas for the EEC's overseas aid program for the remainder of the '80s, but its adoption would nevertheless entail future financial commitments that virtually no State is prepared to assume at the present time. West Germany, supported by the U.K. and the Netherlands, is leading the critics who say that the time has not yet come for launching a new development aid policy.

The Commission had proposed, among other things, that Member States double their development aid allocations over the next three years to 0.1% of their combined gross national product. (Germany's new development aid minister, Jürgen Warnke, said his government may even have to cut its current foreign aid program for economic reasons. He does not see how Bonn can possibly allocate more funds.)

Another Commission suggestion calls for an unlimited extension of the trade and aid convention between the EEC and 63 African, Caribbean, and Pacific countries *(Common Market Reports, Par. 10,284)*. The Lomé II Convention expires on Feb. 28, 1985, and Lomé III should have no time limit, according to the Commission. Most Member States argue that there is no need to change the present policy of limiting the convention's validity to five years. They believe that recurrent negotiations offer the opportunity for making adjustments in trade and aid arrangements that otherwise could not be made. An unlimited extension would deprive the Community of the chance to coordinate its aid policy with other international bodies, such as the United Nations. On Nov. 8, all the States agreed to give the Commission a mandate by Feb. 20, 1983, to negotiate a new convention; the negotiations must start prior to September 1983.

In Brief ...

Denmark has rejected the latest proposal for a common fisheries policy, which would have implemented such a policy as of Jan. 1 and would have ended more than six years of wrangling over each Member State's share of the Community fishing grounds. Denmark's four-party minority coalition government, which has strong ties to the country's fishing industry, insists on fishing licenses in an area around Britain's Shetland and Orkney Islands. This area is reserved primarily for local fishermen, and, although French, German, and Belgian trawlers have access, they are restricted to specific quotas + + + The European Court of Justice has ruled that a national provision barring the importation of margarine in other than cube-shaped packaging constitutes a measure having an effect equivalent to a quantitative restriction within the meaning of EEC Treaty Article 30. A German company had sold to a Belgian importer certain quantities of margarine in conical containers and had given the buyer a guarantee that the merchandise qualified for free circulation by virtue of EEC law even though Belgian law prohibits the sale of margarine in anything but cubic packaging. Having been informed by the Belgian authorities that the margarine could not be sold in Belgium, the buyer refused to accept the merchandise, whereupon the seller sued in a Hamburg district court (judgment of Nov. 10, 1982, Case No. 261/81, *Rau v. PvbA de Smedt*).

Germany: 'Less Government' for Businesses, Others

While the new German government is concentrating on getting the 1983 budget and accompanying legislation passed prior to the Christmas recess, Parliament is going ahead with work that will mean "less government" for both businesses and private individuals.

The Bundestag has passed a bill to restore the statutory lump-sum treatment of part-time employees. Approval by the Bundesrat is certain because it was the upper house that sponsored the measure. Employers would not have to be shown a certificate entitling prospective part-time employees to lump-sum withholding on their earnings, which would be subject to 10% withholding as under previous legislation. The fact that the Social Democrats in the lower house abstained from voting on the measure, rather than voting against it, was regarded as an indirect admission that the business community had reason to complain about the enacted (though never applied) certificate requirement and its anticipated detrimental impact on employment *(Doing Business in Europe, Par. 40,323)*.

A majority of the Bundestag's tax committee has voted to restore the standard tax exemption covering the cost of child care, e.g., in a kindergarten. The exemption was repealed in 1979, and taxpayers thereafter had to substantiate actual costs.

Both the tax and building committees have reported to the floor a Bundesrat-sponsored bill that would greatly simplify the real estate transfer tax rules. The widely differing state provisions governing real estate transfer tax would be replaced with a uniform federal tax, at the rate of 2% (now around 7%). Local governments would not get less revenue, however, since the number of exemptions would be cut sharply. Several thousand pages of state statutes, regulations, and administrative provisions would become obsolete. Although the former government was not opposed to the bill, it did nothing to encourage deliberations by the Bundestag's committees *(Doing Business in Europe, Par. 40,016)*.

In the labor law field, a majority of the Bundestag's labor affairs committee has sponsored amendments to relax restrictions on the employment of juveniles. According to these amendments, juveniles employed as apprentices or otherwise would be allowed to start working in bakeries and hotels at 6 A.M. (8 A.M. under present legislation). These amendments would be in addition to others planned by the new government in order to ease conditions for youth employment *(Doing Business in Europe, Par. 23,434)*.

Britain: Some Tax Cuts in Howe's 'Mini-Budget'

The U.K. Chancellor of the Exchequer, Sir Geoffrey Howe, in his autumn financial statement,generally referred to as the "mini-budget," said that the government is determined to continue to relieve the burden of taxation "within the framework of our monetary and fiscal policies" in order to move toward renewed growth and more employment.

The Chancellor's main proposal was a reduction, from 2.5% to 1.5%, in the national insurance surcharge payable by employers, to take effect next April. This move, which had been widely forecast, would be worth £700 million annually to private-sector employers. The Chancellor also revealed that the present surcharge would be reduced further in the first three months of 1983, so that the overall rate for the current financial year (ending on March 31) would be lowered by an additional 0.5%. Full details were not given, but Howe said that industry would benefit by an additional £350 million.

There would, however, be a 0.25% increase in national insurance contributions as of April 1983 for both employers and employees, with contributions rising to 10.45% and 9% of earnings, respectively. Also, the lower and upper assessment limits would be raised; the upper earnings limit would be £235 per week.

The proposed changes reportedly leave the Chancellor with about Ł1 billion in tax reductions to distribute in next spring's budget. But, considering the likely prospect of general elections next year, observers believe that a cut of 1 or 2 pence in the basic rate of income tax is more probable than any substantial fiscal aid for industry.

(On the day the Chancellor made his proposals, British Gas announced that gas prices for industry would be frozen until the fall of 1983. This move is expected to save industry some Ł70 million and will help to close the gap between gas prices in the U.K. and continental Europe. Average electric power rates for industrial users also will remain unchanged next year.)

In reaction to Howe's statement, the general secretary of the Trades Union Congress, Len Murray, termed the mini-budget proposals "disappointingly bad," despite the cut in the national insurance surcharge. The measures would not stop unemployment from rising, Murray said, "as even the Chancellor admits." Sir Terence Beckett, director-general of the Confederation of British Industry, conceded that business costs would be reduced by nearly Ł900 million by 1984, but the CBI members still looked forward to the complete abolition of the national insurance surcharge.

Belgium: Incomes, Employment Policy Decrees Readied

Following the breakdown of talks among employers, unions, and the government over a "social consensus," Belgium's prime minister, Wilfried Martens, has announced that his administration is preparing decree laws on incomes and employment policy, using its parliamentary emergency powers. The legislation would provide for a 5% work time reduction with corresponding pay cuts. Businesses would have nine months to implement the new rules, and they would be expected to respond to the labor cost relief by expanding their work forces by an average 3%. In the absence of new hirings, businesses would have to pay the "saved" social insurance contributions into a special fund. The government would be willing, however, to recognize short-time work reductions or suspended layoffs in crisis-stricken industries as measures having an equivalent effect.

The Martens administration estimates that its course of action will lead to some 80,000 new jobs - a figure challenged by the unions and the employers. The critics point out that the projection presupposes the full utilization of the 3% expansion rate even in ailing sectors such as the textile and steel industries. Union representatives maintain that the government's program will have a "real employment factor" only if new hiring is made obligatory - a suggestion immediately rejected by the employers. Unemployment in Belgium currently is nearing a record 13%.

As previously reported, the second major part of the government's proposed policy program entails the partial reintroduction of wage indexation. Inflation adjustments would be made only every four months, rather than monthly, and certain items would be removed from the price basket on which the cost of living is officially calculated. In this way, pay rises would be limited to about 4.5% in annual terms, while an 8.5% rate of inflation is predicted for 1983.

France: Concern Over Sharp Rise in Foreign Debt

The size of France's current foreign debt, a figure normally not made public by French governments, has been put at $45 billion on the basis of documentation made available to the U.S. Securities & Exchange Commission. This total is much higher than had been previously believed and has now led to questions concerning France's international credit rating.

The reason for taking a closer look at France's external indebtedness was a $100-million bond issue floated on the U.S. capital market by Caisse Nationale des Télécommunications, the French state-controlled telecommunications financing fund. The SEC was not satisfied with the CNT's presentation of its balance sheet figures and demanded, in addition, a breakdown of the French state's liabilities abroad. According to this documentation, debts and obligations totaled FF 155.26 billion at the end of 1981, and by June 30, 1982, another FF 36.17 billion was added to this figure. The French government used an exchange rate of FF 5.75 in converting the total to dollars, whereas the rate at the end of June was 25% higher, thus raising the foreign debt total to FF 240 billion. Additional international loans taken out by the government and state enterprises by the end of October have put the grand total at FF 320 billion, compared with FF 155 billion ten months earlier.

The French Finance Ministry has taken issue with these calculations, saying that they do not take into account foreign assets valued at FF 190 billion nor, for example, the fact that a $4-billion credit line recently granted by an international banking consortium has been only partially used ($600 million). Nevertheless, financial observers feel that France's foreign debt, at nearly 10% of the gross domestic product, is beginning to reach a critical state, which could have a bearing on the country's future credit rating.

Italy: Party Rivalries Force Spadolini's Resignation

As of Nov. 13, Italy was once again without an effective government following the resignation of Premier Giovanni Spadolini and his five-party coalition administration. Spadolini, a leader of the small Republican party, was the victim of intense political and personal rivalries between the much larger Christian Democratic and Socialist factions in his cabinet. Similar disputes last August had led to the first breakup of the Spadolini government, which had been installed in June 1981.

Consultations among the parliamentary parties began on Nov. 15 over the formation of a new administration, which would be Italy's 43rd since World War II. Regardless of the outcome of these talks, most political observers believe that new elections will be held next spring, at the latest. The present Parliament is elected to serve until 1984.

Compulsory Use of Cash Registers by Italian Shopkeepers?

After months of wrangling, the Italian parliament's finance committee has finally agreed on the obligatory introduction of electronic cash registers for nearly all retailers and wholesalers with permanent places of business, except newsstands and tobacconists. The measure is aimed at ending the practice of many small businesses, and even larger ones, of not automatically registering daily takings and often not giving out receipts to customers. The government estimates that the result has been the evasion of about 50% of value-added tax to which these businesses are subject. The cash registers would have to have a sealed memory recording all transactions. At present, only about 30% of Italy's 1.2 million retail establishments operate with cash registers.

If the Senate passes the measure, all businesses with a turnover of more than 200 million lire per year will have to install cash registers by July 1983; businesses with annual sales of more than 12 million lire will have to have them by 1987.

Should Parliament be dissolved (as a result of the latest government crisis) before the Senate can pass the measure, the parliamentary discussions will have to start all over again. This would be no easy matter, since the introduction of cash registers has long been the subject of bitter disputes between Finance Minister Rino Formica, the Socialist sponsor of the bill, and the Christian Democrats, who generally count the small shopkeepers among their supporters. The Christian Democratic members of the finance committee had only reluctantly voted for the measure.

Sweden: Severe Tax Measures in 1983 Budget Proposals

The new Swedish government's budget proposals, announced by Finance Minister Kjell-Olof Fell on Nov. 8, have come as a considerable shock to the country's business community. The Socialist government plans to impose a 20% tax on distributed dividends during 1983; the expected SKr 750 million in revenue is to be placed with a division of the state pension fund authorized to make share purchases on the stock market. In addition, businesses would have to place 20% of all profits in a special central bank account bearing no interest. The funds would be blocked for two years unless the businesses concerned agreed with local trade unions on the funds' use for specific investment projects. However, by agreeing to administer the investments jointly with the unions, businesses could claim the entire sum as a tax deduction.

In other budget measures, the government proposes to fulfill all its major campaign pledges by (1) reinstating the full indexation of pensions, (2) abolishing the two-day waiting period before payment of sickness benefits, and (3) raising unemployment benefits and family allowances. The three measures, costing SKr 7.4 billion, would be financed by increases in value-added tax (SKr 4.5 billion), the employers' payroll tax (SKr 1.5 billion), and other tax revenues (SKr 1.1 billion). Also, wealth tax would be raised by 0.5%, and a SKr 600 tax would be imposed on the sale of video sets. The government intends to spend SKr 3 billion on new investment programs (power plants, roads, railways, iron ore development) and SKr 2 billion on housing construction.

EURO COMPANY SCENE

General Motors' new automobile assembly plant in Zaragoza, Spain, has been officially inaugurated. The plant currently turns out about 300 units a day of the Opel Corsa compact model, and production is to be gradually stepped up to 1,250.

In related news, GM plans to invest FF 1.3 billion during the next three years in its components plant in Strasbourg, France. The investment involves a new generation of automatic transmissions.

Esso (Exxon) has announced the impending closure of its refinery at Milford Haven, Wales, which came on stream in 1960 and represents accumulated investments of £103 million.

Squibb Corp., New York, has taken over a German manufacturer of medical-electronic equipment, Kranzbühler GmbH, via its Munich-based subsidiary, Squibb Medical Systems. Kranzbühler has annual sales of about DM 50 million.

Galerias Preciados, part of the Rumas group, will purchase for $20 million the Spanish subsidiary of the United States' Sears Roebuck, Sears de España, which operates three department stores and some 20 other stores in Madrid and Barcelona. The two partners have signed a 10-year exclusive contract for the expanded marketing of Sears's brand-name products in Spain.

Common Market Reports

EUROMARKET NEWS

Issue No. 724 *November 30, 1982*

IN THIS ISSUE

Community: Commission Accepts EP's Changes in Vredeling Proposal

The European Commission is prepared to accept most of the amendments voted by the European Parliament to the Vredeling proposal, which would lay down information and consultation rights for employees of multinationals and other companies with at least one subsidiary *(Common Market Reports, Pars. 10,265, 10,421)*. Commissioner Ivor Richard told the EP that the Commission would include in the proposal the key amendments concerning the scope of application, frequency of disclosing information, work force threshold, confidentiality of information, the bypass provision, and extraterritoriality. The revised draft is expected to go to the Council of Ministers by the end of February.

Representatives of Common Market-based companies and of multinationals headquartered outside the EEC were concerned about the implications of the proposed information and consultation rights. They took their pleas to UNICE, the European organization of national employers' associations, and to individual members of the European Parliament. In October, a center-right majority of the EP passed more than two dozen amendments to the Commission's original draft.

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Under the original proposal, management of the dominant company would have been required to disclose to employees' representatives generally "all procedures and plans liable to have a substantial effect on the employees' interest." The Commission is prepared to go along with the EP's suggestion for a more specific description of what is to be disclosed. Another EP amendment would allow companies to file their disclosure reports once a year instead of every six months, as provided in the original draft. The Commission accepts this amendment as well as the EP's suggestion to raise the work force threshold from 100 to 1,000 employees, thus exempting small and medium-size companies.

Richard announced the Commission's readiness to make substantial changes in the proposed secrecy provisions to reflect the main points of the Parliament's amendments. The Commissioner said the revised draft would permit management to withhold any information whose disclosure could considerably harm a company's prospects or interests. This change would narrow the secrecy definition and thus reduce the scope of business secrets that would have to be divulged. But the Commission insists on the retention of the proposed tribunal procedure: the Member States would be empowered to designate a tribunal or other national body to settle disputes between management and workers' representatives over the confidentiality of certain information, such as business secrets. The EP had wanted management to be the sole judge of what should be kept secret.

Union leaders regret that the Commission will accept the EP's proposal regarding the bypassing of a subsidiary's management where disclosure of information or consultation has not taken place. Under the original proposal, employees' representatives would have been allowed to approach the management of the parent company if the subsidiary failed to honor its information and consultation obligations. Richard believes that a provision giving employees or their representatives recourse to the courts in cases of inadequate information or consultation is strong enough to ensure compliance. The Commission also accepts the EP's suggestion to limit the directive's reach to EEC-based companies, thus avoiding involvement of parent companies established outside the Common Market.

No Concrete EEC Initiative Against Unemployment

At their Nov. 16 meeting, the Member States' economics, finance, and labor ministers presented different concepts of how to combat unemployment, now standing at 11.7 million in the Community. The Council gathering did not, however, result in any Community initiative against unemployment, as union leaders and several members of the European Commission had hoped. What did emerge from the meeting was a growing consensus among Member State governments that specific public employment programs will not bring a lasting recovery of the national economies. (Several national unions have been demanding such programs.) There was also general agreement that employment will pick up only when there is sustained economic growth and when business profits improve.

In a joint declaration issued following the meeting, the ministers underlined the need to exploit all ways of raising the GNP's percentage of productive investments rather than capital outlays for consumption purposes. But the ministers declined to burden their governments with a specific commitment.

France's finance minister, Jacques Delors, was unsuccessful with his suggestion that, for an indefinite period, the Member States commit themselves to putting an additional 1% of government spending into job-creating investments. Delors also failed in his attempt to prompt an EEC-level move to shorten the workweek as a way of reducing unemployment. The ministers agreed that reorganizing working time could, under certain conditions, help improve the employment situation, but they also emphasized that job-sharing or similar measures should not add to unit costs.

Although the Council reaffirmed its commitment,assumed last March,to guarantee training or employment to all school leavers within five years, it did little to fulfill this commitment except for instructing the Commission to allocate some 1.9 billion ECU from the Social Fund to national programs aimed at alleviating youth unemployment. All experts agree that this amount means little, considering the 4.5 million people under 25 who are out of jobs in the EEC.

In Brief...

The European Court of Justice has ruled that the ban on discriminatory tax treatment of imported products provided for in the 1972 EEC-Portugal free trade agreement is directly applicable law which can be enforced in the national courts *(Common Market Reports, Par. 3863.29)*. A German importer went to court to challenge the customs office's assessment notice for a Portuguese port wine shipment. The German supreme tax court asked the Court of Justice whether the ban on discriminatory taxation was directly enforceable. The EC tribunal's affirmative answer sweeps aside objections from three Member State governments and the European Commission (judgment of Oct. 26, 1982, Case No. 104/81, *Hauptzollamt Mainz v. C.A. Kupferberg)* + + + The Council has reached agreement on an amendment to existing Community energy conservation legislation on the performance of heat generators for space heating and hot-water boilers in new or existing nonindustrial buildings and on the insulation of heating and hot-water pipes in new nonindustrial buildings. While the 1978 directive requires the Member States to adopt legislation calling for compliance with minimum performance requirements, the amendment lays down inspection provisions aimed at guaranteeing that minimum performance requirements are observed by manufacturers and by firms installing new equipment.

Germany: New Elections Hinge on President's Decision

Chancellor Helmut Kohl has asked business executives to invest now and not wait for the outcome of the German national elections planned for March 6, even though the results of the elections could be expected to be a significant factor in any major investment decision. Kohl has told business leaders that his government would do its best to improve those general economic conditions that are particularly conducive to new investment.

While few in the German business community have doubts about the government's intentions in this respect, there are still considerable misgivings about how Kohl will be able to fulfill his promise for new elections. Interpreted strictly, the German constitution does not provide for national elections just because a new government has taken power during a four-year legislative session. The present Bundestag was elected in October 1980, and the current legislative session runs to the end of October 1984. Kohl has a sufficient parliamentary majority (7 votes), so there would be no need for new elections. (During the 1976-1980 session, the Schmidt administration had an 8-vote majority.) Still, Kohl made a pledge in his Oct. 13 policy address to call for national elections in March 1983 in order to clarify the domestic political situation following the change of allegiance by the Free Democrats, previously government coalition partners of the Social Democrats. In two subsequent state elections, the Free Democrats failed to win representation in state legislatures. Many voters felt that the switch was contrary to the Free Democrats' 1980 election campaign promise to again form a coalition with the Social Democrats.

In recent weeks, Kohl has talked to party leaders and the federal president, Karl Carstens, about the question of elections in the spring. The chancellor reportedly wants to seek a vote of confidence that he would intentionally lose by asking his supporters in the Bundestag to abstain from voting. It would then be up to Carstens to decide whether the Bundestag should be dissolved to clear the way for new elections. This procedure, a manipulated vote of confidence to bend the constitution, was applied in 1972 by the then chancellor Willy Brandt, who had lost his majority in mid-session. While most constitutional lawyers feel that this approach was justified at the time, they see no need for it now, regardless of Kohl's commitment. Even if President Carstens goes along with the planned procedure, there is a strong possibility that some of Kohl's followers will go to the country's highest court to have the dissolution of the Bundestag and subsequent acts declared unconstitutional.

France: More Funds Approved for Nationalized Industries

The French government has approved an immediate capital injection of FF 5 billion for those state-controlled industrial enterprises that operate in "competitive" sectors. (State monopolies, such as the Electricité de France utility, will not receive any funds.) With this latest allocation, total government funding of the nationalized companies has accumulated to FF 20 billion this year. The funds are needed mainly to cover the rising operating losses in this sector. In exchange for the capital infusions, the enterprises involved would have to give commitments on investments, exports, and employment. Of the five domestic and two previously foreign-owned industrial groups nationalized this year, only Cie. Générale d'Electricité (CGE) showed a net profit in the 1981 business year.

The cabinet, furthermore, has allocated a total of FF 27 billion for the state-controlled sector for 1983, which is nearly 50% more than last year and one-third more than this year's projected investment. Since the 1983 budget allows for only FF 7.5 billion in new capital for this sector, the Mitterrand administration plans to finance the remainder, or a substantial part of it, on the financial markets and through the sale of "nationalization bonds" *(titre-participatif)*. These papers will actually be a stock-bond combination which will enable the state companies to raise new risk capital without compromising government control. The investors will have no voting rights but will receive dividend distributions in accordance with profits as well as guaranteed minimum yields.

Unemployment Benefits Cut as Employers Quit Unidec Pact

The standoff between French employers and unions on the controversial issue of unemployment insurance contributions and spending cutbacks has forced the government to take matters into its own hands by preparing to decree a 13% reduction in 1983 benefits, which originally were projected to total FF 94 billion. The move became necessary after the employers angrily announced their withdrawal as of Jan. 31, 1983, from the 24-year-old agreement with the unions on the joint administration of the national unemployment insurance fund (Unidec). For months, the CNPF employers' federation (Patronat) and the labor federations had haggled over ways of averting Unidec's financial collapse, without being able to come up with a solution.

The Socialist government's proposed action would mean fewer benefits for those who held a job for only a short time before becoming unemployed as well as for those who retire early. Further modifications would include the general reduction of compensation from 90% to 80% of previous pay and a new rule preventing a jobless person from claiming both compensation and vacation pay. The government had already in October decreed Unidec contribution increases. For the employers, the rate goes up from 2.76% to 3.48% of payroll costs, for an annual boost of FF 7.2 billion. Overall, the employers have been contributing 60% to the system and the employees 40%.

The employers combined their Nov. 16 termination announcement with the offer to help set up a new system that could be realistically financed despite still rising unemployment. (At the same time, they demanded information on how the government intends to implement new legislation allowing early retirement at 60 without adding to the heavy burden already borne by industry.) The employers would prefer that a replacement system be completely state-controlled, as it is in most other countries, which could mean a further strain on state finances and, by implication, on the taxpayer generally.

In the talks between the Patronat and the unions, both sides conceded that cost reductions will be unavoidable for the unemployment insurance system, which this year will incur an estimated deficit of FF 7 billion. (From the time of Unidec's inauguration in 1958 until today, the number of beneficiaries has risen from 28,000 to 1.7 million.) At issue, however, was the extent of necessary cutbacks: the employers insisted on reductions of FF 15-20 billion in costs and services, while the unions were willing to accept only FF 11 billion, at most.

Netherlands: Policy Statement Emphasizes Spending Cuts

In his first policy statement to Parliament, on Nov. 22, the new Dutch prime minister, Ruud Lubbers, outlined a string of proposed measures to revitalize the country's flagging economy. Emphasis will be on (1) reducing the budget deficits, interest rate levels, and price inflation, (2) strengthening the private business sector by cutting taxes and labor costs, and (3) creating new employment opportunities. Lubbers spoke of a narrowing base for the economy and employment and warned of the social "disintegration" inherent in this process. The Christian Democratic leader had taken over as head of the new center-right coalition government, which includes the liberal VVD, after his party colleague and predecessor in office Andries Van Agt declined to renew his candidacy.

Among the proposed short-term measures announced by Lubbers are additional budget savings of 1.6 billion guilders this year and of 1.3 billion next year (for a 1983 total of 13 billion). Personnel reductions of 7,000 annually are planned for the public sector. In the longer term, The Hague wants to lower expenditures by 7-10 billion guilders annually in the years 1984-1986. If successful, this move would reduce the state's budget deficit (more than 30 billion guilders at present) from a projected record 11.9% of national income in 1983 to 7.4% by 1986.

The government is demanding a three-month freeze of pay increases in the public sector as of Jan. 1 but has relented in its earlier proposal to introduce a general pay and price freeze. This decision was made possible by the Nov. 19 framework agreement between the private-sector employers and the main labor federation to skip the 2.5% inflation adjustment of wages normally due on Jan. 1 and instead reduce the workweek. The exact extent of these reductions will still be negotiable in individual enterprises and industry sectors. The bank employees, for instance, are campaigning for a gradual shortening of their workweek from 40 hours at present to 36 hours by 1986.

The government's announcement of the proposed temporary pay freeze and the personnel cutbacks was accompanied by nationwide protest strikes, particularly in public transport.

Belgium: Strikes Over Employers' Refusal to Cut Work Time

The Belgian labor federations scheduled national strike actions for Nov. 30 and Dec. 7 following the employers' refusal to accept proposals of the government for a general 5% reduction in work time and a concomitant 3% expansion of work forces. The Martens administration is now ready to impose these measures via decree law. The strike calls brought a further deterioration of the Belgian labor climate, which has already been marked by various walkouts and demonstrations over government plans for personnel and service cutbacks in the country's public transport system.

Luxembourg: New Measures to Keep Arbed Steel Afloat

Company management, labor unions, and the government have agreed on additional measures to enable the Arbed steel group, Luxembourg's largest industrial enterprise and No. 1 employer, to survive the continuing steel crisis. According to the terms of the pact, Arbed salaries and wages will be cut by an average 6% in 1983 and 1984, with reductions ranging from 4.6% for low-income earners to as much as 24.6% for top management. In addition, early retirement will be encouraged for a larger number of employees. The government will do its share by providing LF 500 million in investment credits as well as LF 90 million in direct investment aids.

Arbed will have received a total of LF 1.2 billion in state funds by the end of this year. This total does not include state guarantees, which have now been raised from LF 13.5 billion to LF 18 billion. Part of the agreement is the appointment of a full-time government commissioner who will monitor Arbed's day-to-day operations and the pay reduction program.

Italy: Fanfani May Head Next Government Coalition

Amintore Fanfani, the 74-year-old Christian Democratic senate president, has a good chance of heading the next Italian coalition government, which is now being negotiated following the resignation of the Spadolini administration on Nov. 13. Prime minister four times in the past (the first time in 1954), Fanfani has been tacitly encouraged by Bettino Craxi, the Socialist party leader. In order to secure a workable majority in the 630-seat Parliament, the Christian Democrats (263 mandates) need the support of the Socialists (62) as well as that of another, smaller party.

Among the issues being discussed by Fanfani with the other party leaders are economic and monetary austerity measures that the new government would have to take, possibly including a lira devaluation.

EURO COMPANY SCENE

Reports from Brussels indicate that the First National Bank of Chicago will be the fourth U.S. bank in two years to discontinue operations in Belgium. The bank had established itself there in 1969. It closed its Antwerp branch two years ago, and since then has maintained a staff of about 40 in Brussels.

International Harvester, the U.S. farm equipment manufacturer, has sold its French construction equipment subsidiary, Yumbo, to the company's French managers after previous efforts to find a buyer failed. The new owners, a group of eight executives, will write off all of Yumbo's existing liabilities for a fresh start. Last August, the financially troubled U.S. company had decreed drastic cutbacks and work force reductions in its other French plants, which produce tractors, combine harvesters, and other farm equipment.

Du Pont has inaugurated a new plant in Besançon, France, for the production of high-performance connectors for the French computer, telecommunications, instrumentation, and home entertainment industries.

The German subsidiary of Abex Corp. (IC Industries, Inc., Chicago) is building a new production plant in Wiesbaden, Germany, at a cost of $6.5 million. Among other items, Abex produces hydraulic pumps for the aeronautical industry. The company expects its European production to triple following the plant's completion in 1984.

Common Market Reports
EUROMARKET NEWS

Issue No. 725 *Report No. 463, December 7, 1982*

IN THIS ISSUE

Community: Improved Procedures in Applying Competition Rules

The Economic and Social Committee has once again called on the Commission to improve procedures for applying and implementing EEC competition rules. In a special report last year, the ESC had emphasized the importance of the procedures for implementing EEC antitrust rules because of their direct impact on business costs. In a recent opinion on the Commission's eleventh competition policy report, the ESC gives the Commission credit for efforts it has made so far to improve procedures. At the same time, the committee expects that the EC executive will pursue its plans for more clarity and increased legal security for businesses, speed up the decision-making process, and encourage objectivity in the preliminary examination of competition files. In this context, the committee encourages the Commission to appoint officials or other authorized representatives to preside over hearings as provided in Article 19 of Regulation No. 17 *(Common Market Reports, Pars. 2581, 2582)*. The examiners should be vested with genuine autonomy and should have direct access to members of the Commission.

The ESC welcomes the Commission's idea of making basic

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

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changes in the appellate process for antitrust cases. The changes would provide better opportunities for companies to defend themselves against charges of EEC competition rule violations. There would be a court of first instance, which would handle appeals against Commission decisions, such as penalties imposed for competition law offenses; this lower court would be empowered to review both facts and points of law. In cases involving competition, the European Court of Justice would be a court of appeals confined to reviewing questions of law.

Antitrust lawyers welcome the idea of a new first-stage court, which they say has become necessary as the case load of the Court of Justice continues to grow. However, the lawyers are not optimistic about the chances for such a plan in the Council of Ministers. They point to the example of the proposed lower court that was to handle suits brought by employees of the EC against Community institutions. Roughly a month ago, the Council again postponed action on this issue and may have shelved the measure for good.

New Crisis Over Steel Production Cuts Expected

The Community is heading toward a new crisis over details of steel production cuts. Although the Member State governments are in broad agreement as to the need for a further round of sweeping reductions in steelmaking capacity, disagreement exists and is likely to become more pronounced when it comes to deciding which steel mills in which Member States should be closed down. The Commission has proposed that by 1985 33-38 million tons be cut from the forecast capacity of 150 million tons. So far, the governments have committed themselves to a capacity cut of only 14.5 million tons. Additional plant closures, new and improved pricing controls, and reduced imports are part of the strategy for revitalizing the ailing steel industry by 1985. These measures are considered necessary because the slump in demand is expected to continue and will remain a drain on the industry's finances for several years.

Attainment of the Commission's goal of reducing capacities by 33-38 million tons would necessitate closing up to 20 major steel mills and laying off tens of thousands of workers. (Some 125,000 jobs were eliminated in the last four years.) But even the modest target of a 14.5-million ton cut on which the governments have agreed contains considerable dynamite, experts say. The Commission and several Member States believe that Belgium, Italy, and West Germany should bear the brunt of closures because they have shut down the fewest number of plants since 1980. German government officials say Germany should not be lumped together with Belgium and Italy because those countries have delayed long overdue closures by heavily subsidizing their steel mills, while German mills have rationalized and cut capacity without massive government assistance. State aid to mills in other States has distorted competition, according to the German officials, who do not rule out unilateral measures against subsidized steel imports.

In Brief...

The Commission has taken procedural steps under Treaty Article 169 against Germany for alleged failure to comply with the Court of Justice's butter boat ruling. Last year the Court held that the duty-free and tax-free sale of food items on excursions just beyond territorial waters is incompatible with Community law (judgment of July 7, 1981, Case No. 158/80 - *Common Market Reports, Par. 8766)*. The Commission contends that the amendments to the German rules applicable as of Jan. 1, 1983, fall short of what is necessary under the Court judgment + + + The Commission has threatened the Greek government with action before the Court of Justice if legislation giving the state a monopoly in the supply and distribution of drugs is applied. The Greek parliament recently voted on the first two articles of a bill that would establish government agencies entrusted with selling drugs and administering the drug market. The Commission maintains that enactment of the bill will violate EEC rules on free competition and free circulation of goods. The Greek government contends that the legislation falls under Treaty Article 36, which exempts matters of public health and national security from the free circulation principle. The Greek government further argues that the legislation would protect consumers from profiteering and unjustified price increases.

Germany: Bundestag Approves Real Estate Transfer Tax Reform

The German Bundestag has approved reform legislation that would greatly simplify real estate transfer tax rules. The Bundesrat, the upper house, is scheduled to adopt the reform on Dec. 17. As a result, a uniform federal law would take effect on Jan. 1, superseding detailed transfer tax statutes and regulations of the 11 German states. A uniform 2% tax rate would replace the average 7% tax now applied. The local governments, which collect the tax, would not lose any revenue because there would be far fewer exemptions (currently benefiting around 80% of all real estate transfers).

Real estate sales under DM 5,000 would continue to be exempt, and so would sales of inherited or donated real property. Sales between spouses and other direct relatives would also remain exempt. There would no longer be an exemption benefiting buyers of one-family and two-family homes and condominiums, private and public charitable organizations, disabled persons, or the government itself.

Buyers of new homes would be affected most by the reform. Buyers of less expensive houses would pay proportionately more tax than under present rules. For example, the buyer of a one-family house is at present entitled to a DM 250,000 exemption (DM 300,000 for a two-family home). If the house costs DM 300,000, the buyer is assessed DM 3,500 (7% of DM 50,000); after Jan. 1 the buyer would be assessed DM 6,000 (2% of DM 300,000). The buyer of a home costing DM 400,000 now pays a DM 10,500 real estate transfer tax (7% of DM 150,000); as of Jan. 1, he would pay DM 8,000 (2% of DM 400,000).

The opposition Social Democrats have sharply criticized the measure as favoring individuals who can afford more expensive houses. They point to this tax reform as typical of the neo-conservative economic thinking of the new government - a message they would like to convey to the public. Government leaders say the Schmidt administration was not opposed to the reform but lacked the political courage to initiate it in the Bundestag. Although the bill was sponsored by the Christian Democrat-controlled upper house, its content was largely based on ideas developed by independent experts years ago. These experts thought that the real estate transfer tax should be a sales tax and not an instrument to promote ownership of private homes.

France: Assembly Passes Budget; Full Use of $4-Billion Loan

With the supporting votes of the Socialists and Communists, the French National Assembly has passed the government's 1983 budget, which provides for expenditures of FF 881 billion - an increase of 11.8% over the current year. The 1983 deficit has been projected at FF 118 billion. Budget Minister Laurent Fabius told Parliament that the spending increases were within the limits previously set by the government and that the deficit was below 3% of GNP. The budget bill will now go to the Senate, where the nonsocialist parties are in the majority. In the event that the Senate wants changes in the bill, the draft legislation will have to be returned to the Assembly.

In other developments, the government will avail itself much faster, and to a much greater extent, than originally planned of the $4-billion Euromarket loan negotiated in October to stabilize and support the franc. Paris has already drawn the $1.3-billion first tranche and, as pressure on the currency continued, officials confirmed that the treasury will claim the remaining $2.7-billion standby facility. (The Bank of France was forced to maintain its interventions on the exchange markets on behalf of the franc. For the week ending on Nov. 18, for instance, the Bank reported a foreign exchange loss of FF 1.4 billion.)

The consortium banks participating in the issue were unpleasantly surprised by the government's revelation of the full drawing of the loan because their yield will drop: they would have earned an 0.25% commitment fee for the undrawn portion without involving their assets.

French Government Curtails Export Promotion Aids

A virtual cost explosion of public expenditures in export promotion is forcing the French government to make considerable cutbacks in this area. In the 1983 draft budget, Paris is reducing the various aids for the first time, despite the fact that it is estimated that France's foreign trade deficit will reach FF 100 billion this year, as compared with some FF 60 billion in 1981.

According to a parliamentary report based on figures compiled by the Foreign Trade Ministry, expenditures in connection with procuring large foreign orders rose from FF 2.48 billion in 1972 and FF 4.38 billion in 1978 to FF 17.52 billion last year. Between 1980 and '81 alone, these costs increased by 65%, finally forcing the government to make cutbacks.

Under the 1983 budget, state export guarantees covering economic risks will be reduced by 16% to FF 1.07 billion. Interest subsidies will be trimmed by 41.5% to FF 2.28 billion. For two relatively minor positions, the reductions will be even more drastic: state aids toward del credere insurance and foreign travel insurance will be cut by 67.5%, to a total of FF 200 million. The report notes that these aids have been particularly useful for exporters and yet have cost the government relatively little.

The business community predicts that the cutbacks will have a negative impact on the procurement of large foreign orders, which has been expanding from year to year. Between 1970 and 1981, resultant transfers from abroad totaled some FF 500 billion. Foreign orders of over FF 10 million each totaled FF 12 billion in the early 1970s, an average of FF 50 billion annually between 1974 and '78, and FF 91.3 billion last year. At present, pending foreign orders of at least FF 10 million each total FF 130 billion.

Ireland: Fine Gael, Labour to Form Next Government?

In the third general election within 18 months, the complex system of proportional representation in Ireland has, once again, produced inconclusive results, with none of the major political parties having gained an overall majority. Charles Haughey's Fianna Fail, which formed the last government, remains the largest single party, with 75 seats (not counting the Speaker), while Garret FitzGerald's Fine Gael secured 70 seats - a loss and gain of six seats, respectively.

The balance of power, however, is held by the Labour Party, which now has 16 seats, a gain of two. The Workers' Party and the Independents each accounts for two seats and will no longer be a decisive factor for any government needing to secure a parliamentary majority. The new Labour leader, Dick Spring, a lawyer and, at 32, the youngest head of a major political party in the Republic's history, has indicated that he will have no coalition with Fianna Fail if Haughey continues to lead the party. There is a tradition of Labour cooperating with Fine Gael, and FitzGerald's last government depended on its support. Accordingly, most observers predict that Fine Gael will form a coalition with Labour and that FitzGerald will be the new prime minister.

A Labour delegate conference will be held just before the Dail reassembles on Dec. 14, and it is expected to approve this arrangement. Observers point out that such a coalition would at least provide good prospects for a government that would last its full term of office. With an overall majority in Parliament of six, quite comfortable by Irish standards, there would be no need to concentrate on not offending independent members, as Haughey had to do because of his very slim majority.

The new government would also be expected to make up for the relative inactivity of the past two years by undertaking drastic measures to improve the economy. Government borrowing should be reduced, and a cut in social services appears inevitable if the economic decline, which is already causing much concern among Ireland's European partners, is to be arrested.

Switzerland: Voters Want Permanent Price Surveillance

In a Nov. 28 constitutional referendum, the Swiss voters accepted a consumers' initiative for the introduction of permanent price surveillance in Switzerland. The proposal was supported by 56.5% of the participating voters and opposed by 43.5%. In the same referendum, the electorate rejected by a wide margin a counter-initiative sponsored by the federal government which would have confined official price surveillance to exceptional circumstances - economic boom periods with very high inflation, for instance. At present, the Swiss inflation rate stands at 6.2%.

The proposal "for the prevention of abusive prices" was initiated in 1979 by a consumer organization which collected 133,000 signatures for this purpose. The initiative was in reaction to the 1978 expiration of the price surveillance system that had been established five years earlier by economic emergency decree. The referendum result of Nov. 28 constitutes, in effect, an order to the federal government to establish "indefinite and competitively motivated price surveillance of enterprises with a strong market position, particularly of cartels or cartel-like associations..." The government will comply via a modified Article 31 of the federal constitution.

Spokesmen for the business community, which had opposed both the consumers' initiative and the government's proposal, warned of a new bureaucracy building up in this area and argued that permanent price surveillance would, to a large extent, parallel the function of the Cartel Commission, whose job it is to investigate price cartels and unfair market practices.

Italy: Fanfani Succeeds in Forming Four-Party Coalition

After two weeks of negotiations, Amintore Fanfani was successful in assembling a new Italian government on Dec. 1, when his cabinet took the oath of office. The coalition is made up of Fanfani's own Christian Democrats, the Socialists, Social Democrats, and Liberals. Despite the fact that the party of Fanfani's predecessor, the Republicans, is no longer represented in the government, many key ministries remain in the hands of the same men. Some changes occurred, however, in the economics and finance departments: Guido Bodrato (Christian Democrat) has been named budget minister, Giovanni Guiseppe Goria (Christian Democrat) is the new treasury minister, and Francesco Forte (Socialist) heads the finance ministry.

Sweden: More State Control of Banks; State Holding in Crisis

Sweden's new Social Democratic government plans to push a bill through Parliament which would allow the state to appoint the chairmen of the supervisory boards of the country's commercial banks. The state has been represented on the supervisory boards of the banks since 1971, but the chairman plays a more active role in the banks' day-to-day business. Bankers have already protested the proposal.

Finance Minister Kjell-Olof Feldt explained in an interview that the plan is in line with proposals agreed to at the Social Democrats' party conference in the fall of 1981, following a report prepared by former finance minister Gunnar Sträng. The report urged more "democratization" in the banking sector and criticized the banks for being overly conservative in the financing of technical innovation as well as for avoiding competition with one another.

In other news, the government plans to rescue the major state holding company Statsföretag from an impending cash crisis by spinning off the company's major loss makers into separate entities. Statsföretag is the parent company of about 30 state-controlled firms and is expected to show a loss of about SKr 1.8 billion this year.

In an announcement to Parliament, the minister for state industry, Roine Carlsson, explained that the reorganization is to take the form of a "purchase" by the state of the loss-making subsidiaries. Since the government already owns the firms, it is effectively acquiring them a second time over. The crisis companies affected are the LKAB mining operation, the ASSI pulp and paper group, the SSAB steel company, and Svenska Petroleum, the last two of which are 50% government-owned. LKAB and SSAB are to be combined into a mining and steel conglomerate. The government hopes to find ways to coordinate the activities of ASSI with other state-controlled companies in the same sector, such as NCB, Domänverket (the profitable state forestry company) and Södra (a cooperative-owned firm with a 40% state share). A few loss-makers, such as the chemical firms Beroxo and Berol Kemi, will remain in Statsföretag. Altogether the operation is expected to cost the government SKr 24 billion, but it is hoped that profitable enterprises, such as the pharmaceuticals company Kabi-Vitrum and the tobacco producer Procordia, will provide the holding company with a SKr 240-million profit next year.

Portugal: New, Higher Taxes in Tough 1983 Draft Budget

Portugal's center-right government under Premier Francisco Balsemao plans to boost taxes and cut back on spending in most government departments, according to a tough 1983 draft budget presented recently to Parliament. Lisbon wants to increase the purchase tax and impose an import surcharge and several other new taxes, including a 25% tax on tobacco, a special profits tax, and a levy on business expenses. Death duties would also be higher, and capital gains tax would be increased by 10%. Income tax progression is to be stiffened in the higher tax brackets, while lower income earners would receive some tax relief. In addition, the tax authorities will attempt to reduce the scale of tax evasion.

The new budget aims at a 38% increase in tax revenue but only 30% in spending. The projected deficit of 150.3 billion escudos (on a total expenditure of 720 billion escudos) is nominally the same as in 1982, but in real terms 20% less. However, interest on public debt will climb to 147 billion escudos next year, a 30% increase over the current year.

The government's principal target is a reduction of Portugal's payments deficit, which is expected to reach $2 billion this year (11% of GNP), compared with $2.7 billion in 1981. The main element in the current account deficit is the foreign trade deficit, which was 14.5% higher in the first half of this year than in the equivalent period of 1981. The worst single shortfall was with the U.S.: imports here totaled 36.9 billion escudos (11% of total imports) against exports of only 8.1 billion escudos. This gap is due mainly to massive grain imports following the poor harvest of last year, when the country was affected by a serious drought. A major consequence of the big trade deficit has been the growth of the foreign debt, which is expected to reach $12 billion this year.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: Summit Agreement on Principles, Deadlines

At the Dec. 3-4 European Summit in Copenhagen, the EC's ten heads of state or government did not adopt any concrete proposals, but they did agree on a general course of action to reduce unemployment and on deadlines for decisions in several areas. Although these agreements do not necessarily mean that the Council of Ministers will move quickly on Community measures to help the ailing national economies, they nevertheless indicate a desire to reach compromises. The readiness to compromise was shown by the representatives of two of the most important Member States - Chancellor Helmut Kohl and President François Mitterrand.

It was agreed that the proposals providing for an increase in the Community's new financing instrument from 3 billion to 5 billion ECUs should be adopted by the end of March 1983. The additional funds would be used to help finance infrastructure development, projects promoting the rational use of energy, and investments benefiting small and medium-size businesses. Ex-chancellor Helmut Schmidt had blocked the adoption of these pro-

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posals because of the liability each State must assume in the event the money is not repaid. Schmidt's successor, Chancellor Kohl, is taking a more flexible attitude on the matter, and it is expected that the Bundestag will back him on this issue.

The leaders also said they are ready to approve the Commission's proposals concerning Community support for R&D projects, innovation, the rational use of energy, and development of alternate sources of energy. In contrast to the previous German administration, the new government is open to the Commission's proposal on the rearrangement of working hours as one of several measures to combat unemployment. Thus, the Council working group is being encouraged to speed up deliberations on the measure.

Great significance is being attached to the Summit's commitment "to remove many obstacles to intra-Community trade before the end of April 1983." Around 30 draft regulations and draft directives are pending before the Council, some dating back to 1972. About ten of these measures, pertaining to harmonization of rules on certification of third-country products, transmission of information on national technical standards for goods from other Member States, and reduction of red tape in customs clearance, are ready for adoption. Adoption of the measures in early 1983 could be taken as a signal not only for the development of the internal market but also, if accompanied by additional positive factors, for a general economic upswing.

Continuing Uncertainty Over Spain's, Portugal's Entry

Even after the EC's most recent summit meeting, there is still uncertainty over Spain's and Portugal's admission to the European Communities. At this point, it has not been settled whether the negotiations should proceed so that the two countries could accede by Jan. 1, 1984, or whether they should be delayed so that the ten Member State governments can reassess the implications of the Community's enlargement.

Last month the European Parliament adopted a resolution insisting that Spain and Portugal be brought into the Community by Jan. 1, 1984, at the latest. Spain's new prime minister, Felipe Gonzalez, expressed the hope in his policy address to Parliament (see page 7) that Spain would become a member within the next three years. Last June the European Council requested from the Commission a report on the problems that would confront the Community if Spain and Portugal joined the EC. Many Brussels observers saw the request as an excuse to delay admission.

There are a number of problems, but the most serious ones involve agriculture and the ensuing costs. Both Spain and Portugal are major producers of wine, fruit, vegetables, and olive oil, and France, Italy, and Greece fear the competition. All of the Member States see an additional burden for the Community because Spain's and Portugal's surplus agricultural produce would have to be taken off the market at considerable cost, and there is disagreement about how this should be financed. Most Member State governments and the Commission believe that the Community's own resources (made up of revenue from customs duties, agricultural levies, and 1% of the national VAT base) will not suffice. However, Germany and the U.K. do not concur with the other States on this point: they argue that cuts in common agricultural policy expenditures would provide enough funds should the present resources turn out to be inadequate. Before agreeing to an enlargement of the EC, France wants to see an improved situation for the Community's farmers along the Mediterranean coast.

In Brief...

Italy has been authorized by the Commission to ban the import of Japanese motorcycles until the end of the year. Permission was granted under Treaty Article 115, which empowers the EC executive to authorize a Member State to take protective measures if necessary + + + With the conclusion of a new agreement on trade in textile products between the EEC and Hong Kong for the 1983-86 period, the Community has so far concluded 24 of the 27 agreements it wants completed before the end of the year. All of the agreements, negotiated on the basis of the Multifiber Arrangement (MFA) and its Protocol on the Extension of Dec. 22, 1981, contain quantitative restrictions on a number of textile products and also include provisions to prevent a sudden surge in imports and circumvention. Agreements with South Korea, Macao, and Argentina have yet to be concluded + + + The Commission has decided to sell 25,000 tons of butter to the Soviet Union, lifting the embargo that was imposed in December 1979 following the Soviet invasion of Afghanistan. Half of the butter to be put out for tender will come from EEC intervention stocks and half from private stocks. This approach was necessary because not every Member State has the butter stored in government warehouses. On Dec. 22, the Commission will decide which offers to accept.

Britain: New Tax Return Form to Be Tested by Companies

The U.K. Treasury has given details of a pilot exercise to be conducted by the Inland Revenue next year, when some 1,500 companies and 250 accounting firms will be invited to participate in testing a new type of tax return form. The experiment, which will have important fiscal implications for businesses, will involve, for the first time, self-assessment for purposes of determining corporation tax liability. The firms taking part in the test will be drawn from a wide range of manufacturing and service industries and be of varying sizes; similarly, the accounting firms will differ widely in size and be located in all parts of the country. Initially, the new tax return forms will be completed in addition to the existing formalities for determining corporation tax, rather than as an alternative. However, if the pilot exercise is deemed a success, it could pave the way for new methods of estimating and collecting the tax, which could benefit not only the taxpaying company but also its advisers and the Inland Revenue itself.

When the Conservatives came to power in 1979, they pledged to simplify the U.K. tax system and make it cheaper to operate. The new move, announced by Nicholas Ridley, a junior Treasury minister, is viewed as a direct result of that pledge. Moreover, it could also be a prelude to a similar system of self-assessment for the self-employed, who at present are taxed under Schedule D *(Doing Business in Europe, Par. 23,809D)*. Ridley said that the feasibility of such a change would be examined in due course in a discussion document, but one difficulty was that many Schedule D taxpayers had other sources of income. Another problem was that the terms of assessment and dates for payment varied according to the kind of earnings. Precedence would be given to computerizing the "pay-as-you-earn" system and self-assessment for corporation tax, but Ridley emphasized that any moves toward a different system would need very careful consideration, especially when any changes could affect businesses and their cash flow.

The Inland Revenue is concerned that the proposed changes would result in a substantial cutback in staff. It also argues that there could be a net loss in the actual amount of tax collected because self-assessment almost always leads to underpayment of tax. In any event, Ridley indicated, early legislation on self-assessment appears unlikely, as opposed to the situation pertaining to tax rates on company cars, which are to be raised in the 1983 budget. Ridley also foresaw the possibility of an eventual merger of income tax and National Insurance contributions *(Doing Business in Europe, Par. 23,955B)*.

France: Pension Benefits; Minimum Wage; Stock Savings Law

The French government, in a surprise move, has scaled down early retirement benefits with immediate effect. Previously, anyone who had reached the age of 55 and volunteered to give up his job was eligible to draw about 70% of his gross wages or salary in early retirement benefits. This amount has now been reduced to 65%, up to a gross pay ceiling of FF 7,080 per month; beyond this level, benefits are reduced to 50%. In addition, workers who choose to retire early are required to contribute 5.5% of their pension benefits to health insurance coverage.

In other news, the Mitterrand administration has raised the legal minimum wage by 3.3%, from FF 19.64 to 20.29 per hour or from FF 3,404 to 3,517 per month. The adjustment, effective Dec. 1, is the third this year and represents a compromise between the government's austerity targets and the labor unions' demands. Measured against the forecast 1982 inflation rate, the increases constitute a 3.2% real-term boost in purchasing power, whereas the government at one time had pledged a 4% increase. However, the difference is to be made up next year. Along with the minimum wage adjustments, the cabinet also decided to raise the lowest civil service salary levels by 2% as of Dec. 1.

The French National Assembly, meanwhile, has passed the government's new stock savings promotion law with one important change. Just before the vote, the administration itself withdrew the bill's Article 52, which had provided for a tax credit *(avoir fiscal)* instead of the existing tax reduction for share investments under the program. The legislation allows an income tax deduction of 25% for net stock purchases of up to FF 7,000 per taxpayer (FF 14,000 for married couples). Stock savings accounts under the program may be opened as of Jan. 1, and the full tax deduction may be claimed after a minimum waiting period of five years. The measure is meant to encourage long-term savings and generate new capital for the securities markets.

Belgium: Government Undeterred by General Strikes

One-day general strikes on Nov. 30 and Dec. 7 called by the Christian CSC and Socialist FGTB labor federations crippled large areas of Belgium on those days and led to severe disruptions, particularly in public transport. The walkouts, staggered by provinces, were in protest against the government's economic austerity policies. Specifically, the unions are opposed to the Martens administration's proposal for a 5% work time reduction in combination with a 3% increase in workplaces, which the government believes would create 75,000 new jobs. The government set a Dec. 10 deadline for the employers and unions to come to an amicable settlement on this issue, and it claimed not to be deterred by the demonstrations. In the absence of an agreement, Prime Minister Wilfried Martens said, the administration might be forced to impose its proposals via emergency decree law.

Germany: Unions' Rigidity in Saarstahl Affair Criticized

The German labor unions, often praised in the past for their sense of realism and flexibility in wage negotiations, are about to spoil their record with their intransigency in the Saarstahl affair, according to observers in Germany. IG Metall, the country's powerful metalworkers' union, has refused to endorse a plan to stave off Saarstahl's bankruptcy. Saarstahl, a subsidiary of Luxembourg's Arbed and one of Germany's largest steel mills with 20,000 employees, was to receive some assistance from its Luxembourg parent company, extended credit from its banks, and additional aid from the federal government. Both the government and the banks made the additional help dependent on the Saarstahl workers doing their share in the rescue effort by contributing half of their 1982 and 1983 Christmas bonuses as loans to the company. (A survey made by the Saarstahl management indicated that a majority of the employees supported this proposal; originally it had been suggested that they forego their bonuses altogether.)

IG Metall has refused to back the plan, maintaining that the government is trying to interfere in the independent collective bargaining process. Government lawyers disagree, saying that present economic conditions require a flexible response and that no one should retreat behind entrenched legal positions. While the officials concede that the constitution and case law protect the collective bargaining parties against interference *(Doing Business in Europe, Par. 23,425)*, they stress that, when the survival of an enterprise is at stake and the employees are prepared to help rescue it, the unions should not stand in the way. Government economists are surprised by the attitude of the union leaders, pointing out that the German unemployment rate is 8.4%, the highest level in 27 years.

In France, Belgium and elsewhere, unions have even supported wage reductions when an employer's survival is at stake. For example, the Luxembourg unions had no objections when management and the works council of Arbed Luxembourg agreed to a unique contract providing for wage cuts of 4.6% for blue-collar workers and salary cuts of up to 24% for board members.

Italy: Rome May Act to End Bank Workers' Strike

The Italian government early this month was standing by to mediate or, if necessary, intervene in the intermittent strike action of the country's bank employees, which has gone on for several weeks and, if the unions have their way, will continue until Dec. 17. Throughout Italy, bank branches have been keeping short, irregular opening hours, and bank employees have been performing their duties on a go-slow basis. The impact on businesses, private households, and tourism has been enormous, and serious delays have affected check clearance, salary and pension disbursements, and the payment of income and value-added taxes.

The unions representing some 290,000 bank employees are demanding gross pay increases ranging from 90,000 to 420,000 lire a month as well as workweek reductions. The employers appear ready to compromise on pay, but they want more flexibility on work arrangements and longer opening hours (at least one extra hour a day). In Italy, banks generally stay open from 9 A.M. to 1:30 P.M., Mondays through Fridays.

So far the government has confined itself to insisting that the two sides not overstep the 16% ceiling Rome has set for pay settlements in the banking sector. But Labor Minister Vicenzo Scotti has offered to mediate in the dispute, and there also has been growing speculation that Rome may have to consider ordering the strikers back to work on the ground that they perform an essential public service.

Greece: Some Tax Increases in Expansionary 1983 Budget

Finance Minister Dimitrios Koulourianos has presented the Greek parliament with his 1983 draft budget, which is aimed at economic expansion and development. The budget calls for total expenditures, including public investments, of 1,159 billion drachmas, a 29.5% increase over 1982. Defense spending is to rise again, by 12.7%, to 151 billion drachmas, and relatively high increases are to benefit the health, welfare, and education sectors.

In comparison with the current year, the Socialist administration expects fiscal revenues to rise by 34.4%, to 870 billion drachmas. It plans to reach that target by imposing new and higher taxes (automobile licenses, gasoline, TV advertising) and by intensifying its campaign to contain tax evasion. The total public borrowing requirement has been projected at 12.1% of GNP, not much less than this year's 12.9%.

Spain: 8% Devaluation as Socialist Cabinet Takes Office

Only two days after taking office, Spain's new Socialist government announced an 8% devaluation of the peseta, dropping the currency's dollar parity from 117 to 128 pesetas. At the same time, Madrid imposed an increase in compulsory bank reserves, from 5.75% to 6.75%.

The parity adjustment on Dec. 5 was the first formal devaluation since the 20% cut in 1977. Actually, the peseta has been floating for several years, and, before the devaluation, it had lost 22% of its value against the dollar in 1982. The administration regards the "dirty floating" allowed by the previous government as not having taken into account the need to compensate for inflation in the peseta's parity, and it intends to practice a "clean float" in the future. The Spanish currency had been under pressure since summer, only recovering somewhat during the high tourist season. During the election campaign in October, speculation intensified again.

In the parliamentary debate on his policy program, Premier Felipe Gonzalez pointed out that Spain has two million unemployed (16% of the working population) and a rising public sector deficit of 1,000 billion pesetas (5% of GNP). Gonzalez pledged to cut inflation by three percentage points (from about 16% at present) in the course of 1983. He also promised to keep the public sector deficit steady and to hold the money supply down to 13% through a rigorous monetary policy. The government aims for economic growth of 2.5% in 1983 and hopes that a consensus on wages can be reached. Financial circles in Madrid expect that the new administration will raise a jumbo loan of $3 billion or more on the international markets in the early months of the coming year.

Portugal: Austerity Budget for 1983; OECD Survey

The publication of the annual OECD survey of the Portuguese economy coincided approximately with the announcement of a tough austerity budget by Premier Francisco Balsemao. In calling for much greater government efforts to take control of state finances, the survey could not make reference to the expected effects of the 1983 draft budget, which provides for a general 10% surcharge on income tax, a 2% increase in purchase tax (to 17%), and a voluntary pay rise limit of 17%. The government also pledged a real-term reduction of 20% in public spending next year.

In its budget message, the administration predicted for 1983 a real-term growth rate of 0.5%, an inflation rate of 19%, and a current account deficit of $2.1 billion. The OECD's figures differed considerably in two of the three areas: 2% growth, 20% inflation, and a current account deficit of $3.1 billion. However, the OECD itself points out that it is often difficult to make reliable predictions on the basis of sparse official statistics on the Portuguese economy. Even for provisional estimates concerning the current year, the figures published by Lisbon differ considerably from those of the OECD.

Common Market Reports

EUROMARKET NEWS

Issue No. 727 *Report No. 464, December 22, 1982*

IN THIS ISSUE

Community: 'Buy Irish' Drive Held Illegal by EC Court

The European Court of Justice has held that a Member State government supporting a sales campaign for domestic products violates the Treaty of Rome. According to the Court, giving financial or other material help amounts to a quantitative restriction, which is banned under the Treaty's Article 30 *(Common Market Reports, Pars. 321, 322)*.

In 1978 the Irish government had launched a three-year program to promote the sale of domestic products. The Irish Goods Council, an organization whose chairman and management committee members were appointed by the government, was given Ł1 million a year to carry out the campaign. The share of Irish products sold in Ireland was to be increased by 3%, by holding exhibitions and distributing the "Guaranteed Irish" emblem, among other things.

When the Irish government refused to withdraw support for the campaign as it was ordered to do by the Commission, the EC executive brought suit. In addition to alleging that the program was equivalent to a quantitative restriction, the Commis-

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sion also maintained that the Irish Goods Council was a public authority within the meaning of Commission Directive No. 70/50/EEC of Dec. 22, 1969. Based on Treaty Article 33(7), this directive bars public authorities from doing anything to encourage the purchase of domestic products because this constitutes a measure having the same effect as a quota *(Common Market Reports, Par. 336.05)*.

Commission lawyers expect the judgment to discourage other Member State governments from becoming involved in "buy national" campaigns. Earlier, the British government had earmarked £14 million for a "Food From Britain" campaign. Commission lawyers are looking into the plan, whose object is to increase the sale of British farm goods in the U.K. It is hoped in Brussels that the British government will withhold the promised financial support in light of the Court of Justice's ruling. (Judgment of Nov. 24, 1982, Case No. 249/81, *Commission v. Ireland.*)

Commission Sets Condition for Saarstahl Rescue Plan

The Commission has given its approval to the German government's rescue operations for troubled Saarstahl, but permission was given only until June 30, 1983. In its letter to Bonn, the Commission makes an extension of its approval for further aid dependent on the condition that Saarstahl cut its rolled steel capacity by 500,000 tons by mid-1983. Bonn was asked to present proposals on the matter by the end of next April.

The German government considers the Commission's request inequitable because steelmaking in Germany has been cut by 300,000 tons in recent years, while steelmakers in other Member States have kept up full production with their governments' financial assistance. The Commission should not forget, Economics Minister Otto Lambsdorff pointed out, that the German steel industry, in contrast to that of other States, is privately owned, and the government does not have the power to influence management decision making. Lambsdorff said that a further cutback of 200,000 tons could be talked about in next year's negotiations.

On Dec. 9, the German government agreed to release some DM 175 million in emergency aid to Saarstahl GmbH, a subsidiary of Luxembourg's Arbed group. Saarstahl needs the money to continue operations until the beginning of 1983, when the government's two-year plan involving an additional DM 500 million in financial assistance goes into effect. Bonn's Dec. 9 decision was made possible after the unions reversed their stand and consented to the government's condition that employees lend half of their 1983 and 1984 Christmas bonuses to their employer; this would amount to DM 58 million.

Members of Parliament and business executives have criticized the government for giving the DM 175 million in order to save 20,000 jobs. The Saarstahl plant, completed in early 1981, has already cost taxpayers some DM 2.3 billion, the critics point out, and they believe a poor example is being set for other branches of industry. The shareholders' representatives were against building the plant in the first place, but they were overruled when the 21st member of the board, the so-called neutral man, who happened to be a former union officer, voted with the labor representatives.

In Brief...

Several attempts by the Court of Justice to establish a lower tribunal to hear staff cases have foundered because of the cost involved, but Court officials reportedly believe that the Council is just using the cost issue as a pretext, because a lower tribunal would free the Court to concentrate on important pending cases, which some Member State governments would consider undesirable. (Of the 1,250 cases before the Court of Justice at the end of November, some 950 involved suits by employees against Community institutions.) + + + The Commission has fined, for the third time, the German steelmaker Klöckner-Werke AG, Duisburg, for ignoring the production quotas set under the 1981 crisis system. The latest fine of DM 49 million, imposed for producing more than allowed for the third quarter of 1981, brings the total of Klöckner's penalties to DM 78 million. Appeals against the two previous fines are pending before the Court of Justice, and the Klöckner management is reportedly determined to fight the third fine too. The company has brought a separate action against the Commission, contending that the quota allotted by the Commission was not equitable.

France: Communist Union Set Back in Labor Court Voting

The Dec. 8 national elections for the French labor courts, in which employers and unions are equally represented, have resulted in a setback for the Communist-led CGT (Confédération Générale du Travail). The union's voting support went down from 43% in 1979 to 36.8%, although its representation still remains the largest of all unions. Virtually no change was recorded for the Socialist CFDT (23.5%) and the country's third-largest labor federation, the politically neutral and moderate Force ouvrière (17.8%). In relative terms, the best results were achieved by the less powerful unions at the political right or center - for instance, the CGC union of management employees *(cadres)*, which went up from 5.2% to 9.6%, and the reformist Christian CFTC, which raised its share of the vote from 6.9% to 8.5%.

On the employers' side, the best results were achieved by the association of small and medium-sized businesses. The dominating CNPF *(Patronat)*, on the other hand, which represents mainly large businesses, saw its share of the vote drop from 91.3% to 77.4%. This development was blamed largely on the efforts of Patronat chief Yvon Gattaz to achieve a measure of cooperation with the government. As many observers see it, Gattaz has the problem of being considered "too soft" by many Patronat members, while being accused by the governing Socialists and Communists of trying to "blackmail" the government into resisting further increases in the social insurance cost burden.

The outcome of the labor court elections was seen as the first test of government popularity since the Mitterrand administration came to power, and it also demonstrated the relative strength of rival unions in light of new legislation that boosts labor's role in industry. The election result came as a particular blow to Henri Krasucki, the CGT's new "hard-line" secretary general, who had vowed to restore his union's sinking popularity. Krasucki blamed the unsatisfactory showing mainly on worker discontent with government policies.

In France, the labor courts *(conseils de prud'hommes)* handle individual disputes between employers and workers. They are composed of lay judges, half of whom are elected by the employers and half by the employees through candidate lists *(Doing Business in Europe, Par. 23,059)*. The new lay judges are appointed for terms of six years. The industrial court system was reorganized under legislation that took effect in January 1979 and extended the courts' jurisdiction to virtually all industrial sectors.

Wage Indexation Concession for Public Sector

The latest collective bargaining agreement for the French public sector, the Paris public transport system, and the national railways again makes provision for full inflation indexation of wages despite the government's recent decision that such indexation clauses have no legal basis. The highly controversial concession falls under the responsibility of a Communist cabinet member, Le Pors, a fact that was duly noted by the political opposition. According to official sources, the government was forced to retreat on this issue, otherwise the Communist-controlled CGT labor federation would not have signed the contract.

The pay agreement for the public sector guarantees, for both the ending year and the year 1983, pay increases of at least 18%, and somewhat higher raises for the lowest wage levels. The full inflation adjustment for that period is to be made in early 1984.

Accusing the government of bending its own rules, business spokesmen said private-sector employers now face the threat of strikes and other labor conflicts if they reject "illegal" indexation clauses for full inflation adjustment. They also charged that the government's action will further accelerate inflation, thereby contributing to the undermining of confidence in the French economy and the franc at a time when such confidence is urgently needed. (Within the three weeks ending on Dec. 10, the Bank of France reportedly lost FF 7 billion in foreign currency reserves through its intervention on behalf of the franc, which once again has become a target of speculation rumors.)

Germany: Postponed Signing of Sea Convention Law

The German government has postponed signing the draft Convention on the Law of the Sea adopted last April by the United Nations in New York and now awaiting signature in Montego Bay, Jamaica. While France, Greece, Ireland, and Denmark, along with 130 other nations, voted in favor of the convention, the other six EC Member States, including Germany, abstained. Four other countries, including the United States, voted against it. The convention will take effect if signed and ratified within two years by at least 60 countries.

The Law of the Sea would set territorial waters at 12 miles and give coastal countries exclusive economic and fishing rights within 200-mile offshore zones. Coastal nations would have unchallengeable rights to oil, gas, and minerals on the continental shelf up to 350 miles offshore. An international seabed authority would carry out seabed mining through a new supranational enterprise working parallel with national or private groups.

The new government in Bonn has even more misgivings about the convention than the previous Schmidt administration. The 200-mile rule means that 90% of the world's fishing grounds would become the property of the coastal countries. Foreign trawlers could enter these waters only by first obtaining permission and paying a fee. Applied to the North Sea, the 200-mile principle means that the U.K. and Norway would get 80% of the oil resources there, leaving little for Germany. Bonn objects most, however, to the seabed mining rules. The government fears that the international seabed authority will have a monopoly in controlling seabed resources and could even be dominated by the developing countries.

Bonn also sees substantial costs ahead in connection with the convention. Since the United States is not going to sign the draft, the financial burden for the other signatories would be that much greater. It is estimated that the establishment of the international seabed authority and the supranational enterprise would cost Germany about DM 420 million. The provision in the convention making Hamburg the seat of the new international tribunal to settle disputes is reportedly of little consolation to the German government.

Britain: ICMA Name Change; Accountants' Training

Contrary to previous indications, the move of the U.K.'s Institute of Cost and Management Accountants (ICMA) to describe its members as "chartered" management accountants is running into opposition from the Institute of Chartered Accountants in England and Wales. The latter's president, Eddie Ray, said the ICAEW's Council believes the ICMA's proposed name change, for which it is seeking Privy Council approval, would cause confusion in the public's mind. Earlier this year, Ray had indicated that the ICAEW's members might not be opposed to the change, provided there was no likely risk of confusion.

The ICMA's president, Derrick Willingham, said he was disappointed by this opposition but that the Institute would proceed with its application after the proposal had been approved by a general meeting of ICMA members. Willingham discounted the possibility of confusion, saying that his Institute members did not, in fact, offer services directly to the public but were employed in industry, the civil service, and the armed forces. The Institute had enjoyed chartered status since 1975, and it was only "right and proper" that this should be reflected in the organization's name and the designation of its members. The ICMA is the U.K.'s principal management accounting body, with some 21,000 members.

In related news, the Council of the ICAEW has approved in principle a fundamental change in the way chartered accountants are trained, which is likely to have important implications for the profession.

At present, all chartered accountants must receive their training in an accountancy practice, even if they do not intend ultimately to carry out audits but to work in industry. It is now proposed that it should be possible for that training to take place in an industrial company. It was stressed that such a change would be effected only after close consultations with members and that a two-thirds majority vote of approval would be required. (The ICAEW's next annual meeting is in mid-1984.) No dual system of ICAEW membership is contemplated, but those who trained and qualified in industry would have to spend a specified period in an accounting practice before being permitted to either practice themselves or carry out audits.

Italy: Framework Agreement Ends Bank Workers' Strike

Most of Italy's commercial banks operated with regular opening hours on Dec. 9, marking the end of the extended, intermittent strike of the country's 290,000 bank employees which had caused serious inconveniences for both businesses and private individuals for many weeks. The end of the strike was provisionally agreed upon by the employers and the major labor federations; the draft contract still had to be sanctioned by the works councils. In the meantime, only a small, autonomous union said it would continue "agitations," but no major disruptions were expected as a result.

The framework collective agreement for the banking sector was signed after four days of around-the-clock negotiations as well as mediation efforts by Labor Minister Vicenzo Scotti. It provides for pay increases of 16% for the current year (in line with the anticipated inflation rate), 13% for 1983, and 10% for 1984. It was reported that these improvements satisfied about 75% of the unions' previous demands. A compromise was also found for the issues of work time reductions and extended opening hours. The workweek will be shortened to 38 hours, from 38.5, while the banks will be able to remain open for an additional hour. They will have the choice of staying open until 2:30 P.M. (now 1:30 P.M.) or reopening in the afternoon, from 3 P.M. to 4 P.M.

Sweden: Social Democrats, Communists Argue Over VAT Rise

Sweden's Communist party, which is the smaller partner in a coalition government with the Social Democrats, has threatened to vote against the Social Democrats' plan to raise value-added tax in order to pay for increased social spending. The money is needed to cover the cost of canceling budget cuts, such as the ending of inflation indexing for pensions and the introduction of a delay in sickness benefit payments, which were introduced by the previous liberal-conservative government. Proposing a 2% VAT increase, Premier Olof Palme says that the budget changes must be made to fulfill election promises, but the Communists argue that their election promise to oppose any increase in food prices is just as important. If the Communists do vote against the plans, their votes will add to those of the Conservatives, which will insure the defeat of the measure.

Since the Communists are thought unlikely to want to bring the nonsocialist parties back to power, they may well back off from their threat in the end, especially if Palme offers them a face-saving formula. Some Social Democrats, however, have urged that there be no compromise, and parliamentary party leader Lilly Hansson wants new elections if the Communists vote against the government.

Norway: Government Report on Oil Field Development

In a White Paper submitted to Parliament, the Norwegian petroleum and energy minister has outlined tentative proposals for developing additional offshore oil and gas fields as a way of offsetting anticipated declines in offshore investment, expected as of 1984, and in production, as of the early 1990s. Production from Norway's continental shelf should increase from 50 million tons annually at present to 60 million tons by 1989, but then it would fall off steeply, necessitating the development of new fields in the next few years.

EURO COMPANY SCENE

Citibank and First National Bank of Chicago are reportedly among the six foreign banks in Sweden that plan to convert their representative offices to full service branches once the pertinent Swedish law is changed accordingly. Under present legislation, foreign banks may not conduct their own banking operations in Sweden.

The United States' Citicorp has received permission to establish a new subsidiary in Switzerland, to be named Citicorp Bank (Switzerland). Headquartered in Zurich and with branches in Geneva and Lugano, the new bank will offer merchant banking services that previously came under the jurisdiction of Citicorp International Finance SA, Geneva.

Prime Computer, Inc., the mini-computer producer based in Natick, Mass., will acquire Compeda, the U.K. computer-aided design subsidiary of the British Technology Group. The terms were not immediately revealed, but British press reports said they were believed to involve a cash payment of £1 million and annual royalties and development costs of at least that amount. Computervision of Bedford, Mass., had also been a bidder for Compeda.

Most of the production of Caterpillar Tractor's main fork lift plant at Mentor, Ohio, is to be transferred to the company's British plant in Leicester. Slumping demand, severe price competition, and overcapacity were blamed for the decision to consolidate production. The company indicated that the Leicester plant in the future would meet most of the international export demand for its lift truck models, though no output targets were revealed.

The Canadian farm equipment manufacturer Massey-Ferguson plans, via its British subsidiary Massey-Ferguson Holdings, to spend £11 million over the next three years to improve productivity at its Coventry tractor plant, described as the largest Western facility of its kind. At the same time, the company is transferring production from its Detroit plant, which will add some 3,500 units annually to Coventry's assembly operations.

Common Market Reports

EUROMARKET NEWS

Issue No. 728 *December 30, 1982*

IN THIS ISSUE

Community: Council Takes Tougher Stance Against Japan

Disappointed by the lack of progress in the bilateral discussions between EEC and Japanese officials, the Council of Ministers has taken a tougher stance on changing the Community's lopsided trade balance with Japan (an $11 billion deficit in 1981 and an even higher one expected for 1982). At its Dec. 13 meeting, the Council decided on several firm steps, one of them being to take the Community's case to the GATT forum at large. This procedure, provided for in GATT Article 23(2), has the advantage that all GATT parties may make recommendations or deliver a ruling. Observers see difficulties ahead if the multilateral discussions lead nowhere and the issue would have to be settled through arbitration. The problem then would be the selection of the arbitration committee members, since few countries, especially those in the third world, would want to have their relations with Japan prejudiced.

At the Dec. 13 meeting, the Council also instructed the Commission to remind the Japanese government of the Community's request that as of 1983 it exert "an effective and clearly defined policy of restraint" for those Japanese export industries

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that are causing problems for European manufacturers. The Commission was asked to report back by Jan. 24. The instructions fell short of demanding export limitation commitments from Japanese exporters, but the French minister of European affairs, André Chandernagor, left no doubt that his government will soon demand such commitments.

The Council agreed with the Commission's intention to extend the validity of the surveillance system covering the importation of certain Japanese products (it expires at the end of '82) and to expand the system after consulting the Member States. In effect since March 1981, the system surveys imports of cars, color TV sets and tubes, and machine tools. There have been demands that video recorders and small trucks be included as well.

Group of Experts to Analyze U.S.-EC Farm Policy Rift

The EEC and the United States have temporarily avoided an open trade war over farm policies by commissioning a group of experts to analyze the issues involved. The group is supposed to report back by March. The U.S. government's main bone of contention has been the Community's use of subsidies to sell its surplus commodities to the rest of the world at prices far below those in the EEC. By using subsidies, which cost less than storing surplus commodities, the EEC has become the world's biggest agricultural exporter after the U.S. Washington also contends that the surpluses are being generated by artificially high prices paid to EEC farmers under the common agricultural policy.

U.S. Secretary of Agriculture John R. Block said after the Dec. 10-11 meeting in Brussels of four EEC Commissioners and a U.S. delegation that his government is not against the CAP as such but has misgivings about its spillover effect. He added that the EEC is seriously distorting world trade in farm commodities by using its industrial strength to dispose of unwanted by-products of CAP.

In a recent report, the Commission responded to the charges by contending that the United States is also subsidizing farmers, on an even larger scale than the EEC. It said that the Community is the world's biggest importer of agricultural products, especially from the developing countries. Commenting on the upcoming work of the experts, Commission President Gaston Thorn and Agriculture Commissioner Poul Dalsager asserted that CAP cannot be the topic of negotiations. Dalsager added that asking for radical changes in CAP would be like demanding that the United States amend the Constitution.

In Brief...

The conclusion of the bilateral agreement on Dec. 13 between South Korea and the EEC over import restrictions on textiles enables the Community to withdraw its reservation about adherence to the Multifiber Arrangement, which had been renewed for the second time in December 1981. Bilateral agreements had been concluded earlier with 25 other textile exporting countries (TEC). The EEC had made adherence to the MFA dependent on the conclusion of agreements with the 27 exporting countries. Argentina is the only TEC that remains outside the negotiated accords governing textile exports to the EEC during the 1983-1986 period. In this case, the negotiations failed to get off the ground because of the dispute over whether the Falkland Islands should be included in the agreement. Thus, after January 1, textile imports from Argentina will be subject to the autonomous system: the Community imposes a high levy or bars imports that exceed two-thirds of the previously agreed levels + + + France has announced its willingness to defuse an environmental controversy involving six countries, five of them bordering the Rhine River. Paris is prepared to reduce by one million tons a year the salt discharges into the Rhine from the French Alsatian potassium mines. This is two million tons less than agreed among France, Germany, the Netherlands, Luxembourg, and Switzerland in the 1976 convention. (Two-thirds of the salt would be placed in underground caves; the other third would go to a salt factory yet to be built.) Although France has already received FF 92 million from four signatory countries, it has not yet ratified the convention. The bill will be submitted to the National Assembly in the spring, the French government said.

Germany: Deliberate Defeat Clears Way for Elections

By engineering a deliberate defeat in a vote of confidence in the Bundestag on Dec. 17, Chancellor Helmut Kohl has done his part to clear the way for early general elections in Germany next March. It is now up to federal President Karl Carstens to decide whether elections will be held; he has 21 days to reach a decision. The German constitution gives the president this discretion, but Bonn sources report that Carstens is not likely to stand in the way of elections, considering the pronounced will of the Bundestag.

Since Oct. 13, when Chancellor Helmut Kohl promised to call for national elections to let the voters decide whether they approve of the course of the new coalition government, many arguments have been advanced for and against general elections brought about by a manipulated defeat in Parliament. A number of constitutional lawyers say that the procedure of deliberately losing a vote of confidence (all but eight of the Christian Democratic and Free Democratic deputies abstained) in order to pave the way for general elections cannot be reconciled with Germany's Basic Law. The *Grundgesetz* does not provide for, or require, general elections when a new government comes to power through a switch of a coalition partner in the midst of a legislative session. The seven-vote majority that Kohl has is sufficient to govern, the experts say.

An overwhelming majority of Chancellor Kohl's backers as well as the Opposition are in favor of new elections and believe that the applied procedure can be reconciled at least with the spirit of the constitution. The procedure was followed once before, in 1972, but the situation was quite different because then chancellor Willy Brandt no longer had a majority. Kohl wants a mandate for a full four-year term because of the magnitude of economic problems that must be solved *(Doing Business in Europe, Par. 40,462)*.

The new coalition partners reportedly intended their political partnership to be of a short-term nature so as to gain passage of the 1983 budget and accompanying legislation before the end of the year *(Doing Business in Europe, Par. 40,467)*. No other government could expect a vote of confidence from the Bundestag, according to CDU/CSU floor leader Alfred Dregger, and if all political parties as well as about 80% of the electorate want general elections, the federal President should use his discretionary powers and clear the way for this procedure.

Ireland: New Fine Gael, Labour Coalition Lists Policies

After a Labour Party conference voted in favor of forming a coalition government with Fine Gael, Garret FitzGerald, the Fine Gael leader, won an overall majority of six in the Irish Parliament on Dec. 14 to become the country's new prime minister. Labour leader Dick Spring became deputy premier. FitzGerald said that he has no doubt that the coalition can remain in power for a full term, until 1987, because of its clear working majority over the combined opposition parties.

Political observers commented that FitzGerald probably had to make a number of concessions in the program worked out between the two parties. In particular, the government's target for the current budget deficit will be about Ŀ900 million (Irish) rather than the Ŀ750 million originally proposed. Additional government expenditures of up to Ŀ200 million can be expected next year, but it is unclear where the necessary revenue is to come from.

A National Development Corp. is to be established with the prime objective of job creation through direct state investment in projects specifically geared to exports and "import substitution." The agency would act as a holding company for the principal nationalized industries and would have Ŀ200 million available for equity investment in new projects. Unemployment is still rising in Ireland, and there are fears that the total number of jobless will reach 200,000, or nearly 16% of the work force, before long.

The government's policy document emphasizes that Irish goods and services must be made more competitive, a goal to be achieved by a "shared effort" between management and labor, leading to an increase in productivity. There would have to be a "realistic approach" to income increases. However, the document does not specifically discuss pay in the public sector, which has proved very inflationary in the past two or three years.

A "determined attack" is to be made on inflation, which at present stands at 17%. New capital taxes are to be introduced, which should raise about Ł100 million annually. There is to be an income-related real property tax, and those earning more than Ł20,000 a year would be liable to an annual tax of 1.5% on the excess value of residential properties worth more than Ł68,000. Company law is to be strengthened, and changes are to be implemented in the way banks and financial institutions are taxed at present to yield a larger annual sum. A deflationary budget is expected to be submitted by the government at the end of January.

Italy: Tax Amnesty Extended Until Mid-March

One of the first official acts of the new Italian government has been to extend until mid-March the current tax amnesty period, which originally was to have ended on Dec. 15. The amnesty had been proposed by the previous Socialist finance minister, Rino Formica, to combat tax evasion, and pertinent legislation was passed last August. Under its provisions, individual and corporate taxpayers can settle any tax debts retroactively for the past six years through lump sum payments. The deadline was extended once before, and the disruptions caused by the recent bank employees' strike were given as an explanation for the latest extension.

Commentators were quick to note, however, that the strike was not the sole reason for the extension, pointing to the unsatisfactory results of the government's campaign. Not only has the amnesty procedure been used too often (the last time in 1973), but taxpayers are also wary of possible penal consequences of past evasions. To quiet these fears, the new finance minister, Francesco Forte, wants the deadline extension combined with a government pledge not to prosecute in cases where the amnesty might uncover additional incriminating information. The relatively long three-month extension was granted to enable Parliament to pass the necessary legislation.

The question now is whether these assurances will persuade enough taxpayers to step forward and settle their fiscal obligations. Self-employed individuals, in particular, are notorious in Italy for understating their incomes. According to figures for the year 1978, for example, physicians declared an average taxable income of 7.8 million lire a year, lawyers 6.1 million lire, and engineers 6.3 million lire. Other categories of self-employed persons declared incomes even below these levels, and the situation among certain types of retailers was even more unbelievable. It has been determined that employees, through withholding taxes, contribute 80% of direct tax revenues in Italy.

France: Demands, Proposals Made at Employers' Rally

The French business community on Dec. 15 staged a widely publicized rally in support of its belief in the free enterprise system. The unprecedented mass meeting of some 20,000 members of the CNPF (Patronat) employers' federation at Villepinte, near Paris, had the dual purpose of alerting the public to the employers' difficult economic situation and offering partnership and cooperation to the government in exchange for certain concessions.

Among the proposals and demands presented in the "Charter of Villepinte" were (1) the successive reduction of employers' social insurance contributions by a total of 10% over the next five years, (2) the reestablishment of "law and order" in enterprises (referring to illegal plant occupations and other labor conflicts), (3) the abolition of price controls and excessive administrative curbs, (4) the introduction of a loss carry-over over three business years, (5) the abolition of commercial and net worth taxes on fixed assets, (6) no further expansion of labor union privileges, and (7) fiscal measures to promote investments. In return, the employers are prepared to do everything in their power to provide work and training for the 600,000 school and university leavers who enter the labor market every year as well as for the 150,000 individuals who have been unemployed for longer periods.

In recommendations to its own members, the CNPF advocated more employee codetermination by way of improved job training and more intensive management involvement of *cadre* employees. Also, the Patronat urged a publicity campaign with the aim of educating the public about industry's service to the nation.

Cabinet Feud Over State Investment Bank Proposal

A confrontation has arisen within the French cabinet over the proposed establishment of a state investment bank. Supported by a majority of the Socialist Party, of which he is a member, Industry Minister Jean-Pierre Chevènement favors such an institution as a means of centrally administering and coordinating the financing of investments by state enterprises. Economics and Finance Minister Jacques Delors, on the other hand, is adamantly opposed to establishing yet another state bank, arguing that France's existing nationalized banking system is capable of doing the same job and that further government involvement in this area is not advisable.

The idea of a separate state investment bank was part of the Socialists' program prior to the 1981 elections, and it was reconfirmed by the party's executive board at the end of last month. Generally, the Socialist leadership envisions a "new credit policy" on a contractual basis, which effectively would obligate enterprises to fulfill certain conditions in the areas of technology, employment, social welfare, and occupational training as a precondition to obtaining bank loans. The investment bank would raise capital on the domestic and international markets, and its shareholders would be the existing state-controlled banks and financial institutions.

Greece: Income Restrictions Extended to Private Sector

In a move that surprised virtually everyone, the Greek Socialist government on Dec. 13 submitted to Parliament a decree law that invalidates until the end of 1983 any private-sector pay agreement whose terms exceed the income limits previously imposed by Athens on the public sector. The legislation was attached as a rider to another bill in order to speed its passage.

The new rules mean that employees in the private sector will receive pay adjustments of 5% on Jan. 1, in compensation for only 50% of the price inflation of the last four months of 1982. (Greece's current annual inflation rate stands at about 21%.) The other half of the adjustment is to be paid on May 1 and would amount to an increase of about 3.5%. Inflation compensation for the January-August period is to be paid on Sept. 1. Employees in medium and high pay brackets will receive lower adjustments or none at all. Employers who grant raises higher than those officially prescribed will not be allowed to set off the extra costs against taxes.

The government action triggered sharp protests by the Communists and the labor unions, which complained that the decree violated the right of free collective bargaining and was inequitable because it was not accompanied by a price freeze. The right-wing New Democracy opposition party described the move as a "coup" and as unconstitutional because it was not contained in separate legislation. The country's bank employees staged a 24-hour walkout on Dec. 15, protesting motorists created a traffic jam in downtown Athens, and strikes and demonstrations were predicted for other sectors.

Portugal: Premier Balsemao Resigns; Search for Successor

Portugal's Social Democratic prime minister, Francisco Pinto Balsemao, resigned on Dec. 19, one week after his Social Democratic party suffered substantial losses in the communal elections. It was not immediately clear whether the party would recruit a successor from its own ranks or whether President Antonio Ramanho Eanes would name his own candidate. Finance Minister Joao Salgueiro and ex-premier Carlos Mota Pinto, both Social Democrats, were mentioned as prime contenders.

EURO COMPANY SCENE

General Felt Industries, Saddle Brook, N.J., has acquired a 14.1% interest in the London-based Sotheby Parke Bernet auction house for about $13 million. The share purchase itself was made by GFI-Knoll International, a company designing furniture and textiles and a wholly-owned GFI subsidiary. GFI's co-chairmen are Marshall F. Cogan and Stephen C. Swid, who describe themselves as avid art collectors.

Occidental Petroleum of the U.S. is dissolving its year-old joint venture with Ente Nazionale Idrocarburi (ENI), Italy's state energy holding. The withdrawal from Enoxy Chimica SpA was brought on by Oxy's refusal to participate in the proposed takeover of Montedison petrochemical plants in Italy. Under a government plan, ENI and Enoxy were to have purchased the loss-making and largely obsolete plants, so that Montedison could concentrate on secondary chemicals production. Only a year ago, Oxy president Armand Hammer had described the joint venture as the most important post-war agreement in the European chemicals sector.

Brinkmann Holding, German subsidiary of the Rothmans International tobacco group, has acquired a 50% interest in the DM 52.5 million share capital of Rowenta-Werke, a leading German manufacturer of electrical household equipment and cigarette lighters. The other shareholder is Sunbeam Corp. (Allegheny International, Pittsburgh). Rowenta reported sales of DM 382.5 million for the 1981-82 business year.

Duracell, the battery production subsidiary of the United States' Dart & Kraft, has bought the Ever Ready continental European battery manufacturing and marketing operations from Britain's Hanson Trust. The transaction, for £37 million in cash, included Ever Ready's German company Daimon, Italy's Superpila, and other facilities in the Benelux countries and Scandinavia.

Alexander & Alexander of the United States, one of the world's leading insurance brokers, has bought a 40% stake in Holland's third-largest insurance broker, Bekouw Mendes Holdings of Rotterdam. At the same time, Marsh & McLennan of New York, No. 1 in the world in this field, has divested itself of a partial interest in Bekouw.

Security Pacific Corp. of Los Angeles plans to acquire a majority share interest in a Geneva-based private bank, Ralli Brothers (Bankers), with assets of about SF 84 million.

Common Market Reports

EUROMARKET NEWS

Issue No. 729 *Report No. 465, January 4, 1983*

IN THIS ISSUE - The Ten at the Turn of the Year

Community: 25th Anniversary of Treaty Signing

In March the European Economic Community celebrated the 25th anniversary of the signing of the Treaty of Rome, but rejoicing was somewhat muted. In the midst of Europe's worst recession since the Great Depression, the Community experienced more internal wrangles as well as disputes with its most important trading partners, Japan and the United States. As the economic crisis worsens, the Community's achievements are threatened by nationalist and protectionist tendencies, with a rapid rise in the number of businesses going bankrupt and rising public deficits. Total unemployment in the EEC stood at 11.7 million at the turn of the year and was growing, and yet no common approach had been found to reduce the jobless rate. Several Commission proposals on the matter are pending, and at the recent Copenhagen Summit the Member States agreed to consider them, especially that on rearranging working time.

The EEC has had internal disputes ever since its establishment. In 1982, the most serious one emerged from the failure to agree on a genuine reform of the Community's only full-fledged policy, the common agricultural policy, which takes up 75% of the budget. Finding a long-term solution for reducing Britain's

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high share of contributions to the EC budget was also not possible, though the settling of the 1982 budget gave the U.K. and its partners a breathing spell. The Council's May decision to override Britain's veto of proposed farm price rises did not, as had been hoped, mean the end of the 1966 Luxembourg compromise, which has prevented the Council from making decisions by majority.

Aside from the large volume of measures on agricultural matters, there was not much legislation in 1982 that was of significance to businesses. Notable exceptions were the "Seveso directive" and the directive on biannual reporting by companies whose shares are admitted to stock exchange listings. Adoption of the lead directive will eventually protect about one million workers against harmful exposure to metallic lead and its compounds.

Once again the European Parliament demonstrated that it is prepared to make use of its limited powers and that the other Community institutions must reckon with it. The EP filed suit against the Council over inaction in the transport sector, the first time that a Community institution has sued another on that ground. Parliament itself is facing a suit over its decision to make Strasbourg the permanent place for its plenary sessions. Parliament's most publicized action was its passing of key amendments to the controversial Vredeling proposal, which would require certain companies to disclose details of corporate policies and activities to employee representatives.

External relations were marred by a deteriorating relationship with the United States and Japan. Although the steel export agreement settled a big problem and President Reagan's lifting of the ban on equipment and technology for the Soviet gas pipeline helped considerably to calm the situation, a major issue involving countercharges over farm subsidies that spilled over into the GATT ministerial meeting in November remains unresolved. The EEC's major thrust against Japan is aimed at forcing Tokyo to improve marketing chances for European products by lowering tariffs and removing administrative obstacles.

In 1982 the Court of Justice continued to strike down barriers to intra-EEC trade, and its Nov. 10 judgment finding that Belgian rules barring margarine imports in other than cubic packaging violate the Treaty was only the latest in a series of similar decisions (Case No. 261/81). The Court reiterated its free trade attitude when it held that a government's support for a "buy national" campaign amounts to a quantitative restriction banned by Treaty Article 30 (No. 249/81). It broke new ground when it held directly applicable the ban on discriminating against imported products provided in the EEC-Portugal accord (No. 104/81). In another decision, the Court gave the Commission an instrument against distortion of competition when it upheld the transparency directive requiring the Member States to provide information on their financial links with state-owned enterprises (Nos. 188-190/80).

Belgium: Economic, Employment Policies by Decree

Unlike previous years, when the headlines were dominated by political rivalries across the national language divide, the most important issue in Belgium in 1982 was the severe recession and how to deal with it. Economic policy disputes and disagreement between employers and unions over a new collective contract forced the center-right government toward the end of 1982 to consider asking Parliament for a renewal of the special emergency powers that had enabled the Wilfried Martens administration to run the economy by decree for a whole year and prevent the ever-expanding budget deficit from getting out of hand.

An enormous burden has been put on state finances by record unemployment, which in November reached 473,600, for a national 11.4% rate, among the highest in the EEC. After the collapse of employer-union talks in November, the government promulgated a new employment law that made provision for a general 5% reduction in work time and corresponding pay cuts. It was hoped that this measure would generate some 80,000 new jobs. To gain union support for its move, the Martens administration reluctantly reintroduced partial wage indexation for the coming year, though it did limit pay rises to about 4.5% in annual terms, compared with an expected inflation rate of 8.5%.

Britain: Lack of Confidence Despite Some Progress

In late 1981, U.K. Prime Minister Margaret Thatcher said that British industry was "slowly but inexorably" improving and that there was, for the first time, "some real chance" of export growth. She added that the government had created the conditions for renewed confidence to overcome the recession. At the end of 1982, this view appeared to have been unduly optimistic. While there was only a minimal increase in industrial output - less than 0.5% - export volume declined and unemployment continued to rise, to 2.9 million (in November), compared with an average 2.5 million the year before. In fact, the upward unemployment trend appeared to be continuing into the new year.

The government was successful, however, in bringing down the rate of inflation, and the Chancellor of the Exchequer, Sir Geoffrey Howe, recently forecast that it will fall to 5% in annual terms early in 1983, remaining at that level throughout the year. There has also been a marked decline in the average level of wage settlements. The Treasury has forecast that a 5-5.5% figure can be expected to emerge from the current round of wage talks, compared with a 7% average in the past year. A 1.5% increase in the rate of output has also been predicted, but some observers regard this as overly optimistic, and the Confederation of British Industry's monthly economic reviews continue to indicate a lack of confidence among employers in the U.K.'s economic prospects for 1983.

Denmark: Strong Medicine by New Conservative Government

After an extended period of Social Democratic minority rule under Anker Jörgensen, Denmark experienced a shift to the political right in the fall of 1982, when a Conservative, Poul Schlüter, took over as the head of government. The new cabinet represents a minority in Parliament but expects majority backing on most issues with the support of the center parties. The drastic economic policy program presented by the new government included a wage freeze to last until March 1 (with a simultaneous profit margin freeze but no price freeze), an increase in unemployment insurance contributions for both employers and employees, and the introduction of a one-day waiting period before payment of sickness benefits. When the freeze ends, wage rises in the public sector will be restricted to 4% annually over two years, and wage indexation will be completely abolished. At the same time, unemployment benefits will be reduced from 90% to 80% of earnings.

The aim for the new year is to reduce inflation to 7% and an expected DKr 80 billion deficit to DKr 68 billion (13% of GNP), which would still be DKr 10 billion more than in 1982. At the same time, the government hopes to cut the balance of payments deficit from a forecast DKr 20 billion to DKr 16 billion. As a consequence, however, domestic demand is expected to drop by 0.5%, and the economy will probably stagnate, with the unemployment rate forecast to climb above the 10% that it has almost reached. The government plans to borrow DKr 23 billion abroad in 1983, twice as much as in the past year.

France: Complete Economic Policy Reversal by Socialists

Almost two years after being elected by a comfortable majority and with a mandate for economic expansion through budgetary stimulation, President François Mitterrand's Socialists have had to reverse their stand completely. Fiscal stimulation threatened to drive inflation out of control, while having little effect on a stagnant economy. This development forced the government in July 1982 to impose a strict price and wage freeze, combined with a devaluation of the franc, in the hope of recovering part of French industry's lost competitiveness. By November, when the freeze ended, interest rates had fallen by 5%, and inflation appeared to have been held to 10% for the year as a whole, compared with 14% in 1981. However, the franc had fallen to 7.26 against the dollar (5.66 at the beginning of 1982), and it was feared that the country's foreign trade deficit would reach FF 100 billion in 1982.

The very limited success gained by its stabilization policy forced the government, under Premier Pierre Mauroy and Economics Minister Jacques Delors, to adopt further austerity measures in November. Prices are to remain rigidly controlled throughout

1983, with an upper limit of 8% for any increases, following 10% this year. An extensive system of sectoral price limitation agreements with producers and retailers will keep nearly all prices regulated. The austerity budget announced for 1983 foresees an 11.8% increase, to FF 881 billion, in public spending (compared with 27% in 1982), allowing the deficit to be held at FF 118 billion (3% of GNP). However, the budget is based on optimistic predictions of a 2% growth rate and a 5.3% rise in exports. Independent economic experts say a growth rate of 0.5-1% would be a more realistic estimate.

Further emergency measures undertaken by the government included an FF 12 billion cut in the FF 94 billion budget of Unidec, the unemployment insurance fund, resulting in lower benefits, higher contributions, and tougher conditions for individuals retiring early. Unemployment, already in excess of 9%, is expected to rise even further in 1983 as industrial output continues to stagnate, but the government hopes to alleviate some of its effects with an FF 11 billion public works program beginning in March.

Germany: Recession, Coalition Breakup Highlighted 1982

An economy moving into its worst recession since 1952 and the breakup of the 13-year-old coalition government were the most significant developments in Germany in 1982. By December, the unemployment rate had reached 8.4%, the highest level in 30 years. Over 2 million were jobless, and one million more were on short workweeks. Production declined in most industries, and the steel mills, operating at only two-thirds of their capacity, were affected most. The construction industry, too, was severely hit by the slump: the government had less to invest, and businesses and individuals could not afford large investments in new plant and housing because of high interest rates and a lack of capital.

In previous, less serious, recessions, German industry had often compensated for the decline in domestic orders by obtaining more orders from abroad. During the second half of '82, many manufacturers, especially those producing capital goods, faced for the first time in 20 years a substantial decline in new foreign orders. Still, exports were so high that a positive balance of payments can be expected for the second year in a row. This positive development, success in controlling inflation, and the Schmidt administration's initial steps to cut welfare spending enabled the Bundesbank to lower the prime rate several times in 1982 and thus help restore a climate conducive to investment. Nevertheless, the central bank's moves are not expected to have a positive impact until some time this year.

After 13 years of running the country in four consecutive coalition governments, the Social Democrats and the Free Democrats parted in September over irreconcilable differences on economic, tax, and social policies. Most Social Democratic leaders, though not former chancellor Helmut Schmidt, thought the remedies for the economy's ailments were higher taxes and massive infusions of money in the form of public investment programs. In contrast, the Free Democrats saw the cure in tax relief and cuts in government spending. Continuous heavy borrowing and expansion of the welfare system burdened the budget to an extent no longer considered prudent by most economists. A majority of the 53 Free Democratic members of the Bundestag felt the same way, and they decided to break away and form a new coalition government with the Christian Democrats and the Christian Socialist Union.

The Kohl administration faces the task of reducing unemployment by getting the economy moving again. The steps taken so far are modest relief from the business tax *(Gewerbesteuer)*, tax incentives for builder-owners of private homes, and generally "less government." The second most important job is to put the fiscal house in order by reducing government spending and raising some taxes, and a great deal of pending legislation is aimed at doing that.

Greece: Business Community Apprehensive About Future

After the first full year under Socialist rule, the Greek business community is going into the new year with some apprehensions. In 1982, the economy showed few signs of improvement and, in fact, took a turn for the worse in many areas: industrial production declined, unemployment rose further (to 8%), the drachma depreciation continued, and inflation stood at about 23% at the end of the year. The Socialist administration, under the leadership of Andreas Papandreou, is blaming the world recession and the failures of the previous government for most of the domestic economic difficulties and is pleading for more time for its reforms to take hold. In the area of investments, legislation was passed last June reforming the government's investment promotion and incentives program, which is designed to encourage both domestic and foreign investors, who have remained most reluctant so far. Other major actions last year included a drachma devaluation (3.2% against the dollar), legislation on real property taxation, changes in foreign trade rules to aid Greek exporters, and a quasi-nationalization plan for the pharmaceutical sector. Just before Christmas, the government also imposed a partial wage freeze for 1983.

Ireland: Government Stability Seen as Key to Recovery

After three elections in 18 months, the prospect of an Irish coalition government likely to remain in power for its full term is regarded as providing the stability essential to any recovery of the stricken Irish economy. The budget deficit in 1982 is now expected to exceed £1 billion (Irish), or 7.5% of GNP, and a reduction in this figure is considered of paramount importance. Inflation, now standing at 17% (compared with over 20% in 1981), is gradually being brought under control, and the European Commission's prediction of 13% for 1983 seems a distinct possibility, although much will depend on the government's ability to moderate wage demands in the public sector.

Unemployment is still continuing to rise from the current rate of 13%, making job creation another of the coalition's top priorities, along with significant cuts in public expenditure. However, such reductions will have to be acceptable to the Labour members of the coalition, and it is here that the first difficulties may lie for Premier Garret FitzGerald. Nevertheless, many observers feel that the outlook for the Irish economy in 1983 appears distinctly more encouraging than it did before the elections, provided the new government will be able to carry through the necessary measures.

Italy: Skepticism Over Fanfani's Chances of Success

It hardly came as a surprise to the Italians when their government changed hands again late last year, passing from a coalition led by the Republicans' Giovanni Spadolini to another headed by the Christian Democrats' Amintore Fanfani, 74. Nor did it come as a surprise when the new government, the 43rd since World War II, called for more belt-tightening by everyone to overcome the deep economic recession. The steady succession of unstable coalitions in Rome and of unfulfilled economic policy programs has been part of the Italian political scene for a long time, and most observers agree that the latest events are not likely to herald a change for the better.

Only in a single area did the economy show some modest improvement last year: the inflation rate dropped from around 20% to 17.2% (November), though it failed to reach the 16% the government had aimed for. In other sectors, the news became increasingly discouraging as the year wore on. Unemployment now hovers near a record 3 million, with manufacturing industry operating at sharply reduced capacity. While most businesses were still fairly optimistic in the first half of 1982, they are now confronted by a slackening in domestic demand, since Italians are spending less on automobiles and gasoline, household appliances, textiles, and even heating fuel. Nevertheless, in the judgment of many experts, consumption is still too high - the reason why the foreign trade deficit built up to 13,800 billion lire (as of September) and the payments deficit to 750 billion lire. The public sector was expected to wind up the year with a shortfall of more than 70,000 billion lire, one of the major problems the government will have to deal with in 1983.

Luxembourg: Hopes for Renewed Growth in 1983

By the end of 1982, the worldwide recession had reached the Grand Duchy, albeit with some delay. Luxembourg was confronted with changed economic conditions when it became apparent that Belgium's devaluation of the franc, to which the Grand Duchy's own currency is tied, could boost the small country's inflation rate. The government responded with a price freeze, tax increases, and the abolition of the wage indexation system. As a result, the economy stagnated, but some experts predict renewed growth for the coming year. The government sees among its main tasks the resolution of the Arbed steel crisis, the continuing consolidation of the Luxembourg finance and banking sector and its diversification into portfolio management and insurance, and continued efforts to attract foreign investors for the domestic manufacturing industry.

Netherlands: Economic Stagnation Seen to Continue

Like all its EEC partners and European neighbors, Holland has been going through a most difficult year and does not expect too much of the new one. According to official predictions, unemployment in 1983 will climb to an annual average of 690,000, both real-term national income and production volume will stagnate, and consumption will further decline, by some 3% (1982 = minus 2%). Gross investments are expected to rise by a modest 2% (minus 5%), and the public sector borrowing requirement will again take up some 10% of national income. Positive predictions have been made, however, for the cost of living, where the rate of increase is to drop from 6.5% to 4.5%, and the payments balance, where a surplus of 19 billion guilders is expected for the year, compared with 14 billion in 1982.

The new center-right coalition under Ruud Lubbers is placing economic policy emphasis on rigorous budget savings to whittle down the huge public deficits. It was able to exclude an expected announcement of a partial pay and price freeze for the private sector from its inaugural statement because employers and unions had just agreed in principle on voluntary pay curbs, work time cuts, and the creation of new jobs. The Hague did, however, impose a partial pay freeze for public sector employees and also ruled out any increases in social benefits for 1983. To improve the investment climate, the Lubbers government is proposing an easing of the tax burden on businesses. Compared with other western industrialized countries, Holland has been relatively successful in combating excessive wage cost increases: last year's average rise amounted to only 1.5%, well below the international level, and for this year the target has been set at 1%.

Common Market Reports

EUROMARKET NEWS

Issue No. 731 *Report No. 466, January 20, 1983*

IN THIS ISSUE

Community: Temporary Approval of National Fisheries Measures

By approving national fisheries plans for a 21-day period, the European Commission has temporarily suspended the legal confusion existing since Jan. 1 in EEC fisheries matters. The temporary measure, which expires on Jan. 26, is designed to give German Foreign Minister Hans-Dietrich Genscher, now president of the Council, additional time to search for a compromise in establishing a common fisheries policy. The Council of Ministers is scheduled to take up the issue on Jan. 25.

All the Member States except Belgium, Denmark, and Greece had asked the Commission to approve the national measures that were part of the common fisheries policy (CFP) proposal agreed on by all the States except Denmark last October. The transitional Community measures expired at the end of 1982, and a full-fledged common fisheries policy failed to come about because of Denmark's resistance. The confusion was compounded by the fact that, since 1979, the Community has a say in the management of fisheries resources *(Common Market Reports, Par. 761)*.

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In granting temporary approval to the national measures, the Commission invoked Treaty Article 155, which empowers the EC executive to make decisions of its own to ensure the proper functioning and development of the Common Market *(Common Market Reports, Pars. 4471, 4472)*. The seven Member States that had asked the Commission to approve the national measures say the action was a legal necessity to fill the vacuum left by the expiration of the transitional system on Dec. 31 and the failure to agree on the common fisheries policy. Denmark's fishermen claim that, in the absence of a CFP, there is free access to all Community waters.

The British government sees the Commission's move as justifying its threat to arrest and fine the captain of any foreign trawler entering the U.K.'s 12-mile zone, which is reserved for British fishermen under the October compromise. However, Brussels observers say there is still no answer to the legal question of whether fisheries measures can be effectively imposed throughout the EEC in the absence of a common policy agreed on by all Member States. Legal experts say there are two ways of obtaining a definite answer, which can come only from the Court of Justice. Kent Kirk, the first Danish fisherman fined by a British magistrate for entering the U.K.'s 12-mile zone without a license, would have to exhaust all appeals in the British courts before the case could be referred to the European Court of Justice under Treaty Article 177 *(Common Market Reports, Pars. 4655, 4656)*. The other way, considered much faster, would be for the Danish government to bring suit against the Commission. The Danes could contend that the Commission acted in violation of the EEC Treaty when it temporarily approved the national fisheries measures.

EEC Insists on Further Opening of Japanese Market

Japan's foreign minister, Shintaro Abe, has been told by the European Commission and government leaders in London, Paris, Bonn, and Rome that the Japanese government's announcement at the end of last month of further tariff cuts is appreciated but that these measures still fall short of meeting the EEC's demands. Last month the EEC Council of Ministers demanded assurances that Japan will restrain exports and adopt a more open policy on imports in 1983. On his recent European tour, Abe did not mention any specific measures by the new Japanese government to open the domestic market to a greater volume of manufactured goods from abroad. But the foreign minister did underline his government's determination to further pursue a policy of trade liberalization.

The Commission and Abe agreed in principle on the need to intensify regular high-level consultations. EEC Commissioners and Japanese government leaders, rather than their representatives, will take part in future meetings. Also considered important is the promise by the French minister of foreign trade, Michel Jobert, that France will not seek any bilateral deal with Tokyo to restrict Japanese imports. Any move in this direction would undermine the common front that the Commission and the Council of Ministers are trying to establish.

In Brief...

The Commission has given the green light to the German government's plan to provide DM 175 million in financial aid to ailing Saarstahl, a subsidiary of Luxembourg's Arbed steel group. Originally, the EC executive had refused to allow any further aid to the debt-ridden steelmaker in the Saar region because it felt that it had not received a solid commitment from Bonn for substantial cutbacks in Saarstahl's production capacity. The Commission insisted on a 25% reduction in the steel mill's 2 million ton capacity, and Bonn has now given these guarantees + + + The Commission has again threatened France with legal action before the Court of Justice unless Paris lifts the requirements that all video recorder imports must be cleared through the customs office at Poitiers and that all import documents must be presented in French. However, the Commission still has not formulated a reasoned opinion, as required by Treaty Article 169; this opinion would set a deadline for rescinding the measures in question. The French government has reportedly offered to give video recorders from EEC Member States preferential treatment in customs clearance at Poitiers. (Imports from Germany and Holland account for about 5% of France's total video recorder imports.)

Greece: 15.5% Drachma Devaluation; Import Curbs Planned

The Greek government on Jan. 9 devalued the drachma by 15.5% against the dollar and announced forthcoming measures that would restrict imports and promote exports. Athens did not consult the European Commission and its EEC partners prior to the devaluation, an omission that was severely criticized in Brussels. The EC executive urged Athens to have consultations at least on the planned import restrictions, and Greek government officials said they would seek Community approval of these curbs under Article 130 of the accession treaty. This provision allows emergency measures in the event of "serious economic difficulty," though only with Commission approval.

During the 15-month reign of the Socialist government in Greece, the drachma lost about half of its value against the dollar, and the rate now is 84 drachmas to the dollar (as against 71 prior to the devaluation). Last year the Greek currency slipped 18% against the dollar under a controlled float. Economics Minister Gerassimos Arsenis, who is also the governor of the Bank of Greece, said the devaluation became unavoidable in the face of rapidly accelerating imports, slumping industrial output, and rising unemployment since Greece's accession on Jan. 1, 1981.

The devaluation announcement did not include details of the proposed accompanying measures, but Arsenis said the Community would be requested to place limits on the exports to Greece from the other nine Member States. Particular targets for restrictions would be foodstuffs, dairy products, and beverages, which have been flooding the Greek market because they are often much cheaper than comparable domestic products. Other "problem" products are textiles, leather goods, certain types of machinery, construction materials, and toys. All curbs would also apply to third-country imports, especially from the United States and Japan.

Britain: Stockbrokers Support Move 'to Go Public'

A discussion document exploring the possibility of U.K. stockbrokers doing business in the form of limited liability companies rather than as partnerships was sent out to member firms late last year by the Stock Exchange Council. The Council, which is the regulatory body for this sector, took the action after strong representations from some stockbroking companies.

For some years, British stockjobbing firms have been able to operate as public companies, with stock exchange quotations for their shares. Partners in stockbroking firms have not had this facility; they must individually guarantee their firms' debts with their personal assets.

It is now felt that if U.K. stockbroking firms are to compete effectively on an international basis they must be able to attract more outside capital, and they would be in a far stronger position to do this as public companies. Failure to make such a change would mean that U.K. firms would be at a particular disadvantage compared with their U.S. competitors, it is believed.

The initial response to the discussion document shows that brokers are overwhelmingly in favor of such a change, which is likely to be implemented next year. However, if brokers elect to form a limited liability company, they will have to publish their financial statements and their members' earnings. Observers therefore predict that many will operate as companies with unlimited liability, for which there is no statutory requirement to publish the accounts.

Germany: Parliament Dissolution Challenged Before Supreme Court?

Federal President Karl Carstens' decision to dissolve the German Bundestag and to set March 6 as the date for general elections could be challenged in court. A number of members of the Bundestag representing all three political parties are considering lodging a complaint with the Federal Constitutional Court to have the constitutionality of the decision tested.

In dissolving the lower house of Parliament and scheduling new elections, Carstens acceded to the request of Chancellor Helmut Kohl, who deliberately engineered his own defeat in a parliamentary vote of confidence last month. Kohl had made the election pledge last Oct. 1, when he succeeded Helmut Schmidt as chancellor after the Free Democrats switched their allegiance, thereby breaking up their coalition with Schmidt's Social Democrats.

In a nationwide TV broadcast on Jan. 7, Carstens admitted that it had been a difficult decision for him to make because he was on narrow legal grounds. It is known that 14 out of 18 constitutional experts had advised against dissolving the Bundestag. Carstens justified his move by arguing that the Bundestag's majority, made up of Christian Democrats and Free Democrats, is not prepared to support the new government unless new elections are held. He added that the Constitution granted him discretion for his decision and that he had stayed within the limits of that discretion.

Of all the objections advanced by critics, the one Carstens reportedly was most concerned about was that of possibly setting a precedent. In weighing the question of whether his decision might enable any Bundestag majority in the future to have its way concerning new elections, Carstens said he was reassured by the fact that not only the governing parties but also the Opposition wanted elections.

Italy: Central Bank Emergency Loan for Treasury

The start of the new year saw growing economic complications for Italy's four-party government coalition. At the request of the treasury minister, the cabinet agreed to ask Parliament for legislation compelling the central bank to grant an immediate 8,000 billion lire "emergency loan" to the treasury, repayable within 12 months. Observers, who believe that the measure would amount to pure money printing, said it would make even more difficult the government's task of fighting inflation, which is still twice the average European rate.

The Fanfani administration appears to have little choice in the matter, however. The treasury bills issued to finance the growing budget deficit have found less and less acceptance on the market, and the government cannot raise already high interest rates for fear of the economic and political consequences. By the end of last year, the treasury was already 2,000 billion lire over its legal borrowing limit (a 14% overdraft) at the central bank and was unable to repay credits due by Jan. 20.

The emergency loan, unprecedented in peacetime, is intended to cover shortfalls until new revenues start to flow in as a result of the three-part economic package that the government is now attempting to push through. However, the prospects for the package as a whole are far from encouraging. The second part of the plan, decreeing severe cuts in medical and social welfare services, has come under heavy labor union attack, while measures already passed by the government, such as the higher tax on diesel-powered vehicles and a 51% value-added tax rate on cameras and video, hi-fi and TV sets, have been strongly criticized by the affected industry and trade sectors. The Communists have announced their unswerving opposition to the entire program, and a wave of protests and demonstrations is sweeping the country. With the coalition parties themselves far from united, it is an open question whether the economic decrees will, in fact, ever be passed by Parliament.

Rome Appoints New Head of Stock Exchange Commission

Vicenzo Milazzo, Italy's auditor general for the past nine years, has been appointed as the new head of Consob, the Italian equivalent of the U.S. Securities & Exchange Commission. Milazzo fills the void left by Prof. Guido Rossi, who had been appointed to this position in February 1981 but resigned unexpectedly last August, contending that he had been misled by both the treasury and the central bank in connection with the Banco Ambrosiano affair. (The bank's shares were listed on the market just six weeks before dealings had to be suspended, and, as a result, some 38,000 small stockholders lost their money.)

France: Measures to Bring Down Business Credit Costs

In order to stimulate investment activity, the French government in early January announced a bundle of measures that will make it cheaper for businesses to obtain credit. While welcoming the action, the CNPF employers' federation (Patronat) said French businesses did not suffer from a lack of credit but from an excessive debt burden, and the government should help build up companies' capital resources rather than their debts.

A main feature of the latest measures is a one-point cut, to 7.5%, in the interest rate on savings deposits. Special loans, at a 9.75% rate, are being made available to businesses that plan new investments and seek to refinance over the next three years medium-term and long-term debts burdened by rates above 12%. According to a government agreement with the commercial banks, FF 7 billion in long-term loans will not be subject to credit ceilings; these loans will be made available mainly to small businesses. A 12% increase in the volume of special credits for equipment purchases and export support is to be allowed in 1983 (whereas consumer loan increases are restricted to 5%).

For housing mortgages, the interest rate was dropped by one point, to 11.6%.

To boost bank liquidity, the government cut the banks' minimum reserve quotas from 4.25% to 2.50% for sight deposits and from 0.50% to 0.25% for term deposits, which is expected to free FF 10-15 billion in additional funds. At the same time, Paris "recommended" that the banks lower their base rate from 12.75% to 12.25%, which was promptly done.

Netherlands: Noise Protection Levy on Air Traffic

As of Jan. 1, the Dutch government has imposed a special levy on commercial aircraft traffic to finance noise protection measures at and near airports. The levy is being added to landing fees and is expected to raise 10-20 million guilders in revenue annually. The government estimates that some 230 million guilders (at 1980 prices) are needed to finance noise protection facilities, of which 180 million guilders are required for Schiphol Airport, Amsterdam.

The affected airlines have protested the new measure, and a spokesman for KLM, the Dutch national airline, said that the move will damage the international competitiveness of Schiphol Airport. For KLM alone, the levy will add 13% to landing fees and 5 million guilders annually to general costs, the spokesman said.

Sweden: Record Eurobond Issue of $1 Billion

The Swedish government has announced that it will issue a $1 billion, floating rate Eurobond to cover a substantial part of its 1983 foreign borrowing requirement, which is expected to reach $2-3 billion. The bond will be the largest of its type ever raised on the market and appears to have been chosen at least partly to avoid the current uncertainties on the international syndicated loan market.

The lead managers, Crédit Suisse First Boston, have designed the issue as a 10-year note with interest set at 0.25% over Libor, redeemable at noteholders' option after the fifth and seventh years. This and other conditions, including the offering of $10,000 minimum denominations, are intended to make the bond more attractive to non-bank investors as well. Nineteen other banks are acting as co-managers, while Crédit Suisse First Boston is underwriting at least 25% of the total.

Sweden's current foreign debt amounts to $13 billion, following a rise of 39% last year. The government's rapidly rising borrowing requirement can be traced to a budget deficit likely to reach SKr 96 billion, or almost 15% of GNP, in the current financial year.

EURO COMPANY SCENE

The United States' Timex Corp., which employs more than 4,200 workers in several watch and camera production plants in Dundee, Scotland, plans to lay off 1,900 workers in two of the plants. Among other reasons, the company blamed the decision on slumping demand for mechanical watches as well as the loss of a contract to assemble cameras for Nimslo International.

Ford U.K. has announced plans to eliminate 1,300 of the 9,700 blue-collar jobs at its Halewood, Merseyside, body and assembly plant. Management said it hopes the reductions can be achieved by April, mostly through early retirements and other voluntary means.

Dow Chemical this month withdrew from a joint venture with INA, the Yugoslav state company, to construct a petrochemical complex on the island of Krk. Dow had a 49% stake in the project. It decided to pull out when cost estimates soared from $700 million (at the time of the contract's signing in 1976) to $1.2 billion and because of "inordinate delays." The first phase of the construction schedule is nearing completion, and it is understood that Dow will continue to provide technological and other support for the project.

In related news, Dow Chemical has entered into an agreement with Sweden's Astra pharmaceutical group for the latter to market Dow's drug products in Scandinavia and Iceland. Astra is already a marketing partner for Merck & Co. of the United States.

Dutch Philips and American Telephone & Telegraph have agreed in principle to establish a joint venture for the marketing of digital switching systems.

Zürich Versicherung of Switzerland will take over the Swiss subsidiary of Allstate Insurance Co. (Sears Roebuck), Northbrook, Ill. The subsidiary, Altstadt, expects a premium income of about SF 87 million this year.

Common Market Reports
EUROMARKET NEWS

Issue No. 732 *January 25, 1983*

IN THIS ISSUE

Community: Priority Given to Combating Unemployment

The Community must give top priority to fighting unemployment, according to German Foreign Minister Hans-Dietrich Genscher, who is president of the Council of Ministers during the first half of 1983. Outlining his program for the six-month period before the European Parliament, Genscher acknowledged that the Community can do little at present except allocate money from the EEC Social Fund to specific national job creation and training programs. Around $2 billion could be allocated to mitigate unemployment, Genscher estimated.

According to a recent paper prepared by the Commission, there is no general remedy for eliminating the Community's high unemployment (roughly 12 million as of the beginning of 1983), but a reduction in the workweek and a reorganization of working time could bring some relief. The Commission believes that the Community should promote a policy along these lines as an instrument of economic and social policy and not merely, as in the past, to improve living and working conditions. Without major changes in the employment structure and the arrangement of working time, the Community's GNP would have to grow by 3-3.5%

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annually to prevent a further rise in unemployment, according to the Commission. (It is generally acknowledged by economists that, because of the baby boom of the 1960s, around 800,000 additional jobs are needed each year in the '80s, although it is impossible to provide that many.)

The Commission's paper is designed to channel the debate in the direction of concrete Community legal action to mitigate unemployment. For several years, the issue of reducing working hours and reorganizing employment through job sharing and early retirement has been debated in the Member States and discussed by representatives of the European bodies of national employers' and labor organizations. Last year the Council of Ministers discussed the issue several times and concluded that a reorganization of working time, possibly by shortening the workweek as well, could contribute to an improvement in the employment situation. Eventually the Commission plans to consult employers and unions and to present proposals for a Community policy along these lines.

Parliament's Strasbourg Resolution Deemed Lawful

Advocate General Federico Mancini considers lawful the European Parliament's 1981 resolution to hold plenary sessions only in Strasbourg. Mancini recommended to the Court of Justice that the Luxembourg government's suit against the EP be rejected as unfounded. The Advocate General said that the EP's decision, which caused considerable apprehension in Luxembourg, did not cause the relocation of large numbers of staff or sections of the EP's secretariat in Luxembourg. Mancini added that the decision also did not really change the relative positions of Luxembourg, Strasbourg, and Brussels in terms of accommodating EP activities.

In resolving to hold all of its sessions in Strasbourg, the EP wanted to put some pressure on the Member States to reach a final decision on the permanent location of the EP's secretariat, which employs about 2,000 people in Luxembourg. Prior to this resolution, Luxembourg was occasionally host to plenary sessions. All of the political parties represented in the EP reportedly want the Member State governments to eventually make a choice between Strasbourg and Brussels for holding sessions. Keeping the secretariat in one location (a majority of the EP shows a preference for Brussels) would save a great deal of time and money. The Luxembourg government claims, however, that the EP has no right to decide that all sessions are to be held in Strasbourg.

The EP alleged that the resolution was merely an internal administrative decision, with no further implications, and, as such, was not subject to judicial review. Counsel for the EP therefore asked that the action be held inadmissible. Mancini rejected this argument, saying that the resolution was more than just an internal administrative act. The EP had tried to make a distinction between the Coal and Steel Treaty, which, in Article 38, makes acts of the EP subject to control by the Court of Justice, and the EEC and Euratom Treaties, which lack such explicit provisions. Mancini said the EEC and Euratom Treaties have not brought any change so far as judicial control is concerned and, for that reason, Article 38 of the Coal and Steel Treaty is a sufficient legal base for the action against the EP. Mancini also stressed that the Member States have not violated provisions of any of the three treaties by failing to make a final decision on the location of the EC institutions (Case No. 230/81).

Commission lawyers expect that the Court of Justice will not confine itself to the issue of the EP's permanent locations for plenary sessions and the secretariat but will also establish principles for the judicial review of the Assembly's acts. This could bring some clarity to the EP's relations with the Council and Commission. Commission lawyers point to the growing number of conflicts that have developed in the past between the Council and the EP, especially in budget matters.

In Brief...

The European Parliament backs in general the Commission's draft directive on the supervision of credit institutions, but it also recommends several changes. The measure would require the Member States to supervise, on a consolidated basis, all credit institutions holding a majority interest in another credit or financial institution. It would empower the national banking supervisory agencies to require consolidation of minority holdings over 20%. The EP suggests that this minority holding requirement be raised to 25%. It also recommends that minority interests amounting to less than 2%, or less than 2.5 million ECUs, of the stated capital should be exempt from supervision; the Commission's proposal also provides for the 2% criterion, but the monetary criterion is limited to 500,000 ECUs *(Common Market Reports, Par. 10,335)* + + + The Commission has proposed a reform of Chapter VI of the Euratom Treaty which would abolish the Community's monopoly over the supply of nuclear fuels. It is the third reform attempt in this area. The first two moves were made by France, most recently in 1979. Paris argued then that the relevant provisions were too restrictive and no longer in keeping with industry's extensive use of fissionable materials. The Commission and most Member States resisted these arguments on the ground that the proposed change in the treaty would strip the Euratom Supply Agency of its exclusive right to conclude all contracts for fissionable materials.

Germany: Doubts on Validity of Purchasing Power Theory

This year's first round of wage negotiations in Germany, involving 3.9 million employees in the metalworking industry, is being accompanied by a strong union campaign in favor of the so-called purchasing power theory. Union leaders claim that the economy could be revived if employees and their families have more to spend through substantial raises. They want pay increases averaging 6.5%, which is slightly lower than the demands made in the two preceding years. Some union leaders maintain that the 1981 and 1982 wage settlements (both fell short of compensating for inflation) were not reciprocated by corresponding additional investments on the employers' part.

Business executives doubt that application of the unions' theory would really produce a stimulus for the economy from the consumers' side. They say that supporters of the theory ignore the higher cost implied in a substantial wage increase settlement. Independent economists have considerable doubts that families would really spend the additional money available through a pay increase. They point to a behavioral pattern, confirmed by surveys and noted with some frustration by the previous administration, showing that during bad times consumers are generally inclined to save rather than spend.

A study prepared by the Institut der Deutschen Wirtschaft, which represents industry's interests, reports that a majority of economists teaching at universities are also skeptical about any positive effect the purchasing power theory might produce in pulling the economy out of its deepest recession in 30 years. The study of the Cologne-based institute seeks to confirm the doubts about the validity of the theory by looking into past, less severe, recessions. According to the authors, the wage settlements made during the 1974-75 recession were rather high, and there was no visible impact on the economy. On the other hand, the economic upswing experienced in the 1975-76 period was positively influenced by moderate wage increases, the institute reports. In the authors' view, practical experience should make union leaders realize that moderate wage settlements would best serve the economy.

Britain: Clearing Banks Campaign for Tax Relief

In response to the consultation document published last year by the Inland Revenue on methods of reforming the structure of corporation tax, the U.K.'s main clearing banks have emphasized that they consider themselves, in fact, overtaxed. Thus, they also reacted to last year's Budget statement in which the Chancellor of the Exchequer indicated the government's belief that the banking sector should pay a "more equitable" (higher) rate of tax. At present, the Treasury is reviewing the whole question of the banks' fiscal position. Observers believe, however, that no new taxes will be imposed on the banking sector in the 1983 Budget.

The U.K. banks have been seeking a new system of tax relief, which would be similar to the stock relief enjoyed by manufacturers and would compensate for the effect of inflation on the real value of the banks' net monetary assets. The banks argue that the effective tax they pay is "actually greater than that on industry as a whole" because they are not given any capital allowances on the commercial buildings where they are based and because there is no relief, at present, for the erosion of their net monetary assets. Although part of their corporation tax liability can be deferred through leasing, the banks emphasize that any benefits accruing to them are passed on to their customers by way of lower charges, which benefits manufacturing industry in particular.

Italy: Three-Way Talks on Pay Indexation; Prime Rate

After 18 months of public sparring in Italy among the government, industry, and the labor unions over a reform of the pay indexation system, representatives of the three factions are attempting to settle the issue by the end of January. The rush to reach an accord is the result of the announced intention of the Confindustria industrial federation to withdraw from the existing system of inflation compensation as of Jan. 31. The Confindustria wants instead a system of flat-rate indexation, which would allow a 50% cut in the triggering level, and the introduction of productivity incentives.

The unions had avoided formal negotiations for as long as possible. The compromise proposal agreed on last fall by the three major labor federations (CISL, UIL, and CGIL) only offered employers a 10% reduction in the triggering level, a proposal based on the assumption that the resultant income losses could be made up in the new contract negotiations this year. Consequently, the unions refused to negotiate on the indexation issue, pending agreement on a new three-year contract.

The situation has been made more difficult by the wave of protests against the government's latest austerity measures, which again brought out millions of workers in strikes, mass rallies, and plant occupations. Seven million participated in an eight-hour general strike on Jan. 18 in protest against the employers' stand on the indexation issue.

Since the problem is a major element in the government's battle against inflation, the Fanfani cabinet said it would step in with its own solution if agreement is not reached this month. Rome can hope to reach its target of 13% inflation in 1983 (16% last year) only if pay increases are kept within that limit. To this end, the government has already offered the unions tax reductions to eliminate the effects of fiscal drag as well as a 13% limit on increases in public tariffs and controlled prices. Employers have been promised continued relief from some social insurance contributions as well as special aids for industry in the south. (Reports circulating in Rome suggest that a last-ditch compromise between the government and the unions calls for scrapping the proposed cuts in social welfare and medical services in favor of a special one-year cut in inflation compensation, to be made up in succeeding years.)

In other news, the association of private Italian commercial banks, ABI, has agreed to a 0.75% cut in the prime rate, to 20%, after months of pressure from government and industry. The reduction is, however, much less than the 2% demanded by Confindustria. Deposit rates will also be reduced.

Denmark: Tougher Terms for $1 Billion Euroloan

The Danish government has raised a $1 billion, seven-year Eurocredit under the lead management of Morgan Guaranty Trust and three domestic banks. A revolving loan for three years and a term credit for the remaining four years are involved. Interest has been set at 1/2 point above the Eurocurrency rates for the first two years and at 5/8ths for the remaining five. These terms are tougher than they were for Denmark's foreign borrowing last year, reflecting the fact, among other things, that Denmark's international credit rating was recently dropped by Standard & Poor's from the top triple A category to double A-plus. The jumbo loan is the first of any size for a European borrower on the Euromarket this year and represents the first segment of Denmark's projected gross foreign borrowing requirement of $2-2.5 billion in 1983.

France: Indefinite Delay for Savings Rate Reduction

One week after the announcement of a 1% cut in the interest rate on savings deposits as part of a general reduction in bank rates and credit costs, French Premier Pierre Mauroy said the move would be indefinitely postponed. Mauroy's change of mind came at the political expense of Economics and Finance Minister Jacques Delors, who had made the original announcement. It was the second time that Delors found himself corrected by the prime minister: at one time last year Mauroy disassociated himself from Delors' public suggestion that the Socialist-Communist government let up for the time being on its economic and political reform.

Mauroy gave "technical" reasons for not implementing the interest rate cut on savings deposits, from 8.5% to 7.5% per annum. He said that more low-income households should avail themselves of the opportunity to invest in inflation-indexed, taxfree savings accounts before the general savings rate is reduced. (Of the estimated 16 million individuals eligible for this new, privileged form of savings, only two million had taken advantage of it by the end of November 1982.)

However, it was no secret in Paris that political considerations were the major reason for Mauroy's decision. The government quickly became aware of the unpopularity of Delors' program, which had also incurred the displeasure of influential Socialist Party leaders. While opposed generally to lowering interest rates on the savings of "the man in the street," these factions were also concerned about the possible impact on the results of the forthcoming municipal elections on March 6, in which the Socialists are already expected to suffer losses.

Among the victims of the government's turnabout are the French banks, which had lowered their base rate by half a point, to 12.25%, in anticipation of a concomitant reduction in the savings rate.

Switzerland: Sharp Drop in Real Property Sales to Aliens

The Swiss construction industry and some cantonal governments are concerned that the economic recession and various currency and fiscal controls in the neighboring European countries will lead to a collapse of the market for Swiss vacation homes and apartments sold to nonresidents. Industry spokesmen referred to figures indicating that sales of real properties to aliens declined sharply in 1982.

According to the latest Justice Ministry statistics, cantonal authorities issued only 2,420 permits in the first nine months of last year, compared with 4,532 during the same period in 1981. That year, nonresidents bought real property in Switzerland, mostly condominium apartments, having a total value of SF 1.06 billion. German investors accounted for about half of the total. Last year, it was reported, sales to German buyers amounted to no more than SF 250-300 million.

It was reported that many nonresidents who did obtain purchase permits have not actually used them. As a result, the Swiss property market will probably not even be affected by government cutbacks in the permit quotas for the individual cantons. Nevertheless, despite the lack of demand, the political forces that sponsored a national referendum initiative against the "sellout of the homeland" have no intention of dropping their proposal. First submitted in 1979, the initiative demands a total ban on real estate sales to foreigners. Critics in the Swiss tourism cantons believe that such a radical step would have damaging results; they refer to the proposal as "an initiative for the creation of unemployment in Switzerland."

Norway: Social Security Agreement With U.S.; Foreign Banks

After two and a half years of negotiation, the Norwegian and U.S. governments have signed a reciprocal social security agreement which would basically eliminate double payment of contributions and guarantee partial retirement benefits from both systems to those who worked in both countries. In order to take effect, the agreement must still be approved by the U.S. Congress, but no problems are foreseen. (The same is true of the social security agreement with Belgium, which was signed last November. Similar treaties are already in effect with Italy, West Germany, and Switzerland, and another negotiated with Canada has been pending since 1981 because of internal political problems in that country.)

In other news, a Royal Commission has reportedly recommended that foreign banks be allowed to establish subsidiaries in Norway but not branches. The banks would have to operate under the same rules as domestic banking institutions. Norway, Sweden, and Portugal are the only West European countries that bar subsidiaries of foreign banks; in Sweden, legislation is being prepared that would allow foreign banks to operate as branches.

Sweden: Draft Budget Relies on Devaluation Effects

Swedish Finance Minister Kjell-Olof Feldt has presented his 1983-84 budget to Parliament as a "third way" of countering the effects of the current economic recession. The Social Democratic government hopes to avoid the "twin pitfalls" of excessive deflation and escalated inflation through fiscal expansion by relying on the effect of the 16% krona devaluation last fall to boost the economy and by attempting to cut back severely on living standards.

The draft budget provides for an SKr 90.2 billion deficit, on expenditures of SKr 294.3 billion. Major spending items include SKr 70 billion on social services, SKr 34.2 billion on education, SKr 22.08 billion on defense, and SKr 22.07 billion on housing construction. Feldt emphasized that, when interest payments on the public debt are excluded, government spending will be lower than last year. Servicing the existing debt will cost Stockholm SKr 56.5 billion this year, compared with SKr 45.6 billion in 1982-83.

The budget is based on forecasts for a 1.4% growth rate in 1983 (GNP declined by 0.7% in '82) and a trade balance surplus of SKr 1.1 billion (SKr 5.5 billion deficit in '82). The payments deficit is expected to fall slightly, from SKr 22.6 billion in 1982 to SKr 20.5 billion this year. The most striking feature of the budget forecast is the 2.4% reduction in private consumption; it would result from an expected inflation rate of 11.5%, offset only partially by a 7% rise in wages.

Common Market Reports

EUROMARKET NEWS

Issue No. 733 *Report No. 467, February 2, 1983*

IN THIS ISSUE

Community: Restricting Taxpayers' Deduction of Value-Added Tax

The Commission's proposed twelfth value-added tax directive would compel Member States to deny businesses the deduction from their VAT liability of value-added tax paid on company cars, business lunches, travel expenses, and luxury items used to entertain customers. The Commission, in this proposal, is following up on a commitment made by all of the Member States when the Sixth VAT Directive was adopted in 1977. Article 17(6) of that directive says that the Council of Ministers should decide within four years on "what expenditures shall not be eligible for deduction of prior value-added tax." This provision also stipulates that VAT should under no circumstances be deductible for expenditures not strictly related to business expenses, such as those for luxuries and entertainment *(Common Market Reports, Par. 3165S)*. National rules in this area differ substantially.

Adoption of the proposal in its present form would require the Member States to deny a taxpayer the privilege of deducting from his VAT liability not only the sales tax paid on the purchase of a company car but also the VAT paid in operating and maintaining it, thereby ruling out the deduction of the sales

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

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tax paid on gasoline, oil, spare parts, and repairs. VAT paid on leasing a car for business purposes could not be deducted either. However, the deduction of VAT paid on the purchase, operation, and maintenance of vehicles used for consideration (taxi cabs and rental cars) as well as driving school vehicles would be allowed.

Under the proposal, a taxpayer could not deduct from his VAT liability the value-added tax paid on flight or rail tickets, food, or hotel accommodations for himself or his employees. But VAT incurred in transporting employees from home to work and back would be deductible. For the purpose of denying deduction of VAT paid in connection with luxuries, the latter are defined as items of a type and value that exceed usual business expenses or are not normally part of a business establishment. (See also *Common Market Reports, Par. 10,453.*)

Council Sued Over Inaction in Transport Field

The European Parliament has brought suit against the Council of Ministers for allegedly failing to act in the transport policy field. (Treaty Article 175 allows a State or a Community institution to sue if the Council or the Commission fails to act - *Common Market Reports, Pars. 4645, 4646.)*

Last September the EP adopted a resolution instructing its president to institute the legal action, accusing the Council of failing to act on some 20 proposals aimed at forging a common transport policy. These proposals seek to establish common rules governing transport to or from a Member State or across Member States' territories, rules for non-EEC air carriers, a host of harmonization measures, common pricing rules for road and waterway transport, and regulations on transport infrastructure. In its answer the Council acknowledged the need for further action in the transport policy sector; at the same time, however, it stressed that the development of such a policy depends largely on the process of political evolution. An annex to the 13-page document enumerated the measures adopted in the transport field so far.

The Council's response did not satisfy the Parliament. Aware of the fact that new legal ground would be broken by the suit, EP President Pieter Dankert consulted the legal affairs committee before authorizing the action. A committee majority told him that all the measures taken so far by the Council fall short of fulfilling the provisions of Treaty Article 3(e), which call for the adoption of a common transport policy *(Common Market Reports, Pars. 172.15, 1801, 1811)*. Although the Treaty does not establish any deadlines for the adoption of such a policy, the EP believes all conceivable time limits have expired, considering that the Treaty of Rome has been in effect for 25 years.

Council lawyers believe the Court of Justice will reject the suit as unfounded. There has been no case as yet establishing that the Council's failure to act in any field constituted an infringement of the EEC Treaty. (There is some case law concerning the Commission's failure to act, but most of these judgments were rendered under the Coal and Steel Treaty.)

In Brief...

The Commission has postponed approval of the Greek government's request for authorization to reduce imports in five product categories for one year. Greece's request is based on Article 130 of the Accession Treaty, which permits protective measures in the event of serious economic difficulties *(Common Market Reports, Pars. 7443, 7639)*. Combined with the 15.5% devaluation of the drachma announced on Jan. 9, a reduction in imports would help lower Greece's foreign trade deficit, which amounted to $4.4 billion last October. Greece's failure to consult the Commission on either the devaluation or the planned import restrictions reportedly was not the reason for delaying approval of the request; the Commission indicated that Athens presented a poorly documented case + + + The EEC has imposed an antidumping duty on imports of a certain fertilizer made by Allied Corp., Kaiser Aluminum Domestic and International Sales Corp., and Transcontinental Fertilizer Co. The duties amount to 19.05%, 12.12%, and 12.01%, respectively. These countervailing duties were imposed after it was proved that the three U.S. companies were guilty of dumping their urea and ammonium nitrate fertilizer (UAN solution) in the Common Market, as Community producers had alleged.

Germany: Surprise Switch on Income Tax Surcharge

The new 5% income tax surcharge imposed on German taxpayers above a certain income level would be converted from a repayable levy to a nonrepayable one should the governing Christian Democrats win an absolute majority in the March 6 national elections. This campaign proposal constitutes a surprise switch from the party's previous position. It has provoked negative reactions from those affected and, for most business executives, has weakened the credibility of the present coalition government. A few business organizations have shown some understanding for the plan, but the overwhelming reaction is one of disbelief.

As of Jan. 1, individuals earning more than DM 50,000 annually (married taxpayers, DM 100,000) are subject to a 5% surcharge on income tax. This "investment aid surcharge" *(Investitionshilfeabgabe)* will be levied this year and in 1984, but, according to present legislation, would be paid back during the years 1987-89. The revenue, estimated to be nearly DM 1 billion, is to help finance the new government's economic revival program *(Doing Business in Europe, Pars. 40,467, 40,470)*.

Christian Democratic party leaders say that mounting pressure from local and regional party organizations made them reconsider whether the surcharge should be repaid. Ever since Parliament enacted a broad program in December providing for substantial cuts in federal spending, business tax relief, and higher sales and social security taxes, as well as the surcharge, the government parties have come under heavy fire from the Opposition and its supporters. Opposition leaders have used the issue of the repayable surcharge as an example to support their argument that the new government is favoring the well-off.

The Christian Democrats originally wanted a nonrepayable surcharge, but they relented in favor of a repayable surcharge because of pressure from their coalition partners, the Free Democrats, who were also opposed to such a surcharge when the Social Democrats suggested it while still in power. Moreover, making the surcharge nonrepayable would remove doubts about the constitutionality of the levy *(Doing Business in Europe, Par. 40,470)*.

There have been discussions within the Christian Democratic party about raising the income tax rate (the top rate is now 56%) and imposing a one-time levy on wealthy taxpayers, based on their net worth, as well as a withholding tax on interest from savings accounts and certain investments.

Greece: Fare, Tariff Boosts; Price Controls; Warning Strike

Increases ranging between 10% and 100% for public tariffs and fares have been announced by the Greek government. Fares for buses, the subway, and other public means of urban transportation were doubled on Feb. 1. On the same day, Olympic Airways, the state-owned airline, raised its fares by 15-30%, while rail fares went up by 20%. (To soften the impact of the fare increases in the major cities and to ease traffic congestion and air pollution, no fares are to be charged between 5 A.M. and 8 A.M. in Athens, Piraeus, and Saloniki.) Also as of February, telephone rates were raised by 10-19%, and electric power rates will go up by 12% on March 1. The political opposition has estimated that all these increases will cause the consumer price index to rise by 4-5%.

In related news, the Trade Ministry is preparing draft legislation that would provide the administration's price control measures with a legal base. The government intends to establish a price surveillance agency, and it has already appointed a commission charged with the task of guarding free competition, particularly with regard to price cartels and monopolies. In addition, a price research council is to be set up by the Bank of Greece, which would devote itself to a general monitoring of price development.

Meanwhile, in a talk with Prime Minister Andreas Papandreou, the executive committee of the Greek labor federation (GSEE) has insisted on strict price controls. The union representatives expressed grave concern over the government's partial wage freeze, which, for a one-year period, allows only limited adjustments of wages and salaries to the inflation rate. Greece is experiencing renewed price pressures following the 15.5% drachma devaluation on Jan. 9, which negatively affects the price of imports. On Jan. 19, the GSEE organized a four-hour general strike in protest against Athens' incomes policy; it was the first national walkout since the Socialists came to power 15 months ago, and there were warnings that further strikes would follow.

Italy: Agreement on Cutting Pay Indexation Rate

After 14 days of intense negotiations, Italy's labor minister, Vincenzo Scotti, on Jan. 23 was able to announce a national agreement on the issue of wage indexation reform which had dominated economic policy discussions for 18 months. However, the formula finally agreed upon differs greatly from that demanded by the employers and will cost the government an extra 3,500 billion lire in budget expenditure. The compromise proposal finally accepted had been devised by Scotti, who presented it to the employer and labor representatives on a "take it or leave it" basis. Nevertheless, most commentators view the pact as a major step along the way to stabilizing the Italian economy.

The agreement is based on an inflation target of an average 13% for the current year and 10% for 1984. Price inflation at present is running at 16%. As of February, compensation awarded to wage and salary earners will be cut by 15% from its present level. (In the past, low-income earners, who particularly benefited from the flat-rate nature of the *scala mobile* system, could expect compensation for 80% of inflation.) The effective reduction in compensation is expected to reach 18%, however, because price rises resulting from value-added tax increases will no longer be included in the cost of living index used for *scala mobile* purposes. This reduction is still a long way from the 50% cut in compensation demanded by the employers' federation, Confindustria.

In order to persuade the trade unions to accept the settlement, the government agreed to adjust income tax rates to protect low-income earners from the effect of fiscal drag. In addition, some social security benefits will be raised, and public rates and fares (electricity, public transport, etc.) will be allowed to rise by no more than 13% this year. At the same time, the three-year collective contract agreed to by employers and unions includes other concessions to labor. Work time will be reduced by 40 hours annually, but basic wages may not rise by more than 100,000 lire per month until mid-1985.

Banks' Interest Rate Cartel; Investment Funds Law

Following the severe disappointment expressed by the government and industry over the small interest rate reduction announced in mid-January by the Italian banking federation, one of the country's largest commercial banks, Banca Nazionale del Lavoro, has announced its withdrawal from the cartel that has set rates among private commercial banks since 1936. The bank based its decision on the need to reestablish competitive conditions and bring greater transparency to national banking operations. The move may signal the end of the cartel.

In the view of Banca Nazionale del Lavoro vice-president Giuseppe Ricci, the commercial banks cannot continue to abstain from taking an active part in the task of reorganizing Italy's crisis-ridden economy. The bank is proposing the creation of new bank consortia offering credits at acceptable interest rates to finance industrial restructuring programs, energy-saving investments, and technical innovation ventures. In addition, it advocates the conversion of corporate debt into share capital as a means of consolidating the finances of companies unable to cope with current interest rate levels.

In other news, the Chamber of Deputies has finally passed a law providing a legal basis for the operation of investment funds in Italy. Until now, the funds have had no official place in the capital market. In the future, the Stock Exchange Supervisory Commission (Consob) will be responsible for watching over the funds, which represent a business volume of over 2,000 billion lire.

Britain: Monopolies Unit Overruled on Takeover Bid

An important precedent may have been set by U.K. Trade Secretary Lord Cockfield when he overruled the majority recommendation of the Monopolies and Mergers Commission that the Charter Consolidated mining group's bid for Anderson Strathclyde, manufacturers of mining equipment, should not be allowed to go ahead.

Four of the six Commission members were opposed to the takeover, but under the Fair Trading Act 1973, the Trade Secretary apparently has the power to ignore any Commission finding if it is supported by no more than a two-thirds majority. However, this marks the first time that a Trade Secretary has gone against a Commission verdict, and Scotland-based Anderson Strathclyde has been granted leave to challenge the government's decision in the High Court. Both management and the unions, as well as Members of Parliament, are strongly opposed to the projected bid.

Lord Cockfield, who pointed out that the Director General of Fair Trading, Sir Gordon Burrie, agrees with him, based his decision on grounds of the "public interest." It is generally agreed that redefinition of what constitutes the public interest is urgently required, and a clearer legal framework for making decisions is needed. There seems to be no consistent pattern in recent Monopolies Commission recommendations, which observers have described as arbitrary and unpredictable. The Commission has certain set factors it must consider, such as the need to maintain effective competition, but it also must take into account "all matters which appear....in the particular circumstances to be relevant" - a wording considered by many to be too vague.

The outcome of the forthcoming legal action is awaited with keen interest by industry, and Lord Cockfield is expected to make a statement in Parliament later this month on the government's current competition and mergers policy.

Ireland: Budget Preceded by Higher Excise Duties

As a prelude to its main budget message due on Feb. 9, the Irish government has introduced additional excise duties on alcohol and cigarettes as well as a 22-pence increase per gallon of gasoline. These interim fiscal measures are expected to bring in an extra Ⱡ10 million (Irish) by budget day and Ⱡ119 in the full year. However, the higher gasoline price will also add at least 1.5 points to the rise in the consumer price index, which is now likely to top 9.5% in 1983 rather than the 8% originally forecast by the Economic and Social Research Institute.

After the announcement of the tax increases, Premier Garret FitzGerald said that some recent reports had "grossly understated" the scale and magnitude of the problems faced by the government. Last year, because of the recession, there was a shortfall of more than Ⱡ360 million in the tax revenue that had been projected in the March 1982 budget. The self-employed contributed only 12.9% of total income tax receipts, while employees whose tax is deducted at source again contributed the major share of such receipts, i. e., 87.1% - much the same as in 1981. As a result, observers believe, this year's budget will see a more equitable sharing of the tax burden.

Finance Minister Alan Dukes said that the government's target for the current budget deficit in 1983 would be Ⱡ750 million, or roughly 6% of GNP. This target is somewhat lower than expected, and there are fears it may prove deflationary. The government would still have to raise some Ⱡ230 million in new revenues, it is estimated, and an increase in value-added tax appears a distinct possibility. Economic observers also consider it likely that personal tax allowances will not be fully inflation indexed and that the corporate sector will not escape unscathed either. A government official was quoted as saying that the country's financial situation requires immediate measures: "We need money. It's as simple as that."

Austria: Government Details Tax Boost Proposals

About three months prior to the April 24 parliamentary elections, Austria's taxpayers were informed of the details of a new tax package, which will be instituted if the governing Social Democrats are returned to power with an absolute majority. Labeled the "Majorca package," after Chancellor Bruno Kreisky's vacation island, where it was worked out, the legislation still has to be approved by Parliament. Its principal purpose is to raise 12-14 billion schillings in additional annual revenue to help the government in its fight against unemployment.

The proposed measures are essentially as follows:

- So-called 13th-month and 14th-month wages and salaries would be taxed at a 20% rate on the amount that exceeds 40,000 schillings. (Every employee in Austria is entitled to vacation and Christmas pay equivalent to one month's wages or salary for each of these payments.) The rate would be reduced by 4% for each child in a household. Currently, any remuneration in excess of regular wages or salary is taxed at a maximum rate of 6%. The new rules would take effect in 1984.

- The monthly housing allowance of 30 schillings would be discontinued as of 1984, but unemployed persons and social welfare recipients would receive offsetting compensation.

- Interest income from savings deposits and bonds would be taxed at source, at the rate of 20%, beginning this year. Savings deposits up to 100,000 schillings held in the name of the passbook bearer would be exempt if they earned interest at the standard rate (currently 4.5%). Only one account would be allowed for each member of a household, and newly opened accounts would automatically be registered with the government's central data bank. Accounts held anonymously would be taxed at the higher rate, though without encroachment on bank secrecy.

- As an immediate measure, unemployment insurance contributions are raised from 3% to 4%; these contributions are shared by employers and employees.

Sweden: Direct Investments in U.S. Set Record

The U.S. remains the No. 1 country for Swedish foreign investments. In 1982 U.S. investments totaled SKr 2.5 billion. This figure represents an increase of SKr 600 million, or 84%, over 1981 and sets a new record. The largest share was contributed by Volvo, the automobile group, which invested SKr 500 million in a shareholding in Hamilton Brothers, the oil company. Overall, Swedish investments abroad in 1982 amounted to SKr 8.7 billion, which was SKr 2.3 billion, or 36%, more than in 1981. After the U.S., the other preferred countries for Swedish investments were Great Britain (SKr 1 billion), West Germany (SKr 800 million), and France (SKr 600 million).

Common Market Reports

EUROMARKET NEWS

Issue No. 734 *February 9, 1983*

IN THIS ISSUE

Community: Council Approves Common Fisheries Policy

The European Economic Community added another pillar to its common policy structure on Jan. 25 when the Council of Ministers adopted a series of proposals establishing a common fisheries policy (CFP). The Council's agreement ended nearly seven years of negotiations and disputes which at one time pitted Britain against France over the right of French fishermen to enter British coastal waters and, in recent months, turned Denmark against the other nine States over the right of Danish fishermen to fish in British waters. Under the compromise reached, Denmark was given a greater share of mackerel and cod catches.

Like the common agricultural policy, the CFP contains the essential elements of a common policy. Some of the features have been applied for several years, such as the quota system on allowable catches. A common marketing organization for fisheries products guarantees stable prices and protects against low-priced imports. Fish may be removed from the market if prices drop below minimum levels, and fishermen are entitled to compensation for withdrawing up to 20% of a catch. This feature

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is similar to one included in the common agricultural policy with respect to fruit and vegetables.

Common management of fish resources is another facet of the CFP, and so are the common rules to protect resources by banning fishing of certain species in certain periods of time and by alloting quotas. Rules on fishing equipment are part of the common management. Another aspect of the CFP is a common stand on trade relations with third countries. The Commission is the body that negotiates agreements with third countries over reciprocal access and marketing rights. (Such accords already exist with most third countries.) The common fisheries policy also includes Community support for the national fishing industries to help them adapt to changing market demands and to increase their efficiency. For example, some $30 million is to be spent each year to help the fishing industry invest in modern equipment. (See also *Common Market Reports, Pars. 745, 761.)*

EC-Portuguese Negotiations Enter New Phase

The Community's accession negotiations with Portugal have gained momentum now that the ten Member State governments have abandoned their reservations about discussing the terms for including Portugal's agriculture in the common agricultural policy (CAP). In a 27-page declaration presented by the ten foreign ministers to Portugal's foreign minister on Jan. 25, the Community outlines its ideas on the conditions for integrating Portuguese agriculture into the CAP. The length of the transitional period in this sector following Portugal's accession is not mentioned. In this regard, the French government, which was responsible for slowing the accession negotiations, wants the EEC to retain all options. France would prefer to have the CAP applied in stages to Portuguese agriculture and hopes to deny Portugal, during the first stage of membership, the CAP benefits for products marketed in large quantities, such as wine, fruit, and vegetables.

There are several problems in other areas that were discussed in past meetings without solutions being found. A major issue involves the unrestricted movement of Portuguese workers. The Community is insisting on a seven-year transition period (as in the case of Greece), while Portugal would like unrestricted freedom of movement from the day of accession. Budget contributions and Portuguese representation in EC institutions have not been discussed at all.

The first date projected for Portugal's accession was Jan. 1, 1983, later changed to Jan. 1, 1984, a target that cannot be met because the national legislatures will need almost a year to ratify the treaty of accession. Even if the negotiators meet once a month from now on, Brussels observers believe that Jan. 1, 1985, is a more realistic date for Portugal's accession to the three Communities.

In Brief...

Threatened with legal action by the Commission, the Dutch government has agreed to stop subsidizing the cost of natural gas sold to hothouse operators. As of April 1, the gas price will go up by roughly 25%, which will eliminate the competitive edge that Dutch produce growers have over their counterparts in other Member States. The Dutch government's practice led to protests, especially from German fruit and vegetable growers, and to debates in the European Parliament + + + The Commission has asked the German government for administrative assistance in its case against the German steelmaker Klöckner-Werke AG, Duisburg. The EC executive is demanding from the steel company the DM 23.9 million that Klöckner was supposed to deposit with the Court of Justice last November. The amount represents one of three fines totaling DM 84.6 million that the Commission has imposed on Klöckner since early 1981 for allegedly producing more steel than allowed by the Commission under the mandatory quota system. Although Klöckner is appealing all three fines, the Commission insists on the deposit since an appeal has no suspensory effect. However, the Commission has no power to move directly against the steelmaker and therefore asked Bonn for assistance. Klöckner's management reportedly has vowed to go before a national court to contest any action on the matter by the German government.

Britain: U.S. Bank Told to Ignore N.Y. Jury Subpoena

In a decision with significant implications for international banks operating in the United Kingdom, the Commercial Court in London has instructed the London branch of one of the leading U.S. banks to continue to disregard a subpoena issued by a grand jury in New York. The grand jury had ordered the bank to make available various documents relating to the affairs of three multinational companies, one Panamanian and two Swiss.

The U.S. tax authorities had argued that, under American law, a U.S. company could be compelled to disclose documentation anywhere in the world. However, the companies involved asserted that they would not have entrusted their affairs to the London branch of the particular bank unless they had been certain of strict confidentiality.

Justice Leggatt said that any disclosure to the grand jury would, in fact, be a breach of the bank's duty to treat its customers' affairs as confidential. It had been shown that in practice "there is no secrecy in regard to matters entrusted to grand juries," the judge said. The actual subpoena was apparently the result of an investigation of the crude oil industry in the U.S. in 1977 and concerned an alleged conspiracy to evade payment of U.S. taxes. The judge said that there was clear evidence that "irreparable and incalculable" commercial damage would be caused to the companies if the court allowed disclosure. Information about their customers' private affairs would be revealed, with possibly serious repercussions, since one of the companies apparently traded in politically sensitive areas. The companies would be severely disadvantaged vis-à-vis their competitors, and "a window would be opened" on their secrets and their commercial strategy.

In the case before the court, Justice Leggatt agreed to continue the injunctions previously granted to the three companies, preventing the bank from obeying the subpoena. He said his decision would impede the U.S. court from exercising a power that could be regarded as excessive; otherwise considerable commercial damage could be done to the companies.

There was the additional question of whether the bank was likely to be in contempt of the U.S. court by failing to obey the subpoena. The judge said that it is hard to believe that the bank is at risk of being in contempt in New York, and it is for the U.S. court to "relieve the bank of the dilemma in which it has placed its own national" by refraining from contempt proceedings.

The particular interest of this case, in which the judge requested that neither the bank nor the three companies be named, is that it clarifies the extent to which an order of a foreign court can affect the U.K. operations of an overseas bank.

Germany: Radical Plan for Reshaping Steel Industry

A radical plan to restructure the troubled West German steel industry has received a mixed response. Economics Minister Otto Lambsdorff said the government is prepared to provide the DM 2-3 billion that an independent commission believes is needed to get the plan off the ground. The three-man commission has recommended the creation of two roughly equal giant steel groups: the Rhine group, comprising Thyssen and Krupp, and the Ruhr group, consisting of Hoesch, the state-owned Peine & Salzgitter, and Klöckner-Werke. All of these companies produce mainly flats and heavy sections, which account for about 70% of West Germany's rolled steel production. For the third product category, the money-losing light sections used in construction, the commission envisages drastic cuts in capacity at the troubled Arbed Saarstahl and the steel plants of the Korf group, now subject to composition. In all cases, the managing and supervisory boards would have to take the necessary steps toward merging and restructuring. Merger plans must be approved by the European Commission, and any government aid toward the restructuring process would have to conform to the Community's steel aid code.

Two state governments and the unions have voiced criticism of the commission's plan. Government leaders in Lower Saxony fear that the plan favors the Rhine group and that too many jobs would be lost in their state. The North Rhine-Westphalian government wants its own plan realized: the merger of the Krupp and Hoesch corporations into a new entity called the Ruhr-Stahl AG. Union leaders criticize particularly the absence of any commission estimate of how many jobs would be eliminated.

There has been no response from the European Commission to some of the other ideas expressed by the independent body. For example, the German commission did not exclude protectionist measures against subsidized steel imports. Import licensing or levies should be considered as a last resort, according to the plan. Economics Minister Lambsdorff admitted that import protection would raise immense problems, but he also indicated that the government would consider supporting measures to encourage realization of the plan.

France: FF 10 Billion Bond Issue; Small Business Loans

The French government's first bond issue of the year, in the amount of FF 10 billion, has been floated on the domestic capital market. The eight-year issue, which went on sale on Jan. 31, offers an interest rate of 14.6%, which is viewed as a good yield considering that the French inflation rate now stands at less than 10%. Last year the French state issued FF 40 billion in bonds, not including shorter term treasury bills to banks.

In other news, Economics and Finance Minister Jacques Delors has announced that the government is setting aside FF 1 billion for participation loans *(prêt participatif simplifié)* for small industrial and commercial companies. To qualify, businesses may have no more than FF 20 million in annual turnover and no more than 50 employees at any time during the year.

The loans have a maturity of eight years (extendable to ten years) and carry an interest rate of 7% for the first two years and of 9% for the remaining six years; they are limited to FF 400,000 per applicant and may not exceed the applicant's capital assets. As participation loans, they strengthen, for balance sheet purposes, the company's capital resources. Innovative industrial and service sectors in particular are to benefit from these loans, which last year were offered in the total amount of FF 600 million to some 3,500 businesses.

Italy: Another ENI Chairman Forced to Resign

Once again, a chairman of ENI, Italy's state-owned, money-losing energy giant, has been forced to resign as a result of apparent political intrigue. This time the victim is Umberto Colombo, who held the position for just three months. The Socialists, who wield considerable influence over ENI, had never fully accepted his appointment in the first place, and a series of tough actions by Colombo incurred their displeasure. One of his first decisions after becoming chairman was to dissolve the joint venture agreement with the United States' Occidental Petroleum, a favorite project of the Socialist industry participation minister, Gianni de Michelis. Also, Colombo gave only grudging agreement to the exchange of production facilities between ENI and Montedison, which effectively returned the refined products area to the private sector, while concentrating the money-losing base chemicals under ENI. ENI paid 420 billion lire for the facilities (only two-thirds of what Montedison had hoped for) but was not promised any government support for the deficit-ridden enterprises it took over.

The latest crisis in this affair appears to have been the attempt of Socialist party leader Bettino Craxi to force Colombo to put former ENI vice-president Leonardo Di Donna on the steering committee of ENI's board of administration as a Socialist party appointee. Di Donna, a close associate of Craxi, reportedly has been involved in one way or another with the "resignation" of three ENI presidents in the last four years, and his name is also connected publicly with alleged financial wrongdoings during his time as financial chief of the group. The Socialists in the government coalition appear to have taken advantage of Colombo's unyielding stance on the issue to force Premier Amintore Fanfani to demand his resignation, a move that has been severely criticized by Parliament and the press.

Switzerland: Procurement Plan; Fiduciary Tax Vetoed

The Swiss federal government plans to ask Parliament for approval of an SF 970 million spending program to aid employment. The hope is that the program will trigger a total order volume of SF 1.7 billion. Emphasis would be on federal procurement orders of SF 641 million that would be placed earlier than originally scheduled; they would primarily involve the purchase of defense equipment and materials as well as the construction of housing, roads, and sewage treatment facilities. To stimulate the export sector, the government would advance money to the Swiss export risk guarantee fund (ERG), which is now in deficit, and would raise additional loan facilities for the financing of projects in developing countries.

Unemployment in Switzerland continues to be at the very low level of 0.8% but is expected to increase to 1% in the foreseeable future. For this reason, the proposed measures are generally welcomed, although certain industries would have liked to see the Swiss postal & telecommunications system (PTT) and the federal railways (SBB) come forward with expanded procurement programs of their own.

In other news, the lower house of Parliament on Feb. 1 narrowly rejected the government's proposal for a 5% withholding tax on income from fiduciary deposits *(Doing Business in Europe, Par. 40,072)*. Also defeated were two alternative proposals, one of which called for the imposition of the standard 35% tax on fiduciary deposits held by Swiss residents, while the other provided for a 0.1% stamp duty on the total volume of fiduciary deposits and money market investments.

Swiss Supreme Court Rejects U.S. Request in Insider Case

The Swiss Supreme Court has ruled that certain Swiss banks cannot be forced to reveal the identity of clients who are alleged to have had insider knowledge when they traded in shares of the United States' Santa Fe International Corp. through the banks. The court held on Jan. 26 that the illegal nature of the alleged transactions had not been sufficiently established. This ruling in effect sets aside the Swiss Justice Ministry's approval of a request by the U.S. Securities & Exchange Commission (SEC) for Swiss legal assistance in this case. Eight bank clients had filed administrative complaints against the Justice Ministry's approval.

According to reports from Lausanne, the seat of the Swiss Supreme Court, the SEC investigation concerned alleged insider dealings in shares and options of Santa Fe prior to the company's takeover by Kuwait Petroleum Corp. During the secret negotiations with the Arabs, the reports said, the trading volume of Santa Fe shares quadrupled and share prices doubled. The SEC determined that the share purchases had been effected via banks in Geneva, Zurich, and Basel, but the banks refused to reveal the names of the clients involved. The SEC thereupon turned to the Swiss Justice Ministry for assistance. (The transactions took place before the signing late last summer of a U.S.-Swiss memorandum of understanding concerning insider trading on the U.S. securities markets handled through Swiss banks. The memorandum, in conjunction with a Swiss Bankers' Association convention, enables Swiss banks to furnish information to the SEC in certain cases without running the risk of violating Swiss banking secrecy rules.)

In two other cases where Swiss banks had filed complaints against legal assistance being given to the SEC, the court ruled in favor of such assistance (except on one point) because the illegal nature of insider activities had been clearly documented.

Spain: Employers, Unions Agree on New Pay Contract

Under a collective framework agreement concluded late last month by Spain's employers and trade unions, 6.5 million workers are to receive between 9.5% and 12.5% more in wages and salaries this year. The new contract also includes the employers' acceptance of the 40-hour workweek as well as a clause permitting renegotiation of the pay increases if the inflation rate goes above 9% by September. There is a strong likelihood that this might happen, since the government itself is forecasting 12% inflation for 1983. The pact does not apply to companies that suffered severe losses in either of the last two years or can otherwise prove that they are in financial difficulties.

Having repeatedly accepted real-term wage cuts in recent years, the unions were determined not to compromise this time, mindful of the employers' failure to keep their promise last year to prevent unemployment from rising further. By the end of 1982, unemployment had reached 2.15 million registered jobless, for a national quota of 16.5% (compared with 13.8% in January 1982). The new Socialist government had promised during the election campaign to create some 800,000 workplaces, but it now concedes that this task cannot be tackled before 1984, at the earliest.

The current agreement came only after the tenth round of hard-fought negotiations, which many observers predicted would end in failure. At the start, the positions had been far apart. The employers' organizations (CEOE for the large companies and CEPYME for the smaller ones) had offered between 6% and 10%, while the unions (the Socialist UGT and the Communist CCOO) had demanded 10-13%.

Meanwhile, the UGT and the CCOO have agreed to demand from the government a 12.5% pay rise for about 1.5 million civil servants. The negotiations in this sector started on Feb. 4.

EURO COMPANY SCENE

Gulf Oil has sold its interests in Switzerland to Royal Dutch/Shell and its refining and marketing operations in Belgium, the Netherlands, and Luxembourg to Kuwait Petroleum Corp. According to James Lee, the company's chairman, Gulf is now negotiating the sale of its remaining assets in continental Europe and the U.K. Gulf Oil's withdrawal from Europe and the cutting down of other international operations are part of the company's plan to speed up its financial recovery and to concentrate its efforts on the home market, the United States.

In related news, Chevron (Standard Oil of California) reports that it is negotiating with an unidentified prospective buyer the sale of its Feluy, Belgium, refinery, which has a capacity of 180,000 barrels a day. Last fall, Chevron closed down a 95,000 b/d refinery near Frankfurt, Germany, which it had operated jointly with Texaco.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: Approval for Half of Greek Import Restrictions

The European Commission has granted Greece authorization to impose quantitative restrictions on imports from other Member States for only 11 of the 22 products for which Athens had requested limits. Imports of these products, including sports shoes, furniture, men's suits, cigarettes, and hard liquor, may be held down to the average levels of 1981 and 1982. These products account for less than 1% of Greece's trade with its EEC partners. If restrictions had been approved for all 22 products, 3% of Greece's trade with other Member States would have been affected. The restrictions will remain in force until the end of this year.

The Commission took a close look at Greece's request, which was based on Article 130 of the Accession Treaty, under which protective measures to cope with serious economic difficulties are permitted, subject to the Commission's approval *(Common Market Reports, Par. 7639)*. The EC executive was able to substantiate the Greek government's argument that some of its industries were suffering serious damage because of import penetration from other Member States and third countries. For example,

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

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Greece's sports shoe production did not rise in 1981 (the first year of membership) or 1982; exports fell by 30%, while imports increased by the same percentage.

The Commission's approval of the request sets ceilings for imports of certain products from EEC Member States, but it authorizes only a surveillance system for goods imported from third countries, except in the case of sports shoes (for which the quota applies only to imports from Taiwan). Importers who want to import third-country products must apply for a license. Commission officials point out that, because of the EEC's foreign trade obligations, it would hardly have been possible to introduce quotas on imports from third countries for a larger number of products.

The import curbs were announced on Jan. 9; they are aimed at lowering Greece's trade balance deficit, which had reached an all-time high of around $5 billion by the end of 1982. At the same time, the Greek government devalued the drachma by 15.5%, though without first consulting the European Commission, which was disappointed by this omission. Athens was not obliged to consult Brussels on its move, however, since Greece is not a member of the European Monetary System.

Ready to Eliminate More Nontariff Trade Barriers?

On March 1, the Council of Ministers will seek to make headway toward fulfilling the Treaty of Rome's commitment to a common market of freely circulating goods and services by eliminating more nontariff barriers. Last December the heads of government set a March deadline for approval of several proposed liberalization measures specified by the Commission. At their Feb. 1 meeting, the economics ministers of the ten Member States expressed their interest in the removal of the remaining technical barriers to trade - national certification of imports from third countries, national standards, and red tape in customs clearance of goods in intra-EEC trade *(Common Market Reports, Pars. 3302.01, 3302.07)*.

Major progress in eliminating some of these barriers could be made by reaching agreement on the highly controversial proposal on EEC certification of third-country imports. Under this draft directive, products meeting the Community's safety standards would receive EEC certification from the importing Member State and thereafter could circulate freely in the entire Common Market. Agreement on this proposal would open the way to approval of some 20 other draft directives providing for Community standards for a wide variety of goods, ranging from cars to medical equipment.

Uniform Community standards would make it easier and cheaper for manufacturers in third countries to sell in the Common Market. It is this prospect that has made the French government hesitant. Until now, Paris has been prepared to relent on French safety standards only if the Community takes a tough stand on controlling imports of sensitive products, but France has run into opposition from several Member States, especially Germany. A compromise suggested for the third-country certification proposal would allow a Member State to bar imports on grounds of noncompliance with a Community standard, even if another State had already given a certificate of approval. So far France has not accepted this compromise.

Another proposal would establish a procedure for exchanging information between Member States on the introduction and implementation of new safety standards and norms. On Feb. 1, Germany dropped its insistence that telecommunications be excluded, thereby improving the measure's chances of adoption. Intra-Community trade would benefit from simplifying national customs regulations and procedures, including the introduction of a combined document for customs and tax purposes, as well as from the proposed fourteenth value-added tax directive providing for deferment of VAT payments by the importer.

In Brief...

Japanese government officials have given assurances that their exporters will show moderation in exports to the EEC of ten industrial goods. The promise was made at the Jan. 27 meeting of EEC Commission and Japanese officials in Tokyo. The EEC has been trying to persuade the Japanese to reduce their exports to the Common Market of cars, video recorders, forklifts, numerically controlled machine tools, light commercial vehicles, motorcycles, television sets, color TV tubes, hi-fi equipment, and quartz watches + + + The Commission has given the French government until Feb. 20 to justify its decision to establish farm market management organizations. The alternative could be legal action before the Court of Justice. The Commission is concerned that the organizations could be used to hamper free intra-Community trade in agricultural commodities, especially wine from Italy. In deciding to establish such bodies, the French government followed up on an election campaign promise made by Socialist leaders in 1981.

Germany: Unemployment Exceeds 10% Mark

With nearly 2.5 million people out of jobs at the end of January, unemployment in West Germany has reached a postwar record. The previous high was recorded in February 1950, when some 2.28 million signed up for unemployment benefits. Last month alone, an additional 260,000 lost their jobs, pushing the unemployment rate from 9.1% to 10.2%. This is a far greater increase than what government officials had expected, but it reflects the previous estimates of many independent economists, who fear that unemployment will rise even further.

The fact that the jobless rate rose sharply in spite of the relatively mild winter is regarded as an indication of how weak the German economy is at present. In January, almost 1.2 million employees were on short workweeks, also a record for the postwar period. Economists say that this development can be interpreted in two ways: (1) management is retaining employees in the hope that orders will come in, or (2) prospects are bleak, and short workweeks are preceding actual layoffs.

Government officials, however, see a silver lining in the unemployment statistics and other economic data. Since December, unemployment among young people aged 15-25 rose only half as much as general unemployment. Chancellor Helmut Kohl asked for and received a commitment from the country's employer associations that all of this year's 650,000 school leavers will be offered jobs; however, many independent economists are skeptical about the realization of this promise.

Government officials also cite statistics showing a rise in new industrial orders since last November. New orders went up by 7.5% in November and December, an increase due entirely to the strength of the domestic market, since foreign orders dropped by 0.5% during this period. Government officials say the rise resulted partly from the approaching expiration of the 10% grant legislation to stimulate new investments *(Doing Business in Europe, Par. 40,379)* and is also a sign of the general revival of the economy.

In related news, opposition and labor leaders have criticized the practice of some businesses which insert into contracts for new orders a clause that allows cancellation in the event the present German government is not returned to office in the general elections scheduled for March 6. There is reportedly a widespread feeling among many business executives that a victory by the opposition Social Democrats would not be good for the economy, allegedly because they might realize their plan for economic revival through a DM 50 billion program that could be financed only through higher taxes or borrowing, or both.

Denmark: Bond System to Be Fully Computerized

By Oct. 1 of this year, Denmark will be the first country to have fully converted its entire bond holding system to a centrally computerized register. The traditional coupon clipping will then be a thing of the past, and bond income will not be available without registration. The government-organized plan, which will consign up to 40 million bond certificates to the incinerator, aims to streamline the issuance, safe-keeping and administration of all krone-denominated securities. All bonds quoted on the Copenhagen stock exchange will be registered in the central computer, and bond trading will be via electronic transfer. Bondholders' claims will be certified by computerized statements, and bond certificates will no longer be issued. A total of DKr 600 billion in bonds will be affected.

The major switch will be made during the Easter holidays in early April. The basic system has already been tested, and procedures reportedly worked as planned when one million bonds were transferred to the register in a trial run last month. If the center is put out of action for any reason, a backup system will produce a duplicate of all bond data. Foreign holders of Danish krone bonds will also be affected, and they will have to choose whether to have their bonds registered in their own name or in the name of a bank or broker.

Italy: Steel Industry Cuts; New ENI Chief Appointed

The Italian government will soon consider a plan by the state-owned Finsider steel group to eliminate 2.4 million tons (metric) in production capacities and 16,000 jobs by the end of 1987. The plan would entail the first substantial reductions in the Italian steel industry since the world steel crisis began in 1974. During the last ten years Rome has supported a steady increase in domestic steelmaking capacities on the ground that reliance on imports has to be reduced or even eliminated. The new plan is likely to receive a more positive response from the European Commission than a project proposed by Finsider in 1981 to cut capacities by only 190,000 tons a year. The reductions under discussion would affect mainly older production facilities.

Government approval is not a foregone conclusion, since the plan is bound to arouse violent opposition from labor unions as well as some cabinet ministers. Finsider's attempt to link its proposal with a request for a further 1,600 billion lire in state aid, on top of the 7,000 billion lire already granted, could further complicate the situation. Finsider is reported to have lost 1,400 billion lire last year.

In other news, Franco Reviglio, finance minister from 1979 to 1981 and now economics professor in Turin, has been appointed the new chairman of ENI, the state-owned energy holding. Reviglio enjoys a considerable reputation, resulting from his successful crackdown on tax evasion while he was in the cabinet (see following story). He is considered to be politically aligned with the Socialists but not overly close to Socialist party leader Bettino Craxi. Reviglio's appointment is seen as a compromise which has narrowly averted a government crisis. The previous ENI chairman, Umberto Colombo, was forced to resign, at Craxi's insistence, after only three months in office.

State Revenues Rising, Payments Deficit Falling

Government revenue income was somewhat higher in Italy last year than had been projected in the fiscal estimates for 1982. This development is thought to have been the result of the successful drive against widespread tax evasion initiated by then finance minister Franco Reviglio in 1979 and 1980. Total revenues rose by 26% to 113,670 billion lire. Government income from direct taxes was boosted by 29.6% to 65,166 billion lire, from indirect taxes by 21.9% to 34,184 billion lire, and from other revenues, such as customs duties, by 20.4% to 14,320 billion lire. However, the increases brought the treasury little relief from the exceedingly high public borrowing requirement, which reached 71,000 billion lire in the same period.

In other news, central bank governor Carlo Ciampi has predicted that 1983 will see Italy's current account deficit drop to half the level of 1982, which is expected to total 7,500 billion lire (about the same as in 1981). This drop will favorably affect the balance of payments, which closed in 1982 with a deficit of 2,500 billion lire, after a 1,432 billion surplus in the previous year. The reasons for the expected improvement include the effects of economic stagnation and falling oil prices in reducing the overall import bill, the continued high level of earnings from tourism, and a fall in interest payments on Italy's $50 billion in foreign debts as a result of the decline in international interest rate levels.

France: Accord on Financing of Early Retirement System

As of April 1, any employed and unemployed person over the age of 60 in France will have the legal right to retire early. The national employers' federation CNPF (Patronat), the country's major labor federations, and the government have now agreed on the financing of the extra costs of the early retirement system, which is considered a major advance under the Mitterrand government's social policy program.

The tripartite agreement provides that 50% of supplemental pension benefits for those retiring early will be financed by the general old-age pension system. The difference between this share and the total entitlement will be paid out of an FF 30 billion contingency fund to be set up initially for a period of seven years, after which time, it is hoped, the system will be self-supporting. Two-thirds of the fund will come from employer-employee contributions and the remaining one-third from the state budget. However, since contributions will not reach the necessary level during the first years, the fund will have to raise a starting loan of FF 16 billion.

An employee who chooses to retire at the age of 60 will receive pension benefits equal to 50% of gross monthly pay during his or her best earning years (provided there have been at least 37.5 years of full contributions) plus a 20% supplemental pension. An employee who chooses to retire anytime between the ages of 60 and 65 would receive benefits ranging from 61% to

70%. The complicated formula used to calculate benefits also has to include factors such as guaranteed minimum benefits of FF 2,900 a month and social insurance benefit ceilings.

Some 350,000 workers who reach the age of 60 each year will be eligible for early retirement, and at least one report said that up to 80% are expected to take advantage of it, since the system offers no financial incentive to continue working. In terms of present benefits, the new system slightly favors blue-collar workers over white-collar workers and management level *(cadre)* employees. This imbalance, accounted for by the shorter life expectancy of manual workers, was termed discriminatory by the union of *cadre* employees, which therefore delayed its decision to become party to the agreement.

'Second' Stock Market; 'Renewable' State Bonds

Patterned somewhat on London's unlisted securities market, a "second (stock) market" *(second marché)* was inaugurated in Paris on Feb. 1. This new institution is designed to ease the listing of shares particularly of small and medium-sized businesses and to help boost the capital resources of French industry. The rules for a listing on the second market are considerably less stringent than those of the regular bourse. For instance, companies seeking a listing are required to reserve a minimum of only 10%, rather than 25%, of their share capital for trading. Also, the publicity requirements are not nearly as tough as those of the regular stock exchange.

In other news, the French treasury is finalizing plans for introducing a new instrument for financing the state deficits - the "renewable" treasury bond. This paper has been conceived to attract investments now tied up in short-term savings deposits and will offer investors the chance to switch to other bonds after three years if the interest rates offered then are more favorable. Essentially, the new type of bond would enable investors to earn yields not too far removed from prevailing inflation rates. However, the paper will not feature direct inflation indexation, as, for example, the U.K. "Granny bonds" do.

Spain: Higher Minimum Capital for Foreign Banks

Since the liberalization of the Spanish banking sector four years ago, some 30 foreign banks have set up shop in that country and gained a substantial share of the market. The new Socialist government has now apparently decided to slow this influx: on the recommendation of the central bank, it has decreed that foreign banks establishing themselves in Spain in the future will have to start with a minimum capital of 2 billion pesetas rather than the 750 million previously required. (For at least five banks, including the United States' Wells Fargo and

First Interstate, the central bank reportedly wants to make the new requirement retroactive.) It remains to be seen, financial observers said, whether this change alone will diminish the attractiveness of the Spanish market for foreign banks.

Because of extremely generous interest rate margins of 5% and more, domestic as well as foreign banks in Spain generally tend to earn healthy profits. Average profitability of all foreign banks last year was reported at 1% of their balance sheet totals, even though these banks are subject to legal restrictions that prevent them from competing with the domestic banks on equal terms. (For instance, they may not open more than three branch offices.) As a consequence, the foreign banks tend to specialize, and they are particularly strong in providing rollover credits in both pesetas and foreign currencies to corporate clients. Last year these banks accounted for about 10% of all money market lending in Spain and for 28% of all foreign currency loans. By contrast, their share of total peseta deposits was only 1.05% and that of foreign currency deposits only 1.9%.

EURO COMPANY SCENE

British Alcan Aluminium, subsidiary of the Canadian Alcan group, has announced a rationalization program which will require the elimination of 1,200 jobs. The production cutbacks follow the merger of British Aluminium with Alcan last November. The manpower reductions, from a total of 13,000 Alcan workers in the U.K., will be in plants in South Wales, Scotland, and Kitts Green, near Birmingham.

In related news, Alcan's West German subsidiary, Alcan Aluminiumwerke, has received a last-minute state credit of DM 8 million which will prevent the immediate closure of its Ludwigshafen smelter operations. Alcan Germany reported a loss of DM 1 million on sales of DM 1.3 billion for the last business year.

The West German subsidiary of International Harvester has sold its construction machinery operations to Dresser Europe. The price of the transaction was not disclosed. Harvester's tractor, farm equipment, and engine operations are not affected by the deal.

Common Market Reports
EUROMARKET NEWS

Issue No. 736 *February 23, 1983*

IN THIS ISSUE

Community: Amendments to Health Control Rules on Meat Trade

On Feb. 7, the Council of Ministers adopted important amendments to existing veterinary legislation concerning intra-Community trade in fresh meat and importation of livestock and fresh meat from third countries. These amendments are designed to eliminate differences in the Member States' health requirements hampering intra-EEC trade and to align national rules governing imports from third countries *(Common Market Reports, Par. 958)*.

At present intra-Community trade in fresh meat is hindered in several ways because some Member States have tightened veterinary rules to protect consumers. The amendments take into account the progress made since 1964, when the first Community provisions in this area were adopted. Since that time, great advances have been made in detecting, controlling, and preventing animal diseases and health hazards in the trade in meat and livestock. The changes extend the health protection rules for intra-EEC meat trade to all stages of meat production and storage. Presentation of retail cuts and other products, such as

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offals, which is at present governed by national rules, will become uniform throughout the Common Market. Health controls at slaughterhouses are being tightened through a requirement committing the Member States to legislating rules on testing animals and samples of meat to detect hormone residues or other substances likely to be dangerous to human health. In addition, the amendments contain for the first time a statutory basis for on-the-spot checks by Commission veterinarians to verify compliance with the changes.

The rules governing importation of livestock and fresh meat from third countries have been aligned in such a way as to make slaughterhouses in third countries that export to the EEC subject to the same health requirements as Community establishments.

Commission Presents Ideas on EC's Future Finances

The Commission has outlined to the Council of Ministers and the European Parliament its ideas on how the Community's financial resources should be expanded in order to pay for the further development of common policies. The ideas are laid down in a Green Paper designed to stimulate discussion. Depending on the reactions in the Member State capitals and the EP, the Commission will submit concrete proposals in the spring.

At present the Community's financial resources consist of revenue from agricultural levies, customs duties, and up to 1% of the Member States' value-added tax income *(Common Market Reports, Par. 5012)*. The Commission believes that an increase in the rate or the removal of the VAT ceiling would provide a lasting and reliable source of revenue. The chances for even a modest increase in the ceiling are virtually nil at the moment, considering the negative reactions of several Member States to Commission ideas advanced previously. Nevertheless, the EC executive sees in the VAT revenue the backbone of the Community's financial autonomy. An examination of other possible sources of tax revenue has revealed that none is suitable, and the Commission sees no other way of generating additional revenue but to draw from the Member States' VAT resources beyond the 1% ceiling. However, the Commission also envisages a more diversified and more equitable system of Community financing through VAT revenue. This goal could be achieved either by adding a progression factor to the national VAT systems or by taxing the States progressively on the basis of their gross national products.

In Brief...

The Council has added 3 billion ECUs to the Community's loan facility (previous funding: 2 billion ECUs) to stimulate investment, especially by small and medium-sized companies. The additional funds will be allocated in tranches, and the Council will decide on Commission proposals by majority vote - a significant departure from the unanimity principle. Agreement on the additional funding of the system, called the New Community Instrument (of financing) *(Common Market Reports, Par. 3622.20)*, became possible after the new German government dropped objections made by the previous administration. Since 1979, loans totaling 1.3 billion ECUs have been extended by NCI, mostly for projects in Ireland and Italy + + + The Court of Justice has rejected Luxembourg's suit against the European Parliament, saying that the Grand Duchy has no legal right to demand that the Assembly hold some of its sessions in Luxembourg City. The Court also said, however, that the EP may not transfer personnel from its Luxembourg-based secretariat. In July 1981 the EP had passed a resolution to the effect that the Assembly should sit only in Strasbourg (judgment of Feb. 10, 1983, Case No. 230/81) + + + After Greenland leaves the European Community, it could still be linked with it through a special statute on cooperation and financial aid, according to the Commission. Eighteen overseas countries, as well as territories of the Member States, the majority of which belong to France, have an associated status that offers them benefits similar to those provided in the Lomé Convention for 63 independent African, Caribbean and Pacific countries *(Common Market Reports, Par. 4202.01)*. In February 1982 the Greenlanders voted to leave the Community. Negotiations between Denmark, which represents Greenland in foreign relations, and the Member States are expected to be wound up this year.

Germany: Putting More Capital Into Employees' Hands

If the current coalition remains in office after the national elections planned for March 6, the German government is going to present a bill to promote capital ownership among employees by expanding the so-called DM 624 Law. The measure would broaden the choice of forms of capital ownership by giving employees the opportunity to invest in their employer's business. In addition to acquiring shares, employees would be able to acquire preemptive rights to other forms of capital ownership. Employees could also leave a portion of their wages at the employer's disposal as a loan and be assured of government support.

Under the DM 624 Law, employees who save DM 624 each year over a six-year period and freeze the money in a bank account receive a government grant of 23% of the total, or 33% when the saver has two or more children. (The grants issued by the government until 1981 amounted to 30% and 40%, respectively.) Only employees with annual incomes under DM 24,000 (DM 48,000 for married taxpayers) qualify for the grant. Employers contributing to the employee's savings, either voluntarily or as required under a union contract, may deduct half of the contribution from their income tax liability. After six years, the employee's capital (savings, employer contribution, interest, and government grant) is paid out tax-free. In 1981, about 15 million of the country's total work force of 24.5 million saved some DM 8 billion under this system, and the government's overall grants came to nearly DM 2 billion. The proposed raising of the DM 264 ceiling on tax-supported savings to DM 936 annually could cost the government as much as DM 750 million.

Officials of the national employer and labor organizations have shown no enthusiasm for the government's plan, though for different reasons. Business executives say that the current economic recession is hardly conducive to a voluntary commitment by the employers to raise their contributions to employees' savings, nor would employers feel inclined to enter into such a commitment in collective bargaining. Union leaders argue that increased costs would heighten the employers' financial risk and could mean more jobs lost. The unions have long favored the establishment of funds through agreements between industry associations and the unions. These funds would be financed by employers' contributions and would issue certificates to employees. Critics said this plan would involve immense paper work.

Ireland: Budget Features Harsh Tax Measures

In introducing the 1983-84 Budget in Parliament on Feb. 9, the new Irish finance minister, Alan Dukes, emphasized his intention to resolve the country's financial difficulties, which he said went back nearly ten years, to the first international oil crisis. Consequently, Dukes announced a wide range of tax increases, and critics spoke of a particularly harsh and excessively deflationary Budget.

A levy of 1% would be imposed on all taxable incomes, and the top rate of income tax would be raised to 65%. In addition, owners of houses worth more than £65,000 (Irish) and those whose annual earnings total more than £20,000 would be subject to a new property tax. Interest on loans would no longer be chargeable against tax.

Particularly significant is the proposed increase in the standard rate of value-added tax, from 30% to 35%, while the lower rate would be raised from 18% to 23%. Natural gas would be subject to a 5% VAT rate. There are to be further rises in the excise duty on gasoline, on top of recent increases, to match any fall in retail prices due to international price cutting.

Dukes announced that there will be a crackdown on tax evaders, who will now face stiff financial penalties and imprisonment for up to two years as well as public disclosure. He said that up to now evaders have been protected by a "cloak of anonymity" unless they had been convicted in open court. In the future, the Revenue Commissioners would publish each year a list of persons and companies that had been convicted of tax offenses, "or with whom settlements have been reached in...cases involving default by the taxpayer."

There are to be reductions in government services, adding up to Ⱡ105 million, but details of these cuts have not yet been made public. The tax rises will increase the annual cost of living by 3.5% and are intended to produce Ⱡ432 million in extra revenues over the next 12 months.

The Irish treasury will have a total borrowing requirement this year of Ⱡ1.72 billion, or roughly 13% of gross national product, compared with the 1982 figure of Ⱡ1.95 billion, equivalent to about 16.5% of GNP. The Budget has been calculated on the basis of a current deficit of nearly Ⱡ900 million, or 6.75% of GNP, compared with last year's projection of Ⱡ750 million.

Italy: Prime Rate No Longer Binding on Banks

The prime rate set by the Italian banking association (ABI) will no longer be completely binding on commercial banks, according to a decision by the ABI executive committee. Thus, banks in the future may set their own individual prime lending rates (with the ABI rate serving as a guide), which should improve the internal competitiveness of the banking system. The ABI refused, however, to bow to pressure from the government and industry to further reduce the current prime rate, which now stands at 20% for top borrowers. The executive committee said that the prevailing inflation rate, still in excess of 16%, offers no justification for such a move. Nevertheless, it did issue a recommendation to the banks for a slight reduction in the highest lending rates.

The ABI's decision to make its prime rate nonbinding was apparently prompted by the earlier announcement of one of the country's largest banks, Banca Nazionale del Lavoro, to withdraw from the cartel that has set rates among private commercial banks since 1936. The bank said it was necessary to restore competitive conditions and make banking operations more transparent. This view was recently echoed by Finance Minister Francesco Forte, who said that the banks should be able to accept general interest rate reductions of up to four percentage points. (Given Italy's total public debt of 350,000 billion lire, a cut of only one point would reduce the state's financial requirement by 3,500 billion lire annually.)

Changes in Early Retirement Pensions of Civil Servants

At the instigation of Budget Minister Giovanni Goria, the Italian cabinet has approved a modification of a government decree that offers generous financial incentives to civil servants if they retire early. Under the new provisions, the incentives would be eliminated and the amount of pension would have to be in proportion to the actual length of service. However, even under the modified provisions, civil servants may still retire after 19 and a half years, and married mothers will continue to benefit from a "rebate" of five years.

Designed to create new job openings in public administration, the early retirement arrangement has become an additional cost burden on the state as thousands of civil servants, many of them quite young, have taken advantage of the offer. (Press reports said that the youngest of the "baby pensioners" is a 29-year-old mother, who draws a full pension after having served only 14 years and six months. If she had been in the private sector, she would have had to work for 40 years before being entitled to similar pension benefits.)

The decree will have to be approved by Parliament within two months, and some observers say the outcome of the vote is not certain because some political factions feel that the government is resorting too often to decree legislation, which normally should be reserved for emergency situations. Also, critics say that a "patchwork" approach, as with the latest modifications, will not really return the entire public welfare system (INPS) to financial health.

France: Guaranteed Unpaid Leave; Temporary Workers

The French cabinet has approved draft legislation that would permit employees to take up to two years of unpaid leave without losing their workplace. The bill was prepared by Employment Minister Jean Le Garrec and is expected to be enacted sometime next spring.

Under one kind of "sabbatical leave," an employee would have the right to take unpaid leave of six to 12 months after having worked for at least seven years. During that period, the employer would have to continue paying his share of social insurance contributions (except those to the old age pension system), and afterward he would have to rehire the employee without loss of job status or pay. In cases where the leave of absence was for the purpose of further vocational training, the employee would be eligible for a stipend to compensate for the loss of pay. Savings and financing plans would be made available to those employees who wanted to use the leave for health cures or other forms of physical rehabilitation.

A special kind of unpaid leave, which would be limited to a period of two years, would enable an employee to start his own business. If the employee did not succeed in establishing a self-supporting business during these two years, then his employer would also have to rehire him.

In other news, the two employer organizations representing the French temporary help agencies and the country's major labor federations have signed an agreement giving temporary workers certain guaranteed health insurance benefits. In the event of sickness or a work-related accident, such workers would get the same type of compensation as other employees. The agreement represents a first step toward giving temporary workers collective employment rights similar to those enjoyed by regular employees.

New Government Capital for Nationalized French Industries

The French cabinet has approved FF 20 billion in new capital injections for the recently expanded state sector. Most of the money (FF 12.45 billion) is to come from the state budget and some of it from participatory credits and debt conversions to shares. The bulk of the new capital will go to the money-losing steel and chemical sectors, on the ground that more profitable firms in other sectors will be able to raise funds themselves on the capital market. It is hoped that the latest capital injections will eventually trigger up to FF 31 billion in new investments, compared with FF 24 billion in 1982. First of all, however, the enterprises concerned will have to cover their losses of the last two years, estimated to total FF 25 billion.

The largest single sum, FF 6.4 billion, will go to Usinor and Sacilor, the two giant steel producers, while FF 2.4 billion has been set aside for the Péchiney metals group and FF 3 billion for the base chemicals sector. The chemical group Rhône-Poulenc, which is emerging slowly from the red, will get FF 1.8 billion. Renault is to receive FF 1.6 billion, St. Gobain FF 750 million, and the aircraft engine manufacturer SNECMA, FF 300 million. A large share is to go to the electrical engineering and electronics industry, which has been singled out by the government as an area of future growth (Thomson-Brandt, FF 1.6 billion; CII Honeywell Bull, FF 1.5 billion; and CGE, FF 870 million).

Belgium: Hiring Agreement in Chemical Sector; Textile Aids

A newly negotiated agreement between the employers and the unions in Belgium's chemical and petrochemical sector represents a first advance in the government's work redistribution program. According to a framework contract covering 1983, the employers agree to create 2,500 additional jobs (in addition to the existing 90,000) while reducing work time by 2.5%, or one hour per week, at most. The workweek will be at least 37 hours. The new arrangement is to be implemented by Nov. 1.

Due to the new jobs, employment in this industry sector will rise by at least 3%. Priority is to be given to unemployed young people up to the age of 25, heads of households, and individuals who have previously been employed in that sector. The agreement, which affects companies with 50 or more employees, modifies the government's work time adjustment rules that will take effect on March 15. Under these rules, companies are expected to reduce their work time by 5%, while reducing their planned offers of pay increases by 3%. The agreement worked out by the chemical/petrochemical sector represents a compromise, in that it is left to the employers' discretion to negotiate an unspecified degree of wage moderation at plant level.

In other news, the European Commission has finally agreed to the Belgian government's reorganization plan for the textile and clothing industry (the "Claes Plan"), albeit with a number of restrictions. These restrictions dictate that total aid in 1983 may not exceed BF 4 billion and that state credits may finance the restructuring component of the plan only up to 50% (with a maturity of ten years). The 7% interest rate subsidy proposed by the Belgian government may be granted for five years only. Several subsectors, including ladies' hosiery, synthetic fibers, and tufted carpets, are to be excluded from the plan.

Netherlands: Record Unemployment of 16.6% in January

Unemployment in Holland has reached a postwar high of 16.6%, totaling 764,000. The January figure reflects, however, a major adjustment to a new statistical base. Accordingly, the 132,000 increase over the month of December includes 120,000 individuals not previously covered. The adjustment is the result of including in the statistics persons unemployed between job transfers and those who fall under a revised limit for part-time unemployment.

Portugal: Provisional Budget; Elections on April 25

President Antonio Ramalho Eanes dissolved the Portuguese parliament on Feb. 6 and scheduled early general elections for April 25. The head of state postponed his move until Parliament had passed a provisional budget and a number of urgent economic measures. The budget calls for drastic cutbacks in public expenditures as well as massive tax increases. The acting Balsemao government also received authorization from Parliament to negotiate foreign borrowings of $4 billion. Prime Minister Francisco Pinto Balsemao resigned last Dec. 20 following the communal elections in which his Social Democratic party suffered heavy losses.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: EEC-Japan Export Restraint Accord Welcomed

The export restraint agreement reached by European Commission and Japanese officials on Feb. 12 in Tokyo has been welcomed with relief in most Member State capitals. The accord contains two basic obligations on the Japanese government's part - (1) a definite commitment to prevail on domestic manufacturers to keep exports of video recorders and color television tubes down to agreed numbers and (2) a promise to adhere to the general export restraint already practiced or agreed to for TV sets, hi-fi equipment, numerically controlled machine tools, cars, light trucks, forklifts, motorcycles, and quartz watches.

Reaching an agreement on export restraint for video recorders proved especially difficult because of the stakes involved. The continued unrestricted import of Japanese video recorders (4.9 million in 1982) would have meant mass layoffs in the Common Market's electronics industry, mainly in Germany, France, and the Netherlands. Under the accord, Japanese manufacturers should export no more than 4.55 million units to the EEC in 1983. They may be forced to export less if European manufacturers sell fewer than 1.2 million units in the Common Market this

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

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year. For the years 1984 and 1985, a more complicated arrangement would allow the EEC to insist on a further reduction in the number of video recorders and/or to impose minimum prices, depending on how the Community's electronics industry develops.

Commission officials point out that the detailed solution found for video recorders gives the Common Market's manufacturers of electronic consumer goods a breathing spell and a chance to come up with a strategy that will help preserve tens of thousands of jobs, especially at Germany's Grundig plants. Commission officials also say that the success of the EEC's chief negotiators, Commissioners Wilhelm Haferkamp and Etienne Davignon, became possible not only because they did not insist on a quota system but also because the Community spoke with one voice in the negotiations. Until last December, France, Italy, and the U. K. had prevented a common stand, and France took matters into its own hands when it made an inland customs office the sole clearing station for video recorders. However, in December the ten Member States agreed to confront Tokyo with strong demands and to abandon plans for unilateral action should these demands be met.

Parliament to Act on Consumer Credit Proposal

An important piece of proposed Community consumer protection legislation has moved one step closer to adoption now that the European Parliament's legal affairs committee has written a second report on the consumer credit draft directive and proposed a favorable resolution to the full house. The measure, proposed by the Commission in 1979 *(Common Market Reports, Par. 10,125)*, would afford individual borrowers better protection because it would compel Member States to either enact legislation along the truth in lending principle set forth in the proposal or amend existing national rules accordingly. The States would be free to enact or retain stricter standards. (Several States have enacted consumer credit rules, with Denmark and the U.K. being the most advanced in this area.) The measure would also commit the States to curbing unfair consumer credit advertising.

For more than three years, several EP committees wrangled over the draft directive and thus prevented action by the full house. Parliament's consumer affairs committee supported the proposal all along, though with reservations. A majority of the legal affairs committee felt that the measure would not attain the objective pursued, was not really needed, and lacked a statutory base. This majority, made up of Conservative MPs, thought that the Commission had failed to prove that the differing national rules (or their absence) were detrimental to the proper functioning of the Common Market.

In its second report, the legal affairs committee no longer argues whether Treaty Article 100 *(Common Market Reports, Par. 3301)* is the proper statutory base for the measure; it says this is a question for the Court of Justice to decide. In contrast to the first report, which contained only two comments on the substance of the proposal, the second report recommends a large number of changes, some of which are modeled after British law, e.g., those on the details of a credit contract. For reasons of economy, the committee recommends a limit of 200 units of account, below which credit transactions would be exempt from the provisions of the directive. For the sake of uniformity, it also suggests an upper limit of 30,000 UAs, so that credit contracts involving higher sums would not be covered.

The proposal is also intended to protect consumers from high pressure doorstep selling, but it leaves the degree of protection to the Member States. The committee proposes that credit arrangements concluded as a result of door-to-door sales could be cancelled by the consumer within seven days of signing a contract.

In Brief...

The Commission has proposed to the Council of Ministers that the EEC be given the legal instrument to react to discriminatory practices by third countries. The proposal would allow Common Market enterprises to approach the Commission whenever they are confronted with import obstacles in third countries, such as excessive red tape, obligatory cash deposits, and other protective measures. After having verified an enterprise's complaint and after consulting the Member States, the Commission could react to these practices by raising duties on imports for the particular third country or by imposing quotas or special taxes. This proposed instrument would be in addition to the countermeasures the EEC is already empowered to take against dumping and subsidized exports + + + The Community has practically abandoned its costly and controversial nuclear safety project, called "Super Sara," at its research center at Ispra, Italy; a formal decision to stop the project is expected this month. Launched in 1981 for the purpose of studying A-power plant accidents, like the one at Three Mile Island in the United States, the project has considerably exceeded projected costs (54 million ECUs initially; now 175 million ECUs). Research in the United States, France, and West Germany on nuclear safety has advanced to such a stage that the findings of the Community's studies would probably be superfluous, according to experts.

Germany: Seeking to Prevent Collapse of Pension System

The German government has called on the political opposition for support in the search for ways to prevent the financial collapse of the country's old-age pension system, which would run out of funds next year unless rescue measures are undertaken. Government leaders regret that the opposition Social Democrats have not responded so far to the call for joint efforts. They blame this reluctance on the current election campaign during which, they say, the Social Democrats apparently do not want to be confronted with this unpopular issue.

This year, the country's old-age pension funds are being kept afloat by several support measures, including a modest raise in insurance contributions and the postponement by half a year of a benefit increase for 11 million pensioners. However, additional measures are needed for 1984 and subsequent years - more cost cutting or another increment in contributions *(Doing Business in Europe, Pars. 40,462, 40,467).*

So far, only the pension insurance funds themselves have come up with actual suggestions on what to do about the deficit situation. One recommendation involves basing the computation of benefits on net wages rather than gross wages, the criterion now applied in calculating social security benefits. Another suggestion is to increase the contribution rate from the present 18% (18.5% as of Sept. 1) to 19% of assessable wages. Pension fund officials say there is no way of avoiding such an increase even if other cost cutting measures are taken, such as putting a heavier burden on the pensioners themselves. (Starting on July 1, 1983, old-age pension recipients will be required to contribute 1% of their monthly benefits toward their health insurance coverage.)

Fifteen years ago, the old-age pension funds had financial reserves for about six months. Subsequently, these reserves declined gradually as a result of higher costs. During the past two years, they dwindled to slightly less than one month's requirements due to sharply declining revenues caused by the economic recession.

Observers agree that no matter who wins the March 6 parliamentary elections (see next story), unpopular moves will have to be made soon in order to rescue the German pension insurance system from bankruptcy.

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German High Court Clears Way for March 6 Elections

Early parliamentary elections will be held in Germany on March 6, as previously scheduled, after the country's constitutional court upheld President Karl Carstens' earlier decision to dissolve the Bundestag and to set the election date. Four members of the dissolved lower house of Parliament had brought suit and wanted Carstens' act declared unconstitutional, but the high court turned them down.

The ruling of the *Bundesverfassungsgericht* on Feb. 16 is expected to make its imprint on Germany's political life in the future. Besides removing the uncertainty over the elections, the court's decision accords the chancellor an even stronger position than in the past in situations where he can no longer be absolutely certain of the majority's support in the Bundestag and tries to reestablish political stability. Such stability, the court said, is an implied principle of the constitution. The country's highest court underlined that the federal president may not substitute his own assessment of the political situation for that of the chancellor when the latter seeks a dissolution of the Bundestag. Under Article 68 of the *Grundgesetz*, Germany's Basic Law, the federal president may dissolve the Bundestag when the chancellor fails to win a vote of confidence.

The incumbent chancellor, Helmut Kohl, deliberately lost such a vote on Dec. 17, when his Christian Democratic supporters abstained from voting, even though Kohl actually would have had a seven-vote majority. Kohl engineered his defeat to clear the way for new elections, through which he hopes to obtain from the electorate a mandate for a full four-year term. The promise to seek new elections in order to clarify the political situation was made after the liberal Free Democrats last October terminated their government coalition with the Social Democrats and switched their political allegiance to the Christian Democrats.

France: Plans for Reform of National Banking System

Finance and Economics Minister Jacques Delors has presented to the cabinet a broad outline of his ideas for a reform of the French banking system. The move comes about one year after the nationalization of 36 private banks and the complete nationalization of the country's three largest banking institutions (Societé Générale, Crédit Lyonnais, and BNP), in which the state already held a majority interest *(Doing Business in Europe, Par. 40,307)*.

The reform legislation, most details of which remain to be clarified, probably will be presented to Parliament in the fall. According to Delors' outline, the bill will concentrate on four major areas:

(1) A harmonization of the banking system's legal base would do away with the differing statutes now governing the various types of banks, such as the savings banks, cooperative banks (Crédit Mutuel), farmers' cooperative banks (Crédit Agricole), the regular commercial banks, etc. All deposit taking institutions would be made subject to the same basic set of rules, though without erasing completely their individual identities and traditions.

(2) All banks would come under the jurisdiction of one supervisory authority. Supervisory functions are currently shared by the central bank and the Banking Control Commission.

(3) The overall number of nationalized banking groups is to be reduced from the present 39 to about 20. Nevertheless, the aim is for more decentralization in order to improve banking services in the provinces. For instance, the Crédit Industriel et Commercial group would acquire a majority interest in operat-

ing ten regional banks that had belonged to the group before the nationalizations.

(4) The most important and most controversial, but still least defined, part of Delors' program is the "democratization" of the French credit system through the participation of the various economic sectors in a restructured and more powerful National Credit Council. The Council would be formally responsible for formulating and implementing credit policy, a task so far shared largely by the central bank and the treasury.

French Government, Drug Firms Sign Price Agreements

Nineteen French pharmaceutical companies, which together account for some 40% of the national drug market, have signed agreements with the government that allowed them to raise their prices by an average 5% as of Feb. 16, rather than by 3.5%, as was permissible on the basis of current economic development. The agreements, which are typical of the government's price policy contracts with the various industrial sectors, will mean a total of FF 250 million in extra revenue for the companies involved. The procedure is likely to repeat itself in July, the next date for such price reviews.

In return for official approval of higher price increases (which are negotiated individually with each firm and for each product line), the companies are committed to intensifying their efforts in the areas of employment, investment, export, and research. For instance, the firms have pledged to create 1,200 new jobs and to invest a total of FF 1 billion. The extent of such commitments generally influences the extent of price "bonuses" allowed.

Observers noted that many leading drug manufacturers, a number of them subsidiaries of foreign companies, have abstained from entering into price agreements with the government, mainly because the additional profits to be gained from such a move would not offset the expenditures incurred through the reciprocal commitments. Of the American companies on the French market, only Upjohn, Merrell (Dow Chemical), and Riker (3M) have reportedly signed agreements.

Britain: OECD Notes Decline in Manufacturing Industry

The latest annual OECD survey of the U.K. economy does not present a very encouraging picture, highlighting the severe drop in output and employment in manufacturing industry and "a considerable contraction" in the industrial base as a whole. Most recently the current external account has again fallen considerably, even though it had been in sizeable surplus for the past two years, reflecting the U.K.'s shift from oil importer to exporter in mid-1980. A more hopeful sign, however, according to the Paris-based organization, is an apparent "important change in inflationary expectations and behavior," resulting from lower pay settlements as well as a sharp drop in the inflation rate to one of the lowest levels in the OECD area.

The report says that the main changes in the U.K.'s industrial structure in recent years have been the rising share of the services sector in total GNP, coupled with the accelerating decline of manufacturing industry. As concerns the latter, no other OECD country has registered so steep a relative decline, from about 31% of GNP in the four years to 1974 to less than 25% over the 1978-81 period.

Netherlands: New Constitution Redefines Rights, Duties

After 20 years of work by a state commission, the Dutch parliament has approved the country's first new constitution since 1848. Practical implementation will involve a series of legislative packages to be introduced over the next five years.

The new constitution seeks to protect citizens' rights in new ways - for instance, by prohibiting the keeping of official records concerning religious or party affiliations or physical characteristics and by outlawing discrimination on these grounds or on the grounds of sex or race. The right to freedom of expression has been extended beyond the previously guaranteed freedom of the press to include radio and television, films, and the stage (although advertising will still be subject to a form of pre-censorship). Basic rights and obligations are also newly defined; they include the right to social welfare support and the duty of the state to take measures to ensure the availability of workplaces and housing and to protect the environment.

Denmark: Employers, Unions Agree on Low Wage Rises

Danish employers and trade unions have agreed on a two-year collective contract which complies with the Conservative minority government's request that pay increases over the period in question be limited to 4% per year. Only the minimum wage may rise by 12% over the two-year period.

According to the president of the employers' federation, Jens Thorsen, progress now depends on compliance with the framework agreement at company level. From the standpoint of the unions, the new pact entails a number of substantial concessions in that it does not provide for a reduction in working hours and accepts the government's suspension of the wage indexing system until early 1985. The unions were, however, able to resist the employers' demand that the contract cover a three-year period, which would have extended the wage indexing suspension beyond the government's own deadline and would have effectively abolished inflation indexation.

Commentators said the effects of the contract on the economy as a whole will be limited, despite the cut in one element of the wage bill. (Last year, wages rose by 10%.) The recent increase in employers' social insurance contributions will boost labor costs by 1.5%, and the effective revaluation of the krone by 6% since last fall means that exporters will gain no cost advantage.

EURO COMPANY SCENE

The production activities of the international Mergenthaler group (Allied Corp.) will in the future be concentrated exclusively in West Germany, at Mergenthaler Linotype GmbH. For this reason, the company's English plant at Cheltenham, Gloucestershire, will cease production in the course of the year.

The world's first plant for the commercial production of interferon, the experimental drug, is to be set up in Ireland by the United States' Schering-Plough. The company announced in London that the plant will be located at Inishannon, Cork, and requires an investment of $106 million. Despite the decision to go ahead with the project, "some scientific and medical questions have yet to be resolved before the company seeks U.S. Government approval to market interferon," the announcement said.

The United States' Hyster Corp., the world's second largest manufacturer of forklift trucks, plans to sell its Belgian components plant and will scale down production in the Netherlands. At the same time, the company intends to invest an additional $61 million in developing its Scottish plant, at Irvine. The measures are all part of a worldwide restructuring plan under which the Hyster work force is being reduced from 9,000 to 4,900.

Chemical Bank has formally opened a new operations center in Cardiff, Wales, from which the bank will manage a large part of its U.K. activities.

Digital Equipment plans to set up a research unit in Reading, England, focusing on software development for office automation.

International Business Machines will establish a software research and development center in Dublin, Ireland, which will concentrate on administrative and control systems.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: GATT Experts Fault U.S. in Farm Row With EEC

The European Economic Community has received some help in its agricultural dispute with the United States. A GATT group of experts in Geneva has rejected the U.S. government's claim that the EC underbids world market prices in exporting its farm commodities. The experts have also found no substance in Washington's accusation that the Community's aggressive export policy has brought European exporters new markets at the expense of U.S. farm produce exporters. If the U.S. government accepts the findings of the experts, this could be the first conciliatory step toward settlement of the dispute.

The Reagan administration, approached by several U.S. wheat flour producers a year ago, took the producers' complaint to GATT, alleging that EEC sales were undercutting U.S. producers and were in breach of GATT's code on subsidies. The complaint was one of several of a similar nature that were based on the U.S. government's belief that American producers are being hurt by the EEC's sale of surplus commodities on world markets at prices substantially lower than prices within the Common Market.

In addition to approaching GATT, the Reagan administration

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also started a limited sales offensive of its own. The most notable example so far has been the sale of one million tons of wheat flour at subsidized prices to Egypt, a principal wheat flour market of the EEC. Commission officials believe, however, that the U.S. government will not escalate its export offensive against the EEC because of sharp reactions in the Community to the deal with Egypt. In a letter to U.S. Secretary of State George Shultz, Commission President Gaston Thorn said that additional sales to countries considered traditional buyers of Common Market farm products could lead to a trade war between the EEC and the United States. The Council of Ministers also has urged the U.S. government to exercise restraint.

EP Suit Against Council Spurs Transport Policy Talks

The European Parliament's suit against the Council of Ministers for failure to act on establishing a common transport policy (Case No. 13/83) has produced results: the Member States' transport ministers met on Feb. 23 after the Commission had presented its progress report on the transport policy.

The reactions to the report were, for the most part, positive, according to Council officials, largely because the Commission has abandoned its attempt to resolve all aspects of a common transport policy. Instead, the EC executive has proposed that the Council adopt a few measures during each Member State's six-month presidency. For example, for the first half of 1983, the Commission urges Council action on financial support for transport projects of Community interest. The Commission would also like to see agreement on the draft directive on weights and measurements of commercial vehicles and on the first draft directive to harmonize national taxation rules for commercial vehicles. The measures are among those listed in the European Parliament's suit against the Council.

Commission officials are skeptical about the chances for adoption of the proposals in June, when the transport ministers meet again. Adoption of one or two of the measures would be a great accomplishment, according to the officials. They point out that in no other field do the States' individual interests differ as much as in the transport sector. Britain, the Netherlands, Ireland, Denmark, and Greece, for example, favor liberalization of road traffic rules. In France, Germany, and Italy, where the railroads are operating with large deficits, the governments fear that the fully liberalized transport of goods by road would drive their railroads even deeper into the red.

In Brief...

At the end of January, unemployment in the Community had reached 12.3 million, or 11.1% (9.5% in January 1982). Since the end of December, the number of unemployed increased by about 500,000, or 4.2%; only part of this rise was due to seasonal influences.

The increase was particularly pronounced in Germany and Denmark + + + Advocate General Gerhard Reischl has recommended to the European Court of Justice that it quash the DM 5.2 million fine imposed by the Commission on Klöckner-Werke AG in June 1981. In its decision the Commission said that Klöckner, Germany's No. 1 steelmaker, had exceeded its steel production quota during the first quarter of 1981. The fine was based on the anticrisis system approved by the Council. Reischl doubts the fairness of the quotas allotted to Klöckner (Case No. 244/81). For the same reason, Reischl has also recommended annulment of the Commission's decisions allotting quotas for other quarters in 1981 and 1982. These decisions are subject to separate appeals (Cases Nos. 303/81, 311/81, 312/81, 30/82, and 136/82).

Germany: Move to Reduce Power Plants' Sulfur Dioxide Emissions

The German government has proposed a regulation that would compel the operators of the country's 1,500 power plants to reduce sulfur dioxide emissions by one-third over the next ten years. These plants emit some 3.5 million tons of sulfur dioxide annually and thus account for roughly three-quarters of total sulfur dioxide pollution. Bonn believes the measure would make a significant contribution to combating the forest blight caused by acid rain.

Under the proposal, a power plant could not emit more than 400 mg sulfur dioxide per cubic meter of exhaust (the present limit is 650 mg). The requirement would mean either new investment in pollution control devices or closure for all existing power plants. There would be transitional periods of up to ten years for compliance, depending on pollution levels and the concentration of power plants in any particular region. Existing small power plants with a capacity of 50 megawatts or less could use only low-sulfur fuels. All power plants now under construction, or with a construction application pending, would have to be equipped with the proper pollution control equipment. Government officials estimate that the necessary investments will cost between DM 6 and 12 billion.

The government's proposal has been heavily criticized. Environmentalists are dissatisfied with the proposed emission level and other provisions, such as the time allowed for compliance. They believe that the measure does not come close enough to what is needed to stop the destruction of forests, and they believe the general public would be prepared to make some sacrifices, e.g., by accepting higher electricity bills. Power plant operators contend that the effect of the regulation will be minimal in relation to the cost of the investment.

The Social Democratic opposition claims that the original proposal which was prepared by the previous administration has been so watered down that few positive results can be expected. Government officials say the Schmidt administration did not get beyond the proposal stage for more than five years because of the implications for power plant operators and consumers. According to observers, the upper house of Parliament may make the measures even stiffer now that two Christian Democratic-controlled state governments have joined four Social Democratic-run state governments in criticizing the shortcomings of the proposal.

Belgium: Public Sector Workers Accept 2.5% Income Cut

Belgium's public sector employees, who make up one-quarter of the country's total work force, have agreed with the government on nominal income reductions averaging about 2.5%. The cuts will be achieved by applying inflation indexation only twice this year and every four months in 1984. Prior to the temporary suspension of indexation during 1982, adjustments were made every two months in accordance with the rise in the cost of living.

As a result of the agreement, the Belgian government expects to save about BF 14 billion this year and next, provided the inflation rate does not exceed 8.5% in annual terms. As compensation for the pay cuts, work time in the public sector will be reduced from 38 to 37 hours per week as of September, by giving employees a day off every two months. As part of the pact, the government has pledged to hire an additional 10,000 persons for the public sector.

In the private sector, relatively few agreements have been signed under the government's proposal to combine income reductions with work time cuts and new hirings. A Feb. 15 deadline had been set for the various business sectors to enter into such agreements, and a March 15 deadline was foreseen for individual enterprises. However, by mid-February, agreements had been negotiated for only 400,000 workers out of 2 million. Government officials were still hopeful that this number will rise to at least 800,000. By and large, however, the Martens administration's proposal is considered a failure: most employers are not willing to expand their work force under existing economic conditions.

In related news, the government is also demanding pay cuts as a condition for extending further state aid to Cockerill-Sambre, the country's largest steel producer, based in Wallonia. Management and white-collar employees are being asked to accept salary reductions ranging from 10% to 15%, while the recommended figure for manual workers, except the lowest paid, is 5%.

Belgians to Pay Less Income Tax, More Local Taxes

The Belgian parliament has passed legislation providing for income tax reductions, some of them quite substantial. At the same time, however, the legislation removes statutory limits previously placed on taxes collected by the local governments. As a result, observers predict, taxpayers will hardly be better off than in the past.

The new law represents a compromise between the positions of the Christian Democrats and the Liberals in the coalition government. The former advocated more tax relief for large families, while the latter were opposed to raising the tax burden on higher incomes, which they consider counter-productive and excessive. Both standpoints are reflected in the legislation: the Christian Democrats succeeded in raising family allowances by up to 100%, and the Liberals can take credit for revised splitting tables. The resulting revenue losses will be partially made up by abolishing the standard tax-free allowance.

Commentators said it is too early to assess the impact of the new legislation on local taxation. In order to reduce its huge budget deficit, the central government is drastically curtailing its financial support of the municipalities, some of which are no longer able to meet their own payrolls (Liège being the most notable example). The message from Brussels is that the communities can no longer look to the state to solve their financial problems in the future. As a form of compensation, however, the communities will be allowed to collect a greater share of fiscal revenue, and there is little doubt that they will quickly do so.

Netherlands: OECD, CPB Reports Differ on Economy

The most recently published OECD annual survey of the Dutch economy and a Central Planning Bureau report come to clearly opposite conclusions on how to deal with the current economic recession in the Netherlands.

The CPB criticizes the speed with which the government plans to reduce the budget deficit. Its report warns that The Hague's program is based on false assumptions and, if carried through, will lead to an increase in unemployment by 300,000 by 1987. The report says that (1) world trade will not rise by the forecast rate of 3%, (2) the predicted big boost in investment will not be as large as hoped, and (3) the drop in inflation will make it harder to limit wages. The planned three-year, 2 billion guilder reduction in taxes and social contributions for enterprises will produce only half the expected 7.5 billion guilders in new investment, the CPB experts warn. Inflation falling to a predicted 2.5% would mean that pay cuts will be necessary in order to enforce wage moderation, inviting severe resistance from the labor unions. The report urges the government instead to relax its restrictions on any new borrowing. (The projection is that the budget deficit will increase by 1.5%, to 10.8% of GDP, in the current year.)

The OECD secretariat takes an entirely different view of the situation - one that is noticeably tougher and more critical of past performances than usual. The survey points out that a reduction in the structural deficit of public finances and the restoration of profitability in the private sector have been twin policy targets for some years. Neither of them has been achieved, however, partly as a result of the international recession but also because of domestic factors. Nevertheless, the OECD opposes any measures to stimulate domestic demand and urges instead efforts to widen differences in pay levels as well as the difference between employment incomes and unemployment benefits. This approach, it is thought, would allow reductions in companies' social insurance contributions and profit taxes as well as further inflation allowances in fiscal and accounting areas.

The OECD predicts unemployment will rise to 15.3% in 1983, from 12.2% last year and 9.1% in 1981, and inflation will fall to 4.2%. GDP is forecast to decline by a further 1.4%, reflecting reductions of 3.5% in private consumption, 1.8% in gross fixed investment, and 2% in total domestic demand.

Britain: Trading Wage Cuts for Job Security

British industry is beginning to follow the lead of the U.S., where major labor organizations, such as the auto workers' union, are apparently prepared to accept wage cutting measures in order to safeguard jobs. There is clear evidence that wage rises in the U.K. have been in direct reaction to the harsh realities of the economic recession. Last year, the rise in average earnings was 8.25%, the lowest annual increase since 1967, compared with settlements well into double figures in 1981. Moreover, there is a definite trend of smaller increases in the current round of wage negotiations.

The 500 employees of the U.S.-based Hyster forklift truck plant in Scotland have agreed to an average reduction in wages of about £60 a month to ensure the survival of the plant. Management had presented the work force with the alternatives of accepting the pay cuts or facing the loss of jobs and the prospect of no further investment by the American parent company. The employees voted almost unanimously to accept the company's proposal. Observers point out that the fact that Hyster is not unionized may be significant, but the Hyster situation is by no means unique. There have been several other instances of successful negotiations to reduce a company's wage bill.

Figures issued by the Confederation of British Industry show that the majority of pay raises in manufacturing industry are in the range of 5-6%. In fact, two million engineering employees have settled for only 4.8%, after the employers had said this was the most they could afford. These figures compare with the government guideline of 4%. Prime Minister Margaret Thatcher has again stressed the need for wage restraint in the public sector if increasing unemployment is to be avoided. Overall, it can be said that the continuing decline in inflation, to an annual level of 4.9%, is having a definite effect on the salary expectations of British employees, and observers see a more realistic climate of wage bargaining.

Italy: High Price for Economic Austerity Package

A senate vote of confidence has assured the Italian coalition government of final parliamentary approval of its latest package of economic and tax measures. However, in the view of most observers, the price was very high: the Fanfani administration was forced to compromise on proposed tax increases to the extent of 5,160 billion lire. As a result, there will be very limited funds for much needed public sector investments, and no opportunity to whittle down the budget deficit. In other areas, too, political pressures from all sides caused the original plan to be watered down severely.

Treasury Minister Goria has already warned that additional measures are absolutely necessary if the government is to prevent the public deficit from rising above 70,000 billion lire by the end of the year. Interest payments alone will amount to 45,000 billion lire in 1983.

New Legislation Stimulates Milan Stock Market

After more than 18 months of stagnation, the Italian stock market is experiencing a strong comeback, which contrasts with the still uninspiring state of the domestic economy. Since the beginning of the year, the Milan stock exchange's Comit index (1972 = 100) has risen from 166 to over 200 points, or about 20%, which more than offsets the combined losses of last year. The market revival is beginning to erase investors' memories of the bourse crash of June 1981, when speculation caused prices to plunge steeply from the Comit record of 292 points, and the spectacular collapse of Banco Ambrosiano exactly one year later.

The psychological basis for the recovery apparently rests on two pieces of recent legislation. As previously reported, one of them permits the establishment in Italy of domestic investment funds; in the past, only funds registered abroad (mostly in Switzerland and Luxembourg) had been admitted to the Milan bourse. Secondly, investors anticipate final parliamentary passage of a law that will allow businesses to use inflation accounting in revaluing their assets. The law will also allow larger tax exemptions and higher depreciation rates.

Another factor in the market upswing can be seen in a somewhat more favorable outlook for the economy, particularly after agreement last January on a "social pact" between Italian employers and the labor unions. Even though it has just forecast zero growth for the third straight year, the ISCO economic research institute predicts that the government's '83 budget deficit will remain at last year's level in nominal terms, which would bring some relief for the capital market. In addition, the first annual reports now being issued indicate that Italian companies will generally report somewhat improved results for last year, which should be reflected in higher, or at least unchanged, dividend distributions.

Spain: Madrid Expropriates Largest Private Conglomerate

In what the economics minister described as a necessary step to avert severe economic disruption at the national level, the Spanish government has expropriated the country's largest private conglomerate, owned by José Ruiz Mateos and his five brothers. Known as Rumasa, the group includes 18 banks and over 200 other companies, ranging from retail chains to industrial manufacturing. According to Ruiz Mateos, Rumasa accounted for 1.8% of Spain's GDP in 1982.

The expropriation is the most dramatic economic action undertaken so far by the new Socialist government. Fears that Madrid's intervention, which came as a complete surprise to the public as well as to Rumasa's owners, might herald a wave of takeovers subsided when it became apparent that the group was in severe financial difficulties. Also, there reportedly are plans to return parts of the empire to private ownership in the near future. The Gonzalez administration used paragraph 33 of the constitution as the basis for its decision, arguing that the pertinent provisions ("serious risks affecting the national economy") applied in this case. The group's banks were closed temporarily, and stock market trading in the shares affected was suspended indefinitely.

According to the government, the Bank of Spain had called on Rumasa five years ago, asking it to change its policy on loans given by the group's banks to Rumasa subsidiaries, but the management did not take any measures to spread risks more effectively. Reportedly, an average of 62% of the banks' outstanding loans have been granted to the group's own firms. In addition, massive overvaluation of Rumasa assets has allegedly occurred, inflating in particular the balance sheets of some of the banks. In the case of Banco Industrial del Sur, assets held in the form of shares in Rumasa companies were overvalued by as much as 1,000%, reports said. Furthermore, an outstanding tax bill of 20 billion pesetas, dating from 1980, has allegedly not been paid. Ruiz Mateos's claim of gross assets of 350 billion pesetas is viewed by the government as unreliable, and ministers say that what was reported as a 6.39 billion peseta profit in 1981 was, in fact, a loss of 9.38 billion pesetas.

Common Market Reports

EUROMARKET NEWS

Issue No. 739 *Report No. 470, March 17, 1983*

IN THIS ISSUE

Community: Dismantling of Internal Frontiers a Slow Process

Only one of the 27 proposals on the agenda was adopted at the Council of Ministers' March 1-2 special meeting, indicating once again that it will be a very long time before a genuine common market is established by dismantling internal frontiers. Nevertheless, the measure adopted was an important one: it will require any Member State government to notify the Commission and the other States of legislative plans for new national product norms and product safety requirements. Notification will enable the Commission to gauge a planned measure's potential for hampering intra-EEC trade and, if necessary, to convince the government involved at an early stage to postpone action in favor of subsequent Community legislation.

Two directives received conditional approval by the Council. One would free individuals from paying import turnover tax and registration tax on their automobiles when they move temporarily from one State to another. The other measure would exempt individuals who move permanently to another State from paying import turnover tax and excise tax on any personal goods they take along.

Because of the German government's resistance, approval was

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

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not given to a draft directive that would raise to 50 liters the tax-free fuel allowance for trucks and buses in intra-Community trade. Bonn fears that the measure would cause the loss of an estimated DM 50 million annually in revenue. No other Member State has as many foreign trucks in transit on its roads as West Germany. Government officials in Bonn expect that this objection will be lifted prior to the European Council meeting on March 21-22, when further progress is expected to be made in removing technical barriers to intra-Community trade.

No progress was made in solving the problems surrounding common certification for third-country products. Under the draft, a product that has received certification by a Member State upon importation could circulate freely within the EEC. France has been holding out against adoption of the proposal providing for Community certification, fearing that its consent would work against its gentlemen's agreement with Japanese car manufacturers. Under this agreement, the Japanese are restricted to only 3% of the French market. The French government is making its consent to the draft directive dependent on some sort of arrangement among the ten States that would allow a Member State government to block the import of a product certified by another State and subject it to its own tests.

The Council of Ministers also remains divided on the proposed 14th value-added tax draft directive, which would provide for deferred payment of VAT. In order to speed up import procedures, the proposal would restrict border formalities to presentation of the required documents and random checks of the goods, and a person who owes VAT could request to be allowed to pay the tax at the local tax office. Several Member States are concerned about the possible loss of revenue and the higher risk of tax evasion *(Common Market Reports, Par. 10,411)*.

Advocate General Recommends Reducing Pioneer Fines

Advocate General Gordon Slynn has recommended to the European Court of Justice that it cut in half the fines imposed by the Commission on the Belgian subsidiary of a Japanese electronics company and three of its European distributors. The EC Executive should also pay one-fifth of the appellants' legal costs, according to Slynn's opinion on the appeal against the fines *(Pioneer v. Commission*, Joined Cases Nos. 100-103/80*)*. Although Slynn agreed with the Commission that the appellants violated the EEC competition rules, he believed the high fines were not justified. Should the Court of Justice reduce the fines, as it did in a number of other competition cases *(Common Market Reports, Pars. 2542.42, 2542.773)*, this would be a setback for the Commission, which considers the case a crucial test of its antitrust policy.

In 1979, the Commission concluded that Pioneer Electronic Europe NV, the Belgian subsidiary of Matsushita Communication Industrial Co., Ltd., one of the world's largest manufacturers of audio equipment, and its U.K., German, and French distributors had prevented parallel exports from Great Britain and Germany to the higher priced French market. The Commission imposed fines totaling $6 million, amounting to 3-4% of the companies' annual sales *(Common Market Reports, Par. 10,185)*. Although Slynn conceded that the Commission could, under Regulation No. 17, impose fines as high as 10% of a company's annual sales *(Common Market Reports, Par. 2541)*, he nevertheless felt that the Commission should have followed a different approach in establishing the fines. The AG criticized the Commission for ignoring the fact that the sales figures used as a base for the fines also involved trade in markets unaffected by the infringement.

In Brief...

The Council has agreed on a directive concerning the importation of baby seal skins and products derived therefrom. The measure stipulates that the Member States take, or maintain, any measures necessary to prevent the import of harp and hooded seal pup skins and products for commercial purposes. The directive will take effect on Oct. 1, 1983, and remain in force until Oct. 1, 1985. The Council retains the option to extend the directive, thus leaving the door open for negotiations with Canada and Norway + + + The Commission has proposed a settlement in its competition case against International Business Machines Corp. *(Common Market Reports, Pars. 8708, 10,326)*. The EC Executive is prepared to reduce the two remaining charges involving IBM's alleged abuse of its dominant position in the Common Market. IBM is alleged to have refused to sell software separately from its computers. (Two other charges were dropped last year when IBM agreed to change its marketing policies.) IBM was given until April 30 to respond to the settlement plan + + + The Commission is preparing a draft directive that would commit Member States to restricting sulfur dioxide emissions by power plants, which are considered the main cause of Europe's forest blight. Germany's forests are the most seriously affected, and Bonn has been seeking a common effort to control this type of pollution.

Germany: Clear Election Mandate for Kohl Administration

The West German electorate has given the coalition government of Christian Democrats and Free Democrats a clear mandate to continue on the course it charted last October, when the Free Democratic party ended its alliance with the Social Democrats, causing the breakup of the Schmidt administration. The resounding victory in the national elections on March 6 of the Christian Democrats (CDU) and their Bavarian sister party, the Christian Social Union (CSU), means that Chancellor Helmut Kohl, with the support of the Free Democrats, will be able to go on with the economic, tax, and social policies conceived five months ago.

Combating unemployment (now standing at 2.5 million), encouraging private investment, reducing government borrowing, and making further cutbacks in welfare spending have top priority for the new government, according to Economics Minister Otto Lambsdorff. The arrival on the parliamentary scene of the Greens - a diffuse group of ecologists, pacifists, and radicals - may bring a disruptive element into the Bundestag, but observers are reluctant to predict how much influence the Greens are going to have on lawmaking and politics in Bonn. None of the Greens' candidates won a seat by direct vote, but 26 of them will enter Parliament as a result of the system of proportional representation.

Many election analysts agree that most German voters were concerned mainly about economic issues rather than the plan to station U.S. nuclear missiles on German soil. Government leaders convinced a majority of the voters that unemployment can be reduced in the long term only by inducing businesses to invest. The Christian Democrats made no secret of the fact that additional sacrifices will have to be made to get the economy going again. The Social Democrats had maintained that a government program financed through new or higher taxes and borrowing would bring lasting relief from unemployment.

It did not disturb the majority of the voters that the Kohl administration has already sought increases in taxes and social security contributions and had to borrow more than its predecessor envisaged *(Doing Business in Europe, Par. 40,470)*. The incumbent administration's argument that it had no other choice for the time being and that the road to economic recovery will be a long one apparently was convincing.

Ireland: Dublin to Start Talks With Employers, Unions

Following the Budget presentation last month, the Irish government is about to enter into separate discussions with representatives of the employer bodies and the trade unions to assess the outlook for the economy and employment. Prime Minister Garret FitzGerald said that "appropriate pay developments" will also be considered, with regard to "the severe constraints imposed by the state of the public finances" and the general condition of the economy. The talks will be discussions, rather than negotiations, although pay negotiations might follow. Some observers believe that the government has in mind a new "national understanding" on wage rises.

On a recent visit to Dublin, Hermann Wortmann, the head of the EEC economic and financial affairs division for the U.K. and Ireland, emphasized that a pay freeze would be a "major contribution" toward restoring some of the competitiveness of Irish industry, particularly in the import sector. FitzGerald welcomes this view, which he himself has previously advocated.

There is opposition, however, from Donal Nevin, the general secretary of the Irish Congress of Trade Unions, who says that those who favor such a freeze are ready to make "a shambles" of industrial relations and bring about a costly and dangerous conflict. The ICTU "absolutely" rejects a freeze, in either the public or the private sector. Nevin says the unions are not unaware of the difficulties facing the economy and they would act responsibly in negotiations with the employers. He criticizes the "deliberate delaying tactics" on the part of the employers in starting pay negotiations. More than a third of all collective pay agreements have now expired, Nevin says, and union members are becoming increasingly restless.

Britain: High Court Backs Government on Takeover Case

The High Court in London has ruled that U.K. Trade Minister Peter Rees was acting completely within his legal powers when he rejected a majority recommendation of the Monopolies and Mergers Commission that the proposed takeover of the Scottish mining machine company Anderson Strathclyde by Charter Consolidated would be against the public interest and should not be sanctioned. The outcome of the case has far-reaching implications for future takeover bids and marks the first time the courts have been asked to examine whether the Fair Trading Act 1973 empowers the government to reject the majority findings of the commission that a proposed merger should not be allowed to proceed.

The two judges of the Queen's Bench Divisional Court took the view that the 1973 Act gives the minister wide discretion. In exercising this discretion, he is entitled to take into account all the relevant circumstances and consider the opinion of the commission minority as well as representations and advice from persons other than the actual members of the commission. The court said that the minister had, in fact, a choice between the majority and the minority view; in this case, he had favored the latter, which was also supported by the commission's chairman.

Anderson Strathclyde will not appeal the decision again.

France: Political Right Gains in Municipal Elections

In the first round of the French municipal elections on March 6, the parties of the political right scored sizable gains, moving from 46.3% (in the 1977 elections) to 51.5%. The best results were achieved by the opposition neo-Gaullist RPR, headed by

Jacques Chirac, the mayor of Paris, which captured at least 18 of the city's 20 *arrondissements*. The RPR and the centrist UDF of ex-president Valéry Giscard d'Estaing together gained the absolute majority in this first election round, held in more than 36,400 cities, towns, and villages. The losers were the governing Socialists and Communists as well as their allies, who saw their combined share of the vote drop from 50.8% to 46.5%.

The results of the first round were expected to be confirmed in the decisive runoff balloting a week later, and there was speculation that the outcome will hasten the reshuffling of the cabinet in Paris, since several of Premier Pierre Mauroy's ministers lost in their home districts.

Slowdown in French Direct Investment in U.S.

According to provisional estimates of the French foreign trade bank, the number of new direct foreign investments in the United States dropped by 22% last year, with French investment in the U.S. slowing down even more. Of 271 individual new foreign investments, only 19 originated in France, placing that country in fifth place behind Britain (63), Japan (44), West Germany (41), and Canada (37) on the list of the leading foreign investors in the U.S.

The study by the French bank (Banque Française pour le Commerce Extérieur - BFCE) put the major blame for the decline in French investment activity in the U.S. and other countries on domestic credit controls, which require French companies to finance up to three-quarters of any foreign investment over FF 1 million via foreign currency loans with maturities of at least two years. (More recently, the rules have been eased to permit companies to fund 50% of their first foreign investment with foreign currency borrowings.) Other negative factors cited in the study are the franc's pronounced weakness against the dollar and high U.S. interest rates.

The BFCE study says that more active French investment in the U.S. would be one way of helping narrow France's trade gap with the U.S., which amounted to FF 25.4 billion last year.

Sweden: Threat to Central Bargaining System

The Swedish metalworkers' union has signed a separate wage contract giving about 220,000 employees in that sector raises of 2.2%, retroactive to Jan. 1. This first break in 28 years with the tradition of central wage bargaining poses a threat to the entire collective contract system. The metal industry employers are not alone in wanting to see a return to sector-level wage bargaining, and many companies are unhappy with the readiness of the employers' federation (SAF) to go on talking with the central labor federation (LO) directly.

Both the LO and the Social Democratic government did all they could to force the metalworkers back in line but were unsuccessful. Also, toward the end of February, the LO issued strike calls for nine of its 24 member unions in an effort to force the pace of central negotiations and forestall a separate metalworkers' contract. Only a few days later, however, it withdrew the strike notices in favor of central arbitration urged by Labor Minister Anna-Grete Leijan. Now, after the signing of the metalworkers' contract, the future of the arbitration procedure is in doubt, since many employer organizations in other sectors would like to follow the lead of the metal industry.

Norway: OECD Predicts Economic Stagnation This Year

The Norwegian economy will continue to stagnate this year following zero growth in 1982, according to the latest OECD survey. Although industrial production will show a slower rate of decline than last year (0.25% instead of 2.6%), GDP will rise by only 0.25%, resulting especially from a 2.25% boost in public consumption as well as a 1% rise in private consumption. The general trend will be reflected in the payments balance, where the trade surplus is expected to shrink from $2.1 billion in 1982 to $1.1 billion this year, while the current account could show a reversal from last year's $400 million surplus to a $1.1 billion deficit. Inflation is expected to slow somewhat this year, from 11.9% to 10%, but unemployment should rise steadily, from 2.5% last year to 3% at the end of the current year.

The underlying problems of the Norwegian economy, however, have not yet been substantially affected by government efforts, in the view of the OECD. The erosion of the country's manufacturing base is continuing, and the expected stagnation in future oil revenues and limited growth in international trade make an improvement in these areas all the more urgent. The OECD report is based on oil price levels in November 1982, so that the market deterioration since then is not reflected in its predictions. However, the Oslo ministry of petroleum and energy reportedly believes that the latest price declines will prove to be only short-term fluctuations.

EURO COMPANY SCENE

Montefibre, a subsidiary of Montedison, the Italian chemical company, will acquire the European acrylic fiber operations of Monsanto, the U.S. chemical group. In return, Monsanto plans to take a 50% interest in Montefibre's holding in Polyamide Intermediates, a producer of raw materials for nylon manufacture, located in Teesside, northern England. The division to be given up by Monsanto includes a plant in Lingen, West Germany, and another in Coleraine, Northern Ireland. The swap transactions are designed to minimize losses for both partners. Monsanto's European acrylic fiber sales amount to about $135 million a year.

The European Klippan plants for the production of automobile safety belts have come under the control of a Turin, Italy, group of companies headed by Carabelli-Rondolino, which has taken over from the United States' Allied Chemical 51% of the European holding's share capital. Klippan employs some 1,100 and last year reported sales of nearly 100 billion lire.

Following similar moves in the Benelux countries and Switzerland, Gulf Oil Corp. has now sold its distribution and refining facilities in Denmark and Sweden to Kuwait Petroleum Corp. The deal covers 850 service stations in both countries and a refinery in Denmark as well as related facilities and product inventories.

One of the leading U.S. makers of personal computers, Commodore, plans to establish a British production plant in Corby, Northamptonshire, which will become the manufacturing and distribution center for Europe. Home computer production, now based in Braunschweig (Brunswick), West Germany, will be shifted to Corby, where some 250 new jobs are to be created by the end of next year.

McDonald's, which holds a 45% interest in its U.K. joint franchise holder, Golden Arches Restaurants, has agreed to acquire the remaining 55% of the shares. Golden Arches last year reported sales of $117 million. It operates 101 outlets in Britain and plans to open another 32 this year.

Dallas-based Enserch will purchase a 50% interest in the largest Swiss construction company, Losinger, for a price of SF 18 million. Losinger, of Berne, showed a consolidated loss of SF 61 million last year because of problems with its U.S. subsidiary, VSL Corp. of Los Gatos, Calif. Without the VSL losses, the company would have reported profits of SF 2.8 million.

American Express International Banking Corp. has completed its merger with the non-U.S. banking business of Trade Development Bank Holding SA, Luxembourg. As a result of the transaction, valued at more than $500 million, American Express assumes control over Trade Development's largest subsidiary, Trade Development Bank of Geneva, and other affiliates. The move makes American Express the No. 1 foreign bank in Switzerland.

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EUROMARKET NEWS

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IN THIS ISSUE

Community: EC Committee Backs Air, Sea Transport Draft Rules

The Economic and Social Committee is generally backing the Commission on two proposed regulations that would enable the EC executive to apply EEC competition rules to airlines and sea transport. However, the ESC has a number of reservations about the two measures with respect to their content and objectives *(Common Market Reports, Pars. 10,322, 10,339)*. Although Treaty Articles 85 and 86 are applicable to air and sea transport, there is as yet no implementing regulation similar to Regulation No. 17, which governs other sectors. The two draft regulations would fill that gap by introducing procedures for investigations, imposing penalties for violation of competition rules, and granting exemptions from the ban on cartels.

The ESC sees several shortcomings in the air transport proposal. Since the regulation would apply to international air transport from or to Community airports, the committee believes that any agreements between Member State airlines and third-country carriers as well as the accords between Community-based air carriers would be affected. In the committee's view, the

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draft fails to take into account the existence of such agreements with third countries. Most important, the ESC believes that competition rules can be applied only in stages, and this process must go hand in hand with reforms to align cost structures and employment conditions and to make state aids more transparent. In the committee's opinion, the air transport sector should qualify for a series of exemptions; otherwise the existing air transport system could break down or be exposed to serious dangers.

So far as the maritime transport proposal is concerned, the ESC goes along with the proposed exclusion of bulk transport from the scope of application since this sector already operates, for the most part, according to the principle of free competition. However, the committee says that a better definition of "bulk transport" is needed, and the Commission agrees. The regulation would apply only to agreements on regular liner services that are part of "liner conferences," i.e., tariff cartels.

The ESC considers the liner conferences system to be the best instrument at present for organizing international maritime transport of general cargo goods. (The system is recognized by the United Nations Code of Conduct and EEC Council Regulation No. 954/79.) Although the committee is not opposed to the free competition principle, it feels that the draft should take better account of the specific nature of international maritime shipping, especially the benefits of liner conferences. The committee's main criticism is based on the fact that the proposal, which would exempt liner conferences from Article 85, makes this exemption subject to certain conditions. If these conditions are not met, the exemption would be withdrawn automatically and a liner conference would not be able to operate as such. Furthermore, the conditions for exemption are vague and questionable, according to the ESC.

Proposal to Foster Automobile Trade Between States

The Commission has prepared a draft regulation that could improve general conditions for the trade in automobiles and help lessen the substantial price variations between the Member States. The proposal would allow independent car dealers to bypass the authorized dealers' networks by importing cars from other Member States if there is more than a 12% price difference between two States for the same model. For example, the U.K. pre-tax prices for BMW models are 22% over those charged in Belgium. A certain Mercedes model costs 27% more in the U.K. than in Belgium. The proposal would also change the rules governing the exemption practice as regards distribution agreements *(Common Market Reports, Par. 2061.077)*.

Although the Commission has no power to attack the pricing policies of manufacturers and importers, it can act against distortions of competition that could affect car prices. The Commission has always challenged bans on exports and reimports of any product *(Common Market Reports, Pars. 2011.38, 2011.386, 2011.387, 2011.41)* as well as restraints on the automobile trade *(Common Market Reports, Pars. 2021.08, 10,148)*. It was essentially the higher car prices in Britain as well as consumer complaints that led the Commission to prepare the proposal. Members of the European Parliament have repeatedly asked the Commission to do something about the price differences *(Common Market Reports, Pars. 10,391, 10,420, 10,423)*.

Last year the Commission issued an interim order against Ford-Werke AG, Cologne, to ensure that trade in right-hand-drive models is not prevented. Because increasing numbers of British and Irish customers had been buying lower-priced right-hand-drive cars in Germany, Ford stopped supplying these models to German dealers *(Common Market Reports, Par. 10,419)*. The European Court of Justice upheld the Commission's order (Case No. 229/82), and the draft regulation reflects that judgment: it would require manufacturers to supply right-hand-drive cars to any of their Continental dealers so long as a dealer has an order from a customer.

The national automobile manufacturers' associations will be asked for comments once the proposal is published, which should be in April. The projected date for enactment is Jan. 1, 1984.

In Brief...

Three Council draft directives seeking to harmonize national standards for automotive parts are still pending, thereby holding up completion of the Community type-approval procedure. (Fifty-nine directives are already in effect.) The three draft directives would align national rules for safety glass windshields, trailer weights, and tires. Once the procedure is in effect, any car model could be imported anywhere in the EEC without inspection where one State has issued the EEC type-approval certificate for that model *(Common Market Reports, Par. 3371)*. Even with three proposals still pending, the Commission told a member of the European Parliament, the remaining technical barriers to free intra-EEC trade in automobiles are fewer in number than those existing between individual U.S. States + + + The European Parliament has acceded to the requests of national farmers' associations and has voted for an average 7% increase in agricultural prices; the vote was 164 to 118. The Commission had proposed price increases averaging 4.4%. Although the EP's vote is not binding on the Council, it nevertheless supports those Member States that are dissatisfied with the Commission's proposals, especially France.

Britain: 1984 Start Seen for Trade Union Bank

The U.K. trade unions expect to start operating their own bank as early as next year, and the general secretary of the Transport and General Workers' Union, Moss Evans, predicts that it could establish itself as a full-fledged clearing bank within ten years.

Six major unions, including the TGWU, have already pledged a total of Ŀ1.5 million, and the Cooperative Bank has committed itself to an equivalent sum toward the bank's initial capital of Ŀ3 million. A further 20 unions, with a membership totaling 6.8 million, have also promised active support. However, Evans said the unions realized that they cannot operate an efficient and successful bank without a capital base of about Ŀ500 million; they will have to make the bank strong enough to attract ordinary investors.

The British unions have been examining the experience of union-controlled banks in Israel and West Germany, and Evans believes that such a bank in the U.K. could become a "real alternative" to the private banking system. Since the unions affiliated in the Trades Union Congress have a total of some 11 million members, each making contributions of around Ŀ25 a year, there could be an annual inflow of Ŀ275 million, if all the unions were to deposit their members' dues with the bank.

Evans said the bank would need to have some measure of independence from its union backers in order to gain the confidence of the financial markets. However, the unions would be in a position to direct investment strategy, such as a refusal to invest in South Africa, whereas at present unions have no control over where the major banks invest the funds collected from union members. Evans emphasized, however, that the new bank would have to generate sufficient confidence among those who have money to save or invest, so "that we can do the job as efficiently and effectively as any established bank."

A large number of union members do not need bank accounts since they are paid in cash, although in recent months there has been a marked increase in the number of employees who are paid by check. Observers believe there is a good possibility of widening the scope of banking facilities. It is perhaps significant that Barclays Bank has acquired at least 60,000 new accounts through its policy in the last few months of opening some branches on Saturday mornings.

Germany: Thomson-Brandt Switches Takeover Targets

The German Federal Cartel Office is apparently blocking the proposed takeover of Grundig AG by France's Thomson-Brandt, and Thomson announced on March 9 its intention to buy instead 75% of the stock of another German home electronics company, Telefunken. The Cartel Office had earlier told both Grundig and Thomson-Brandt that they could not expect approval of the proposed purchase of 74.5% of Grundig stock by state-owned Thomson because the deal would further strengthen their dominant positions on the German color TV market *(Doing Business In Europe, Par. 23,510C)*. While the planned merger had been welcomed by French President François Mitterrand and Grundig's owners as an important step toward European industrial cooperation, it met with increasing opposition from the German authorities, especially Bavaria's economics minister, as well as the unions. The unions were particularly worried by the prospect of mass layoffs beyond those already foreseen by the Grundig management.

Rather than wait for the Cartel Office's negative decision, Thomson-Brandt decided to become the majority shareholder of Telefunken, a wholly-owned subsidiary of AEG Corp., the electrical engineering group. Telefunken has been losing money for years, and the planned acquisition would be advantageous for both partners - for AEG in terms of needed cash and for Telefunken in preserving jobs. Together Telefunken and Thomson-Brandt would control about 20% of the German color TV market, leading experts to believe that the planned purchase will get the green light from the Cartel Office, although some strings may be attached to the takeover.

France: Leftists Recover in Municipal Runoff Vote

In the second round of the French municipal elections on March 13, the Socialists and Communists managed to avert a major defeat, which had been a distinct possibility following the first round of voting the week before. The left-wing parties apparently benefited from a record voter turnout of nearly 80%, but they still lost their previous majorities (and mayoralties) in a number of the larger cities and towns. Of France's 224 cities with populations of over 30,000, the nonsocialist parties captured over 100 (plus 35-40), and, of the 36 major cities with over 100,000 inhabitants, they now hold 24 (plus 7). In Paris, where the Left had won seven of the 20 *arrondissements* in the 1977 municipal elections, the nonsocialists took all the districts.

Despite the setbacks, the election results were accepted with considerable relief by the Socialist government, which counted several cabinet members among the winners, including Premier Pierre Mauroy (mayor of Lille), Interior Minister Gaston Defferre (Marseilles), and Finance Minister Jacques Delors (Clichy). In the first round of voting, seven ministers were defeated and 17 elected. Of the ten who had to enter the runoffs, one was defeated.

Political observers speculated that the recovery of the Left in the runoff balloting would lead to less sweeping personnel changes in the Mitterrand administration than had been predicted after the first round. They did not discount the possibility, however, that President Mitterrand would replace Premier Mauroy.

Italy: Oil Price Savings; Work Time Cuts

The Italian government is studying further ways of benefiting from cost savings resulting from lower crude oil prices. In recent months Rome has prevented possible retail price decreases for motor and heating fuels by raising the mineral oil tax. The government is now considering applying this tax increase not only to private consumers but also to industry.

On the basis of nearly 64 million (metric) tons of crude oil imports last year, the fall in import price levels is expected to produce savings of 3,000-3,500 billion lire in annual terms. These savings would constitute a convenient additional source of income for the government, which is constantly looking for revenue to plug its huge budget deficit. The 1983 deficit limit has been set at 71,000 billion lire, which corresponds to last year's nominal shortfall but is less in real terms. Without any extra income, the treasury has predicted, the limit would be exceeded by at least 10,000 billion lire.

Energy experts say that Italy will continue to have to rely heavily on crude oil imports since it does not have the financial means to speed up conversion to alternative energy sources, such as nuclear power. So far the country operates only one major nuclear power plant, and only recently has it been decided to build three more.

In other news, work time reductions have been agreed on for some 350,000 employees in the private chemical industry. The agreement is the first collective labor contract since the signing last January of the national pact on wage cost reductions. The new three-year agreement provides for a 40-hour cut in annual work time beginning on July 1, 1984, and applies only to companies with a workweek in excess of 40 hours. The agreement further provides for an overall pay increase of 100,000 lire per month, to be gradually implemented during the three-year period; monthly pay now averages 700,000 lire.

Netherlands: Corporate Tax Rate to Drop to 40%

Businesses in Holland can look forward to corporate tax reductions totaling 1.5-2 billion guilders between 1984 and 1986. The government plans to scale down gradually the basic rate of profit tax from 48% *(Doing Business in Europe, Par. 26,813)* to 40%, give employers some relief in social insurance contributions, and offer additional tax breaks to new businesses. (On the other hand, private households with two wage earners could expect to pay more taxes.) Deputy Finance Minister Henk Koning said the government believes the measures are necessary to stimulate private industry. The business community has long been advocating tax reductions in view of the record number of bankruptcies and the very low profitability of many companies.

Total corporation tax revenue for 1982 has been estimated at 11.7 billion guilders, 6.3 billion guilders of which stem from the sales of natural gas. Without taking the proposed changes into account, this year's tax revenue is estimated at 10.8 billion guilders, including 5.1 billion guilders from gas sales. The proposed lower rates would not apply to gas and oil.

The Hague Seeks Tax Break for Foreign Investors

The Dutch government is planning to stimulate foreign purchases of domestic shares by eliminating double taxation of dividend income in cases where no tax treaty exists between the Netherlands and a foreign country. Henk Koning, deputy minister in the Finance Ministry, told Parliament that nonresidents would be given the choice of either paying Holland's 25% dividend tax *(Doing Business in Europe, Par. 26,843)* and having this tax set off against their income tax obligation in their home country or paying whatever tax is due on the Dutch dividend income at home.

The absence of double taxation treaties between Holland and some countries in effect leads to "punitive taxation" in cases where a similar tax has to be paid abroad, Koning said. The minister expressed the hope that the introduction of the proposed exemption would stimulate share trading in the Netherlands, but he could not predict when the new rule would take effect. (Dutch shareholders who hold at least 5% of a company's total stock may claim a refund of dividend tax paid either via personal income tax or corporation tax.)

The Amsterdam stock exchange recently has been experiencing a decided upturn, and the rise in share values combined with the planned scrapping of double taxation of dividend income should attract new investors from abroad. Capital gains from increases in share values are not taxable in Holland *(Doing Business in Europe, Par. 26,833)*.

Austria: OECD Survey Warns on Unemployment

The latest OECD survey on the Austrian economy takes note of the fact that Austria is again likely to turn in a solid economic performance this year, but it advises Vienna to increase its efforts in fighting rising unemployment and strengthen the country's export industries. The Paris-based organization predicts the jobless rate will go up from an average 3.7% last year to 4.8% this year, which is the highest level since the 1950s. As a remedy, it is cautiously suggested that the labor unions practice still greater restraint in wage bargaining and that work time reductions might prove helpful as well. Wage restraint is cited as a major reason why the average annual inflation rate fell from 7.2% in 1981 to 5.7% last year.

Generally, the Austrian economy has been doing better in the last few years than those of most OECD member countries, the survey notes. Although GNP growth declined in 1982 and, at 0.75%, failed to meet expectations, this result still exceeded the OECD average. Austria also boasts a stable foreign trade balance, but the OECD points out that the equilibrium was due mainly to weak import demand. The unexpectedly steep decline in export activity was offset only by stagnant economic conditions and substantial energy savings.

EURO COMPANY SCENE

Allied Irish Banks is acquiring a majority stake in First Maryland Bancorp of Baltimore in a transaction to be spread over the next four years. AIB is Ireland's largest bank.

Germany's Aachener & Münchener Beteiligungs-AG, an insurance holding, will purchase for $44 million a 20% stake in Academy Insurance Group, Inc., Valley Forge, Pa. The deal involves 1.6 million newly issued shares of common stock.

A joint venture agreement to develop and produce a long-range, three-dimensional radar system has been signed by the United States' Sperry Corp. and Italy's Selenia Industrie Elettroniche SpA. The two companies hope to sell the system to NATO.

Apparently as a result of financial problems that are forcing the company to divest itself of other European interests as well, U.S. Steel Corp. has sold 75% of the DM 40 million share capital of a German producer of automotive insulation materials, Triangeler Dämmstoffwerk GmbH. The purchaser is a German family holding, Hermann Köhler OHG.

International Harvester Co. and Canada's Massey-Ferguson have agreed to have their French subsidiaries cooperate in manufacturing farm equipment parts for each other. Both companies are producing tractors, combine harvesters, and other equipment in France. A joint statement said the agreement "corresponded to the need to rationalize production facilities to overcome the overcapacity problem..." in Europe.