Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: Rebuff of Commission's Borrowing Plan

The EEC finance ministers have dealt a blow to the European Commission's plan to close this year's anticipated ECU 2.3 billion deficit through borrowing from the Member States. The gap will have to be closed through savings, the ministers say, though they have not indicated where spending cuts should be made. Brussels observers do not consider the ministers' first response to the Commission's plan to be final.

The 1984 deficit can be traced largely to the fact that the Council of Ministers' March 31 decision to reform the costly common agricultural policy fell short of what is necessary to balance the 1984 budget. To close the deficit, the Commission recently proposed that the Member States extend loans to the Community based on each State's value-added tax contribution. The loans would be paid back with interest in eight semi-annual installments from 1986 through 1989. The money for principal and interest would come from increased VAT revenue (1.4% instead of the present 1%) that the Community is to receive under a provisional agreement reached by the heads of government at their March 19-20 Brussels summit.

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

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The finance ministers' reaction to the Commission's borrowing plan casts a dark cloud over the yet undisclosed Commission plans for the 1985 draft budget. (The EC Executive is expected to present its proposal soon.) According to Brussels sources, the Commission's draft budget for 1985 calls for around ECU 28.2 billion in spending and ECU 26.1 billion in revenue. It is not clear how the ECU 2.1 billion deficit would be funded, but the approach proposed for closing this year's deficit is considered the most likely choice. Of the planned ECU 28.2 billion in Community spending next year, around ECU 19 billion would be allocated to the farm policy sector - some ECU 500 million above this year's expenditure. Commission officials emphasize that this additional expenditure is a direct consequence of the Council's March 31 decision, in which Commission-proposed expenditures for 1985 were exceeded by some ECU 1.3 billion.

Bonn Urges Action in the European Transport Sector

The Community would fare far better in developing a common transport policy, says the German transport minister, Werner Dollinger, if the Council of Ministers would live up to past commitments instead of debating obligations it wants to assume in the future. In a frank letter to his French colleague Charles Fiterman, president of the Council of Transport Ministers, Dollinger says that a common transport policy will get off the ground only if the Council abides by the EEC Treaty and its own deadlines set in the past. In Dollinger's view, it does not make sense for the Council to keep debating what should happen after 1986 if it fails to make the necessary decisions that were due by the end of the transitional period in 1970. (The failure to take any action on transport policy by the end of the transitional period is the subject of a pending action brought by the European Parliament against the Council.)

Dollinger gives several examples of the Council's failure to act despite definite commitments made almost 20 years ago, such as the Council's May 13, 1965, commitment to pass legislation for the harmonization of national provisions affecting competition by rail, road, and inland waterways *(Common Market Reports, Par. 1812.30)*. The Council agreed to take action by Oct. 1, 1967, to abolish double taxation of motor vehicles used in Member States other than the State of registration *(Common Market Reports, Par. 1812.37)*. The Council was supposed to have passed legislation by Jan. 1, 1968, to standardize national rules governing the calculation of the vehicle tax on cars and trucks as well as vessels used in inland shipping. Jan. 1, 1968, was also the deadline for aligning national rules on the composition of crews of all types of carriers.

Distortions of competition arising from different tax burdens and technical provisions, e.g., truck weights and measures *(Common Market Reports, Par. 1812.35)*, must be removed before work on a common transport policy can progress, Dollinger says.

In Brief...

The Council of Ministers has agreed to closer cooperation among the Member States' railways. This cooperation, provided for in a nonbinding recommendation, includes faster clearance of freight trains at border crossings, approximation of tariffs, and alignment of schedules for international trains. Several States were against a binding commitment + + + The Commission has refuted claims by the Greek government that accession to the EEC has caused a crisis in Greece's foreign trade by worsening the trade balance with the other Member States. This claim has been used in the past two years in support of stricter import restrictions than authorized by the Commission. In a recent report, the Commission concedes that Greece's agricultural trade suffered after the accession, but says that there was no disturbance of industrial trade between Greece and the other EEC States.

Germany: Serious Labor Dispute in Metalworking Industry

Some 12,000 German employees in the northern Baden-Württemberg district, around Stuttgart, walked off their jobs on May 14 in support of their union's demand for a 35-hour workweek. In addition, several thousand workers in the state of Hesse are expected to take part in what may prove to be the country's most serious labor dispute in years. For the time being, IG Metall, with 2.6 million members in the steel, engineering, and motor vehicle industries Germany's largest industrial union, is trying to avoid a nationwide strike by selecting a small number of plants, mostly suppliers for the automobile industry. However, the damage will soon be felt by Daimler-Benz and Porsche in Stuttgart and other car makers elsewhere because two of the 14 plants struck in the Stuttgart region are the country's only piston manufacturers. Car makers usually do not keep more than a week's supply of parts.

The strike in Baden-Württemberg started after union balloting in the Stuttgart and Frankfurt areas produced majorities of slightly more than 80% in favor of strike action. According to union rules, a strike may not be called unless at least 75% are in favor. Some labor experts consider the relatively high margin this time to be an expression of union-organized workers' belief that 35 hours instead of 40 hours a week, with no loss in pay, will create jobs for 1 million unemployed. Employers and other observers view the strike vote as support from the rank and file for union leaders who believe the 35-hour workweek is essential for IG Metall's survival.

Industry leaders, who originally had doubts about the union members' determination to support such a strike, still believe a majority of the working population is against the industrial dispute. Had the strike vote been taken in a high-unemployment region, they say, the results would have been different.

The employers have made an offer that would involve little additional cost and yet would give employees a 38-hour week. This proposal would involve a third shift for plants now operating on two shifts: employees would work fewer hours, production capacity would be better used, and unemployed persons could be put into the resulting jobs.

Denmark: Effect of Early Retirements on Unemployment

A national system that permits employees to retire early has been in effect in Denmark for about five years and is being extensively used. However, it has had only half the impact as regards unemployment as had been originally anticipated, according to a study recently issued by the state Social Research Institute, Copenhagen. When the system was introduced, the government had expected that 75% of the jobs vacated by early retirees would be refilled. In the first year, that quota was almost reached, at 70%. Since then, however, private employers have been reluctant to commit themselves to new hirings, and only four out of ten vacant positions have been refilled.

The researchers believe that the low rehiring quota in the private sector can be explained largely by the fact that many employees who elected early retirement would otherwise have had to be laid off. However, the study also reports a "surprisingly low" rehiring quota in the public sector, even though employment there has risen slightly since 1979, despite an official hiring freeze and some manpower bottlenecks caused by early-retirement attrition. Only the municipal governments did about as well as expected, with a 70% rehiring rate.

Under the Danish system, any employee aged 60 or older may choose early retirement, provided he or she is covered by unemployment insurance for at least five out of the last ten years of employment. (There is no unemployment insurance obligation in Denmark, but most workers are voluntarily covered.) According to the report, Denmark's 75,000 early retirees represent about 50% of all insured persons between the age of 60 and the regular retirement age of 67.

Denmark's current unemployment rate is about 10%, and the number of early retirees totals about 3% of the working population. Since only about half of the once vacant jobs have been refilled, the net benefit of the early-retirement system has been some 1.5 percentage points in terms of the Danish unemployment rate.

Britain: Current Accounting Proposed for New Tax Liabilities

The U.K.'s Accounting Standards Committee has published a draft standard stating that companies must immediately provide in their accounts for deferred tax liabilities that may arise in the wake of the changes announced in this year's Budget and the phasing out of capital allowances. Many corporations, especially leasing companies and banks, will incur greatly increased tax liabilities as a result of the Budget measures, and they had hoped to spread these liabilities over several years.

The committee chairman, Ian Hay Davison, says that if a company spreads its fiscal liability, it will receive a qualified report and accounts from its auditors. The ASC's statement of intent, anticipating a full standard in the fall, specifies that, where changes in the basis of taxation result in significant adjustments in the deferred tax account, the adjustments should be treated as an extraordinary item in the profit-and-loss account. It says that the method of presentation on the face of the profit-and-loss account "is a matter for individual companies to determine." However, because the provisions will not be included in the current tax charge, they will not affect post-tax income on which per-share earnings are based.

The ASC says that the present accounting standard for deferred taxation will remain in force until the new standard is approved. It adds that companies should determine the timing of deferred tax liabilities with reference to their own particular circumstances. In some cases, a three-year period will be sufficient, but "where it is known that tax rates and the incidence of reliefs will change in future years," companies will need to look further ahead and "more carefully consider the timing of events."

Self-Regulation for U.K. Securities Industry?

In order to provide more effective protection for investors, the City Capital Markets Committee has proposed the establishment of a self-regulatory system for the British securities industry, to be guided by the Council for the Securities Industry. The committee, which is composed of Stock Exchange members, bankers, fund managers, and lawyers, is a specialist group that acts as a "focal point" for views on current issues and future developments in the London securities sector. Its recommendations have come in response to the wide-ranging proposals by Prof. Jim Gower in January for regulating financial institutions in the U.K.

In its submissions to Trade Secretary Norman Tebbit, the committee suggests several ways to adapt the role of the council. One possibility is to narrow its range in the field of investor protection, where it would take a clearly defined executive role. Alternatively, the council could be retained in its present form but would delegate its responsibilities for investor protection "to a new panel analogous to the present Takeover Panel." Observers regard this as the most likely outcome.

The proposed regulatory body, named the Investor Protection Panel by the committee, would need "full-time professional executives of high caliber" to deal with self-regulatory agencies on a day-to-day basis. (Gower recommended the establishment of several of these agencies, but the committee stresses that the number should be kept within manageable proportions. The chairman of the committee, Nicholas Baring, said that if numerous agencies represented specialized interests, they would tend to speak only in favor of their interests.) The panel, which would be answerable to the Council for the Securities Industry, would relieve the council from involvement in the details of formulating the self-regulatory system. The panel would include members drawn from the securities industry plus lay members from outside.

The committee also suggests that the Department of Trade should be less involved in the details of self-regulation. Direct registration with the department should be made less attractive and should not be required for the members of those professions that give advice on investments only incidentally.

Ireland: Tax Breaks for Foreign Computer Companies

The Irish government has announced major tax incentives to attract foreign computer service companies. The Minister for Finance, Alan Dukes, said that this year's finance bill is to be amended to lower the rate of corporation tax from 50% to 10% for corporations providing computer services. This reduction is intended to appeal particularly to U.S. companies and would give Ireland a major competitive advantage in attracting overseas corporations, the government believes.

As a result of the change, data processing and software development services would receive the same corporate tax advantages as manufacturers *(Doing Business in Europe, Par. 25,335)*. Existing companies, both Irish and foreign, which receive aid from the Irish Development Agency would be encouraged to expand their operations. The Ministry for Industry, Trade, and Commerce said that the immediate effect of the new incentives would be "to speed up negotiations with overseas promoters which are considering new projects for Ireland." Major marketing campaigns are planned for the U.S. and Japan.

In other news, the proposed National Development Corp. is to be given the power to invest selectively in Irish companies that have a real prospect of becoming "structurally strong." Companies would also be strengthened by new incentives addressed to particular deficiencies of Irish firms, such as access to new technology and product development.

France: 1985 Budget to Aim for Lower Taxes, Spending

In keeping with President François Mitterrand's promise last September to reduce the French budget deficit, Finance Minister Jacques Delors announced earlier this month that the 1985 budget will be "far more rigorous than that of 1984" in terms of public spending. According to present government plans, next year's budget policy would shift from increasing taxes and public spending, as a way of stimulating demand and job creation, to tax reductions and cutbacks in government operating costs and programs. The tax cuts of some FF 80 billion would be designed to restimulate private investment. Unconfirmed reports said that the administration is thinking of cuts of 3-6% in individual taxation plus decreases in the *taxe professionelle* paid by all businesses and self-employed persons *(Doing Business in Europe, Par. 22,843)*.

To offset the tax cuts, the government is expected to reduce ministerial operating costs by 2%, cut certain ministry budgets, and bring down the number of public employees through attrition. Mitterrand's goal is to reduce the budget deficit by 1% annually, beginning in 1985.

The new budget discussions are widening the rift between Socialist and Communist members of the governing coalition, an alliance already threatened by the government's steel industry restructuring plan. Although the Communists supported Mitterrand in a recent confidence vote, the party opposes the government's moves toward a mixed economy system and any attempt to reduce the public sector. Mitterrand appears to be increasingly downplaying the state's role in the economy in an effort to appease the opposition as the 1986 parliamentary elections draw closer.

Italy: U.S. Leads Revival of Foreign Investment

The steady decline of foreign investment in Italy during the past 20 years has been sharply reversed within the last 18 months or so, and foreign participations in Italian industry have risen to between 15% and 20%. U.S. companies have led this reversal, accounting now for 33.9% of foreign investment in Italy. According to the ISPE economic research institute, U.S. businesses operate 567 subsidiaries and 1,048 branches in Italy, followed by Britain with 206 and 372, respectively, and West Germany with 271 and 389.

In the last 18 months, the ISPE report says, foreign companies took a controlling interest in at least 30 Italian businesses which reported a total 1983 turnover of 1,500 billion lire. Among the leading American investors were such companies as United Technologies, Dow Chemical, and Heinz. The most spectacular move was American Telephone & Telegraph's purchase of a 25% holding in Olivetti, the office equipment and electronics group. Foreign investment is highest in the mechanical engineering industry, at 28.4%, and in textiles, at 18.2%. Lately, however, more attention is being focused on electronics, telecommunications, pharmaceuticals, and foodstuffs.

Foreign investment in Italy began dropping in the mid-1960s due to labor problems (strikes, absenteeism), the growing Communist influence, widespread corruption, and more and more government bureaucracy. By 1982, Italian investments abroad had, in fact, surpassed foreign investments at home. Most recently, however, more and more foreign businesses are again inclined to base operations in Italy, thanks to the devaluation of the lira (40% against the U.S. dollar over the past three years), improvements in productivity, and tax incentives for foreign investors, especially in the country's south. Another factor is the government's continued efforts to bring inflation and labor costs more under control than in the past.

Spain: Madrid Asks Unions, Employers to Resume Talks

The Spanish government has asked the labor unions and the employers' organizations to return next month to their negotiations over a national "social pact" covering a wide range of issues for 1985 and 1986. Madrid would like to see the two sides come to terms on such an agreement before the 1985 draft budget is submitted in September and in anticipation of the 1986 parliamentary elections. So far, the Socialist government has continued its two-year absence from employer-labor talks in spite of its concern over the rising number of strikes and its wish to bring down wage increases and inflation to the goals set in the current budget. Wages have already risen by an average of 7.7% in this fiscal year, more than one point over the government's recommendation of a maximum 6.5% increase. The March inflation rate of 12% in annual terms is well above the 1984 goal of 8%.

The CEOE employers' federation remains opposed to governmental participation in wage negotiations, saying that Madrid should continue to confine its role to suggesting goals. The Socialist UGT union, one of the country's two main labor organizations, came out in favor of government participation following the breakup of the talks over the 1984 national wage targets early in the year.

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Community: Move on Unleaded Fuel, Automotive Emissions

The European Commission has proposed that the Member States be given considerable freedom in determining when unleaded gasoline should be introduced and that there be a long transition period for the tightening of car pollution standards. The proposals represent a political setback for several Member States, especially Germany. However, the Commission decided that it is better to propose solutions that have a chance of being adopted by the Council of Ministers than to suggest legislation that the Council would reject or water down. (France and Italy would have blocked any progressive proposal on the matter.)

Specifically, the Commission proposes that all the Member States agree to require the sale of unleaded gasoline as of 1989. However, a State would be free to make the sale of lead-free fuel mandatory as of 1986; unleaded gasoline could be sold at lower prices than leaded fuel. Starting in 1989, car makers would be allowed to market only models that run on unleaded fuel.

The draft directive on lead-free gasoline contains a clause

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that would repeal existing EEC legislation on the lead content of gasoline. This legislation was adopted in 1978 and allows, but does not require, Member States to set a maximum lead content of 0.15 grams per liter; the legislation actually makes it illegal to require the sale of lead-free gasoline *(Common Market Reports, Par. 3315.29)*. The new proposal would require the States to lower the maximum lead content to 0.15 grams per liter by the end of 1991.

Concerning the reduction of automotive exhausts, the Commission proposes in another measure that the EEC adopt by 1995 the strict standards applicable in the United States and Japan. In the meantime automotive emissions would be progressively reduced. New automobiles sold after Jan. 1, 1989, would have to meet tightened standards on carbon monoxide, hydrocarbon, and nitrogen oxide emissions *(Common Market Reports, Par. 3371.06)*.

If adopted, the Commission's proposals would foil the German government's plan of allowing the sale of only those vehicles that meet German standards and not those from other States that comply only with Community standards. Germany would be allowed to pass legislation requiring the sale of unleaded gasoline as of 1986, and it could grant incentives for the buying of low-pollution cars. However, it could not bar imports of cars conforming to EEC rules because this would violate Treaty Article 30 *(Common Market Reports, Par. 322)*, according to the Commission.

Modification of Value-Added Tax Deduction Proposal

The Commission has modified its controversial twelfth value-added tax directive in order to pacify critics among lawmakers in several Member States, national governments, and the European Parliament and thus improve the chances of adoption. While the original proposal *(Common Market Reports, Par. 10,453)* called for alignment of national tax rules denying businesses deduction of VAT paid on company cars, aircraft, and boats as well as on business trips and luncheons, the amended version would permit businesses to deduct at least 25% of prior VAT but no more than 75%. This proposed reduction would become effective two years after the directive is adopted. After another two-year period the States would be required to limit the VAT deduction to 50%.

In order to make it difficult for the backers of a full VAT deduction to maintain their opposition, the Commission made the proposal somewhat more attractive by providing that a taxpayer would be able to claim full deduction of VAT if he could prove that the car, plane, or boat was bought, or the trip was made, for business purposes. German tax advisers still see a disadvantage for businesses since, after the proposed four-year transition period, a taxpayer would have to prove 100% business use or otherwise be content with only a 50% deduction of VAT paid. Company use of two-thirds and private use of one-third would not entail a corresponding deduction of prior VAT.

Adoption of the original proposal would have meant a repeal of the privilege of deducting VAT on company cars, aircraft, or boats in Germany, Luxembourg, and the Netherlands. The Commission presented its proposal in January 1983 to follow up on a commitment made by all the States when they adopted the Sixth VAT Directive in 1977. Article 17(6) of that directive says that the Council 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 use, e.g., expenditures for luxuries and entertainment *(Common Market Reports, Par. 3165S)*.

In Brief...

The Council of Ministers has agreed on amendments to the regulation governing the EEC's Regional Development Fund. The objective of these amendments is to introduce a new policy concerning assistance from the Fund. Instead of helping finance individual projects, the Fund will grant assistance in the form of multiannual program contracts jointly financed with the beneficiary Member States. Programs will be either specific Community regional development programs or national programs of Community interest. The national quotas will be replaced by a more flexible system indicative of each Member State's share of total Fund assistance + + + Responding to a complaint, the Swiss government has assured the EC that it will not discriminate in applying vehicle tax and car sticker legislation. Approved by a recent plebiscite, the legislation will require operators of domestic and foreign trucks over 3.5 tons using Swiss roads to pay, as of Jan. 1, 1985, an annual tax of SF 500-3,000, depending on the vehicle's weight. Domestic and foreign drivers of passenger cars using Switzerland's express highways will have to buy an annual sticker costing SF 30 *(Doing Business in Europe, Par. 40,564)*.

Germany: Escalation of Conflict Over 35-Hour Workweek

The current disruption in Germany's steel, engineering, and automotive industries has escalated in several ways after employers in the state of Baden-Württemberg locked out some 65,000 employees of 35 plants in response to union strike action involving 13,000 people at 15 plants. It was not a coincidence that the enterprises shut down by strike action make parts for car makers all over the country. As a result, all German auto manufacturers have either shut down assembly lines or curtailed production. Over 110,000 auto workers are affected, and over 500,000 other workers in a wide range of industries would be affected if the conflict continues over a longer period.

Meanwhile, one-third of Germany's 140,000 printers walked off their jobs for two days in support of the demands of their union and those of the metalworkers' union, IG Metall. The printers want their works councils to have codetermination rights when new typesetting and printing techniques are introduced. Leaders of other unions have called for brief sympathy strikes in support of IG Metall's demand for a 35-hour workweek at the same pay.

In their lockout action, employers in Baden-Württemberg had to abide by a Supreme Labor Court decision stating that no more workers may be locked out than is proportionate to a strike. In this particular judgment, handed down in 1980, the high court said a lockout of 120,000 corresponded to the strike by 90,000. In the present situation, the employers have had to compromise between a total lockout (involving all 540,000 employees of some 900 firms), which would be unlawful, and a token lockout, which would be ineffective *(Doing Business in Europe, Par. 23,421)*.

The shutdown of car plants and supplier businesses outside the struck regions of Baden-Württemberg and Hesse has had other implications. It has posed the question of whether employees laid off or put on short time due to short supplies resulting from a strike are eligible for unemployment benefits or other compensation. The majority of the Federal Employment Office's executive board, outvoting its three union representatives, ruled that laid-off employees of companies directly affected will not receive unemployment benefits, while employees of companies indirectly affected (i.e., outside the steel, engineering, and car manufacturing industries, such as tire manufacturers) will receive such benefits.

The board emphasized that the law commits it to strict neutrality in any labor dispute. Since the IG Metall has been advocating the 35-hour workweek for all employees in the steel, engineering, and automotive sectors, the board's majority felt that the granting of unemployment benefits to employees laid off outside the struck regions because of the lack of supplies would, in effect, help those employees and thus violate the board's statutory neutrality.

Ireland: Planning Board Urges Changes in Taxes, Spending

Ireland's National Planning Board has produced a detailed report advocating a radical reorganization of the country's tax structure and social security system, along with sharp cuts in government spending. The Irish government set up the board last year as an advisory group of employers, unionists, and academics. Its main function is to suggest methods of increasing economic growth and reducing unemployment, currently at 17% of the work force.

The board's chairman, Louden Ryan, says that the rates of taxation are "at the limit of the tolerable," and one of the main purposes of the plan is to eliminate the need for further tax increases. The report, in effect a medium-term economic plan, recommends the abolition of tax relief on mortgages and health insurance contributions, to be offset by indexing personal allowances in line with inflation. Significantly, there would be no difference in the tax treatment of retained and distributed profits of companies and between salaries and dividends.

The document urges that the public sector borrowing requirement be brought down from the present 17% of gross national product by lowering the budget deficit from 8.3% to 5.2% of GNP. The report says that cuts in government spending would be preferred over tax increases. The board recommends tightening controls on government programs and advocates spending limits for individual departments and a reduction of at least 9,000 in the 300,000-worker public service sector. The social security system should also be streamlined, the report says, and short-term benefits, such as unemployment and retirement payments, taxed.

A particularly controversial proposal is the recommendation that wage and other costs be limited through comparisons with Ireland's trading partners, so that incomes would be held to EEC average levels until 1987. Observers believe that the Labour Party, the minority group in the ruling coalition, is unlikely to go along with this and other proposals. However, even if the recommendations were accepted in their entirety, the board expects the number of unemployed to grow by 25% by 1987, after which it would begin to fall. Over the next three years, GNP growth is expected to average 2% annually, with inflation dropping from the present 9% to an average annual rate of 5.5% by 1987.

Irish Industrial Employment at Twenty-Year Low

At the end of 1983, employment in Ireland's manufacturing industries stood at its lowest level in the past twenty years, according to the Central Statistics Office. During 1983 the industrial labor force fell to 194,000, compared with 205,200 at the end of 1982 and 216,800 a year earlier.

This decrease has come despite a significant rise in industrial output. However, the sectors that have increased production the most, namely, the electrical and pharmaceutical industries, tend not to be labor intensive. An example is the computer industry, where output rose last year by more than 50%, while the work force expanded only from 6,300 to 7,300. Job losses in the textile and clothing industries have slowed down after sharp drops between 1980 and 1982. On the other hand, employment in the engineering and metals sector declined by 3,400 last year.

In 1966 the Irish Development Authority had estimated that the manufacturing industries employed 198,600 workers, and a goal of 265,000 jobs was set for 1977, to be achieved through regional development. This target was never reached, and the present decline appears likely to continue.

In line with the growth in unemployment, wage rates have been rising relatively slowly and keeping fairly level with inflation (if taxation is disregarded). In September 1983, the average wage for male industrial workers was Ł167.30 (Irish) per week, including overtime, an increase of 12% over a year earlier. The comparative figure for women was £100.15, an 11.2% rise in earnings in the corresponding period.

France: Foreign Debt May Need to Be Refinanced

Finance Minister Jacques Delors says France may have to partially "refinance" its foreign debt if the government's austerity program does not push the current-account payments balance out of the red this year. Delors' comments came in conjunction with the release on May 15 of a detailed government study on France's external debt, issued in an attempt to discredit a similar report presented later that day by the opposition-controlled Senate.

One of the main points on which the two reports disagree is the size of the country's foreign debt. The Finance Ministry's study puts it at FF 451 billion at the end of 1983, while the parliamentary document includes short-term debts and some medium-term borrowings by banks to bring the figure to FF 600 billion. The conservative opposition is critical of what it insists is heavy foreign borrowing, which the Senate report says grew by 61% in the past two years.

Delors says that France will need to borrow abroad at least an additional FF 60 billion per year for the next five years. His figures are based on the assumption that the current account will balance this year and show a surplus in 1985. However, the account already showed a deficit of FF 15 billion after the first three months of 1984. The Finance Ministry report predicts that France's foreign debt will increase at a progressively slower rate until it begins declining in 1988. The study also projects that debt servicing charges will almost double by 1988 - from FF 66 billion this year to FF 119 billion.

Belgium: Employers Offer Job Level Guarantee for 1984

Talks between government, union, and employer representatives took a surprisingly positive turn in mid-May when Andre Leyson, leader of the Belgian employers' federation, proposed maintaining job levels in Belgium's private sector until the end of the year. Government and union officials seemed to be in favor of the suggestion, and employer spokesmen said their organization would probably approve the offer formally at its next meeting.

The current talks on employment levels, price controls, and industrial policy began late last month because of union opposition to the government's latest austerity measures. The unions twice attempted to bring the country to a standstill in April through one-day general strikes, which had mixed results. The employers argued that the wage restraint proposed by the government was necessary to maintain their competitiveness and thus provide more job opportunities. The government said its spending cuts would eliminate 40,000 jobs this year, which it hopes to offset by creating new jobs. The Belgian unemployment rate stood at 12.2% at the end of April, up slightly from the 12.1% of a year ago.

Greece: Business Again Protests Government Policy

Greek business groups have again sharply criticized the government's hostile attitude toward private industry following the imposition of stiff official sanctions against a leading steel producer. Protest declarations in connection with this latest action were issued by the national industrial federation (SEV), regional industrial associations, and the chambers of commerce of Athens, Piraeus, Saloniki, and Patras.

The Trade Ministry recently ordered the steel company, Chalywuryki Corp., to pay a penalty of 8.905 billion drachmas ($81.9 million) for allegedly exporting foreign currency illegally during the years 1970-80. The company, which had first learned of the order through the media, described the government's action as "arbitrary" and referred to a court decision issued in its favor. The national and regional business and industry groups declared their solidarity with Chalywuryki, saying that the government is apparently following a strategy of coercion and even oppression toward private business. (The Trade Ministry had also indicated that it plans to take rigorous measures against other private enterprises, particularly those that are abusing their dominant positions on the domestic market.)

Observers regard the latest conflict as another escalation of the climate of distrust and confrontation that has been steadily developing between private business and the Socialist administration since the latter's takeover in late 1981. They say that the situation reflects to a certain extent Prime Minister Andreas Papandreou's vacillation between a pragmatic, monetarist economic policy and the "fight against capitalism and monopolies" as propagated by his party, the Socialist PASOK. At a public session following the recent general meeting of the SEV industrial federation, at which the government was represented by Economics and Finance Minister Gerassimos Arsenis, the two sides again clashed over economic policy issues and could not find a common meeting ground.

Switzerland: Voters Reject Bank Secrecy Reform Plan

An overwhelming majority of Swiss voters cast their ballots on May 20 against a plan by the Social Democrats to tighten controls over the country's banks and loosen banking secrecy laws. A massive publicity campaign by the banking sector helped limit the number of votes in favor of the plan to 25% - about equal to the Social Democrats' share of the votes in the last national election.

The measure "against the misuse of banking secrecy and power" was proposed in the late 1970s. It followed the 1977 "Chiasso affair," in which Credit Suisse, the country's third-largest commercial bank, lost approximately SF 1.4 billion through the illegal handling of Italian funds by its Chiasso branch. The plan would have relaxed Swiss banking secrecy laws to help foreign governments investigate tax evasions and currency offenses. It also proposed limiting bank holdings in other corporations, insuring depositors' funds, and obtaining more information from banks on their hidden reserves and lendings.

The voters also defeated, but by a close margin, a petition to ban the sale of real estate to nonresident foreigners, proposed by the small National Action Party. This petition arose when annual sales of chalets and apartments to foreigners reached an all-time high of 6,000 in 1979. However, after West Germany eliminated tax breaks on such residences, sales dropped to fewer than 2,000 last year. The proposal's defeat puts into effect a government contingency measure limiting these sales to 2,200 per year.

Ban on Phosphates in Detergents; Consumer Credit

The Swiss government has decided that Switzerland will be the first European country to outlaw phosphates in textile detergents, beginning on Jan. 1, 1986. The Federal Water Protection Commission, which first recommended the ban last May, believes the measure will lower phosphate levels in Swiss waters by 10-15%. The detergent manufacturers' association says, however, that the removal of phosphates from detergents alone will not bring that much of a reduction because a large portion of the 5,000 tons of phosphate dumped into sewage systems each year comes from agricultural sources. The commission hopes to lower this level through recommendations to farmers.

When phosphates are banned, other substances will have to be substituted to maintain the effectiveness of detergents. The Interior Dept. recommends the use of zeolithe (sodium aluminum silicate), with the addition of other chemicals to reduce residues.

In other news, the Swiss senate passed by one vote the consumer credit law that the government has been considering for many years. One provision of the law extends the longest term of credit from 24 to 36 months, with the possibility of an extension to 54 months. Critics opposed the extension, saying that most consumer goods are worthless after 54 months. Patterned after German legislation, the Swiss consumer credit law also allows consumers 14 days to change their minds after signing a contract.

Common Market Reports

EUROMARKET NEWS

Issue No. 803 *Report No. 502, June 6, 1984*

IN THIS ISSUE

Community: Aiming for Common Broadcasting Market

The recent publication of a voluminous discussion paper by the European Commission represents the first step in what could be a long march toward a common market in broadcasting. In some 500 pages exploring the opportunities and problems in this area, the Commission claims that the creation of a common market in broadcasting and the cross-frontier distribution of broadcasting services would help develop new, needed information and communications techniques. The ultimate aim is legislation with common rules on advertising, copyrights, and standards, so that national radio and TV stations would have access to listeners and viewers in other Member States (for example, by cable and satellite) and could freely compete.

The Commission envisages common legislation on advertising and cable transmission licensing. Current advertising rules vary considerably. In Belgium, for example, no television commercials are allowed, while in Germany they are limited to 20 minutes a day. The document recommends that advertising be limited to 20% of total cross-frontier broadcasting, which is more

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

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than several States now permit. There would be no advertising for cigarettes or other tobacco products. (Such a ban is already in effect for state-controlled radio and TV.) Also, there would be no commercials on Sundays or public holidays. The Commission plans to propose rules that would require prior screening of all commercials to ensure compliance with EEC law. The Member States would have to enact legislation that grants competitors of companies advertising through broadcasting a right to reply to claims made in the commercials. Advertisers making false claims about their products could be forced to retract them on radio or TV.

Attempt to Unify European Telecommunications Sector

Moving on the Commission's recent action program to unify Europe's fragmented telecommunications market, the Council of Ministers has asked the EC Executive to come forward by June 15 with concrete proposals for Community standards in the telecommunications and electronics industries. At their informal meeting on May 18 in Paris, the industrial policy ministers of the ten Member States agreed that common standards would help develop the European telecommunications market and might eventually break U.S. and Japanese dominance in the information technologies sector. Accepting a British suggestion, the ministers also asked the Commission to make proposals by June 15 for common standards to promote the compatibility of European computer and communications equipment.

The ministers' request came only two days after the Commission unveiled its program to unify the EC's telecommunications sector. At present, telecommunications in the EC are operated and managed by national monopolies, such as the postal administrations. Although Europe leads the world in exporting telecommunications equipment, the bulk of which consists of traditional hardware such as telephones and telex machines, separate telecommunications markets have developed in each Member State. Some 83% of microelectronic circuits used in EC telecommunications equipment are imported, mostly from the United States and Japan.

The Commission has proposed Community funding to help industry pay for research and development costs, but the Council has not yet responded to this or to other proposals, such as financial aid to the EEC's less developed regions for the procurement of new technology.

In Brief...

Commissioner Frans Andriessen, in charge of competition matters, wants to close the IBM case through a settlement or decision either this month or prior to the summer recess, which begins on July 15. International Business Machines Corp. is accused of having abused its dominant position in the data processing sector by refusing to disclose details about how its computers can be hooked up with competitors' equipment. The Commission wants the details about interfaces released within one month after the computers appear on the market. If a settlement is not reached, the Commission is expected to impose a fine and mandatory conditions for IBM's future behavior + + + The Commission doubts that the Italian government's plans for massive financial support of Italy's major aluminum producer, which is state-owned, can be reconciled with EEC Treaty rules on state aids. Rome wants to help debt-ridden Aluminio Italia, controlled by the state-owned EFIM group, by providing some 1,000 billion lire. Only 200 billion lire would be granted conditionally (for example, for restructuring), while the remainder would be given to cover the aluminum maker's debts.

Germany: No Present Plan for Higher Social Security Taxes

The Kohl administration is not planning an increase in Germany's social security taxes in the immediate future, despite the fact that Bonn is pumping money into the pension insurance funds to keep them solvent. In both March and April, the government contributed to the country's 18 old-age pension funds DM 1.3 million above what is allocated in the 1984 budget. The government will have to keep supporting the funds above planned levels until September. The funds should have recovered by October, when revenue is expected to have picked up sufficiently to bolster cash reserves.

The expectation of financial recovery is based on two assumptions. Under 1983 legislation, one-time payments such as vacation bonuses are subject to increased withholding of social security taxes *(Doing Business in Europe, Par. 40,552)*. Also, revenue from higher wages and salaries negotiated in union contracts this year should provide the pension funds with an additional DM 1.5 billion each month. This improved picture could be marred if the economy as a whole does not continue to recover. (A growth rate of 3-3.5% for 1984 can be expected, experts say.) Another protracted strike like the current one in the metalworking industry would be a further blow to the pension funds.

The funds have been moving gradually toward bankruptcy since the mid-1970s. Two causes of this were the increase in benefits for the country's 11 million pension recipients and the worst economic recession in the past 30 years. Under the previous, Social Democratic-Free Democratic government, Parliament enacted the requirement that old-age pension recipients contribute to their health insurance coverage. Under the Kohl administration, Parliament has come up with additional measures, such as raising social security taxes (18% to 18.5% as of September 1983) and tying social security benefits more closely to what employees and employers contributed in the preceding year *(Doing Business in Europe, Par. 40,553)*.

Britain: Redrafting of Tax Haven Proposals Suggested

Representatives of the U.K. accounting profession have urged the government to abandon this year's Budget proposals dealing with tax havens. Instead, they suggest that the Consultative Committee of Accountancy Bodies redraft the pertinent clauses in the Finance Bill, so that only those companies that operate offshore solely for tax avoidance purposes would be affected. This recommendation was made by a delegation of the Committee at a recent meeting with John Moore, financial secretary to the Treasury.

Legislation to prevent international tax avoidance was originally proposed in 1981, but the measures were watered down considerably in the wake of widespread criticism. The diluted proposals were incorporated in the 1983 Budget and Finance Bill but subsequently had to be dropped because of the general elections that year and the need to expedite other financial clauses. They have been reintroduced in this year's Finance Bill.

The Inland Revenue is principally concerned with those "money box" companies that are established in tax havens solely to avoid the U.K.'s much higher tax rates. However, there are growing fears that the proposed legislation in its present form would place an excessive burden on U.K. corporations with genuine trading activities abroad. It is argued that there is now much less need for such legislation because of the coming reduction in the basic rate of corporation tax, to 35%. The CCAB members believe that they are able to distinguish statutorily between genuine and artificial trading operations.

Alan Reid, a member of the CCAB delegation, said that every U.K. company operating abroad should check that its overseas subsidiaries are not affected by the new legislation, which would involve complex and costly calculations. He said that, as the corporation tax rate comes down, "the bulk of international tax planning will be designed to get funds back to the U.K."

There are currently 40 pages of draft legislation proposing changes that would generate very little revenue. Reid stressed that his members believe that they can help the Inland Revenue "to get the same tax take, but with a lot less effort." At the same time, the changes proposed by the CCAB would save U.K. corporations "the aggravation of this wide-ranging legislation, which will inhibit many companies from actually trading overseas." (See also *Doing Business in Europe, Par. 40,563.*)

Italy: Government Controls of Foreign Investments?

Foreign purchases of participations in Italian enterprises should be made subject to government controls, according to a proposal made by Industry Minister Renato Altissimo before a parliamentary committee. These controls would be applied only to certain "strategic" sectors and would not affect foreign investors domiciled in the Common Market countries. Altissimo referred to the electronics and transport industries as examples of strategic sectors and said that large enterprises in these areas are of prime concern for Rome's industrial policy.

The industry minister explained that Italian industry generally suffers from severe undercapitalization and that the strengthening of companies' capital base must have priority in order to prevent sellouts "for a handful of dollars." To this end, Altissimo earlier submitted to the cabinet a draft law (No. 787) promoting the establishment of bank consortia that would function as independent entities in providing secured capital to enterprises on an indirect and interim basis.

It remains to be investigated, Altissimo said, whether the purchase of domestic participations by foreign investors should be subject to general controls or individually issued permits. He indicated that the government is continuing with the preparation of antitrust legislation "for the protection of citizens and consumers," which would touch the subject of foreign investments in Italy as well.

Observers said that one of the main reasons for Rome's stepped-up activities at this time is the political dispute over the attempt by Sweden's Elektrolux to gain control over the second-largest Italian metalworking group, Zanussi SpA, which is also a leading European producer of household appliances. The government is currently looking for alternative ways of solving Zanussi's financial problems, and the Spanish government has declared its readiness to participate in such a solution on a minority basis.

Ambrosiano Settlement Signed; Wage Indexation Decree

Liquidators of the failed Banco Ambrosiano, its creditor banks, and the Vatican bank have signed a $406 million settlement that allows the 120 foreign creditors to recover about two-thirds of their claims of $615 million. Italian creditors of Ambrosiano should receive another $100 million. The largest portion of these payments will be made by the Vatican bank, Istituto per le Opere di Religione, which is expected to disclose on June 15 whether it will pay out its share of $240.9 million in a lump sum or in three payments over a one-year period.

Formerly Italy's largest private bank, Banco Ambrosiano folded in 1982 after losing $1.3 billion in loans to dummy companies, ten of which were owned by the Vatican. The settlement on May 25 included a Vatican statement that it was involved in the failure unwillingly, while the creditors agreed to give up all other legal demands against the bank.

In other news, Italy's Socialist-led government scored a major victory on May 23 when Parliament's lower house passed a controversial decree reducing wage indexation adjustments, thus paving the way for Senate approval. Prime Minister Bettino Craxi's coalition government had called for and won two confidence votes in three days to diminish Communist opposition to the decree. However, the measure's passage spawned several protest strikes in northern Italy by the Communist CGIL labor union.

The decree, an effort to bring last year's inflation rate of 15% down to 10% in 1984, was first introduced on Feb. 15 but died after Communist filibustering prevented its passage within the required 60 days. Observers say the current decree should clear the Senate, where opposition is not as intense, by the June 16 deadline, giving the Socialists a boost one day before the European Parliament elections in Italy.

France/Britain: Banks Call Channel Tunnel Feasible

A study released by a group of British and French banks concludes that a tunnel under the English Channel linking the two countries is feasible with private funding. However, the report says, guarantees would be needed from the British and French governments ensuring that construction would not be halted for political reasons. In reaction to the study, Nicholas Ridley, the British transport minister, reemphasized his government's position that any such project be totally financed with private funds.

The report, requested by the French and British transport ministries, recommends a twin-bore tunnel capable of accommodating trains carrying passengers, cars, and trucks. The cost is estimated at £6.5 billion, including provision for inflation and interest charges until 1993, the projected completion date. Another £1 billion would be needed by the year 2000 to cover the initial unprofitable years. By the year 2008, however, all loans would be repaid. Alternatives suggested include a 35-kilometer bridge and a bridge-tunnel combination, but these would cost much more and still present unresolved technical problems.

The five banks that participated in the "chunnel" study are Crédit Lyonnais, Banque Nationale de Paris, and Banque Indosuez of France and National Westminster and Midland banks of Britain.

Encouraged by the report, Bouygues, the leading French private construction and engineering group, has begun a feasibility study of a road and rail bridge across the channel. The company projects costs of around FF 45 billion (£3.8 billion).

Sweden: Employers File Suit Against Employee Funds

The Swedish employers' federation has filed suit with the Stockholm district court questioning the constitutionality of the law enacted on Jan. 1 requiring company contributions to employee funds. The employers say that the funds break the state monopoly on taxation through "expropriation of company funds." Observers are predicting failure for the suit because the constitutionality of each law proposed in Sweden is investigated by a judicial council before it is sent to Parliament. Once a law is passed by the legislature, it can be overturned only when the mistake is "obvious" - which the employers claim it is.

Under the new legislation, companies are required to pay into five regional employee funds through a new 20% tax on inflation-adjusted company profits above a threshold of either SKr 500,000 or 6% of the payroll as well as through a 0.2% increase in the payroll tax. Fund contributions, which continue until 1990, should amount to about SKr 2 billion annually, with fund profits channeled into the old-age pension system. By 1990, the funds are expected to own the equivalent of 7% of the total value of quoted Swedish stock.

The business community and the center and right-wing opposition parties had opposed the law, saying the funds will eventually hold a dominant influence in most companies, moving the Swedish economy a "giant step" toward socialization. The opposition parties have pledged to dismantle the funds if they come to power in the 1985 general elections.

Meanwhile, the government has been unable to find anyone willing to represent private industry on the funds' boards. Members of the four boards that have been set up so far were drawn from state-owned companies and the labor unions.

Switzerland: Unions Campaign for 40-Hour Workweek

While German metalworkers have their country's auto industry paralyzed by strikes over a 35-hour workweek at no loss in pay, the current slogan of the Swiss labor federation (SGB) is "Work for All - 40-Hour Week." The average working week for industrial employees in Switzerland stands at 43 hours. Although voters have turned down the demand for a shorter week many times, the SGB began campaigning again last fall for a constitutional amendment that would force the gradual implementation of a 40-hour week for all workers with no loss in pay. However, the earliest such an amendment could be made final is 1990.

The SGB wants to equalize working hours throughout the economy, have workers benefit from technological advances, and raise the quality of life through more free time. Creating more jobs is last on the Swiss unions' list, and, in fact, they estimate that the decrease in hours will be offset by increased efficiency and productivity. Employers, however, fear that shortening the working week will hurt their companies' competitiveness.

While work on the proposed constitutional amendment continues, individual unions are making their own moves toward a 40-hour week. Employees in the Swiss metalworking and machinery sectors will reach this goal when their current 42-hour week is lowered in two steps in 1986 and 1988. Only the press and paper union, which has had a 40-hour week for some time, is pushing for a reduction to 35 hours. In mid-1986, working times for government, postal, and rail employees will be lowered from 44 to 42 hours per week. Parliament recommends that a maximum 1,880 new civil service positions be created to make up for the drop in working hours. The postal service plans to cut mail delivery to once daily, so that new hirings can be limited.

In related news, the government approved a measure increasing vacation time for workers from three to four weeks per year, beginning on July 1. Workers under the age of 21 will be entitled to five vacation weeks annually.

Foreigners Stay Away From Swiss Real Property

Swiss real estate sellers and agents breathed a sigh of relief last month when the voters turned down an initiative to ban sales of real property to nonresident foreigners. The margin of rejection (51%) was extremely close, and if the vote had gone the other way developers and sellers would have had to stop advertising abroad.

Even without the ban, however, the market for vacation apartments in Switzerland has hit bottom, several thousand new units remaining unsold. Potential French and Italian buyers are being kept away by exchange controls and the weakness of their currencies. A revision of tax rules by Bonn has dried up the German market. Foreigners are also discouraged by Swiss rules that limit the stays of nonresidents in their own apartment units to three months in a year and forbid the reselling of the apartment within five years.

Financial experts have calculated that the purchase of a Swiss vacation apartment is no longer the investment it once was. A two-bedroom unit in a good location is currently selling for about SF 300,000. For a German investor, for example, this means DM 360,000 ($132,000). If this money were invested at a Swiss bank in deutschmark-denominated foreign bonds, at 8%, the yield would be DM 22,800 ($8,380). This calculation does not include the extra costs for heating, maintenance, and repairs, and any Swiss and foreign taxes, which, if the purchase price is included, drive the total annual expenditure up to DM 28,000 ($10,300). For this amount, it has been pointed out, a family of four could take two luxury vacation trips a year.

The rejection of the ban has cleared the way for the presentation of another real property bill concerning nonresident aliens, which would take effect on Jan. 1, 1985. The proposal seeks to limit the annual number of sales licenses, reportedly to about 2,000, divided up among the various cantons. It has been pointed out, however, that even this quota far exceeds current demand.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: Fewer Border Controls Between Some States

French president François Mitterrand and German chancellor Helmut Kohl have reached an accord to generally eliminate passport controls at border crossings between France and Germany. The move has received praise from European Commission officials, who say that the agreement is a small, but encouraging, step in the direction of liberalized border procedures that the EC Executive has proposed and that the European Parliament, the business community, and the general public have been demanding. (Abolishment of passport controls within the Community has foundered so far on objections from the U.K. and Denmark.) EC officials tend to agree that the French-German accord may do more to stimulate voter turnout for the upcoming European Parliament elections on June 14 and 17 than the campaigns by the national parties.

Commission officials praise even more the recent agreement of the transport ministers of the Benelux countries and Germany "to largely forego controls in the transport of goods by rail and road as of Jan. 1, 1985." This agreement will help reduce truckers' waiting time at the borders between Belgium, the

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Netherlands, Luxembourg, and Germany. Transport of goods between the three Benelux countries, already freed from most controls, will be eased even further on July 1 when a single document will be used for clearance through customs. A proposal for such a document for the entire Community is pending before the Council of Ministers, where it is mainly Germany that is blocking adoption of the measure. Bonn argues that not enough detailed information is required in the proposed document.

Commission Attacks German Bill to Support Farmers

Legislation pending before the German parliament that would provide tax support for the country's 1.5 million farmers to compensate for the EEC's recent farm policy reform measures is drawing domestic and foreign criticism. At home the political opposition and the national consumer and taxpayer associations are complaining, as are the other EEC Member States and the Commission. The bill would give German farmers some DM 3 billion in tax relief annually.

The Council of Ministers' March 30 decisions setting agricultural prices for 1984-85 and instituting the first reform of the costly common agricultural policy also provided for a cutback in the monetary compensatory amounts. The MCAs have shielded German farmers from income losses caused by the rise in the deutschmark's value. The cutback by five percentage points as of Jan. 1, 1985, entails a corresponding reduction in the prices of most agricultural commodities, while German farmers could be compensated accordingly.

The Council decided that Germany could grant its farmers increased tax support of DM 1.6 billion in 1985. This support was to be achieved by allowing farmers, as of Jan. 1, 1985, to charge buyers 11% value-added tax and keep the proceeds instead of transmitting them to the tax office. (At present, farmers charge 8% VAT.) Farmers' protests over milk production quotas prompted the German government to propose that the tax support take effect on Sept. 1 of this year and that farmers be allowed to charge 13% VAT. This increase would more than double the tax support volume that the Council allows. The Kohl administration, acceding to a request from the upper house of Parliament, amended the proposal to change the effective date of the measure from Sept. 1 to July 1.

The Commission believes that the bill, if enacted in its present form, would violate Community law. Most Brussels observers feel, however, that the EC Executive would refrain from bringing legal action against Germany for the same reason that causes Bonn to believe it will succeed with the measure: Germany contributes far more than any other State to the EC budget. In the past, no new EEC policy could be enacted and no outlays for an existing program could be increased without Germany footing most of the bill.

In Brief...

Some time in the fall, the national stock exchanges of each Member State will start transmitting to the stock exchanges of all other Member States equity prices of securities quoted on more than one stock exchange. This Interbourse Data Information System (IDIS), agreed to recently by the EEC Committee of Stock Exchanges, is seen by the Commission as the first major step toward the creation of a Community-wide equity capital market. In the Commission's view, the move must be accompanied, however, by the liberalization of capital movement in securities, harmonization of national rules imposing taxes on securities transactions, and removal of numerous national legislative obstacles to a genuine common capital market, the ultimate goal + + + The Commission is looking into the possibility of coming to an agreement with the U.S. Justice Dept. to avoid EEC-U.S. friction in antitrust matters. Discussions aimed at such an accord broke down in the 1970s after the Justice Dept.'s antitrust division brought legal actions in the United States involving issues such as an international uranium cartel and transatlantic shipping. The Justice Dept. was seeking to extend U.S. jurisdiction beyond American borders.

Germany: No Strike Settlement in Sight; Legal Action

The strike in the German metalworking industry in Hesse and northern Baden-Württemberg went into its fourth week on June 4 with no settlement in sight. Leaders of IG Metall, which with 2.5 million members is the country's largest union, continue to insist on cutting the workweek from the present 40 hours to 35 hours with no loss in pay. Some union leaders have, however, indicated their readiness to agree to a contract providing for a gradual approach toward a 35-hour workweek. All union leaders still believe that a workweek shortened by five hours would provide jobs for some 1.4 million unemployed persons.

The employers, whose stand is backed by almost all economic experts, remain just as adamant in rejecting the union's demand. They say that a 35-hour workweek without any cut in pay will not really reduce unemployment and will make German products too expensive. Financially strong companies would attempt to absorb increased labor costs by further rationalizing production, thus idling even more people, the employers say. Higher costs would cause thousands of small and medium-size firms to go bankrupt.

The employers are offering the unions a contract providing for a 3.4% wage increase, early retirement at age 58 with benefits higher than the minimum required by recent legislation *(Doing Business in Europe, Par. 40,566)*, and reduced hours for shift workers. An estimated 20% of the total of 620,000 metalworkers in Hesse and northern Baden-Württemberg would work 38 hours per week instead of 40 under the proposed terms.

Meanwhile, there is plenty of legal action surrounding the strike, which is now affecting some 340,000 workers across the country. IG Metall has sued the Federal Labor Office, attacking its ruling that no compensation should be granted to workers laid off or put on short workweeks by companies not directly strike-bound but nevertheless affected because they are not getting needed supplies. (All German car makers have shut down assembly lines because of a lack of supplies.) Labor law experts say that the FLO had no choice but to deny compensation because it is bound by law to strict neutrality in industrial conflicts. This neutrality would be violated if the FLO paid unemployment compensation to employees of firms indirectly affected by strikes elsewhere. In addition to filing this suit, IG Metall has encouraged laid-off employees outside Hesse and Baden-Württemberg to sue the FLO for refusing to pay unemployment benefits. It has also retained lawyers for employees willing to file such suits.

France: Labor Negotiations to Center on 35-Hour Workweek

During the current talks between French unions and employers, labor representatives are expected to insist on major discussions of their demand for a reduction in the workweek from 39 to 35 hours, despite the fact that the subject is not even on the agenda. The employer representatives, who have called the negotiations "the most difficult and most important in 15 years," claim that instituting a 35-hour week would be "suicidal" for them. They are more interested in changing hiring and firing legislation, so that they can sidestep certain social costs and, they predict, eventually open up 470,000 new jobs. Meanwhile, Industry Minister Laurent Fabius has said that any cuts in working hours should be individually negotiated on a company basis.

The two major French labor unions are not in agreement on how far to take the fight for a shorter week. Jean Kaspar, a spokesman of the Confédération Française du Travail (CFDT), said that "no fight against unemployment is possible without a cut in the workweek." However, the Socialist-leaning CFDT seems more flexible than the Communist-led Confédération Générale du Travail, which has refused even to consider pay cuts. Both unions have been keeping an eye on strikes by German metalworkers who are demanding a 35-hour week at no loss in pay.

The French unions' previous goal was the institution of the 35-hour week by 1985. That goal was shelved in 1981 when the unions agreed to a partial cut in hours - from 40 to the current 39 per week.

The Socialist-led government is currently under attack by unions and Communist members of the ruling coalition for its tough industrial restructuring plans at a time of rising unemployment. Although unemployment stabilized during the Mitterrand administration's first two years in power, it rose by 15% in the past year and stood at 2.3 million, or 10% of the work force, in April.

Paris Still Uncommitted on Creusot-Loire Rescue

Bankruptcy appears to lie ahead for the French engineering group Creusot-Loire in the face of the government's continuing refusal to bail it out with further financial assistance. As of the end of May, Paris had not yet commented on a Creusot rescue plan submitted by court-appointed experts. The report agrees with Creusot's insistence that help from the government and the nationalized banks is needed to save the company. The plan also suggests that Creusot sell part of its 50% share in Framatome, the nuclear power plant builder, decrease its work force of 400,000 by 10,000-13,000, and concentrate on its energy, railroad, and defense branches.

Creusot, indirectly controlled by Schneider SA, negotiated a FF 6 billion bailout with the government last November. By April, the company was asking for further aid. Because Paris is attempting to avoid government rescues of private businesses, Creusot filed for a two-month moratorium on its debts as the first step of French bankruptcy proceedings. If no acceptable rescue plan is developed by June 13, the company may have to continue the proceedings. However, the government may still decide to aid Creusot because of public discontent over rising unemployment.

Italy: Ciampi Calls for More Economic Restraint

The Italian central bank governor, Carlo Ciampi, has criticized the government for having actually fostered certain inflationary factors in the recent past while ignoring others. At the annual meeting of the Banca d'Italia, which was attended by some 1,500 political and business leaders, Ciampi said that in no other industrial country has the public-sector deficit assumed such enormous proportions as in Italy. According to the bank's annual report presented by Ciampi, the value of public-sector expenditures rose from 41% of GNP ten years ago to 63% in 1983. With revenues failing to keep pace with spending, the share of the public-sector debt increased within the same period from 58% to 85%. Some 60% of the total national credit volume is now eaten up by the financing of new government borrowings, the report says. At an average of 14.7%, the Italian inflation rate last year was more than twice as high as that of the major competitor countries.

Ciampi related the steep increase in the public debt to the state's nonproductive investments, such as welfare benefits often based on "irrational criteria" and budget subsidies to state holdings used mainly to cover operating losses. The governor predicted that the volume of the public debt will exceed GNP within a few years, even if there should be a deceleration in the pace of public spending.

Holding public spending growth 2% below GNP growth and raising tax revenue gradually by 3% were suggested by Ciampi as effective ways of eliminating the public-sector deficit within a few years. The central bank chief does not advocate a relaxation of monetary and credit policy, which has been very tight for some time, so as not to endanger the modest economic recovery now apparent. One means of bringing in more revenue, he said, would be to clamp down much harder on tax evasion, which costs the government some 20,000 billion lire annually, according to a recent Finance Ministry report.

Britain: Stock Exchange Urges Continued Self-Regulation

The London Stock Exchange Council has urged the government not to interfere, at least at present, with the Exchange's existing system of non-statutory self-regulation. However, the council recognizes that problems of enforcement may arise when member firms are controlled by non-member interests. "At that time, it may become necessary to seek some form of statutory backing for the council's authority," the council said in its response to Prof. Jim Gower's recent "Review of Investor Protection" report.

The council concedes that the speed at which changes are taking place and the relaxation of market restrictions may make it appropriate to introduce more formalized arrangements to protect private investors. However, it urges the government to recognize that undue interference in the self-regulatory arrangements of established institutions "could hinder rather than help the maintenance of satisfactory measures for investor protection."

The document emphasizes that the present system of self-regulation can be rapidly amended to adjust to market changes and allows the Stock Exchange to "enforce the spirit as well as the letter of its regulations." The council is opposed to the establishment of a regulatory body, such as the Securities and Exchange Commission in the U.S. It argues that the adoption of such a body would mean "giving up once and for all" the ability to adapt regulations speedily to fit the needs of the new markets "as they develop over the next few years." The council believes that it would be difficult to avoid legal rigidity and cumbersome procedures, and it concludes that a securities commission "cannot impose the high standards of conduct which flow naturally from self-regulation."

Austria: Sinowatz Decides Against Major Tax Reform

Political observers in Austria predict a reshuffling of the cabinet following the decision by Premier Fred Sinowatz not to implement a major tax reform after all. Such a tax reform had been a principal feature of the government's policy statement a year ago. Its details have been worked out by Finance Minister Herbert Salcher, who wanted the reform to take effect on Jan. 1,

1985. His program would have been almost all bad news for the country's employees: among other things, Salcher wanted to eliminate the tax freedom of overtime work and of the "13th month" and "14th-month" bonus salaries. Sinowatz, for his part, does not think it opportune to plan additional tax burdens so soon after having implemented a value-added tax increase and an interest yield tax at the beginning of this year.

Whether Salcher stays in office or someone else takes over as finance minister, the government still wants to ease the income tax progression, eliminate the double taxation of dividends, simplify the turnover tax system, and extend the period for loss carry-forwards. Aside from these tax matters, the finance minister will also have to deal with the rehabilitation of the budget, which in 1983 showed a deficit that was 17 billion schillings higher than the original draft (74 billion schillings). This year, Salcher is hoping to contain the deficit at 63 billion schillings with the help of the new and additional taxes imposed last Jan. 1. However, his critics say that no concrete proposals have been made as to how to return to a balanced budget within the next few years.

Norway: Foreign Banks; Credit, Exchange Curbs Eased

Norway's parliament has approved a bill permitting overseas banks to open branches in Norway, leaving Sweden as the only country in Western Europe that does not allow foreign competition for domestic banks. A limited number of openings will gradually become available to major international banks with an equity of at least 50% in a branch and existing business relations in Norway. The branches must be organized as Norwegian limited companies. Because the law is based on reciprocity, Swedish banks will be refused Norwegian permits until Sweden liberalizes its regulations.

In other banking news, Norway's central bank has advised the Finance Ministry to eliminate many of its restrictions on credit institutions. The Bank of Norway urged the deregulation of lending by finance companies, an end to curbs on bank guarantees of market loans, and another reduction in the insurance companies' obligation to invest in state bonds. The bank explained that the limited deregulation on Jan. 1 has not caused excessive growth in overall liquidity.

Meanwhile, Oslo has also decided to liberalize foreign exchange rules, thus giving foreigners access to securities not quoted on the Norwegian stock exchange. Citizens are now permitted to buy both quoted and unquoted shares on foreign exchanges in addition to Eurokrone stocks on the second-hand market. The government has also approved a moderate expansion in the volume of loans from Norwegian banks to their clients located in foreign countries.

EURO COMPANY SCENE

ITT Corp. plans to invest $4.8 billion in Western Europe from 1984 through 1988, an increase of about 50% from the previous five years after adjustments for currency fluctuations and divestitures. Of that amount, $3.1 billion will be spent on research and development, including $2.6 billion for telecommunications and electronics. The other $1.7 billion will go toward capital investments, with ITT Telecommunications Corp. accounting for about half of that share.

In related news, after weeks of confusion, ITT has beaten out Siemens of West Germany and L.M. Ericsson Telephone of Sweden for Turkey's final $300 million order for advanced telephone switching equipment. ITT originally announced in April that it had won the contract, but Turkey then said a final decision had not been made. ITT is expected to become a 25% shareholder in Teletas, a state-owned Turkish company that will make the Switch 12 system in Istanbul.

American Telephone & Telegraph Co. has announced a cooperative agreement with ICL, Britain's largest computer company, to provide network services allowing business users to exchange information between the U.S. and the U.K. AT&T will sell a variety of equipment to ICL, which is building its network by leasing telephone lines from British Telecom.

Italy's Olivetti, of which AT&T acquired 25% late in 1983, said it expects its U.S. sales to jump from $250 million to $500 million through AT&T purchases of its equipment. The Italian company also said it will concentrate its initial sales of AT&T's private telephone digital exchange systems in the U.K. and Italy.

Digital Equipment Corp. has announced a planned $21 million expansion of its Ayr, Scotland, plant. The facility will be converted from lower-end activities, such as final assembly and testing of computer systems, to production of microcomputers and testing of semiconductors.

Firestone Tire & Rubber Co. of Akron, Ohio, has failed in its bid to gain full control of its Spanish affiliate, Firestone Hispania, but has still increased its share from 26% to 49% through an agreement with a group of Spanish banks that are shareholders in the Spanish company. Firestone Hispania has also announced plans to invest $71.7 million in its Basauri plant over five years.

Common Market Reports

EUROMARKET NEWS

Issue No. 805 *Report No. 503, June 20, 1984*

IN THIS ISSUE

Community: No Breakthroughs in Recent Council Meetings

No breakthroughs on any pending legislation were made at a series of Council of Ministers meetings early this month, according to Council attorneys. The meetings on June 4-8 involved the finance, economics, labor, and consumer affairs ministers and were devoted to proposed legislation on tax harmonization, products liability, and the Vredeling draft directive.

The only progress reported was in the Council working group discussions on one of three tax rule harmonization measures that have been pending before the Council for some years - a draft directive proposed in 1969 to remove tax obstacles to mergers involving companies from different Member States *(Common Market Reports, Par. 3214)*. The Germans have been blocking the adoption of the proposal, which aims to ease the tax problems inherent in intra-Community mergers. Bonn objects specifically to a side effect of the proposal: a German company in which labor holds one-third or half of the seats on the supervisory board *(Doing Business in Europe, Pars. 23,222B, 23,222C)* would, upon being acquired by a company from another Member State,

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

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lose its corporate identity, and labor would lose its codetermination rights. For political reasons, the German government will not consent to a measure that would ease mergers but, at the same time, abolish labor's influence on decision making. The progress made in this month's talks was the addition of a clause that would allow a Member State to veto any merger having the effect of abolishing labor codetermination.

Two items on the agenda of the Council meeting on consumer affairs were of particular importance to businesses and consumers alike. One is a draft directive that would approximate national rules on misleading advertising *(Common Market Reports, Pars. 10,030, 10,168)*. A great deal of controversy was eliminated last year with the deletion of the proposed rules on unfair and comparative advertising. There is still disagreement over the scope of power that a Member State's administrative body should have in rendering rulings on complaints about unfair advertising. Concerning the second item, no change was reported in the position of several States on the proposed products liability directive *(Common Market Reports, Pars. 9891, 10,167)*. It is primarily Germany that has been blocking progress out of concern over higher insurance premiums that manufacturers would have to pay and greater capital outlays for better machines, devices to monitor production, and additional supervisory personnel.

As for the Vredeling draft directive, it is too early to predict whether the controversial measure will even be adopted. So far only France, Greece, and Italy have come out in favor of the proposal; Britain remains steadfastly opposed. The other six States support the basic idea of the proposal but have not taken a definitive stand. The directive would define employees' rights with regard to consultation and access to information in multinational enterprises or in other companies with at least one subsidiary *(Common Market Reports, Pars. 10,265, 10,495)*.

In Brief...

International Business Machines Corp. has made new proposals to the European Commission. The company wants to reach a negotiated settlement rather than be denounced as an abuser of a market-dominating position, which would mean being fined and still being forced to conform to the behavior described in a formal Commission decision. The Commission has charged IBM with violations of Treaty Article 86, asserting that the company is withholding from its competitors technical information about its medium-size and large computers. It has drafted a decision that would require IBM to publish technical details on the interfaces of its new computers within one month after the computers are first announced. IBM's current practice is to disclose the details after the equipment is shipped to customers. Last April the Commission rejected IBM's proposals because they fell short of meeting Brussels' demand that details be published within one month after the announcement of new computers. The computer giant's latest offer reportedly also fails to meet that demand + + + In the negotiations on Spain's accession to the Community, Madrid and the EC are still far apart on two crucial issues - fruit and vegetables, and access of Spanish fishermen to Community waters. EC farmers, especially in France and Italy, fear that the market will be flooded with cheaper Spanish produce, and therefore the Community has proposed a ten-year period of transition. The current restrictions would continue for the first four years, and they would be dismantled during the following six years. Spain has rejected this proposal as well as the Community's fisheries plan. This plan would retain the current catch limits for Spanish fishermen for ten years; seven years after accession, Spain would withdraw from joint fishing ventures with third-country businesses. Such joint ventures enable Spanish trawlers to fish beyond their own depleted coastal waters + + + The Council of Ministers has agreed to increase from ECU 6 billion to 8 billion the amount of borrowings that the Community may raise on the international money markets to help Member States in balance-of-payments difficulties.

Germany: Monopolies Body Reports on Concentration of Power

The German Monopolies Commission's upcoming report on trends in the concentration of economic power dwells heavily on mergers in the retail food sector, which has been of concern to the Federal Cartel Office and the government for some years. To be published later this month, the report is said to reveal little that was not already known. The authors do not recommend additional legislation to cope with the sharp rise in mergers in the retail food sector. The negative side effects of these mergers are unfair competition, such as selling below the purchase price, and the elimination of thousands of small retail stores.

In the 1973-82 period, there were 555 mergers in the German trade sector, more than 90% involving food stores. Five food store chains have been the most active in buying up other establishments - Aldi, Co-op, Tengelmann, Edeka, and Rewe. These chains account for 65% of all food sales in West Germany (in 1983, DM 136 billion). With the addition of Metro, a cash-and-carry wholesale chain with food and nonfood sales of DM 12 billion in 1983, the six chains would have a market-dominating position as major buyers of the range of items that are commonly offered in retail outlets. This position would have gone unchecked if the Federal Cartel Office had not used the broader powers given it by the 1980 amendments to the Cartel Law *(Doing Business in Europe, Pars. 23,510, 23,510B, 23,510C)*. The Cartel Office's most noteworthy action in this respect has been its order barring the planned Metro-Kaufhof merger. (Kaufhof, a department store group, ranks No. 11 among the country's top 20 retailers.) An appeal is pending before the Court of Appeals.

The Cartel Office has been far more successful in upholding free competition in the retail sector in another respect. Its officials have uncovered and stopped large-scale payments to big retail chains for agreeing to buy and prominently display certain food items. Moreover, the Office has succeeded in promoting fairer competition among the country's leading retail chains. Last October the chains agreed to refrain from selling below cost prices. Now the Office wants a similar commitment from the national trade and industry associations with regard to unfair rebate arrangements.

Italy: Parliament OKs Decree; Craxi's Fall Predicted

Political observers in Italy are predicting the collapse in the near future of the five-party coalition government under Socialist premier Bettino Craxi, despite the fact that the administration's anti-inflation program finally passed Parliament on June 8. The final Senate vote, linked to a confidence motion, was 172 to 11 in the government's favor and ended four months of intense disputes over the decree legislation. The key feature of the program is a reduction in the automatic adjustments of the wage indexation system *(scala mobile)* by which Rome hopes to bring down the inflation rate from its current level of about 10%. The first attempt to steer the measure through Parliament failed when Communist filibustering prevented passage within the prescribed 60-day period.

The current government crisis has been triggered by the latest affair surrounding the secret P2 masonic lodge. Foreign Minister Giulio Andreotti, a Christian Democrat, has been accused by a leading Socialist, Rino Formica, of being the key figure behind the lodge. Formica, the head of the Socialist faction in the Chamber of Deputies, made the accusation in a hearing of the parliamentary committee investigating the outlawed organization.

It has been speculated that the government's fall will immediately follow the June 17 elections for the European Parliament. However, the political uncertainties in Italy have intensified with the death of Communist Party leader Enrico Berlinguer. In any case, the Christian Democrats are expected to reclaim the government leadership.

Rome Scales Down National Energy Plan of 1980

Italy's national energy plan of 1980 has to be scaled down because some of the planned measures cannot be realized, according to Franco Reviglio, president of ENI, the state energy holding. Reviglio said that, while considerable progress has been made in securing the country's oil and gas supplies, the original targets set for the nuclear energy sector are out of reach.

Although 64% of Italy's energy consumption is still based on oil (48% in France, 43% in West Germany), the country is relatively unaffected by the current crisis in the Persian Gulf. Italian oil imports now come from 18 geographic sources, including nine ENI production sites, which for the most part are not located in conflict areas. Moreover, production and deliveries of natural gas have developed favorably, so that by 1990 Italy will be able to cover 20% of its energy needs with domestic and imported gas.

The government has, however, virtually abandoned its original plan to build 20 major nuclear power plants by the year 2000. Only two plants are under construction; the sites for two others have not even been pinpointed. Government and ENI officials agree that the previous ambitions should be given up and that only two or three of the proposed additional plants should be built. (ENI lost some $750 million in the last few years because it had bought uranium supplies on the basis of the national energy plan target; because of the oversupply on the world market, the fuel cannot be resold at cost-covering prices.)

Even more difficult than the selection of the nuclear plant sites is the search for the locations of the proposed coal-fueled plants, which are vigorously contested by environmental groups. To complicate matters, there are still many unsolved problems in connection with the large-scale transport of coal. Because of all these delays and uncertainties, Reviglio estimates that the share of oil in Italy's energy consumption will not be lower than 55% in 1990.

Britain: Closer Surveillance of Foreign Bank Activities

In its latest annual report, the Bank of England, the British central bank, has indicated that it will in the future keep a closer eye on the fund-raising and lending activities of foreign banks with branches in the U.K. There are about 250 overseas banks operating in Britain, and London has the greatest concentration of foreign bank branches of any major financial center.

The Bank will ask for "some information on branch profits and some details of large deposits and exposures," according to the report. While it is not yet clear exactly how much detail foreign banks will have to provide, observers believe that the Bank will ask for a geographic breakdown of loans as well as information on the proportions of corporate, individual, and government business. It has been confirmed that such information will not be made available to the public.

The disclosure requirements are likely to be finalized by the end of 1984, after consultations with the British Bankers' Association. At present, there are no standard disclosure rules for foreign banks, some of which, especially those based in the Middle East, are expected to be reluctant to observe the new rules. However, observers do not foresee any difficulties for major U.S. banks in complying with the regulations, since they are highly automated and can easily provide the requisite data.

The report highlights the need for British banks to increase their provisions against loans to Third World countries and, at the same time, raise extra capital and thus strengthen their capital bases, either through profit retention or equity issues. The Bank says it will be looking at the adequacy of bank provisions in the context of capital resources. "Although capital ratings in the U.K. have generally been well sustained," the report says, "further improvement is desirable."

The Bank estimates that British banks are owed a total of about £15 billion by eight key debtor countries - Argentina, Brazil, Chile, Mexico, the Philippines, Poland, Venezuela, and Yugoslavia. This means that approximately 75% of the banks' capital base is tied up in loans to these countries. This vulnerability recently led to a fall in the stock market value of banking shares.

France: New Types of Leave Available to Employees

Since Jan. 1, 1984, employees in France have been able to use two new types of leave - sabbatical leave ranging from six to 11 months and leave of up to two years for purposes of setting up or taking over a business for themselves. The employee has the right to return to his or her job at the same pay when the sabbatical leave is over or when the business venture has failed. However, he or she may not reclaim the job during the leave of absence.

Employment with the same company for at least three years is a condition for taking any of the new types of leave. Six years' experience in the pertinent vocation or profession is also required to be eligible for the sabbatical leave, and a further condition is that no special leave was taken during that period. Before taking special leave, an employee may "save" the annual leaves of up to six years and collect the equivalent in the form of a bonus before starting the special leave.

The employee has to notify his or her employer at least three months before taking any special leave. In businesses with fewer than 200 workers, the employer may delay the granting of special leave for up to nine months. Postponement may also be deemed necessary whenever more than 2% of a company's workers are already out on special leave. In small businesses, the employer may, in fact, turn down an application for special leave if such leave would be disruptive to the business.

The employment contract remains in force during the period of the special leave. For instance, if the employee is setting up his own business, he remains obligated to his employer and is not allowed to engage in competitive activities. In applying for the special leave, the employee must state the nature of the business that he will be setting up or taking over.

In related developments, the government has added a new feature to the system of parental leave to which new parents have been entitled since 1977: those eligible may now choose between leave and part-time work. Employees may take parental leave of up to one year (which could be extended by another year) upon the birth or adoption of a child. To be eligible, a worker has to be employed with the same company for at least a year. During the leave of absence, no wages or salaries are paid, but health insurance coverage remains in effect and social security credits continue to accrue. The new rules provide that the parent may choose to work part-time for up to two years instead of taking parental leave. Both the mother and the father are eligible, and the right may be exercised by each of them alone or jointly.

French Government Asks More Cash of Creusot Shareholders

After having already put up FF 720 million last November, the private shareholders of Creusot-Loire, the leading French engineering group, are being asked by the government to inject another FF 800 million into the company, which is hovering on the brink of bankruptcy. The shareholders, mainly the Schneider group, have made it clear that they have no more capital to contribute. The government, in turn, said earlier that unless Schneider makes another commitment neither Paris nor the banks will be able to respond to Creusot's most recent request for FF 2-3 billion of new capital. The company asked for protection from its creditors on May 13, and the Paris Commercial Court set June 13 as the deadline for Creusot to work out a financial recovery plan acceptable to both the government and the banks.

The Socialist administration is highly concerned about the 30,000 jobs that are at stake at the company. On the other hand, it is apparently unwilling to pour rescue funds into a sinking private enterprise, fearing that this might set a precedent. Financial commentators say that one possible way to raise needed cash is for Creusot to divest itself of its 50% holding in Framatome, the profitable nuclear power plant builder.

Netherlands: Further Cuts in Social Welfare Benefits

The Dutch cabinet agreed on June 7 to reduce short-term unemployment compensation and disability payments by 3% as of July 1. The reduction follows the 3% lowering of public-sector wages and most social welfare benefits last January, despite strong protests by the labor unions. The government intends to carry on with its spending cutbacks by further slashing public-sector pay next year and in 1986.

As of next month, unemployed workers will receive compensation amounting to 80% of their previous earnings, less 6% of the resulting amount. A similar formula will apply to those receiving disability benefits.

Switzerland: Leutwiler to Quit as Central Bank, BIS Head

One of the world's best-known bankers, Fritz Leutwiler, will resign his posts as governor of the Swiss central bank and president of the Bank for International Settlements (BIS) at the end of this year. Leutwiler, 59, took over as head of the Swiss National Bank in 1974 and assumed the leadership of the BIS in 1982. While at the BIS, "the central banks' bank," Leutwiler has helped to establish a bridging-loan policy that has been credited with averting the bankruptcy of some of the world's most heavily indebted countries.

Swiss reports said that the deputy governor of the Swiss National Bank, Pierre Languetin, will probably succeed Leutwiler in the top position. Sources at the BIS said that the presidency would probably be taken over by a Frenchman, which would mean the governor of the Banque de France, currently Renaud de la Genière.

EURO COMPANY SCENE

CPC Europe Ltd. (Corn Products Corp.) will build another wheat processing plant in Europe at Sas van Gent, Netherlands, for the manufacture of starch products for industry. The first wheat starch plant was built last year by CPC's Maizena subsidiary at Zülpich, Germany, with an investment of DM 60 million. CPC's concentration on wheat starch production is a direct result of the Common Market policy that favors EEC-produced surplus wheat over corn (maize), which is actually cheaper on the world markets. CPC reported consolidated earnings of about $4 billion in 1983, of which CPC International, Brussels, accounted for some $1.7 billion net.

France's Renault and the automotive unit of the United States' United Technologies Corp. have set up a joint venture to build a plant for the production of electrical connectors for cars. To be put up at Decazeville, southern France, the plant will require an investment equivalent to $7.2 million and will start production in the first half of 1985. UTC will have a stake of 51% in the venture, while Renault will have 49%.

Deutsche Texaco AG, Texaco's German subsidiary, has announced plans to modernize and expand its Grasbrook lubricants refinery in the Hamburg free port at a cost of more than DM 50 million. With a capacity of 410,000 tons per year, the refinery is one of the largest of its kind in Europe.

Common Market Reports
EUROMARKET NEWS

Issue No. 806 June 26, 1984

IN THIS ISSUE

Community: Trademark Limitation Case Before EC Court

An important competition case pending before the European Court of Justice has moved a step closer to adjudication with the recent hearing of oral arguments. BAT Cigaretten-Fabriken GmbH, Hamburg, a subsidiary of British-American Tobacco Co., the world's largest cigarette maker, is attacking a Commission decision fining it for violating EEC competition rules. Although the fine is only ECU 50,000, the issue is important because it involves an agreement to limit the use of a trademark. The German government is supporting the tobacco company as intervenor (Case No. 35/83).

In December 1982, the Commission acted against what it called a trademark limitation agreement imposing competition restrictions that were not justified by any real danger of confusion. The Commission imposed the fine with respect to a no-challenge clause, which was to apply even if the trademark was not used *(Common Market Reports, Par. 10,459)*. Trademark limitation agreements are common, and thus this case is considered a test for both the Commission and Common Market industry.

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A small Dutch firm processing and selling tobacco had its "Toltecs" name and trademark registered internationally. BAT opposed the registration of the Toltecs mark, claiming that it could be confused with its "Dorcet" brand. As consideration for BAT's withdrawal of the opposition, the Dutch firm (supporting the Commission in the case as intervenor) agreed to limit the use of its Toltecs mark to shag tobacco. The agreement ran for five years (the period of protection of the Dorcet mark under German law). When the Dutch firm tried to export its products, BAT agreed but attached conditions.

One of the conditions was that the Dutch firm refrain from marketing fine-cut tobacco under its "Toltecs Special" mark in Germany or market it only through an importer approved by BAT. This condition violated EEC competition rules, the Commission said, because it kept the Dutch firm's fine-cut tobacco out of the German market. However, two other facts were of more importance to the Commission: (1) as a result of a contract clause, the Dutch firm was prevented from asserting its rights against BAT arising out of the registration and use of its Toltecs mark, and (2) the Dutch firm could not avail itself of the priority its Toltecs mark had over the Dorcet mark if the latter were to be used or later re-registered. This no-challenge clause prompted the Commission to impose the fine.

Ambitious Program to Complete Internal Market

The European Commission has presented to the Council of Ministers an ambitious program for the next 18 months that would turn the Common Market into a genuine internal market. To accomplish this goal, however, some 150 directives and decisions would have to be adopted or taken by the end of 1985. Most of the measures contemplated in the program were proposed many years back, some even more than a decade ago, and were debated either in Council working groups or in the Council of Ministers itself but were never adopted.

Council attorneys are skeptical about the chance of adoption of even a small percentage of the 150 proposals. Adopting as many as possible by the end of 1985 is important because finding a consensus thereafter might be even more difficult if Spain and Portugal join the Community on Jan. 1, 1986, as planned.

A genuine internal market entails the free movement of persons, goods, and capital, an unrestricted right of establishment, and generally equal competitive conditions for businesses throughout the EEC. Although progress toward a genuine internal market has been made in the past, especially since the Copenhagen Summit of December 1982, a great deal still needs to be done. The Commission has urged the Council of Ministers to adopt the 14th value-added tax draft directive, which would transfer collection of VAT on products crossing State borders from the customs office at the border checkpoint to the inland tax office nearest the importer's domicile. Customs clearing would be eased considerably by the introduction of a single customs document in place of the over 70 different forms now used.

The Commission wants the Council to give priority to improving the legal environment for companies. A number of directives have been proposed for this purpose, including the draft directives on harmonization of corporate taxes and withholding taxes on dividends *(Common Market Reports, Par. 3218)*, on mergers and divestitures *(Par. 3214)*, and on the taxation of parent companies and subsidiaries *(Par. 3216)*.

The EC Executive also sees a need to abolish the remaining obstacles to intra-Community trade. Differing technical standards represent the most prominent hindrance to free trade. The Commission also wants the right of establishment already granted to doctors and lawyers to be extended to other members of the liberal professions. (A proposal that would grant architects the right of establishment has been before the Council since 1967.)

In Brief...

The Commission has sent complaints to all 15 West European polypropylene producers, alleging price fixing and market-sharing practices involving quotas. The manufacturers were given until June 25 to respond. The companies are based in the U.K., West Germany, France, the Netherlands, Italy, Norway, and Austria + + + The Commission and the Court of Auditors are engaged in a dispute over ways of financing the Community's 1984 budget deficit. Despite the Council's March 31 measures to control spending under the costly common agricultural policy, the Commission expects an ECU 2.3 billion deficit in the 1984 budget. Since the EEC is expected to run out of funds by October, the Commission has proposed to the Council of Ministers that the deficit be covered by borrowing from the Member States; the States would be paid interest on the loans. This plan, which the Council rebuffed, is also being attacked by the Court of Auditors, which alleges that the Commission did a poor job in preparing the 1984 draft budget. The Court of Auditors sees serious practical difficulties in the realization of the plan and, moreover, rules out the payment of interest

Germany: Metalworkers, Employers Agree to Mediation

The labor conflict in major regions of Germany's metalworking industry went into its fifth week on June 18. Hopes for a settlement rose briefly when both sides agreed to mediation. (Each side delegates three members to the mediation board plus two chairmen, on whom both parties must agree.) However, before employers and the union started selecting their members for the mediation board, the conflict escalated again: on June 18, employers in the northern region of Baden-Württemberg locked out some 35,000 employees in addition to the 65,000 already locked out in that area. Employers believe the additional lockouts will help end the conflict by putting pressure on the union leaders to retreat from their demand that the present 40-hour workweek be cut down to 35 hours with no loss in pay.

So far the conflict has caused considerable production losses, especially in the automobile sector. All six major German car makers have shut down assembly lines. While the government puts the loss caused by the dispute at DM 2.5-3 billion, the employers' association places the loss at DM 5 billion so far. In the government's opinion, a six-week shutdown of car producers and hundreds of suppliers would reduce the gross national product by some DM 6 billion (1%).

The strike is having an impact outside Germany as well. In Belgium, Ford Corp. has had to send 6,000 of its 11,000 workers home because its plants lack supplies, such as car engines made in Germany. Some 30 Austrian firms, mostly small businesses, have had to either lay off some of their workers or put them on short hours because German car makers are unable to make use of their products at this time.

Italy: Employers Agree to Resume Talks With Labor

A recent change in the top leadership of Confindustria, the Italian industrial federation, has also brought a decision by the employers to resume their dialogue with the country's labor organizations and not to insist on the termination of the national wage indexation agreement, as had been previously announced. The newly elected Confindustria chairman is Luigi Lugghini, who has taken over from Vittorio Merloni.

Despite its more conciliatory attitude, the industry federation says that it will continue to follow its established economic policy line and not negotiate any agreements with the government and the unions that would deviate from this course. Lugghini has made it clear to the Craxi administration that the government's new anti-inflation program, with its token reduction of wage adjustments, is completely insufficient to deal with the labor cost problems of Italian industry and needs to be followed up by more effective measures. Confindustria experts predict that, in the absence of any inhibiting factors, the 1985 inflation rate will be around 12% rather than the 7% targeted in the government's economic policy program.

According to the federation, the most recent recovery of the world economy has had only marginal effects on the Italian economy. The reasons for the slow response are essentially the same as in the past - high labor costs, the lack of labor mobility, the continued rise in unproductive public-sector spending, steep interest rates, the absence of a clearly defined industrial policy, and the political instability of the government itself.

Netherlands: Flexible Worktime Pact for Metalworkers

While several hundred thousand German metalworkers are on strike or locked out in connection with their union's demand for a 35-hour workweek, their Dutch colleagues have concluded a basic agreement with their employers for a flexible worktime arrangement coupled with annual worktime cuts. The agreement has been hailed in Holland and elsewhere as being a possible model for other industries and for maintaining labor peace at a time when worktime reduction has become an explosive political issue in western Europe.

The Dutch pact emphasizes the need to keep production schedules flexible. The workweek remains formally at 40 hours and, in fact, can even be lengthened if indicated by production requirements. However, annual worktime is shortened by 26.5 half days, which brings the workweek down to an average of about 38 hours. The half-day units are incorporated into work schedules and days off throughout the year, partly through consultations between the works councils and company management. The works councils also have to give their agreement to workdays that exceed 8.5 hours. Overtime is compensated by half days off, and overtime pay is granted only above a certain number of overtime hours in order to save costs for the employers.

The agreement affects 225,000 Dutch metalworkers and is based on the 1983-84 collective bargaining pact that specified a reduction in annual worktime to 1,744 hours. Observers say it is likely that the new metalworkers' agreement will serve as a model for the current talks at Philips, the electrical engineering group and, with 70,000 workers, Holland's No. 1 employer. In return for the worktime reductions, the workers had voluntarily forfeited part of the inflation adjustments of wages and salaries in 1983 and this year.

The annual worktime in the Dutch metalworking industry stands at 1,832 hours in 1984, which is 76 hours more than in Germany, not counting holidays and leave. Unemployment in the Netherlands, at 16-17%, has reached the highest level of any EEC country and is expected to exceed 850,000 this year. For this reason, the Dutch unions tend to be far more flexible on the issue of worktime cuts than their German counterparts.

France: Aid for Automakers Urged; Creusot-Loire

The French auto industry will need to receive state subsidies of FF 20 billion per year and lay off a possible 80,000 workers by 1988 in order to stabilize economically, according to a recent report by the state Economic and Social Council. Although the report does not specify the size of the recommended reduction in the number of auto workers, it cites a survey by the state statistics institute, INSEE, suggesting the layoff of 20% of the industry's employees.

Annual sales of French cars in Europe have dropped by 500,000 since 1979, and the state-owned Renault and private Peugeot companies lost a total of FF 4 billion in 1983. The report places part of the blame on the lack of advancement in production technology. This situation has been aggravated by the high taxation of the auto industry, such as the 33% value-added tax on car sales.

In other news, the French government and Creusot-Loire are still trying to work out a rescue plan for the failing heavy-engineering company, even though Creusot recently asked a commercial court to appoint receivers to administer the company. Industry Minister Laurent Fabius has said that the government's latest offer "remains valid." This plan would have Schneider SA, Creusot's main shareholder, demonstrate its faith in the company by injecting FF 800 million into it in return for state aid of FF 3-4 billion for Creusot and loans of FF 500 million to Schneider. Partially because the plan would also give the nationalized banks a share in Schneider, that group has denounced the plan, saying it doesn't have the money and accusing the state of trying indirectly to nationalize the company.

Greece: Fixed Price Margins for Auto Parts; Catalogs

The intervention of the Socialist government in Greece's established trade patterns continued this month with the imposition of retail price margins for imported automobile parts. The new regulation took effect on June 7 and will tentatively apply until Oct. 15. It invalidates previously approved price calculation systems and establishes two categories of spare parts - long-lived and short-lived. For short-lived parts (for instance, spark plugs and transmission belts), the retail price margin has been set at 60% over the importer's inventory price; for long-lived parts (for instance, generators and transmissions), it has been set at 85%. Also, rebates granted by importers have to be invoiced for each individual part and not for the total of all parts listed on an invoice.

Many importers who maintain customer service points in Greece are protesting the new price regulation as a threat to their livelihoods. The restrictive trade margin, they also say, is being further reduced by the devaluation of the floating drachma against the hard currencies. Generally, auto parts are purchased on a hard-currency basis abroad and resold on a drachma basis in Greece. Last year the drachma lost 24.1% of its value against the U.S. dollar and 20.5% against the German mark.

In related news, the Trade Ministry has issued a new regulation concerning price catalogs, to take effect upon publication in the official gazette. Such catalogs must be submitted to the Ministry for approval, and it has now been specified that a minimum of four months must elapse before applicants may submit the next price calculations.

Britain: Business Bodies Again Attack Tax Haven Rules

There has been further massive opposition to the U.K. government's proposals in this year's Finance Bill regarding subsidiaries of British companies operating overseas. Although the new legislation is intended to clamp down on subsidiaries in overseas tax havens, four major business organizations have stressed that the new rules are so broadly drawn that they negatively affect U.K.-owned companies trading legitimately in world markets. The Confederation of British Industry and the Institute of Directors have joined the British Bankers' Association and the British Chambers of Commerce in claiming that "the only beneficiaries of the legislation will be our overseas competitors, accountants, and tax lawyers."

The organizations stress that some of the proposed clauses are so technical that many companies have no clear idea of how they would be affected, if at all. They object strongly to what they see as "the effective extension of the territorial scope of U.K. corporate taxation throughout the world," and they regard the proposals as similar to the approach of certain U.S. states in taxing companies on their worldwide earnings. The result, they say, would be that the profits of all U.K.-controlled overseas companies would be subject to U.K. corporate taxation. The organizations doubt whether the revenue raised would justify the cost of collection. They would like to see a set of proposals formulated that would focus only on tax haven abuses.

In the meantime, the government has announced an important concession. Ian Stewart, a junior Treasury minister, said that the proposal of a caveat, applying to a list of approved territories deemed not to be tax havens, is to be dropped. This caveat had given the Inland Revenue discretion to tax corporations if it appeared that "a deliberate attempt" had been made to rely on this list to protect arrangements "designed to achieve a reduction in U.K. tax or a diversion of profits from the U.K." Stewart said the caveat was not intended to prejudice genuine businesses, but it did introduce an element of uncertainty.

It appears that only about 10% of foreign subsidiaries of U.K. companies are incorporated in countries that are not on the list of approved territories, although Stewart said that the removal of the caveat would lead to a "slight reduction" in the 90 territories on the draft list. This means that some 90% of the subsidiaries will automatically be excluded from the new measures.

Spain: Optimistic OECD Report; Civil Servants' Strike

Although the most difficult work still lies ahead for the government in its fight for economic progress, Spain's economy will probably show further improvement in 1985, according to the latest report of the Organization for Economic Cooperation and Development. That progress, however, depends on the continued recovery worldwide and strict adherence to Madrid's current tight economic policies, the report says.

Since the Socialist government came to power in 1982, the levels of inflation and foreign debt in Spain have been reduced considerably, the OECD says. Inflation dropped from 14.4% in 1982 to 12.2% last year. The OECD says that wages must be held down to spur further decreases in price expansion. The report also predicts a $2 billion drop in the current-account deficit this year, to $500 million, and possible elimination of the deficit by the end of 1985.

According to the OECD, unemployment will remain Spain's "most serious social and economic problem," having risen to 19% and showing no signs of stabilizing before it hits 20%. However, the report concludes that "there is no viable alternative to the strategy currently pursued by the authorities" for sustained medium-term recovery.

In other news, Spanish civil servants are gaining momentum in their strike against a government reform bill despite misunderstandings over the complex meaning of the proposed legislation. The proposal is designed to simplify the complicated civil service system, partially through standardization of wage scales. The independent unions oppose the proposed elimination of special privileges for certain groups, while the Socialist-leaning UGT union is joining the fight mainly to prevent the Communist CCOO union from gaining control of the issue. The campaign against the bill received a boost recently when university professors and many high school teachers went on strike.

EURO COMPANY SCENE

ITT Corp. plans to invest 49 billion pesetas ($320 million) in Spain over the next five years. Of that amount, 34 billion pesetas will go toward research, development, and engineering and the rest toward plant modernizations.

RCA Corp. and Bertelsmann AG of West Germany have signed a preliminary agreement for a worldwide joint venture between RCA Records and Ariola, the music subsidiary of Bertelsmann.

Viatech, Inc., of Syosset, N.Y., an engineering and consulting company, has agreed in principle to buy Dixie Union Verpackungen GmbH, a West German packaging subsidiary of American Can Co.

Common Market Reports

EUROMARKET NEWS

Issue No. 807 *Report No. 504, July 3, 1984*

IN THIS ISSUE

Community: Conservatives' Majority Dwindles in New EP

The Christian Democrats, Conservatives, and Liberals, who used to share a comfortable majority in the European Parliament, now have only a narrow edge in the new assembly. Their 218 to 172 majority in the first directly elected Parliament dwindled to 190 to 183 in the June 14-17 election. This reduced margin could make it even more difficult to find a consensus among the three factions in the center-right political spectrum of the EP. Areas that could present problems include opinions on European Commission proposals, initiatives on giving impetus to new policies, and matters entirely out of the range of the Rome Treaty, such as defense or political cooperation.

Although the European Parliament has no legislative powers to speak of, it has an important advisory role in the lawmaking process *(Common Market Reports, Pars. 3301, 4302)*. The Commission and the Council are not bound by amendments suggested by the assembly; however, the Commission has increasingly taken note of Parliament's views. Without the EP's pressure to make changes in draft legislation important to companies, such as the

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fifth draft directive on the structure of stock corporations *(Common Market Reports, Par. 10,516)* and the Vredeling draft directive on workers' information and consultation rights *(Pars. 10,421, 10,495)*, a number of measures would have entered the Council's legislative machinery with perhaps only minor alterations.

Officers of UNICE, the Brussels-based European umbrella organization of the national employer associations, regret the setback suffered by the Christian Democratic, Conservative, and Liberal parties in the election. They are especially unhappy over the fact that Britain's Conservatives lost 14 seats and that Germany's Free Democrats failed to gain representation at all. (Their national vote fell short of the 5% needed for representation.) The German Free Democrats had four seats in the first directly elected EP, including one held by Martin Bangemann, who engineered several amendments to the Commission's proposals in the company and labor law fields.

Approval for Two Resolutions to Combat Unemployment

Two nonbinding resolutions recently adopted by the Council of Ministers contain guidelines for action by Member States and the Community to combat unemployment in general and women's unemployment in particular (Official Journal No. C 161, June 21, 1984, pages 1 and 4).

In the first resolution, the Council says the development of local employment initiatives should be supported and stimulated by Member States' policies and accompanied by specific measures at the Community level. Local employment initiatives (LEIs) may take on various forms and are usually started by individuals or groups of individuals who are either unemployed or threatened by unemployment.

The most prominent form of LEIs has been worker cooperatives, which have provided almost 250,000 new jobs over the last five years, an increase from 300,000 in 1979 to 550,000 in early 1984. In addition, some unemployed persons have started small businesses of their own. Since persons running these worker cooperatives or small businesses often lack management knowledge and capital, the resolution invites the Member States to offer assistance, for example by making available information and guidance on the existing potential for aid. The States are also asked to encourage the development of LEIs by offering suitable premises for small businesses and workshops. All forms of LEIs should benefit from the eased conditions for obtaining government financial help that is offered to small and medium-sized businesses. The Community could help LEIs by offering assistance via the European Social Fund.

The Council's second resolution, on combating unemployment among women, also contains guidelines for the Member States and the Community. The Council wants the States to ensure that their measures aimed at encouraging recruitment, especially of young people, allow for a more balanced representation of men and women. The States should promote increased representation of women in growth industries, especially in the high-technology fields. Moreover, the States are asked to expand their educational and vocational training programs to give women a wider choice of jobs and raise their qualifications. The Community would help financially in the implementation of these action guidelines. The States are asked to develop, with the Commission's help, information campaigns aimed at encouraging a change in attitudes to advance the principle of equal opportunity in employment.

In Brief...

The Council of Ministers voted 9 to 1 on June 19 to expand and extend EEC rules in the agricultural sector until the end of 1989. The U.K. voted against the measure. Under the amendments, the Community will offer increased grants to help pay for investment projects in the Member States such as slaughterhouses, dairies, and wineries. These grants could reach a maximum 60% of investment costs and thus would be higher than those permissible under the current regulation, which expires at the end of the year + + + Subject to confirmation by Italy, the Council has agreed in principle to special measures to make the olive oil marketing arrangement more efficient and fraud more difficult. Large-scale fraud by Italian olive oil producers, e.g., falsification of figures on acreage, prompted the Commission to propose a tightening of enforcement. Commission officials will not only assist the national authorities but will also investigate fraud on their own.

Germany: Major Tax Cuts Planned in 1986, 1988

The German government coalition parties have agreed on a bill providing for major income tax reductions in 1986 and 1988. Some details were to be filled in by the cabinet at its July 3-4 meeting. Under the bill, the country's 25 million individual taxpayers would be paying DM 20.2 billion less in income tax annually, slightly less than the tax cut of DM 20.6 billion foreseen under an earlier plan. There would be no increase in other taxes, a fact that makes the draft law the biggest tax relief measure in German postwar history. Borrowing and higher revenue generated by an improving economy are supposed to eventually make up for the loss in revenue. All other income tax cut bills in the past provided for increases in other taxes to plug the revenue gap.

Under the bill, taxpayers with families could, as of 1986, take much higher exemptions for each child - DM 2,400 instead of the DM 432 provided in current law. This would result in an estimated DM 5.2 billion loss to the treasury. Providers in the lower income tax brackets would be entitled to increased children's allowances - DM 44 more per month than the current DM 50 for the first child, DM 70 for the second, and DM 140 for each additional child *(Doing Business in Europe, Par. 23,457)*. All individual taxpayers would be entitled to an unprecedented rise in their basic exemption - single taxpayers from DM 324 to DM 4,500 and married taxpayers from DM 648 to DM 9,000. It has yet to be settled whether this plan should take effect in 1986 or 1988; in any case, the change would cost the treasury DM 5.8 billion.

Starting in 1988, a change in the tax rate structure as it is applied to rising income would have individual taxpayers paying about DM 9.2 billion less in income tax. This would mean about DM 50 less per taxpayer per month.

The earlier tax cut plan conceived in May would have effected the reductions in one step. However, Finance Minister Gerhard Stoltenberg was able to put across his idea that the cuts should be made in two steps to cushion the impact on the federal and state treasuries.

France: No Domestic Profits for Nationalized Banks

The 36 private commercial banks that were nationalized by the Socialist government in 1982 reported hardly any earnings from domestic operations in the past two years, according to a report by the finance committee of the opposition-controlled Senate. The contribution of foreign business activities to consolidated net earnings rose from 29% in 1980 to over 50% in 1981 and to 95% in 1982. The total net earnings of the 36 banks amounted to FF 645 million in 1983, which was about half of the FF 1.258 billion reported for 1981, says the report, which was drafted under the chairmanship of Senator Maurice Blin.

Blin estimates the capital needs of the 36 banks at FF 8 billion through 1985. Whatever the state can contribute, however, will be needed to cover losses, leaving nothing to finance any business expansion, he says. In indirect terms, the Blin report describes the 1982 expropriations as a mistake that places an undue burden on the taxpayers and reinforces the rigidity of the French banking system. It also criticizes the "overvaluation" of certain banks at the time of the nationalizations, which contrasts with the claims of former private shareholders who complained about insufficient compensation.

The Senate finance committee expresses fears that the French banks will become less competitive internationally because of their personnel surplus, high administrative costs, and lack of funds for the necessary technological restructuring process. The state will have to inject capital reserves into those banks with financial problems, the report says, forcing the profitable banks to divert a substantial portion of their earnings for rescue operations.

Denmark: Industrial Policy Shift to High Technologies

Denmark's Conservative-led minority government plans to shift its industrial development policy to concentrate on the introduction of advanced information and production technologies. Industry Minister Ib Stetter described the program as "a national task" designed to protect small and medium-sized businesses, which make up the bulk of the country's commercial and industrial base.

In the past, Copenhagen has disbursed its modest amounts of state aid in the form of interest subsidies, backed up with some funds for technological development and export promotion. In the future, Stetter wants to cut back on the interest subsidies (interest rates have been going down in the past one and a half years anyway) and concentrate on technological development. Initially, the new program projects DKr 1.5 billion in state funds over the next four years. On this basis, the state's participation in "future investments" would be about 20%. The rapid introduction of modern technologies should result in a clear improvement in the competitiveness of the consumer goods sectors (mainly foodstuffs, furniture, and apparel) as well as in the capital goods industry (farm machinery, ships, hospital supplies, and telecommunications), according to Stetter.

Danish industry federation spokesmen have reacted positively to the government's announcement. However, they say that in order to make the program successful Copenhagen must continue its anti-inflation policies and the gradual reduction of the budget deficit. In this way, they say, competitive improvements would be made on the cost side as well, and interest rate levels would decline further. The federation is also appealing to the government to support research and development in key industrial sectors and to help raise the student capacity of the universities in the high-technology fields.

Britain: Trading Starts in U.S. Treasury Bond Futures

Trading in the U.S. Treasury bond futures contract started on the London International Financial Futures Exchange on June 21. The London contract is closely based on the Chicago contract, and it is anticipated that arbitragists will deal between these respective markets, which overlap by just one hour each day. The first day's trading was brisk, and by the close of business 1,901 contracts had been effected, each worth a nominal $100,000.

There has been an expanding market in Europe for U.S. Treasury securities. Two-thirds of the U.S. primary dealers, approved by the Federal Reserve Board to deal directly with the U.S. Treasury, now trade in London. Observers believe that elimination of the 30% withholding tax on overseas holders of U.S. securities would give a considerable boost to trading.

U.K. Film Makers Granted Some Tax Concessions

The U.K. Treasury minister with responsibility for the Inland Revenue, John Moore, has announced various tax concessions for the motion picture industry in Britain. Film makers have been lobbying strongly against the proposed phase-out of capital allowances in this year's Budget, emphasizing that the 100% first-year capital allowance has contributed considerably to the industry's success in the past few years. However, Moore says, it would be wrong to give the film industry preferential treatment over other sectors on this issue. Nevertheless, the government is considering extending the current business expansion program to include film makers, which would give outside investors favorable tax treatment on investments of up to £40,000.

Another significant move would be an amendment of this year's Finance Act, which implements the Budget proposals, so that film makers would have the option of writing off costs over the income-producing life of a film or claiming the same reduced write-down allowances on depreciation that will be available to other industries.

Moore says that there has been "a good deal of tax avoidance" by film makers in the past, involving artificial fiscal arrangements for motion picture production. The Inland Revenue is now "actively challenging" a number of these arrangements, he says.

Italy: OECD Calls Economic Outlook Unsatisfactory

Weak activity and large-scale unemployment in Italy have led the Organization for Economic Cooperation and Development to conclude in its latest report that the country's economic outlook is "not very satisfactory." According to the report, the industrial restructuring process is partly to blame for the rise in unemployment from 7.7% in 1979 to 10% in 1983. The organization expects the jobless rate to increase to 10.5% by 1985.

Inflation is still the government's main concern, remaining well above rates in other OECD countries despite its slowdown. Consumer prices rose 16.7% in 1982 and 15% in 1983. Due to the recent ceiling on index-linked wage increases, the OECD predicts, the inflation rate should drop to 10.5% this year.

Italy's public sector deficit continues to place a heavy constraint on economic policy, the report says. The deficit has been climbing steadily since the early 1960s and currently stands at 81% of the GDP, compared with the 51% average in the major OECD states. The report urges the rapid adoption of the pension reform plan now under discussion in order to make some headway in reducing the deficit.

The OECD does foresee some improvements this year for Italy, e.g., increases of 1.5% in private consumption, 0.5% in investment, and 3.75% in industrial production.

Luxembourg: Social Democrats Score Biggest Election Gains

The opposition Social Democrats (LSAP) have emerged as the big winners in the parliamentary elections in Luxembourg on June 17, which were held on the same day as the European Parliament elections. The LSAP improved its 1979 results by nine percentage points and won seven additional seats, making it the country's second-largest party. The governing Christian Socialists held their position at 36.6% and gained one seat because the number of mandates has been raised from 59 to 64. Their coalition partner in the government, the Liberals (DP), fell back by 1.5 points, to 20.4%, and lost one seat.

Strengthened by the election results, the Social Democrats are now pushing strongly for their reentry into the government coalition, which they were forced to leave five years ago. The main political issue in Luxembourg, however, is the question of who will succeed Prime Minister Pierre Werner, who has headed the government almost continuously since 1958 and wants to withdraw from active politics. The two leading candidates for the job are Finance Minister Jacques Santer, also a Christian Democrat, and Foreign Minister Colette Flesch of the Liberals.

Portugal: IMF Exacts Pledge of Continued Austerity

Following several months of negotiations, the Portuguese government and the International Monetary Fund have initialed a standby loan agreement as part of which Lisbon pledges to continue its economic and financial austerity course in return for further IMF assistance. Specifically, the agreement provides for a sliding devaluation of the escudo by 1% per month as well as a reduction of the payments balance deficit from $1.6 billion to $1.25 billion this year. Moreover, the central bank will lower its discount rate by 1%. The Finance Ministry said that the IMF made one concession in allowing the government a 1984 budget deficit of 8.5% of GNP rather than 7%, as previously demanded. The new pact amends Lisbon's letter of intent to the IMF of October 1983.

The agreement was a precondition for the allocation of the second installment of a total loan of $480 million that had been granted by the IMF in the summer of 1983. A first portion of $80 million had been released at the end of the year; the remaining $400 million will be transferred in three equal shares this month, in September, and in December. The funds are to help Portugal to reduce its debts of more than $13 billion.

Following the initialing of the revised agreement, the country's monetary authorities lowered commercial interest rates for short-term loans by one point, to 28.5-29.5%. Six-month deposits will continue to earn interest at 28%, but the commercial banks are now allowed to set their own rates for deposits of less than six months or more than one year. The agreement with the IMF also enabled the Finance Ministry to release 5 billion escudos for public-sector investments and allocate 23.5 billion escudos for the improvement of the financial status of debt-ridden public-sector enterprises.

EURO COMPANY SCENE

Continental Illinois National Bank of Chicago is looking for a buyer for its London branch, according to banking sources there. The bank's London operation reported a balance sheet total of about £240 million last year.

Citicorp of New York has acquired a 100% stake in Grindlay Brandts Insurance Brokers Ltd., a Lloyds of London broker specializing in the shipping, aviation, and construction fields. Previously, Citicorp had held an indirect interest in Grindlay Brandts by way of its 48.6% holding in Grindlays Holdings PLC, which in turn controls Grindlays Bank PLC, London. The American bank said it did not need Federal Reserve Board approval for the latest transaction because the purchase did not exceed $2 million. The actual terms were not disclosed.

Chase Manhattan is opening a branch office with full banking services in Istanbul. This makes Chase the eighth international bank to open a branch in Turkey since the government lifted restrictions on foreign bank operations in 1980.

Merrill Lynch and Co. has announced plans to take over American Fletcher Bank (Suisse) SA of Geneva for an undisclosed price. American Fletcher Bank and Trust Co. of Indianapolis, majority stockholder in the Swiss bank, has agreed in principle to the deal. The Geneva bank reported a balance sheet total of SF 130 million at the end of 1983.

Continental Group, Inc., a packaging, forest products, insurance, and energy concern, has agreed in principle to acquire NV Cobelplast SA of Belgium and Cobelplast's 57% interest in Altradec AG of Switzerland. Cobelplast makes plastics for packages that keep food from spoiling over extended periods, and Altradec handles plastics research and technology.

Bausch & Lomb, Inc., has agreed to take over a group of Italian companies that make sterile contact lens solutions. The products, marketed under the Iom name, are sold mainly in Italy, with limited export to other European countries. Bausch & Lomb says the acquisition will provide the company with a low-cost overseas manufacturing base and will assist the company's distribution in EC countries.

Common Market Reports

EUROMARKET NEWS

Issue No. 808 *July 10, 1984*

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Community: Fontainebleau Summit Clears Several Hurdles

The European Council at its Fontainebleau meeting on June 25-26 overcame several hurdles to lead the Community out of its current stagnation. After four years of dispute, the ten leaders agreed on a system to reduce Britain's EC budget contribution for the next three years. From 1985 until the end of 1988, Britain will receive an annual refund equal to two-thirds of its net contribution. Germany, so far the biggest net contributor, won concessions limiting its share of the refunds to Britain. Chancellor Helmut Kohl also obtained authorization for his government's special aid to farmers to offset income losses caused by the March 30 farm policy reform measures.

The budget accord has cleared the way for the Community to expand its resources for budget financing and thus pay for improving existing policy programs and developing new ones. The national governments can now present to their legislatures the proposal that would raise the ceiling on Member States' contributions from 1% to 1.4% of value-added tax receipts. All ten States must ratify this proposal, in effect an amendment to a

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1970 Council decision on EC financing *(Common Market Reports, Pars. 5012.11, 5012.13)*. The higher ceiling on contributions, which will add an extra ECU 6 billion a year to the EC's financial resources, is to take effect on Jan. 1, 1986.

The European Council also confirmed its determination to wind up accession talks with Spain and Portugal by the end of September. According to the Fontainebleau communiqué, the problems still to be settled with Spain alone include conservation of fish stocks and access of Spanish fishermen to Community fishing grounds. The problems surrounding the conditions of joining the common wine market organization have yet to be settled with Spain and Portugal. (The Council of Ministers has not yet completed the reform of this organization.) The budget agreement on the Community's increased financial resources may help finance the cost of Spain's and Portugal's accessions in the initial years, but the money could run out soon after that. This is why the Commission has proposed raising the contribution ceiling to 1.6% of VAT receipts. The European Council has committed itself to seeing that this higher ceiling takes effect on Jan. 1, 1988.

What the European Council did not resolve is how to close the deficit in the 1984 Community budget. An ECU 2.3 billion shortfall in revenue is expected for later this year. Most States gave a cool reception to the European Commission's idea of borrowing from the Member States' central banks and paying interest at market rates. The Council will tackle the budget problem at its July 18 meeting in Brussels.

Consensus on Waste Transport Measure Reached

The Council of Ministers has reached a consensus on the second draft directive concerning the surveillance and controls over intra-Community transports of dangerous waste. The purpose of the first directive (Official Journal No. L230, 1982, page 1) was to reduce the risk of Seveso-type disasters by establishing broad reporting requirements for manufacturers engaged in certain hazardous industrial activities *(Common Market Reports, Par. 3450.43)*. (Following the 1976 dioxin disaster at the Hoffmann-La Roche plant in Seveso, Italy, 41 barrels of toxic waste were "lost" but were eventually found in France.) The latest measure, referred to as "Seveso II," would introduce a control system to enable the national authorities to keep track of inter-State movements of waste.

Under the second draft directive, a trucking firm wanting to transport dangerous waste from State A through State B to a disposal facility in State C would have to notify the authorities in advance. Importation or transit would be permitted if the authorities confirmed receipt of notification within one month and raised no objections. Import or transit could be denied to protect the environment, security, public order or health, or to conform to EEC legislation or international accords. Inter-State transport would be accompanied by special control documents.

Germany wanted a licensing system but failed to get support from any of the other States and the Commission. This system would have required a business wanting to transport dangerous wastes from State to State to obtain a license from the authorities of the involved States in each instance. Germany wants to protect the businesses that have invested in modern facilities for the disposal of dangerous and poisonous wastes. However, at the same time, Bonn does not want Germany to become a major importing country for dangerous wastes just because other States have failed to establish the costly disposal facilities. The other States and the Commission see in the German plan an unnecessary hindrance.

Formal adoption of the proposal is expected in late fall, and the measure is slated to take effect on Oct. 1, 1985. The proposal would also contain a commitment by the Council of Ministers to adopt within three years a measure that would lay down the conditions for civil liability of producers of dangerous waste in the event of transport accidents.

In Brief...

The new European Parliament will be discussing Community finances when it meets for the first time on July 24 in Strasbourg. In the Commission's preliminary EC draft budget for 1985, the amount to be spent is more than the Community has the power to raise from its own resources + + + The Council reached a preliminary agreement on June 28 on the Commission's recent proposals on unleaded gasoline and automotive exhausts. This agreement came as somewhat of a surprise, since the measure had not yet been debated by the European Parliament or the Economic and Social Committee before being taken up by the Council working group. According to the preliminary agreement, all Member States would be required to make unleaded gasoline available as of 1989. Beginning in 1991, all new cars would have to run on lead-free gasoline only. The Commission's proposals, which for Germany, Holland, and Denmark are not progressive enough, represent the lowest common denominator on which all ten States can agree. The proposals will not prevent the States from introducing an earlier requirement to offer unleaded gasoline.

Germany: Compromise Ends Costliest Labor Conflict

One of the longest labor disputes in Germany's postwar period, and certainly the costliest, came to an end early this month when IG Metall, the metalworkers' union, and management representatives of northern Baden-Württemberg's and Hesse's steel, engineering, and automotive industries accepted the chief mediator's compromise. In both regions, the proposals still had to be ratified by the rank and file and members of the employers' associations. The main issue in the conflict was the union's demand for a 35-hour workweek with no loss in pay.

The main elements of the compromise, prepared by former defense minister Georg Leber after seven strike weeks, are: (a) a 38.5-hour workweek starting next April 1 without any cut in pay and a 2% wage increase as of that date for the next 12-month period as a compensation for inflation, (b) flexibility for management and the works council to negotiate workweeks of as few as 37 and as many as 40 hours, (c) a 3.3% wage increase for the July 1984-March 1985 period, and (d) a one-time DM 250 payment for each worker for the period since Jan. 31, 1984, when the previous contract expired.

Neither side could call itself victorious. The union failed to win the five-hour reduction in the workweek at full pay, which it claimed would lower unemployment. Management had adamantly opposed the 35-hour workweek because of the cost. On the other hand, IG Metall can claim that a start toward the 35-hour workweek has been made with the 1.5-hour cut (at an estimated 3.9% in additional costs for employers). The employers can be satisfied with the contract clause that allows management and the works councils to agree on longer or even shorter workweeks than the 38.5-hour standard week whenever appropriate. This clause was especially welcomed by small and medium-sized businesses because qualified employees can work longer hours if substitutes cannot be found.

The labor dispute, which started on May 14 and at its peak affected some 450,000 workers idled by strikes, lockouts, layoffs, and forced vacations, cost some DM 9 million in production losses, industry says. Bundesbank president Otto Pöhl says that this figure may be somewhat high but that, because of the strike, the second-quarter GNP fell 1% short of the first quarter's.

Bonn Plans Tax Exemption for Low-Pollution Cars

After mid-1985, residents in Germany who buy new cars running on unleaded gasoline probably can count on considerable savings. Under proposed legislation, such cars would not be subject to the annual vehicle registration tax for five to seven years, depending on their size. Moreover, the excise tax on lead-free fuel would be reduced by DM 0.01 to 0.50 per liter and that on leaded gasoline would be raised by DM 0.02 to 0.53 per liter. By this plan, which will be cast into a bill after the summer recess, the Kohl administration wants to set an example on the national level for lower automotive exhausts. (Its initiative on the Community level has failed.) The government also wants to help offset the costs buyers will incur when purchasing new models equipped with catalytic converters; these cars are expected to cost DM 2,000-2,500 more.

Anyone buying a new low-pollution car between July 1, 1985, and Dec. 31, 1989, would be exempt from vehicle registration tax as follows: for seven years, starting with the year of purchase, if engine displacement is below 1,500 cubic centimeters; for six years for models with 1,500-2,500 ccm engines; and for five years for models with engines larger than 2,500 ccm. Since the tax amounts to DM 14.40 for each 100 ccm, the buyer of a car with a 1,500 ccm engine would save a total of DM 1,512 over seven years, and the buyer of a car with a three-liter engine would save DM 2,160 in vehicle registration tax over a five-year period.

France: OECD Foresees Balanced Trade, Lower Inflation

Although the inflation rate is expected to drop and the trade deficit should end in the next 18 months, France's economic growth will still be less than that of most other members of the Organization for Economic Cooperation and Development, according to the latest OECD report. The French economic outlook depends on the results of the government's austerity program, the report says. Restraint in wage increases, along with the favorable development of import prices, could lead to a rise in company profits and a lower inflation rate, the OECD says. The French inflation rate, at 9.6% in 1983, could be pushed down to the OECD average of 5% by the end of 1985.

France's 1983 trade deficit of FF 43.5 billion was less than half that of 1982, and the OECD expects a balanced trade margin by the end of 1985. In the overall economic picture, however, the increased foreign demand for French goods and services will be partially offset by lagging domestic demand, the report says.

The OECD's prediction of slow economic growth in France is also based on the high unemployment rate, which was expected to reach 9.25% in the first half of 1984 and 11% by 1986. Although this figure is slightly under the 11.5% average jobless rate in the European OECD countries, it is well above the 8.5% average for all OECD members.

Court Places Creusot-Loire in Receivership

Creusot-Loire, France's largest private engineering group, was placed into receivership on June 28, continued operations being authorized for at least three months. The decision of the Paris Commercial Court had been delayed three times since Creusot asked it on June 13 to appoint receivers, as the company and the government alternately suggested and turned down rescue plans. Since the decision, Industry Minister Laurent Fabius has said that the cabinet is still trying to avoid Creusot's liquidation. He also announced that social measures would be taken to offset any job losses, and financial help would be given to regions hurt by Creusot's demise.

The company, formed through a 1970 merger and controlled by the Schneider SA holding group, has posted losses almost every year. Last November, Creusot signed a FF 6 billion rescue package involving state aid. Four months later, the ailing company was again knocking on the government's door, asking for an additional FF 3 billion. Trying to avoid subsidizing private industry, Paris refused, and Creusot filed for bankruptcy.

Creusot, which employs about 30,000 people, has maintained that the government owes it some help because Paris has been subsidizing competing steel operations - now nationalized - while generally turning down Creusot's requests. The ailing company has called the recent government rescue offers an attempt to nationalize Creusot indirectly. These plans involved participations by nationalized banks and holding companies in the engineering group.

Britain: Details on Proposed Offshore Funds Legislation

The British government has released details of the legislation proposed in September 1983 that would consider as investment income all profits from offshore funds. The existing fiscal loophole has been costing the tax authorities revenue of some £60 million a year. The details are being incorporated in this year's Finance Bill, which will become law later this summer, but remittances from offshore funds made after Jan. 1, 1984, will be affected.

John Moore, financial secretary to the Treasury, says that the government intends to separate such offshore funds into two categories - those believed to be genuinely for investment, where investors pay tax on interest remitted to the U.K., and those designed for tax avoidance. The latter operate by adding interest payments to capital and remitting both to the U.K. as capital when the investor withdraws his funds. This serves to reduce the investor's tax liability, since he is taxed at the lower capital gains rate on what is, in effect, investment income.

Moore emphasizes that the government intends to continue to allow individuals and companies to make genuine offshore investments and that the new measures are aimed solely at tax avoiders. There are currently more than 500 offshore investment funds operating in a wide variety of countries, some of which are tax havens, while others have tax systems similar to the U.K.'s. Legislation has to be aimed at the actual investors rather than at the funds themselves, which are all outside British jurisdiction.

A Labour Party spokesman has welcomed the changes but doubts whether they will be effective. However, the Treasury takes the view that the government's announcement last September of the proposed changes has reduced the amount of money invested in offshore funds by more than £1 billion, from around £1.5 billion in August 1983 to considerably less than £500 million at the present time.

Replacement for U.K.'s Inflation Accounting Standard

The Accounting Standards Committee, the regulating authority for U.K. accountancy bodies, has published an important exposure draft, ED 35, for a new current-cost accounting standard to replace the controversial SSAP 16 on inflation accounting. The new standard is intended to apply to accounting periods beginning on Jan. 1, 1985, although the actual text will not be available until the second quarter of next year. Under the new standard, companies would be required to adjust their accounts with regard to price changes that are specific to their particular business, rather than to the general level of inflation and lower purchasing power.

ED 35, titled "Accounting for the Effects of Changing Prices," has marked similarities to the existing standard. Four principal adjustments to ordinary historical-cost profit accounting would be needed. These include (1) a depreciation adjustment to reflect the current cost of consuming fixed assets and (2) a cost-of-sales adjustment to reflect the current cost of replacing inventories. Further requirements are (3) an adjustment to reflect the increased monetary working capital required when a company's input prices are rising and (4) a gearing adjustment to recognize the effect of debt capital. However, ED 35 provides more latitude in gearing calculations than SSAP 16. (Gearing represents the ratio of borrowed capital to share capital.) Another possible adjustment would simply reflect the effects of general inflation on net monetary assets.

The presentation of accounts would differ considerably under ED 35, and two separate sets of accounts would no longer be required. The current-cost accounting information would be generally incorporated in notes to the principal historical-cost accounts, but it would still be possible to present the current-cost accounts as the main set of accounts. Companies would not be required to state their actual profit as assessed on the current-cost basis.

The new standard would apply only to public companies, with the exception of "value-based" companies and wholly owned subsidiaries. Examples of such value-based companies are authorized insurance companies, investment and unit trusts, and companies concerned with property investments and transfers. Corporations with subsidiaries would have to provide current-cost accounting information only in the group's consolidated accounts. Private companies would be excluded from compliance with the new standard because their accounts are scrutinized less often, and the Accounting Standards Committee takes the view that the benefits of the additional information would be less than the costs involved in producing it.

At present, only about 50% of quoted companies are actually complying with SSAP 16. The Committee intends to enforce the new standard much more stringently. It is emphasized that compliance will be "essential to give a true and fair view" and that auditors should qualify the accounts of any public company that fails to provide such information. Observers believe that this move will meet with considerable opposition, but the Committee requires "universal support" from quoted companies.

Sweden: Price Freeze Ends With Pay Settlement

The Swedish government on July 1 ended an official price freeze after ten weeks, six months ahead of schedule, saying that it had accomplished its purpose as a "signal" to the nation. Finance Minister Kjell-Olof Feldt also said that last month's agreement by the employers and labor unions to accept the government's 1985 pay raise guidelines has removed the necessity for the freeze. At the same time, Stockholm abandoned its official 4% inflation target for this year after it became clear that the cost of living will probably go up by 6% in 1984 (following 9% in 1983). Nevertheless, the government is still clinging to its 3% inflation forecast for next year.

The price freeze had been imposed in the spring, along with other economic austerity measures, when it appeared that the employers and unions were willing to settle on pay increases of 8-9%. Since then, however, the unions have agreed in principle to accept increases of only 5%, which comes close to the government's original target.

EURO COMPANY SCENE

ITT Corp. will invest Ŀ196 million ($294 million) in the U.K. over the next five years, a 70% increase over its investment in the last five-year period. The figure includes Ŀ145 million for the development of telecommunications products, the rest going for industrial technology and diversified services operations.

Western Union Telegraph Co. and Cable & Wireless PLC of Britain will invest Ŀ5 million over the next three years to develop a British joint venture to provide electronic communications for small businesses. The new company, Cable & Wireless Easylink Ltd., will allow users to send and receive telexes and desk-to-desk electronic messages at their office or home.

InterNorth, Inc., has agreed in principle to purchase P&O Falco, Inc., of Bossier City, La., and P&O Falco Ltd. of London, two subsidiaries of Peninsular & Oriental Steam Navigation Co. of London. InterNorth will pay $58.4 million plus an amount equal to the units' profits for the first six months of 1984. The combined pre-tax profits of the two subsidiaries, which primarily explore for, produce, transport, and trade crude oil, was about $10.5 million in 1983.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: Harmonizing Rules on Misleading Advertising

On June 28, the Council of Ministers reached agreement on the draft directive to harmonize the Member States' rules on misleading advertising *(Common Market Reports, Pars. 10,168, 10,597)*. Formal adoption is expected some time in September, and the States will have two years to comply.

The Member States would be required to provide adequate and effective means of combating unfair advertising. Individuals, businesses, and organizations regarded under national law as having a legitimate interest in fighting misleading advertising would be entitled to bring action against advertisers. Such suits could force the advertiser to withdraw or correct misleading ads. However, misleading advertising could also be dealt with by an administrative authority empowered either to decide on complaints or to initiate legal proceedings against the offenders.

The courts or the administrative authorities could demand that advertisers prove their claims; the claims would be consi-

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dered misleading if proof was not presented. The courts or the administrative authority would have the power to stop misleading advertising. If an ad had not yet been published, the court or agency could prohibit publication, even without proof of the advertiser's fault or actual damage to the complainant.

The Community directive would not preclude a self-regulatory means of controlling misleading advertising so long as the statutory procedures required by the directive were also available. Britain has the most advanced self-regulatory system of this kind, which it considers adequate. Britain wanted the scope of the directive restricted, so that the courts and/or the administrative authorities could stop misleading advertising, demand correction, and prohibit publication only if such measures would be necessary in the public interest. However, in the end, the U.K. relented on both issues.

Comments on R&D Exemption Draft Pondered

Commission lawyers are still pondering comments the EC Executive received on its draft regulation that would allow block exemptions under Treaty Article 85(3) for certain categories of research and development agreements between businesses *(Common Market Reports, Par. 10,561)*. Under Treaty Article 85(1) and (2), agreements are automatically void unless they qualify for an individual or block exemption. Agreements that fall under a block exemption are particularly advantageous to businesses because they do not need to be reported to the EC Executive. Through the planned regulation, the Commission wants to broaden opportunities for R&D cooperation. It also wants to remove some of the obstacles erected by the Treaty of Rome to intra-Community cooperation between companies.

Under the draft regulation, R&D cooperation agreements would qualify for an exemption from the ban of Treaty Article 85(1) under certain conditions. The exemption would apply up to the stage where the joint R&D efforts are utilized in production. R&D cooperation agreements that enable only one party to utilize the resulting innovation would qualify for a block exemption, as would agreements between firms that are not competitors in products covered by the joint R&D efforts.

Commission lawyers have not yet found a useable yardstick to determine which categories of R&D agreements would be exempt. To prevent denial of an exemption for certain agreements just because there is doubt as to their impact on competition, the Commission has decided to put threshold criteria into the regulation. Several choices for such criteria, financial and otherwise, are being debated. Parties to R&D cooperation agreements exceeding the regulatory criteria would not necessarily have to abandon their plans. Under the proposal, they could notify their agreement and consider it exempt if the Commission did not object within a specified period after the notice was received.

Commission Sues Germany Over Beer Standard

The European Commission has brought suit against Germany, charging that the German beer purity standard amounts to a quantitative restriction banned by the Treaty of Rome *(Common Market Reports, Pars. 321, 322)*. Section 9 of Germany's 1952 Beer Law, which incorporates a Bavarian royal decree dating from 1516, allows only four traditional ingredients - hops, malt, yeast, and water. Additives or malt substitutes, such as corn or rice, used by breweries outside Germany, are not permissible. In the Commission's view, the standard forces foreign breweries to make beer in line with the German requirements or not sell in Germany at all.

Although Treaty Article 36 grants a Member State the right to restrict imports from other Member States for reasons of health or consumer protection *(Common Market Reports, Pars. 351, 352)*, the Commission says the retention of the beer standard clearly violates Treaty Article 30 in light of Court of Justice law established in 1979 *(Cassis de Dijon - Common Market Reports, Par. 8543)* and reiterated in 1983 *(Sandoz B.V. - Common Market Reports, Par. 14,006)*. In the first case, the EC tribunal ruled that products lawfully produced and marketed in one Member State must be allowed access to the market of another State. In the second case, the Court held that a Member State may not prohibit the marketing of foods or beverages to which vitamins have been added in a lawful manner in another State. But the Court also said that there may be exceptions to the free-trade principle if such foods or beverages are likely to pose a threat to human health.

German government lawyers will invoke Court of Justice case law to support their argument for retaining the beer purity standard solely for health reasons. In 1981 the EC Court allowed the Netherlands to retain its ban on nisin additives in cheese because of the potential health hazard due to the above-average cheese consumption in that country *(Common Market Reports, Par. 8743)*. Germans drink more beer than other EC nationals (150 liters a year on the average, and Bavarians top that with 240 liters a year per capita) and thus would be exposed to a health risk if foreign beer containing additives could be sold in Germany, the government argues.

Farming, Fisheries, Free Movement in EC-Spain Talks

In the EC-Spain accession talks, the three major issues of agricultural commodities, fisheries, and free movement of workers still have to be settled. Neither side expects a settlement by Sept. 30, the date originally set for an agreement on the accession of Spain (and Portugal) to the Community by 1986, at the latest.

The biggest issue in the farm sector - the access of Spanish wine to the EEC - ties in with the existing overproduction of wine in the Community. France and Italy disagree over the proposed measures that would require the Italian government to take a stronger hand in enforcing cutbacks in the production of ordinary table wines. Another major farm policy problem concerns the period of transition during which Spanish agricultural products would gain access to the Common Market. Both sides have essentially agreed on two phases of transition - a four-year period followed by another of six years - but some important details have yet to be agreed on. During the four-year period, the EEC would control imports at the level of quotas now in force. This limit was difficult for Spain to accept, particularly in light of public criticism. Madrid demanded some financial compensation on top of the money it will receive in support of its intervention policy in the agricultural sector, and the amount of additional funds is still in dispute. During the six-year period, import duties or agricultural levies will be dismantled, and Spanish reference prices will gradually be brought up to those of the EEC.

Spain's fishing fleet, the fourth-largest in the world and larger than those of all the Member States combined, is demanding full access to EEC waters. The Community finds full access unacceptable because French and Irish fishermen would suffer. The problem is how to compensate Spain for restricted access rights. The Community's suggestion that the EEC negotiate agreements with ACP (Asian, Caribbean, Pacific) countries to grant EC trawlers access to the waters of those countries would not help individual Spanish fishermen because they could not take their small trawlers to such distant waters. Another proposal would grant EEC funds to Spain to build up and improve its fish processing industry to provide jobs for local fishermen; on this point, Spanish negotiators have not responded.

EC negotiators have proposed that the free movement of workers be realized in stages. Over a yet-to-be-determined period, the right of free movement within the Community would be granted first to Spanish nationals already resident in any of the ten Member States. Then their relatives living in Spain would be allowed to join the providers. After this period, also still not determined, free movement would be granted to other Spanish nationals.

Community officials are not troubled by the prospect that an accord on these three major issues and some other minor topics might not be reached by the Sept. 30 deadline. A settlement by late October or even November still would leave enough time for ratification of the draft accession treaties by the legislatures of the Member States, Spain, and Portugal.

In Brief...

After two years of debate, the Commission has granted an exemption from the ban of Treaty Article 85(1) for an agreement among the Common Market's ten biggest synthetic fiber producers providing for an 18% cut in production capacity for six products. It is the first time that the EC Executive has granted an exemption for a capacity reduction agreement. When the ten companies presented their production cutback plan to the Commission in mid-1982, they were told that they could count on an exemption from EEC competition rules only if the plant closure program in no way affected their competitive freedom on the plastics market. They said it would not. The companies are Courtaulds and ICI of the U.K.; Rhône-Poulenc of France; Bayer, Enka, and Hoechst of Germany; Anicfibre, Montefibre, and Snia Fibre of Italy; and Enka of the Netherlands + + + The Council of Ministers on July 9 approved new loan installments of ECU 1.4 billion for energy-saving and other industrial investments, especially by small and medium-sized enterprises. The loans will be financed through borrowings on the international markets under the third phase of the New Community Instrument (NIC), which was first introduced five years ago. However, the German government blocked the Commission's initiative to extend the scope of the loans to energy projects in the private-housing sector because it felt that this would be at the expense of the private banks + + + Brussels sources say that the Community is considering selling 300,000 metric tons of surplus butter to Arab countries for about $400 million. The EEC is currently keeping one million tons of surplus butter in cold storage. At a reduced price of $1,380 a ton f.o.b., compared with the regular export price of $1,580, the sale would be more advantageous to the Community than keeping the butter stockpiled.

The European Court of Justice has reaffirmed its case law *(Common Market Reports, Par. 8876)* on the issue of free movement of workers in holding that Treaty Article 48 providing for workers' freedom to move about in the Community is not applicable to situations governed by a Member State's internal rules. A national who never resided or worked in a Member State other than his home State cannot invoke Article 48 in order to escape application of home State law. A teacher had wanted to do his probationary year in the German state of Baden-Württemberg before becoming a full-fledged teacher but was denied the civil service job because he was a member of the Communist party. He sued the state before a lower labor court, which suspended the proceedings and asked the Court of Justice for a preliminary ruling concerning the interpretation of Treaty Article 48(2). The state court questioned the compatibility of Baden-Württemberg's civil service rules with that article (judgment of June 28, 1984, Case No. 180/83) + + + The Commission has been investigating the marketing practices of Germany's Volkswagen AG and Daimler-Benz AG and is considering imposing fines on the two companies for having abused market-dominating positions. On July 6, the EC Executive had announced that an ECU 350,000 fine was being imposed against British Leyland for the same violation.

Germany: Plan for Improved Tax Relief for Home Buyers

Under a plan by the German government, buyers of new homes would be allowed to deduct a higher amount from their annual income tax liability. Still to be settled with the state finance ministers is how much help taxpayers with large families should get to offset the cost of house buying. A deduction from the annual income tax liability of DM 600 per child has been mentioned, as has a DM 2,400 exemption for families buying a new home.

The Income Tax Law allows a taxpayer buying or building a home or condominium apartment to deduct 5% of the cost from taxable income for up to eight years. The limit on the deduction is DM 200,000 for a one-family home and DM 250,000 for a two-family dwelling. This maximum would be raised to DM 300,000 and would apply to both one-family and two-family houses. Putting buyers of one-family and two-family houses on an equal footing would discourage cheating on the "two-family" part of the house: many taxpayers put a small apartment in a one-family house in order to qualify for the higher deduction.

The Kohl administration wants the planned changes to take effect on Jan. 1, 1987, the expiration date of a provision allowing owners of a one-family or two-family house to deduct mortgage interest from taxable income *(Doing Business in Europe, Par. 40,470)*. There would be a grandfather clause to allow taxpayers who have started home construction before 1987 to deduct interest payments, although it is still uncertain for how long.

Higher Levy for Not Hiring the Handicapped

The German government has prepared amendments that would raise the levy that employers have to pay for not hiring the severely handicapped. Existing legislation requires every business with at least 15 employees to reserve 6% of the jobs for severely handicapped individuals or pay DM 100 a month to the government for each job not so filled *(Doing Business in Europe, Par. 23,432)*. Under the preliminary bill, which has been sent to employer and labor organizations for their comments, the levy would be raised to DM 150 a month.

Apprentice positions would be disregarded in adding up the work force. This provision is designed to encourage employers to hire workers who have just left school. An employer who hires a handicapped juvenile as an apprentice would be given credit for hiring two handicapped persons. He would also get state grants to offset the cost of wages and training. (Every employer hiring a severely handicapped person gets support from the government to finance the initial phase of employment.)

There would also be an important change in the rules governing the dismissal of handicapped persons. During the first six months of employment, handicapped persons would be treated like any other employees so far as dismissal is concerned. A week's notice would suffice if wages are paid weekly; two weeks would be enough if the handicapped person is paid monthly. The employer would need the consent of the government Labor Office to give notice to a handicapped person who has been employed for at least six months *(Doing Business in Europe, Par. 23,436)*. Employers have been reluctant to hire the handicapped because the termination rules are so strict.

Pressure on Bonn Over Planned Car Standards

The German government is under pressure from the upper house of Parliament to go ahead with its plan to tighten automobile pollution standards on its own, regardless of possible legal consequences for Bonn and economic implications for German automakers. A draft resolution calling on the Kohl administration to take the unilateral step was postponed for consideration at a special meeting of the upper house on Sept. 14 to allow a committee time to study the move and its implications.

The government's plan would introduce unleaded gasoline as of Jan. 1, 1986, and apply tougher pollution standards (identical to those of the United States, Japan, and Sweden) to all new cars, including imports, marketed as of 1986. While the gasoline proposal would be in line with pending EEC legislation, the pollution measure would be contrary to the Community's plan to tighten EC automotive standards in stages over the 1989-1995 period. Because of this conflict, the cabinet has overruled Interior Minister Friedrich Zimmermann and postponed a decision on the introduction of stricter automotive pollution standards.

One of the reasons the decision was postponed was to avoid the risk of Germany's being taken before the EC Court of Justice on the matter. If the German Parliament enacted the standards, Germany would face a Commission suit for erecting barriers to intra-Community trade by denying importation of cars not meeting German standards. The decision was also postponed because of economic and legal considerations for German carmakers. If Germany went ahead on its own, domestic manufacturers would incur added costs because they would have to make models meeting different standards - those of the German market (and the markets of the Netherlands, Denmark, and Luxembourg, which would adopt identical standards) and those of the markets of the other States, which favor the proposed EEC standards. France and the U.K. account for almost half of all German car exports to the EEC. Because of the additional costs and the risk that France and the U.K. might attempt to shut out German-made cars, German manufacturers are urging the government to forego a unilateral move and back the proposed EEC standards.

Britain: No Retaliation Against U.S. Unitary Taxation

The U.K. government has decided, for the time being, not to succumb to growing pressure from some Conservative members of Parliament to mount retaliatory moves against the U.S. with regard to the controversial system of unitary taxation in certain U.S.

states. Sir William Clark, chairman of the Conservative backbench finance committee, had proposed a clause to be inserted in this year's Finance Bill that would have enabled the government to deprive U.S. corporations based in such states of the U.K. tax relief that they enjoy on dividends paid by their U.K. subsidiaries.

Chancellor of the Exchequer Nigel Lawson said that such a move would be premature. Introduction of the proposed clause at this stage could undermine the current negotiations between state governments and business representatives in the U.S. However, Lawson emphasized that the U.K. government remains committed to securing a satisfactory solution of the unitary tax question. He said the government is pressing U.S. Treasury Secretary Donald Regan to introduce federal legislation if the individual states are unwilling to take remedial action themselves.

U.K. Trade Unions' Membership Drops 2 Million Since 1980

The total membership of unions affiliated with Britain's Trades Union Congress has fallen to its lowest level since 1974, to just over ten million members, according to the latest figures. The current number of 10.076 million unionists represents a fall of 434,000 from the 1983 total. There has been a drop of about two million over the past four years. However, Len Murray, the general secretary of the TUC, who is retiring later this year, said that the rate of decline has slowed down and is less this year than in the preceding three years. He said that union members still represent around 50% of the working population.

The total number of affiliated unions has also shrunk in the past year, from 102 to 98, largely through mergers, and this is the first time the number has gone below 100 since 1879. All of Britain's major trade unions with more than 100,000 members each have seen a decline in their membership, with the exception of the Banking, Insurance and Finance Union, which has added 5,000 for a total of 156,500. The two largest general unions have come off the worst: the Transport and General Workers' Union has sustained a loss of nearly 100,000 members, and the General Municipal and Boilermakers' Union similarly had a fall of nearly 70,000 members. The Amalgamated Union of Engineering Workers has fallen to below one million members, and, as a result, the union will lose one of its four seats on the TUC General Council, which will mean a weakening of the right-wing vote in that body.

Labor leaders argue that the continuing decline in union membership is the result of the present high rate of unemployment in the U.K. rather that disaffection with the unions generally. However, many observers believe that this argument is becoming more difficult to sustain.

Concessions in Proposed Tax Haven Legislation

After concerted pressure from employers' organizations, accountancy bodies, and banking groups, the British government has announced substantial concessions in its proposed legislation on overseas tax havens. This year's Finance Bill is being amended to incorporate the new provisions. The legislation generally is intended to bring within the tax net U.K.-controlled companies operating in low-tax areas abroad, subject to certain defined exceptions.

One significant change is that an overseas-controlled company would not be liable for U.K. tax if it has a stock exchange listing in its country of residence, provided that the particular stock exchange is recognized by the Inland Revenue. (At present, some 25 stock exchanges are so recognized, including all those in major industrial countries.) However, there are certain restrictions, such as that at least 35% of the shares of the overseas company be genuinely held by outside interests. Some investment companies have only a minority stake in various foreign companies because certain governments stipulate that a majority stake cannot be held by overseas interests in a subsidiary based in their countries. Such companies would now escape a U.K. tax liability, even with these minority holdings.

Another major concession relates to the requirement that a company must be effectively managed in its territory of residence to obviate tax liability. This legislation is intended to hit those "ghost" companies in tax havens abroad that subcontract back to the U.K. corporation all those services that they are intended to provide. It is now proposed that services subcontracted by the overseas-controlled company to the U.K. be disregarded, provided that the U.K. company or individual is liable for U.K. taxes and that the services are charged and supplied at a "realistic" market price.

Italy: Budget Minister Resigns in P-2 Affair; Coalition Talks

Pietro Longo, budget minister in the Italian government and Social Democratic party chief, resigned his cabinet position on July 12 after a parliamentary report linked him to the illegal P-2 masonic lodge. Prime Minister Bettino Craxi has taken over the budget portfolio on an interim basis until the Social Democrats pick a successor for the post.

• Longo's resignation had been demanded prior to the European Parliament elections in mid-June, and at that time there was speculation that such a move would touch off a crisis in the five-party coalition government, which has been in office for 11 months. However, the disappointing election results for the Socialists and Social Democrats did not encourage these parties to push for a breakup of the present coalition, while the Christian Democrats are apparently willing to tolerate the status quo until next year's elections for the successor of President Sandro Pertini. By that time, the Christian Democrats hope, Craxi's prestige will have further suffered through his inability to make some headway in solving the country's numerous and complex problems.

In the meantime, Craxi has started individual sessions with the other four coalition partners (Social Democrats, Christian Democrats, Republicans, and Liberals) to work out joint policy guidelines for the next few months. The economic problems remain high, at the top of the agenda, particularly the huge and still-growing deficit, which will probably exceed 100,000 billion lire by the end of the year. Other topics in the coalition talks are the fight against tax evasion and tax policy in general, the financial rehabilitation of the state enterprises, a housing rent freeze, and a new definition of the public sector's right to strike - all issues on which the five parties have failed to agree in the past. Also, the Christian Democrats are again pressuring Craxi's Socialists to pull out of their coalition with the Communists in some key cities. The Socialists, in turn, are pushing for some progress on the issue of institutional reforms (initially via a revision of parliamentary procedures) in order to strengthen the political majorities and thereby the executive.

Rome's Revised Currency Rules Incompatible With EC Law?

Some aspects of the revised currency controls announced by the Italian government in May are incompatible with European Community law and therefore invalid, a Genoa court has held. The plaintiff was an Italian who had refused to reveal his tax registration number as he tried to purchase foreign currency at a bank. The new Italian regulations require banks and travel agencies to ask for personal tax registration numbers when selling foreign exchange above certain limits. The government has imposed this rule in its attempt to contain illegal capital exports. The court suggested that the government can accomplish the same purpose by demanding that Italian tourists traveling abroad document their foreign currency spending above certain limits, and it gave the plaintiff 180 days within which to submit his case to the European Court of Justice.

The European Court had ruled last Jan. 31 that the Italian currency controls in effect at that time were partially incompatible with EC law (Case Nos. 286/82 and 26/83). Rome thereupon revised and relaxed its rules, which now have been challenged again by a domestic court. For many years, successive Italian governments have sought to stop or contain illegal capital exports by residents trying to protect their money from the combined effects of high inflation and the devaluation of the lira.

As of May 2, Italian tourists may take abroad up to 1.6 million lire (about $916) in foreign currency and 200,000 lire on each trip. When one person exports more than a total of 5 million lire for tourism in one year, or if his needs exceed 1.8 million lire per trip, the tourist must document any expenditures exceeding 75% of the extra sum and furnish his tax registration number *(codice fiscale)*. Except for the registration requirement, the new rules eliminate the previous ceilings on capital exports for tourism purposes.

France: No Drop in Unemployment Foreseen Before 1986

Private and state institutes for economic research in France are predicting that unemployment, currently at 2.3 million, or 10%, will reach 2.6 to 2.8 million by the end of 1984. The experts foresee no improvement in the rate during 1985, adding that such a degree of unemployment is temporarily necessary to improve the competitiveness of French products.

Until last January, the government was able to hold the number of jobless under 2 million through social measures such as early retirement, retraining, and special regulations for young, first-time employees. The positive results of these programs, however, were undercut by the austerity measures enacted earlier this year in an attempt to reduce inflation and the foreign trade deficit. The state now wants to slow unemployment by extending the earlier social measures to cover 300,000 to 400,000 new young workers. Paris is also exploring the possibility of expanding employment through new methods of work sharing and a reduction in the workweek.

Meanwhile, the French employers' federation (CNPF) is asking for increased flexibility in the labor market, particularly through the elimination of a company's obligation to get official authorization before laying off workers during economic difficulties. Based on a survey of the heads of 230 large and small businesses, the CNPF estimates that greater flexibility could create 470,000 jobs over a three-year period. The employers say that their proposals would affect only new workers who would otherwise be unemployed. Government officials, however, say that the measures would split workers into first-class and second-class categories.

Mitterrand Confirms Plans to Cut Taxes in 1985

President François Mitterrand has confirmed the French government's plans to cut taxes next year by one percentage point of GNP, or about FF 40 billion. Eventually, the government would reduce taxes and social charges from the current 46% of GNP to 42%. Mitterrand, who inherited a percentage of 42.9 from the previous government, said he believes that "beyond a certain figure, which I estimate at 42% of GNP, more taxation is too much taxation."

Although specifics of the tax cut package are not yet known, Mitterrand has promised a FF 10 billion reduction in the employment tax paid by companies to local governments, which currently brings in FF 60 billion annually. A personal income tax reduction is also expected.

Observers believe that substantial cuts will mean large curtailments of state subsidies to industry and of public-sector employment. The government has been showing a reluctance to bail out ailing companies, such as Creusot-Loire, the engineering group that recently went into receivership. Paris has also been making stronger demands for profits from nationalized companies.

France: Fabius Succeeds Mauroy as Prime Minister

In a surprise move on July 17, French president François Mitterrand removed his prime minister of three years, Pierre Mauroy, and replaced him with 38-year-old Laurent Fabius, who previously held the post of industry and research minister. It was not immediately known when Fabius would present his cabinet. There had been speculation on an upcoming government shakeup for several months in France, but most recently political observers had predicted that the change would not come before the fall. The defeat of the French left in the recent European Parliament elections is seen as the principal reason for Mitterrand's decision to make his move now. Another reason may have been the current controversy over the proposed reform of the French private school system.

The Communists reacted to Fabius' appointment by withdrawing their four cabinet members from the government. Fabius has been under increasing attack from them for his role in the painful restructuring of the national steel industry and in other areas. The Socialists' majority in the French Assembly is, however, more than sufficient to govern alone. (With a vote share of only 11.3% in the European Parliament elections, the Communists' popularity has fallen to the lowest level since 1932.)

The most controversial issue facing the new government is the dispute over the proposal to strengthen state controls of publicly financed private schools. In this connection, Mitterrand has disclosed plans to hold a national referendum on constitutional amendments that would permit further referendums on issues involving personal liberties. The use of referendums was particularly prevalent during the rule of former President Charles de Gaulle.

Creusot Representative Appointed; Car Sales Drop

The Paris Commercial Court has appointed an official "mandatee" to represent Creusot-Loire in negotiations with the government and industrial and banking concerns on possible financial rescue plans for the heavy engineering group, which was placed into receivership last month. The court is still to rule on July 26 on the government's request that Creusot chairman Didier Pineau-Valencienne be replaced by a temporary administrator. The government believes that the chairman, who still has the power to veto proposals, could obstruct any takeover solution. Sources say that the government is working on a plan to turn Creusot's assets over to a new company of nationalized and private firms and state-owned banks, possibly led by Framatome SA, the nuclear reactor builder now half-owned by Creusot.

In other news, French domestic car sales dropped 19% in the first half of 1984, further exemplifying the serious problems in the country's auto industry. Imports were less affected, falling only 5.8% in the same period. The worst hit was Peugeot's Talbot with a 54% drop, followed by Renault with 24% fewer cars sold, and Citroen with a decrease of 17%. The only company to post an increase was Peugeot, which reported a 1.4% rise in sales. The foreign share of the French car market has jumped from 23% to 35% since 1980.

Belgium: Employers, Unions Square Off for Talks

The Belgian employers' federation (FEB) and the country's unions have announced their readiness to start negotiations toward a national labor agreement for the years 1985 and 1986. The government does not plan to involve itself in these discussions, but it has formulated several guiding principles that it wishes the two sides to observe. In the government's view, the most important objective of the talks should be the improvement of employment opportunities, especially for young people. A fairer distribution of available work and more worktime flexibility would be the best ways of achieving progress in this area, according to the Martens administration. Whatever type of agreement is reached, the government says, it should not impair the competitiveness of business and industry, though the latter are called upon to make their own contributions toward the aforementioned goals.

The government has made it plain that it does not want the upcoming talks to be reduced to mere pay negotiations for the sake of avoiding any potential conflicts over new worktime arrangements. There are fears that the employers might be willing to offer more generous pay increases in return for not having to make sacrifices on worktime reductions. While the government will initially observe the progress or non-progress of the talks from the sidelines, it intends to step in with measures of its own should it turn out that a voluntary agreement cannot be achieved.

It has been predicted that the settlement recently reached in the German metalworking and printing industries after prolonged strikes will have a definite influence on the Belgian discussions. The employers have suggested that they would prefer an arrangement based on more part-time work rather than a general worktime reduction. Such an agreement, they claim, could open up as many as 100,000 new jobs. The unions, for their part, are advocating worktime cuts with allowances for some flexibility depending on industry sectors. They are insisting on the need to catch up, arguing that, of "Operation 5-3-3" (5% worktime cut, 3% pay reduction, and 3% new hirings) decided by the government 18 months ago, only the pay component has been implemented.

Spain: IMF Recommends Further Economic Improvements

The visit of an International Monetary Fund commission to Spain a few weeks ago has resulted in a provisional report presented to Economics and Finance Minister Miguel Boyer in which the IMF acknowledges much better economic results in 1983 and the first quarter of 1984 than in the three previous years. However, the IMF experts also say that these improvements are insufficient to correct the basic imbalances of the country's economic system and may not be of lasting duration. The insatiable financial demands of the public sector, the inflexibility of the finance and labor markets, and the encrusted industrial structures all present enormous obstacles to an economic policy aimed at regaining balanced economic growth, according to the IMF.

The report, which Boyer has passed on to the parliamentary economics committee, recommends a substantial reduction in the finance requirements of the public sector. In this area, the survey makes special mention of the heavy losses incurred by the state-controlled enterprises and the need for Madrid to get a grip on this situation as soon as possible. (Particularly worrisome are the operating losses of such companies as the Hunosa coal mines, Seat automobiles, Renfe railways, and the nationalized shipyards.) The IMF also recommends further efforts to reduce inflation with the help of a restrictive monetary policy.

In his own recent report to Parliament, Boyer presented figures indicating some progress toward the stabilization of the domestic economy in anticipation of Spain's accession to the European Communities, probably in 1986. Within only one year of assuming power, Boyer said, the Socialist government has succeeded in boosting economic growth, reducing inflation, and measurably improving the trade balance. On the basis of current data, he said, there is a realistic chance of lowering inflation from 12.2% in 1983 to 8% by the end of this year. For the first time in decades, the minister noted, Spain has been able to nearly balance its foreign trade, although the accelerated export performance has come at the price of lower domestic demand. At 2.1% in 1983, the economic growth rate was reasonably close to the 2.5% target the government had previously set, Boyer said.

One of Madrid's priorities in the near future is to help prepare the country's business and industry for EC membership. It is hoped that the new competitive pressures facing domestic companies will do more to modernize the Spanish industrial scene than any exhortations by the government.

Switzerland: Belgium's Godeaux to Be Next BIS President

Jean Godeaux, governor of the National Bank of Belgium, has been named to succeed Fritz Leutwiler of Switzerland as president of the Bank for International Settlements at the end of this year. Although the BIS board could have chosen as the new president any of the eight central bank governors on the board, post-war tradition says the position should be held by a representative of one of the smaller countries. This custom probably prevented Karl Otto Pöhl of West Germany from being named. Wim Duisenberg, president of the Netherlands' central bank, was also being considered for the position.

Godeaux, 62, became head of the Belgian central bank in March 1982 after eight years in charge of the Belgian Banking Commission. During his three-year term as BIS president, he is expected to continue the institution's recent retreat from the limelight of international financing. For the past three years, the "central bankers' bank" has played a leading role in "bridging finance," which has been credited with averting the bankruptcy of some of the world's most heavily indebted countries.

Swiss Prepared To Give U.S. Marc Rich Papers

The Swiss government has told the U.S. that it is ready to hand over documents seized from Marc Rich & Co. AG, a commodity trading company, provided certain conditions are met, including the lifting of a $50,000 fine imposed on the company's U.S. unit for each day the papers were withheld. The documents were subpoenaed by a New York court for a grand jury investigation into the income tax liabilities of the U.S. subsidiary, Marc Rich & Co. International. Swiss prosecutors then took possession of the documents in August 1983, saying that compliance with the U.S. court order might violate Swiss laws prohibiting the disclosure of internal business information to others abroad.

In addition to demanding the lifting of the fine, the Swiss Justice Department says the U.S. must accept and argue in court that Marc Rich cannot be forced to hand over the documents unless the U.S. officially requests them within the framework of the U.S.-Swiss legal assistance treaty.

EURO COMPANY SCENE

Diversified Energies, Inc., has agreed in principle to buy IDF International BV, a wholly owned subsidiary of English China Clays PLC, for about $60 million. IDF is an oil field services company with headquarters in the Netherlands.

Milton Roy Co., a maker of fluid control and laboratory analysis instruments, has agreed to buy the rest of its 50%-owned French joint venture, Dosapro-Milton Roy SA, from an unnamed French family trust. The price would be a maximum of 209,000 Milton Roy common shares plus an unspecified amount of cash. Dosapro-Milton, which makes and distributes metering pumps and mixing equipment, had 1983 sales of $22.2 million and profits of $1.1 million.

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Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: State Crude Oil Purchasing System Upheld

National systems requiring buyers of petroleum products to purchase a certain percentage of their supplies from a state-owned refinery may be justified on public security grounds, according to the European Court of Justice. The Dublin High Court, hearing a suit by Campus Oil Ltd. and other oil companies against the Irish Minister for Industry and Energy, had doubts about the compatibility of such an Irish regulation with the Treaty of Rome. The European Court was asked whether such a national system falls within the scope of Treaty Article 30, which prohibits quotas and other quantitative restrictions on imports. In the event the system is covered by Article 30, the Court was further asked whether the system is justified under Treaty Article 36, which provides for an exemption on grounds of public security, among other things *(Common Market Reports, Pars. 321, 351)*. The Court of Justice answered both questions affirmatively (judgment of July 10, 1984, Case No. 72/83). The judgment is expected to have implications for state-owned industries and private businesses outside the energy sector as well.

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

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The Court of Justice examined in great detail the Community's system against disruptions on the crude oil market. This system includes fuel stocks at power stations (a minimum 30-day supply) and buffer stocks in the oil market (a 90-day supply) to prevent any substantial shortfall in deliveries. A range of measures can be taken on short notice if the oil market is disrupted by a lack of supplies *(Common Market Reports, Pars. 3635.11, 3635.17, 3635.23, 3635.29)*. The Court found that, despite the EC system for guaranteeing crude-oil and petroleum product supplies, a Member State cannot be prevented from doing more to safeguard minimum supplies that are essential to public security. The Court even grants a Member State the right to demand purchases of crude oil and petroleum products at higher-than-market prices if a state-owned oil refinery cannot sell its products at competitive prices. But the EC tribunal places two restrictions on how far a State may go in enacting legislation on mandatory purchasing. Any purchasing obligation may not exceed the minimum necessary for the essential public services and for the population's survival. Also, the quantities should not be more than what is needed to maintain the level of production necessary during an emergency.

'Fontainebleau Spirit' Dissipates During Work on Details

The June 25-26 European Council meeting at Fontainebleau had produced an almost euphoric mood over the temporary settlement of Britain's budget contributions and the expansion of the Community's resources by raising the Member States' value-added tax contribution rate from 1% to 1.4%. However, the "spirit of Fontainebleau" quickly dissipated once the Council of Ministers got down to work on the details. The three-year agreement on the U.K.'s contributions and the increased VAT percentage can be put to the national legislatures only after an accord on the Community's budgetary discipline is reached.

The Member States' finance ministers have tried in vain several times to formulate in legal language what the European Council agreed to in principle at its March 20 Brussels meeting about how the Community should exercise discipline in budget management. This discipline would be governed by three principles: (a) farm policy expenditures would not rise faster than the EC's resources; (b) the Member States would be required to report to the Commission at the beginning of the year the revenue volume of the past year and the amount of their advance payments; and (c) the Commission would have to present its draft budget on the basis of the States' reports. Council lawyers are skeptical about reaching an early accord on these rules because the European Parliament may have to be consulted. Also, Britain is ignoring a Commission plea for extra cash to close this year's budget gap of almost ECU 2.1 billion. All of the other States have agreed to help out with advance payments.

Aside from the financial issues, other problems have arisen out of the Fontainebleau meeting. German chancellor Helmut Kohl's success in getting the other nine government chiefs to approve his aid plan for German farmers has set a precedent, as was widely feared: the Dutch government plans to do likewise for its farmers.

In Brief...

The Council of Ministers has agreed on principles of improved cooperation among the Member States in the use of standards for industrial products. In a recently adopted declaration, the States said they would abolish standards that are superfluous and that can be used to keep out other States' products. The States are committing themselves to greater cooperation between their standards institutes and to recognition of each other's new-product test certificates + + + Denmark is holding up adoption of 15 draft directives, among them the proposal on Community certification of third-country products and on a number of technical standardization measures covering products such as construction machinery and lawn mowers. At the insistence of Germany and the Netherlands, adoption of the draft directives, especially the certification proposal, is tied to the Council draft regulation that would give the EC an instrument to fight unfair practices of third-country-based manufacturers. Denmark's failure to consent to the passage of the 15 proposals can be traced largely to reservations expressed by the Folketing's screening committee about three of the draft directives. This committee scrutinizes all pending EEC legislation, and no Danish government can afford to ignore its findings.

Germany: Contested Points Dropped From Employment Bill

The German government has removed from a preliminary bill on employment matters ten subchapters dealing with controversial issues such as mandatory overtime compensation in the form of time off rather than extra pay. The measure, which will be submitted to Parliament after the summer recess, is designed to relax rigid employment contract rules and generally improve chances of lowering unemployment (2.1 million at the end of June). Employer and union organizations had attacked many of the bill's provisions. The overtime compensation issue was one of the few points criticized by both sides.

Under the proposed legislation, employment opportunities would be improved by allowing employers to hire individuals for a limited period of time. A new provision would modify the requirements for, and the content of, social plans that a business about to close down is required to establish. The current cost of a social plan often discourages a potential buyer of a bankrupt business. The new rules would require a social plan whenever 10-20% (instead of the current 5%) of the workforce is laid off and would require consideration of the economic situations of the business and its employees (for example, the employees' chances of being rehired by the buyer). New enterprises would be exempt for four years from the requirement of having to establish a social plan if they lay off employees or go bankrupt.

Among the provisions dropped from the revised preliminary bill because of criticism from the national employers' associations or the unions or both are rules on part-time employment, longer minimum vacations for all employees, charging to vacation time an employee's treatment at a spa, and the introduction of a special identity card for all individuals working on construction sites in order to fight illegal employment. Labor Minister Norbert Blüm said that dropping the controversial issues does not mean they might not be revived in a later bill. "Removing them now gives us more time to think about them," he said.

Britain: No Major Changes in Merger Legislation

The British government's eagerly awaited policy statement on corporate competition and mergers reveals certain changes in emphasis but no radical alterations in approach. The Secretary for Trade and Industry, Norman Tebbit, made it clear that no change in the basic framework of the present legislation concerning mergers was being proposed. Government ministers will still have discretion over which mergers are actually referred to the Monopolies and Mergers Commission and over what course of action they will subsequently adopt after the Commission has given its ruling.

Tebbit said he regarded the merger policy as "an important part of the government's general policy of promoting competition within the economy in the interests of the customer and of efficiency, and hence of growth and jobs." Accordingly, his policy on referrals made to the Commission will continue to be to make references "primarily on competition grounds." However, companies should be advised to apply to the Office of Fair Trading for unofficial preliminary guidance on whether a takeover bid is likely to be acceptable.

There have been recent occasions when the government has declined to follow the recommendations of the Monopolies Commission, thus arousing controversy and uncertainty. Tebbit said that the independent competition authorities in the U.K. have "a justifiably high reputation," and in reaching his decisions he would expect to be guided by their advice "in the great majority of cases."

Since 1980, any proposed takeover of a corporation with gross assets of at least £15 million has been subject to a possible investigation by the Monopolies and Mergers Commission. Tebbit announced that, effective July 26, the financial threshold would be raised to £30 million. This move is expected to reduce the number of qualifying mergers in the U.K. from around 200 to some 150 per year. Tebbit said that the threshold increase is intended to secure "a worthwhile reduction" in the number of "small and insignificant" mergers caught by the present legislation.

Agreement Ends British Dockworkers' Strike

British dockworkers reached an agreement with the National Association of Port Employers on July 22, ending an 11-day strike that had brought 75% of British foreign trade to a standstill. The compromise includes a provision restricting the employers' right to hire nonunion labor to replace dockworkers in the event of future strikes.

The conflict began when workers at the port of Immingham refused to load iron ore, a gesture in support of British coal miners, who have been on strike for over four months. When state-run British Steel Corp. brought in nonunion labor to load the ore, the unionized dock workers began a strike that soon spread nationwide. Observers said that the British government, faced with the prospect of national supply shortages, could not have waited too long before intervening in the strike by members of the Transport and General Workers' Union. Transport Secretary Nicholas Ridley had warned early in the strike that the government would use emergency powers to prevent excessive damage to the country's economic output, one-third of which depends on foreign trade. However, in a July 16 meeting, the cabinet decided not to invoke emergency powers to deal with the situation.

Belgium: Banks' Role in Public Debt; Job Creation

Belgian budget minister Philippe Maystadt has prompted strong negative reactions from banks and other financial institutions with his recommendation that they contribute more of their increasing profits toward shrinking the public debt. The Belgian banking association warned Maystadt not to seek solutions to the deficit problem that appear to be easy but do not match "the economic realities." The budget minister was reminded that the state owes the banks some BF 1,500 billion, while bank earnings amounted to about BF 15 billion last year. Even if the banks were able to "help out" the government by contributing that amount, the deficit situation would not be substantially altered.

Maystadt says that, based on current policies and a 6% inflation rate, public spending will rise to BF 1,750.6 billion in 1985. About 25% of that amount, or BF 463 billion, will go toward interest charges on the debt. This figure represents an increase of BF 91 billion over the 1984 interest payments. A government austerity program agreed on last March is expected to save BF 105 billion next year. During the current planning of the 1985 budget, Maystadt has questioned whether taxpayers will accept the fact that most of those savings will be eaten up by the increase in interest charges.

The Belgian foreign currency debt, which stood at zero in 1975, represents about one-fourth of the total public debt of BF 4,040 billion this year. The high level of U.S. interest rates has been increasing the cost of dollar borrowings, which amount to 35% of the current foreign debt.

In other news, representatives of Belgian unions and employers have reached an agreement that sets aside an amount equal to 1.5% of private-industry wages and salaries during 1985 and 1986 for the creation of new jobs. Although no specifics have been set, the funds could come from a cut in working time. The pact, which still must be ratified by members on both sides, also says that the employers should hire new workers, particularly young people, on a half-day rather than a full-time basis. Full-time employees should be given the option of switching to half days, according to the agreement.

Luxembourg: Social Democrats Join Government Coalition

After over four weeks of negotiations, Luxembourg's Social Democrats (LSAP) have joined in a government coalition with the Christian Democrats (CSV), who had previously governed with the Liberals. Jacques Santer, a Christian Democrat who served as finance minister in the outgoing administration, was chosen as the new prime minister, succeeding Pierre Werner, who is retiring from active politics. Santer will continue to hold the finance portfolio. Deputy premier is Jacques S. Poos, a Social Democrat, who also heads the foreign affairs and economics ministries.

The CVS is represented by five cabinet ministers in the coalition, while the LSAP holds four cabinet positions. The new government commands 46 mandates in the 64-seat Parliament, which was elected on June 17. In these elections, the opposition Social Democrats replaced the Liberals as the second-largest party in the Grand Duchy.

France: Fabius Pledges Continued Industrial Modernization

The new French prime minister, Laurent Fabius, has pledged the continuation of the economic restructuring and modernization process started by his predecessor, Pierre Mauroy. In his July 24 policy statement to the National Assembly, Fabius said the government will emphasize research, investment, and education and training to achieve its goals. Only by way of industrial modernization will it be possible to win the fight against unemployment, the premier said. The policy address was followed by a vote of confidence for the new government, 279-157, with the Communists joining in 46 abstentions.

Even before the National Assembly session, however, the cabinet (which was not substantially altered) had charted a new fiscal and financial policy course. The government intends to trim the growth rate of public spending to 6% annually, which is less than the inflation rate and means tough cutbacks. (At one time, in 1981, the expansion rate was around 28%.) President François Mitterrand has described public-sector frugality as the decisive condition for the trimming of the "progressive collectivism of incomes" and for the return to corporate profitability and competitiveness. Both taxpayers and enterprises are to benefit in equal measure from the easing of tax burdens and social contributions, "not only for 1985 but for the duration of my tenure," Mitterrand said.

To improve the profitability of businesses, the government will reduce by about FF 10 billion the "professional tax" *(Doing Business in Europe, Par. 22,843)*, which brings in about FF 60 billion in revenue annually. Another FF 10 billion is to be taken off personal income taxes, which would lower the tax burden on the average household by about 5%. In addition, Paris wants to repeal the 1% surcharge on declared income that was imposed in 1983 and this year as a means of covering the deficit in the social security system. In the meantime, the system is running a healthy surplus of FF 11 billion (1983) after shortfalls of FF 6-8 billion annually in the past.

Portugal: More Intensive Efforts Necessary, OECD Says

Using unusually blunt language, the Organization for Economic Cooperation and Development has told Portugal that it must continue and even intensify its austerity policies in order to achieve economic stabilization in the medium term. In its latest economic survey, the OECD says that Lisbon's short-term measures launched in mid-1983 in conjunction with an escudo devaluation and a restrictive monetary and budget policy are insufficient and that "the situation will remain difficult." It urges the government to follow through on its announced major reforms, particularly with regard to the scaling-down of the inflated public sector, the restructuring of industry, and the modernization of agriculture. All these tasks should be tackled as soon as possible in the form of concrete projects and detailed finance and time tables, with strict controls during implementation.

The Paris-based organization recommends that the government pursue an active competition policy by continuing the liberalization of prices and incomes and by dismantling rigid labor market rules. Private initiative should be encouraged, especially in those sectors that were completely nationalized following the revolution. Equal encouragement should be given to attracting foreign investment by lowering the administrative hurdles and by creating a climate of enhanced political security. To increase state revenue, the OECD says, it is necessary to enlarge the tax assessment base as well as step up the fight against tax evasion.

The OECD recognizes that Portugal has made some advances in the foreign trade sector but warns that further efforts are necessary. In this connection, it points to the necessity of reducing the country's dependence on imports in key areas, such as agriculture. In the short term, the OECD says, certain indicators are likely to deteriorate further before taking a turn for the better: inflation is forecast to rise to 27% in 1984, from 23.5% last year, and unemployment will also continue at a high level. While the current-account deficit is expected to shrink from $1.7 billion in 1983 to $1.3 billion this year, this will be achieved only at the cost of a 1.9% decline in GNP, accompanied by substantial reductions in industrial production, investment, and purchasing power.

Norway: Foreign Bank Applications; Oil, Natural Gas

Foreign banks have until Sept. 1 to apply for one of the first permits for establishing a branch in Norway. Applicants must be "first-class, internationally known banks," and they must pledge adequate financial support for the branches and notify their governments of their plans for Norwegian operations. One plus for the foreign banks is that they will not have to place part of their funds in domestic bonds, as Norwegian institutions do. The Norwegian bankers' federation has welcomed the legislation allowing foreign banks in their country, saying that there will be a reciprocal effect helping Norwegian banks to operate in other countries.

In other news, the production of oil and natural gas from Norway's North Sea fields jumped an unexpected 15% in the first five months of 1984. If this increase holds for the rest of the year, annual production will have risen from 55 million metric tons last year to 63 million tons, the largest amount in 13 years. Previous projections had set Norwegian oil and natural gas production at just under 50 million tons per year through 1986. OPEC has signaled its displeasure with the increase, which runs against its policy of production limitations to hold up prices. Norway, however, which is not a member of OPEC, has noted that those countries have not been following their own restrictions lately.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: Commission, IBM Settle Competition Dispute

Following a long period of difficult negotiations, the European Commission announced on Aug. 2 that it has suspended its legal proceedings for breach of EC competition rules against International Business Machines Corp. after the company agreed to "modify" its practices in the Common Market. Commissioner Frans Andriessen, responsible for competition policy, said the settlement will give the European industry "a chance to increase its share in this market." As a result, "users of computer equipment throughout the European Community will have a wider and earlier choice of equipment to meet their future needs," he said.

The EC Executive had originally objected to four of IBM's business practices because they allegedly restricted competition in the market for large computers. IBM then agreed to stop two of these practices, although it denied it was breaking Community law. In the settlement just announced, the company also agreed to change the two other practices "in a way which meets the original objectives of the Commission." The Commission's principal charge was that IBM had abused its dominant position

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contrary to Article 86 of the Treaty of Rome by failing to supply other manufacturers in sufficient time with the technical information needed to permit competitive products to be used with IBM's System/370 (interface information). The other charges included not offering central processing units (CPUs) with a main memory capacity included in the price ("memory bundling") or without basic software ("software bundling"), and by refusing to supply certain services to users of non-IBM CPUs.

EC Court to Decide on Price Maintenance for Books

The European Court of Justice is expected to decide in the fall whether the price maintenance for books permitted in a majority of the Member States is compatible with the Treaty of Rome's free movement of goods principle. The case arose when the Leclerc department store chain sold books up to 15% below the fixed price in violation of French law. That law requires book publishers and importers to set a binding price for books; retailers are allowed to reduce the price by up to 5%. A French court asked the EC tribunal whether the national law is compatible with Community law (Case No. 229/83). Advocate-General Marco Darmon is scheduled to give his opinion on the matter on Oct. 3.

A survey conducted by the Commission at the request of the Court of Justice shows that all Member States except Greece allow price maintenance of one kind or another for books. Most of Germany's book publishers avail themselves of the statutory exemption from the price maintenance ban and submit their books to price maintenance; imported books are exempt. In the U.K. and Ireland, the prices set by publishers are expressly exempt from the Restrictive Practices Act. In Denmark, which has the longest tradition of book price maintenance, publishers and importers have been fixing prices for 140 years. Italian law also permits the practice, and associations of book publishers and retailers sign a contract each year committing retailers to fixed prices. Although Belgian law provides for price maintenance, an agreement between publishers and retailers in the French-speaking part of the country providing for fixed book prices has lost its significance since many booksellers are not abiding by the agreement. A similar agreement for the Dutch-speaking area was declared void by the Brussels Commercial Court because it violates the Treaty of Rome's ban on restrictive practices.

In Brief...

The Commission has decided on its own to take several measures to delay the looming cash crisis resulting from Britain's refusal to approve a supplementary budget of about ECU 2 billion to finance EEC farm policy spending for the rest of the year. Storage costs for more than one billion tons of butter in refrigeration houses all over the Community will be cut through a sort of clearance sale to the Soviet Union and Middle Eastern countries. A decision to allow a similar sale within the Community at Christmastime is expected to be taken in September. The Council of Ministers' farm policy reform measures, especially the milk production quotas for farmers and the lower guaranteed price for milk, have prompted farmers to sell cows for slaughter. This has caused beef prices to drop to about 70% of target prices, and the Commission has decided to increase beef exports and to subsidize storage of beef by private enterprises. The wine surplus has also led to a sharp decline of wine prices. Here the Commission is planning better enforcement of existing rules and will propose additional measures, among them a total ban on new planting + + + Germany is blocking adoption of the draft directive on door-to-door selling. The measure, now considered dead, would harmonize national rules. Sellers would have to present written contracts, and buyers would be given time to reconsider and would be able to cancel the contract. Bonn, refusing to give in on its opposition to the measure, says that the proposed legislation does not have Community dimension and that all Member States have rules effectively dealing with the problem. Community officials take exception to both arguments, pointing in particular to the tens of thousands of Germans who take part in buying excursions to neighboring Member States. Many of them buy under psychological pressure but have no way of cancelling the contract.

Germany: Repeal of Securities Withholding Tax Examined

The German government is considering a proposal to repeal its withholding tax on interest paid to nonresident holders of German securities. The purpose of the repeal would be to attract foreign capital and to help strengthen the deutschmark against the high-flying dollar. Finance Minister Gerhard Stoltenberg said a decision on a bill to abolish the withholding tax will be taken in September, at the latest.

The 25% tax, called the *Kuponsteuer*, is withheld on interest paid to nonresident individuals, corporations, or other recipients holding government or industrial bonds *(Doing Business in Europe, Par. 23,353)*. It was introduced in 1965 to stem a rising tide of foreign money entering the country and fanning inflation. In 1983, the *Kuponsteuer* yielded some DM 210 million - little compared to the DM 215 billion collected from all other taxes. Central bank officials have for some years privately suggested repeal of the tax, which they term an anachronism, but on July 20 Bundesbank president Karl Otto Pöhl spoke out publicly on the matter. Pöhl said abolishment of the tax is necessary not only to support the D-mark but also because of President Ronald Reagan's decision to drop the 30% withholding tax on securities. This decision will encourage even more investors to place their money in the United States.

Critics of the tax repeal plan point out that the great majority of investors would not really gain anything from repeal of the German withholding tax because of existing tax treaties with other countries. These treaties provide for a tax credit for the tax withheld. Others agree with Pöhl's argument that everything possible should be done to support the D-mark so that the gap between German and U.S. interest rates (now about 6%) does not widen further.

Britain: Broader Role Recommended for Building Societies

The U.K. government has published its long-awaited Green Paper proposing that building societies be given wider powers so as to assume a much broader role in the financial services sector. For over a century, the sole purpose of the societies has been to grant mortgages to house purchasers. Chancellor of the Exchequer Nigel Lawson says in a preface to the document that, by giving the societies new powers, "we can both further encourage home ownership and look forward to fuller and freer competition for financial services, to the great benefit of all who use them."

Despite the changes envisaged in the document (No. 9316), Ian Stewart, economic secretary to the Treasury, stressed that the new legislation would be "evolutionary rather that revolutionary." He said the government's principal aim is to ensure that building societies retain their original roles as secure havens for investors' funds and as providers of home financing. However, the societies would be able to expand their operations without affecting these basic functions. Stewart said it is anticipated that the requisite legislation will be passed during the 1985-86 session of Parliament and be implemented by the beginning of 1987.

One of the most radical changes would be to allow building societies to compete effectively with banks with regard to personal loans. However, only the larger societies with free reserves of at least £3 million would be able to make such unsecured loans, up to a maximum of £5,000 per person. At present, there are 56 building societies with such reserves, representing 25% of the total number of U.K. societies but accounting for 95% of the industry's £87 billion in assets. Only 5% of the assets of a society could be committed to such loans, while at least 90% of loans would be restricted to mortgages. The Committee of London Clearing Banks said that its members are "not dismayed" by the prospect of the new competition.

The discussion document suggests that building societies be able to purchase property and land and become property developers but that they not become involved in speculative nonresidential development. Again, because of the element of risk involved, these powers would be limited to the larger societies. They would be able to provide conveyancing services for property transfers, but their roles as estate agents would be limited in order to avoid possible conflicts of interest.

The document also envisages the possibility of building societies having the right to offer stock market services to encourage individual share ownership or to allow brokers to use their premises as outlets to offer services to the public. In addition, societies would be able to offer a fuller range of personal banking and money transfer services.

U.K. Government to Form Fraud Investigation Group

Chancellor of the Exchequer Nigel Lawson has announced that a new permanent body, the Fraud Investigation Group, is to be established within the office of the Director of Public Prosecutions, which is responsible for instituting proceedings in serious criminal cases. The move comes in the wake of a mounting number of frauds in the insurance, commodity, and Eurobond markets, where the perpetrators often successfully escape prosecution because of the complexity of the cases. The creation of the FIG also anticipates proposed legislation to give investors greater protection, as advocated in the Gower Report. Lawson said that the present arrangements, under which ad hoc fraud investigation groups are set up involving the police, the Dept. of Trade, and the DPP, should be put on a permanent basis.

The Group, to be comprised of specialist accountants, prosecuting lawyers, and an expert staff of about 30, will be able to request that the Dept. of Trade and Industry carry out investigations of corporate accounts under the Companies Act. The final decision, however, will remain with the Trade Secretary.

Denmark: Cabinet Reshuffle After Christophersen's Departure

The Danish prime minister Poul Schlüter reshuffled his center-right coalition government on July 23, following the resignation of Finance Minister Henning Christophersen, who will become a European Commission vice president. Christophersen, 44, will also step down from his post as chairman of the liberal Venstre party because EC rules demand that newly appointed Commission officials resign all their national political offices.

The finance ministry will be headed by the previous minister for social affairs, Palle Simonsen, a Conservative. The decision to give the portfolio to a Conservative had been more or less expected because Schlüter had continued to govern with the same cabinet after the general elections last January, even though his Conservatives emerged as the clear winners at the expense of the other coalition partners. (Schlüter's four-party administration has been in power since September 1982.)

Even Schlüter is the first to admit, however, that Christophersen's departure will leave a noticeable gap in Denmark's political scene. Over the past two years, Christophersen has been the architect of the government's economic and finance policies, which are designed to cut down on previously over-generous social welfare spending and public-sector borrowing. Schlüter would have preferred to keep Christophersen in Copenhagen, but the set-back suffered by the Liberals at the polls last January persuaded Christophersen to try his hand at international politics in Brussels. Observers in Brussels said the Dane will be a prime candidate for the budget and finance directorate at the Commission instead of the agricultural directorate, which has been in Danish hands since that country's accession to the EC in 1973.

Netherlands: More Venture Capital Sought for Companies

The government in The Hague is considering various ways of stimulating the raising of venture capital for Dutch companies in its current planning for the 1985 budget. The cabinet has, however, rejected a Finance Ministry proposal that foresaw tax relief for the purchase of the stock of companies quoted on the Amsterdam stock exchange or the parallel market. (Similar legislation has been in force in Belgium since 1982.) The plan did not succeed because it would have benefited only a limited number of companies and, on the purchasing side, individuals with high incomes.

Reports from The Hague say that the government is now looking at other possibilities for boosting corporate capital resources. Under consideration is a proposal to include in the 1985 draft budget a further reduction of the corporation tax rate, by 1.5 points to 41.5%, which would cost the state an estimated 250 million guilders annually. (As of this year, the tax rate has already been reduced from 48% to 43%.) Another option would be to raise the amount of dividends given preferential tax treatment from 500 guilders to 1,000 or 1,500 guilders. Such a measure would benefit mainly married investors and would cost the treasury an estimated 70-140 million guilders.

The cabinet is expected to take up the issue again in the second half of this month, when the government's Central Planning Bureau will have completed an exact calculation of the economic implications of the various proposals under consideration.

Italy: Coalition Partners Agree to Continue Alliance

After three weeks of discussions and three months of paralyzing controversies, Italy's five-partner coalition government has agreed to maintain its alliance, led by Socialist Prime Minister Bettino Craxi, for another year. Craxi had called for the talks prior to the European Parliament elections in mid-June, when he hoped his party would pick up enough votes to increase its power in the coalition. (The other partners are the Social Democrats, Christian Democrats, Republicans, and Liberals.) However, the Socialists' 11% share of the EP votes remained unchanged, and it appeared that Craxi's term of office would end after one year. The death of Communist Party leader Enrico Berlinguer, combined with the resignation of Budget Minister Pietro Longo over his alleged involvement in the outlawed P-2 masonic lodge, threw the coalition further into confusion.

The disappointing Socialist showing in the EP elections has apparently pacified the Christian Democrats, the government's strongest partner, into continuing their support of the coalition, at least until next summer's elections for the successor to President Sandro Pertini. Although the Communists made a strong showing in the EP elections, Craxi has promised to abandon many Socialist-Communist alliances in regional and municipal governments in favor of ties with the Christian Democrats.

Following the coalition talks, Craxi appointed Social Democrat Pier Luigi Romita to replace Longo as budget minister. Carlo Vizzini, also a Social Democrat, will take over Romita's portfolio as minister for regional affairs.

Meanwhile, Treasury Minister Giovanni Goria has proposed an economic program that would attempt to limit public spending and bring inflation down from its current 11% to 7% next year and 5% in 1986. The plan advocates a revision of the system of state-subsidized layoffs for workers and a clampdown on tax evasion but no tax increases over the next four years. Last year's public-sector deficit of $51.8 billion, or 17% of the gross national product, would be reduced to 8.2% of GNP by 1988, assuming an annual growth of 3%.

Switzerland: Marc Rich Papers; Swiss Aid in SEC Probe?

Marc Rich & Co. AG, the Swiss-based commodity trading company being investigated on charges of U.S. tax evasion, has decided not to ask the Swiss Supreme Court to block the transfer of company documents to the U.S. On July 13, the Swiss Justice Dept. had told the U.S. that it would hand over the documents if the American court lifted a $50,000 fine imposed on the company's U.S. unit, Marc Rich & Co. International, for each day the papers were withheld. Swiss prosecuters contended that compliance with the U.S. court order might violate Swiss laws prohibiting the disclosure of internal business information to others abroad. Switzerland has not yet received a reply to its offer.

Meanwhile, Switzerland has rejected a U.S. request for the extradition of Marc Rich and Pincus Green, principal officers of the Swiss concern, on charges of fraud. The Swiss Justice Dept. says it will not consider the request until it is submitted in one of the three Swiss languages. Although the two were indicted for tax evasion before, almost a year ago, Switzerland does not consider that charge an extraditable offense. Obtaining the extraditions is expected to be difficult because the U.S.-Swiss treaty does not directly cover the charges involved.

In related news, the U.S. Justice Dept. has asked the Swiss government for information in an insider-trading investigation involving Ellis AG, a Zurich-based finance company. The Securities and Exchange Commission is seeking the names behind certain Ellis accounts that may have been used to process insider transactions. An Ellis spokesman said the company will try to cooperate with Swiss and U.S. authorities, adding that "we don't want to make another Marc Rich out of this." The U.S. request may be answered under a treaty involving mutual assistance in criminal matters. Because Ellis is a brokerage firm and not a bank, the information could not be requested under a 1982 U.S.-Swiss memorandum covering banking secrecy.

EURO COMPANY SCENE

IBM and British Telecom are planning to invest "tens of millions of pounds" in a joint venture to build and operate a U.K. network carrying a wide range of electronic information services, including electronic mail and database links. ICL, the largest British computer manufacturer, is pressuring the government not to grant a license for the venture, saying that the IBM-BT project would have an unfair advantage over a similar system ICL wants to set up.

AT&T has signed a protocol agreement with the Spanish Industry Ministry and Compañía Telefónica Nacional de España, the semi-private telecommunications authority, for setting up a $200 million semiconductor manufacturing base in Spain. The move is part of the Ministry's plan to spend $530 million over the next three years to support high-technology production for export.

Shearson Lehman/American Express, in its move to acquire full control of U.K. stockbroker L. Messel, is the first Wall Street securities firm to propose such an acquisition. Meanwhile, Security Pacific is negotiating for a 33.1% stake in John Govett, a London fund management group.

Common Market Reports

EUROMARKET NEWS

Issue No. 813 *Report No. 507, August 15, 1984*

IN THIS ISSUE

Community: Commission-IBM Accord Termed a Compromise

To reach their Aug. 1 settlement, the European Commission and International Business Machines Corp. both gave ground in what is considered the most important antitrust case in the Community's history. The accord has legal implications beyond the underlying dispute. Under the settlement, the EC Executive suspends its proceedings against IBM for abusing its market-dominating position by withholding important technical details of some of its mainframe computers (System/370) until they are shipped to customers *(Common Market Reports, Pars. 8708, 10,608)* in violation of Treaty Article 86 *(Common Market Reports, Pars. 2101, 2111)*. However, the Commission retains the option to start new proceedings should the computer manufacturer fail to abide by the agreement.

IBM's major commitment is to provide, within four months after announcing a new computer system, instructions on how competitors' equipment can be plugged into it. The Commission had originally demanded that the details be disclosed within 30 days after product announcement. This is the first time that IBM has

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

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ever made a commitment to a government agency concerning a specific time schedule for technical disclosure after an advance announcement. IBM executives say that the accord, especially its technical disclosure clause, does not require significant changes in the company's practices. Many computer market analysts say the commitment to disclose details within four months does not change the situation a great deal because it does not allow competitors to adapt their products or develop new ones in time to market them simultaneously with an IBM introduction.

IBM's competitors take a more positive view of the settlement because they see in the four-month disclosure requirement an improvement over IBM's current practices. IBM's policy in recent years has been to ship new systems, together with technical details, to customers six months after first announcing them. Many European computer industry executives, however, do not share Commissioner Frans Andriessen's optimistic viewpoint that the settlement "offers a chance for the European industry to increase its share of the computer market."

Commission and IBM lawyers reportedly felt that it was better to settle the dispute with a compromise than to drag it out and have the case adjudicated by the European Court of Justice, which might have taken up to three years. Commission lawyers believe they have a good case that would have justified a fine against IBM, but they were less sure about what they could demand to bring about disclosure of proprietary information to competitors.

New Rules Speed Up Antidumping Procedures

Amended EEC antidumping rules that went into effect on Aug. 1 allow the Commission to act faster against low-priced imports threatening Common Market industries (Official Journal, No. L201, July 30, 1984, page 1). EEC rules require the Commission to investigate after receiving a dumping complaint from a Community-based manufacturer. If it turns out that dumping has taken place and that European manufacturers have been harmed, the Commission may either impose a provisional countervailing duty or seek a settlement under which the violator agrees to raise his prices (price undertaking) *(Common Market Reports, Par. 3821)*. In recent months, more and more underbidding manufacturers chose to raise prices rather than face countervailing duties.

In the past, these price negotiations often lasted as long as a month or two, and during this period the Community-based companies lacked effective protection. The amended rules provide for a time limit: new price offers must reach the Commission within ten days from the day the third-country manufacturer is told that an investigation has confirmed his dumping practices. If the violator fails to abide by his price-raising commitment, the Commission may now impose a countervailing duty immediately at the rate that would have been imposed had there been no price undertaking. Thus, the Commission no longer has to reopen the investigation, which was required under the previous rules.

Another important innovation introduced by the new regulation is a maximum time limit on the EEC's response to dumping practices by third-country manufacturers. There is now a five-year limit on taking antidumping measures and imposing countervailing duties; an exception is permissible only if the Commission has established the need for continuation of the measures. The new rules also make changes in the procedure governing the refund of collected countervailing duties that are subsequently deemed to be too high.

In Brief...

Heeding pleas from European employer organizations, the Commission has relaxed its factory noise limitation proposal in order to cut costs for employers. Instead of the maximum of 85 decibels provided in the original draft directive *(Common Market Reports, Par. 10,428)*, the Commission has now proposed a noise level maximum of 90 decibels for the five-year period following the date of adoption. Exposure to high noise levels is known to cause deafness, and the risk can be controlled by reducing either the noise levels or the duration of exposure + + + The European Court of Justice has held that national law which grants mothers, but not fathers, a further period of leave on expiration of maternity leave is not contrary to Council Directive 76/207 on equal treatment for men and women with respect to access to employment, promotion, and working conditions (judgment of July 12, 1984, Case No. 184/83). German law entitles a mother to six months' maternity leave after giving birth and a maximum DM 25 per day. A father thought that extending the original statutory two-month postnatal leave to six months to mothers only was contrary to Community law. Not so, the Court of Justice said, answering a question from a German appellate social security court.

Germany: Plan for Tightening Air Pollution Rules

The German government has prepared amendments to tighten the regulations setting forth air pollution standards. The state governments and industry, union, and environmental organizations have been asked for their comments on the proposed changes *(Doing Business in Europe, Par. 23,544A)*. The amendments would considerably reduce the maximum permissible emission levels of some 200 substances and introduce new principles for licensing industrial plants. The measures do not deal with automotive emissions, which will be part of a separate proposal.

Standards for stationary sources emitting nitrogen dioxide and sulfur dioxide (primarily commercial and industrial heating plants) would be tightened, and the maximum permissible emission of carcinogenic substances such as asbestos would be drastically reduced. The stricter emission standards for lead, cadmium, nickel, mercury, cyanides, and fluorides would be based on the degree of noxiousness. The emission of substances (such as dioxins and polychlorinated biphenyls) known for their low degree of biodegradability, high potential for accumulating in the body, or high toxicity would have to be kept to the minimum levels possible under current technology.

The new principles for licensing industrial plants would furthermore allow enterprises in selected regions to agree among themselves on how to achieve the overall air pollution control objectives set by the authorities. A prospering company could reduce air pollution on its own to allow a less well-situated business to exceed pollution levels. This compensatory approach, comparable to the "bubble and offset" system followed in the United States, is believed to achieve better results in reducing air pollution in certain areas than the present policy of imposing strict standards *(Doing Business in Europe, Par. 23,543)*.

Interior Minister Friedrich Zimmermann expects resistance from industry to the planned tightening of emission standards, but he nevertheless hopes to convince the representatives of national industry and employer associations of the need to make further progress in improving air quality. Zimmermann hopes that the Kohl cabinet will be able to propose the measure to Parliament in late fall.

German Economic Upturn to Last Through 1985, OECD Predicts

The current "modest" economic upswing in Germany will continue at least until the end of 1985, although it is "insufficient to bring about a significant improvement in the labor market situation." This is one of the main conclusions drawn in the latest survey issued by the Organization for Economic Cooperation and Development, which predicts a growth rate of 2.9% for this year and of 2.7% for 1985. Unemployment is expected to average 2.23 million this year and 2.15 million in 1985, and inflation is forecast at 2.8% and 2.9%, respectively.

The OECD prognosis is slightly more optimistic than that of the German government itself, which expects a growth rate of 2.5% this year, but the Paris-based organization points out that the survey was completed too early to include an assessment of the damaging effects of the recent prolonged strike in the German metalworking and printing industries. The OECD experts support a continuation of Bonn's tight fiscal and monetary policies as a means of forestalling renewed inflationary pressures and boosting business confidence. It should be possible, the survey says, to avoid another rise in interest rates, although it is acknowledged that this effort might be foiled if U.S. interest rates do not come down.

The federal government's budget consolidation efforts have had a positive impact on the economic recovery in the Federal Republic, according to the OECD, despite the fact that they produced a restrictive effect of 3% in the years 1982-84. Bonn's avowed goal of returning the public finances to good health also has served to rebuild business confidence in a durable recovery, the report says. On the other hand, the OECD cites as negative factors the low level of capital yields in Germany (which it says is much lower than prior to the first oil crisis), weak corporate earnings, and problems in raising venture capital. The survey is very critical of Bonn's subsidies policies, saying that it would be advisable to take advantage of the current economic upswing to reduce state aids for certain business activities and thereby improve the chances of noninflationary growth.

Italy: Decision to Liquidate Southern Development Fund

The Italian government has decided that the time has come to liquidate the Cassa per il Mezzogiorno, the state agency that guided the post-war development of the country's impoverished south. The cabinet's decision followed the parliamentary defeat of three government decrees on Aug. 5, only one day after the Craxi administration won a vote of confidence on its policies. One of the decrees would have extended the life of the South Italy Development Fund for another seven months; it would have been the ninth such extension. The government blamed the defeat on the absence of some 100 deputies who had already left for their traditional August vacations.

The Cassa per il Mezzogiorno was set up in 1950 as the central agency for the planning, financing, and monitoring of economic development projects in the south. Since then, it has administered the spending of some 150 trillion lire ($88 billion) for such projects as hospitals, schools, roads, and irrigation. However, the agency has now basically fulfilled its objectives, and it is generally agreed that it should be dissolved. The government wants other state agencies to assume control over development funds for the south so that regional authorities in the Mezzogiorno will not be able to "help themselves" to state funds when planning and executing regional projects. The heated discussions over future procedures held up a final decision and caused the successive extensions of the Cassa's mandate. It is now expected that the government will appoint a liquidator to wind up the remaining projects and place some 2,500 Cassa employees in other public service jobs.

The parliamentary defeat of the other two decrees also means additional problems for Rome. They concern the creation of a single treasury *(tesoreria unica)* for all public-sector entities as well as changes in the public health system, both measures designed to trim the budget deficit. The new central disbursement agency would ensure that public-sector entities do not draw alloted state funds prior to actual use, which would save the government some 5,000 billion lire a year. The Craxi administration is now considering reintroducing the decrees for another vote.

Belgium: 1985 Draft Budget; Artificial Sweeteners

Based on the austerity measures agreed upon in March plus an arrangement with the commercial banks to cut the government's debt servicing charge, Belgium's government has produced a 1985 draft budget that sets the deficit at 10.3% of the forecast gross national product. This figure is slightly over the 10% target named in the three-year austerity program. The deficit should drop to BF 495.3 billion ($8.45 billion) from this year's projected deficit of BF 507 billion, or 11.3% of GNP, a figure which is more than double the EEC average. The three-year plan would cut the deficit from a peak of 13% of GNP in 1982 to 7% by 1987. Austerity measures will be spread throughout the public sector rather than focused on any particular programs.

The compromise budget, agreed upon by Prime Minister Wilfried Martens' four-party coalition of centrist Christian parties and right-wing Liberals, targets a 4% increase in total spending to BF 1,906 billion and a 7.3% rise in revenue to BF 1,415 billion in 1985. Growing interest costs on Belgium's debt will account for nearly 23% of total spending in 1985, up from an estimated 20% this year. Following an initial outcry at suggestions that they help reduce the deficit, Belgian banks have agreed on measures to chop approximately BF 25 billion off the government's debt servicing charges next year. The banks will accept a special BF 100 billion issue of three-year treasury certificates in place of the usual two-month to three-month paper, at a savings to the government of BF 10-13 billion. A further BF 12 billion in debt servicing charges has been eliminated from next year's budget through an agreement to delay until 1986 the beginning of interest payments on the next Belgian state loan, due to be issued this fall.

In other news, artificial sweeteners will be permitted in foods and drinks sold in Belgium beginning on Dec. 1. Aspartame, saccharin, and neohesperidin sweeteners will be permitted in sugar-free, reduced-calorie beverages in maximum amounts of 500, 125, and 50 milligrams, respectively, per liter. Sorbitol will also be allowed in certain foodstuffs.

Britain: Trade Union Act Extends Use of Balloting

THe U.K.'s Trade Union Act, which is primarily concerned with extending the use of ballots within unions, is being phased into operation over the next 18 months. Employment Secretary Tom King said that this extension of "ballot-based democracy" has "one common aim - to return the unions to the members."

Trade unions are being required to immediately start compiling an up-to-date register of their members' names and addresses, which must be completed by this fall. Ballots will then be organized from the registers. King emphasized that, in using modern means to compile registers, the unions could benefit by improving their collection of membership dues.

The prime objective of the law is to generally replace ballots at union branch meetings with postal ballots. King said that there have been abuses of branch ballots, such as holding them "at inconvenient places at inconvenient times," with inadequate announcements ensuring that only a few members would attend. The law contains a presumption in favor of a postal ballot, but unions will have the right to hold votes at the workplace if they believe a fair election would result. However, such ballots will have to pass all the tests of being "free and fair, free from intimidation, in secret, and involving the marking of a piece of paper." In any case, dissatisfied union members will be able to appeal to the courts, which will have the power to order a new vote by postal ballot.

The Act specifies that a union will be exempt from legal proceedings for organizing industrial action by its members only on the condition that it holds a properly conducted, secret strike ballot. This provision will apply to any such action commenced after Sept. 26, and it raises once again the question of when the National Union of Mineworkers will grant its members a ballot. (The miners' strike is now in its sixth month, with no imminent prospect of a settlement.)

Another measure, under which union members must be able to vote every ten years on whether their union should maintain its political fund, will come into force on March 31, 1985. All unions that maintain political funds will be required to hold a ballot by March 31, 1986, unless their members have been balloted in the last ten years. Unions will also have to elect executive councils every five years beginning in 1986.

Denmark: Economic Recovery Plan Called Partial Success

The Danish government's economic revitalization program has turned around many formerly sagging indicators in the past 20 months, according to the latest report by the Organization for Economic Cooperation and Development. However, the report warns that export performance and the competitiveness of domestic industry must be strengthened in order to bring down the dangerously high levels of the foreign debt and the current-account deficit. As part of this industrial upgrading, the OECD recommends that the center-right coalition government of Prime Minister Poul Schlüter continue its current income control policies, which halved the projected wage increases between 1982 and 1984.

Although the deficit in Denmark's balance of payments dropped from DKr 18.5 billion to DKr 10.9 billion last year, it began rising in the first half on this year. The deficit is expected to level off at DKr 13.6 billion this year before it goes back to DKr 11.1 billion in 1985. The net foreign debt should remain at almost 36% of the gross domestic product until 1985.

The OECD estimates that Denmark's GDP will increase by 2.75%

both this year and next year, provided that the government continues its wage controls. Inflation, which stood at 6.7% in 1983, should drop to 5.5% this year and to 4.5% in 1985. The employment situation is expected to improve only slightly, with 1983's 10.6% unemployment rate falling to 10% in 1985.

France: Exchange Limits Eased; Uniform Credit Card System

Midway through the vacation season, the French government has loosened its exchange controls, including restrictions on the use of credit cards abroad by tourists. The austerity measures had been enacted by the previous finance minister, Jacques Delors, in March 1983 to bring the rising current-account deficit under control. The new finance minister, Pierre Bérégovoy, announced that, in "an act of faith in the currency," the restrictions are being eased because official figures show that French currency reserves rose by FF 3.6 billion in June, to FF 86.3 billion ($9.72 billion). In March 1983, just after the last devaluation of the franc within the European Monetary System, the reserves were at a low point of FF 30 billion. Total French foreign reserves, which stood at FF 351.1 billion in March 1983, rose by FF 2.21 billion during June, to FF 439 billion, mainly due to the central bank's purchase of deutschmarks while the dollar soared.

As a result of the letup in exchange controls, French tourists can now use credit cards abroad to draw FF 2,000 a week in cash and to make purchases in unlimited amounts. Restrictions on credit card use by businessmen traveling abroad had been lifted previously. Companies may now transfer up to FF 250,000 abroad, compared with the previous FF 150,000, without going through a bank. Bérégovoy says 95% of all such transactions lie under the new limit.

In related news, French banks and financial institutions have agreed to unite their credit card systems under one organization, the Groupement des Cartes Bancaires. The first "CB" cards will be issued in September and will replace by the end of 1985 the old "Carte Blanche" of the Crédit Agricole and the "Carte Bleue" of other institutions.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: Lawyers Can Practice in Other States, EC Court Says

The European Court of Justice has held that the Treaty of Rome does not allow Member State authorities to prevent a lawyer from another Member State from practicing law only because he maintains his office in the other State. The right to practice law may not be denied in such a case, even in the absence of a Council directive coordinating national provisions governing access to, and the exercise of, the legal profession, according to the EC tribunal (judgment of July 12, 1984, Case No. 107/83).

A German attorney, who practiced law in Düsseldorf and had successfully completed his legal studies in France, applied to take the oath before the Paris bar and be registered in Paris as an attorney, while retaining his residence and law office in Düsseldorf. The Paris bar council said that although the attorney met all other requirements for admission he already had law offices outside the Paris district (in fact, outside France) and therefore did not qualify to be admitted. According to the bar council, French law and Paris bar rules hold that a lawyer may have offices in only one area within the territorial jurisdiction of the Tribunal de Grande Instance with which he is regis-

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tered. However, apart from his principal law office, he may set up another office within the same geographical area.

The German attorney won in lower court, and the bar association appealed. The Cour de Cassation asked the European Court of Justice whether Treaty Articles 52 *et seq.* allow the type of national restrictions that confronted the attorney, considering that there is no Community law on the matter.

The European Court replied that Article 52(1) requires the lifting of restrictions on the right of establishment, and even though no directive on the right of establishment for the legal profession has been adopted that fact cannot be invoked to escape the obligations under Article 52 following the *Reyners* ruling (judgment of June 21, 1974, Case No. 2/74, *Common Market Reports, Pars. 1302.01, 8256).*

Both the French government and the Paris bar council felt that the requirement allowing a lawyer to have offices only in one area was necessary from the viewpoints of judicial organization and professional conduct as well as the general interest. They thought that Article 52(2), in the absence of specific Community rules, allows a Member State to regulate the exercise of the legal profession within its territory. However, the Court of Justice said that Article 52(2) does not imply that a Member State may limit a lawyer to maintaining offices in only one area of the Community's entire territory. Such a restrictive interpretation would mean that a lawyer admitted to the bar in one Member State would be denied the Treaty-guaranteed freedom to establish himself in another State unless he abandoned his existing office, the Court concluded.

Butter Sale Plan Attacked by Consumer Organizations

The European Commission's efforts to step up the sale of subsidized dairy products, especially butter, have brought protests from several national consumer organizations. The plan is also likely to add to the trade tensions with the United States and New Zealand. Under the program, the Soviet Union and Iran and other Middle East countries plus EEC food processors will be offered butter at reduced prices. The Commission hopes to sell some 75,000 metric tons this year and up to 150,000 tons in 1985. The EEC's "butter mountain" totals one million tons and is expected to reach 1.2 million tons by the end of the year. Milk production quotas and other measures enacted by the Council of Ministers last April are only slowly showing their intended effects.

Consumer organizations in several Member States are attacking the program on various grounds. They resent the fact that the plan does not include comparable price reductions for consumers. (Special Christmas sales have been offered in the past; the Council is expected to decide in September whether there will be "Christmas butter" this year.) Even if the Commission succeeds in clearing the refrigeration houses of stored butter, the organizations claim, 600,000-800,000 tons of new surplus butter would accumulate in just one year. The reason is that the enacted quotas cutting back milk production to 1981-1982 levels are not drastic enough.

The U.S. and New Zealand will be watching for the terms under which EEC butter is offered to the Middle East countries, to whom they also sell butter. Although the EEC would respect the minimum price of $1,200 a ton, as fixed under the General Agreement on Tariffs and Trade, this would still be $400 less than prevailing world market prices.

Although the Commission has the right to sell surplus dairy products, it is dependent on the Council of Ministers for funds to finance the program. Commission officials anticipate a positive Council response, since it is cheaper to sell butter at a subsidized price than to store it. The annual storage cost for one million tons is currently $480 million.

In Brief...

The Commission has fined six European zinc producers for violating EEC competition rules through price fixing, not selling to the London Metal Exchange (LME), buying on the LME to back up zinc prices, and occasionally restricting production to agreed levels. The fines, totaling ECU 3.3 million ($2.5 million), were imposed on Billiton of the Netherlands (ECU 350,000), Metallgesellschaft and Preussag of Germany (ECU 500,000 each), Penarroya and Union Minière of France (ECU 500,000 and 950,000, respectively), and Rio Tinto Zinc of the U.K. (ECU 500,000) + + + Denmark is holding up adoption of the environmental impact assessment proposal. This measure, to which the other Member States have agreed, would require the States to enact legislation, if they do not already have it, calling for an assessment of the impact of major public and private projects on the environment. In Denmark, Parliament alone decides on major public projects such as highways and dams and allocates the necessary funds, and the Danes say the draft directive would interfere with this practice. An express requirement that the Folketing make an assessment would encroach on its sovereign rights, they say.

Germany: Steps Suggested in Event of Economic Decline

German Economics Minister Martin Bangemann has presented the Kohl cabinet with a broad range of measures that should be considered for 1985 if the economy takes a sharp decline. Action would have to be taken if the GNP growth rate drops to 1.5-2%. (For 1984, growth is forecast at 2.5% of GNP.) Bangemann does not suggest a government-supported job creation program, even if unemployment, now at 2.2 million (8.5%), should rise. Only substantial investments by enterprises could bring about a real and lasting change in the unemployment situation, the economics minister says.

The most important of Bangemann's suggestions, presented in a report on the current economic situation and outlook, is the deduction of credit costs from taxable income. Allowing taxpayers to deduct interest paid for credit obtained to finance investments, a privilege revoked in 1974, is considered an effective way of promoting investments. Finance Minister Gerhard Stoltenberg is against the revival of this privilege because of the expected annual revenue loss of DM 2 billion. Bundesbank president Karl Otto Pöhl opposes it because the use of the privilege works against the central bank's lending policy. In reply to criticism of the plan, Bangemann suggests that mortgage interest payments should not be deductible. (Deduction of interest payments until the end of 1987 is provided in economic recovery legislation - *Doing Business in Europe, Par. 40,470.*)

Other measures suggested by Bangemann would abolish the capital investment tax (1% of a new company's stated capital) and the securities exchange tax (1-2.5%, depending on the type of security). Bangemann sees in the repeal of both taxes, which yielded roughly DM 370 million in revenue in fiscal 1982, a way to stimulate the creation of venture capital. Another method would be to allow shares of medium-size businesses, such as those of limited liability companies, to be traded on stock exchanges.

Bangemann also recommends the removal or lowering of bureaucratic hurdles, the government's retreat from fields of economic activity where private businesses would fare better, and cutbacks in state subsidies. Work on cutting red tape in the construction sector is under way and will reduce by half the standards that building material producers and construction firms must abide by. One area where the government is asked to consider partial retreat in favor of the private sector concerns the vast field of testing covered by the Technische Überwachungsvereine (TÜV). These state agencies verify compliance with federal safety rules for thousands of products - from consumer goods to power plants. Civil engineers could be entrusted with some of these services, Bangemann says. A gradual reduction in subsidies, especially those granted to declining industries, would make additional funds available to support growth industries.

Greece: Athens Defends Takeover of 'Problematic' Firms

Economics and Finance Minister Gerassimos Arsenis has confirmed that 35 "problematic" Greek enterprises with total liabilities of 50 billion drachmas are currently undergoing financial restructuring under the provisions of Law No. 1386/83. This controversial law gives the Socialist government the right to assume control of ailing businesses that are in need of state assistance for their survival. In most cases, state ownership would be temporary and only for the period of time it takes to return the business affected to financial health. However, in the case of companies deemed to be of "strategic importance," Athens can decide on permanent ownership, which it is doing particularly in the defense and mining industries. A state takeover usually involves the replacement of the administrative (supervisory) board with government appointees. Suits are currently pending before the Supreme Administrative Court, challenging the constitutionality of the legislation.

Arsenis also confirmed that the government has received the applications of many other smaller businesses, with 100 to 150 employees each, which also want to avail themselves of direct state support. Private sources say that, if the 35 enterprises mentioned above are included, the total number of businesses seeking protection under the umbrella of Law 1386/83 exceeds 150. Most of these companies are now being subjected to preliminary investigations to determine whether they are essentially viable and thus worth rescuing.

The Greek business community is generally skeptical of the government's intervention. One reason is the fear that the competitiveness of financially sound businesses will suffer if ailing companies are permitted to suspend payments to their creditors. The economics minister has given assurances, however, that any payment moratorium will not exceed 6-8 months, since such companies will usually be able to resume production and operations during that period.

Prime Minister Andreas Papandreou reiterated recently that, with the exception of the defense and mining industries, the government does not intend to stay in control of businesses that have successfully undergone reorganization and rehabilitation. He again defended Law 1386/83, saying that the legislation was necessary because the "very sick" Greek industry had failed in previous years to invest in modernization, despite the easy availability of investment credit at that time. "We will return these businesses to the private sector," Papandreou said, provided that "private investors are interested."

In a recent meeting with representatives of the Athens chamber of commerce, the national industry federation, and the national trade federations, the prime minister pleaded for the business community's understanding and cooperation in the efforts to master the difficult economic problems facing the country.

France: Carmakers Consider Job Cuts; Creusot-Loire

French automakers are considering further workforce cuts as figures for the first half of the year show that car sales dropped 15% from the first six months of 1983, while imports held a record 41% of the domestic market (in July). Thus, foreign car manufacturers have doubled their share of the French market since 1979. In western Europe, the French market share has declined from 30% to below 22% since 1978.

A government study is expected to recommend next month that the French auto industry, which employs about 265,000, slash at least 70,000 jobs by 1988, in addition to the 70,000 workers already laid off in the past six years. Citroën should receive government permission soon to eliminate 2,000 additional jobs, provided the unions accept a ten-month retraining period for the workers affected. The carmaker had asked in April to cut 6,000 jobs, but Paris authorized only 4,000, recommending that Citroën discuss job-saving measures with the unions. Meanwhile, state-owned Renault has denied reports that it will eliminate 15,000 positions this year, although the announcement did not rule out such a cutback being spread over the next 12 to 18 months.

In other news, state-owned enterprises will probably acquire major shares in the new company being formed to take over the assets of Creusot-Loire, the heavy engineering group that went into receivership in June. Hubert Lafont, the court-appointed Creusot administrator, said 34% of the new group would be held by certain state-owned banks, possibly including Crédit Lyonnais, Société Générale, Banque Nationale de Paris, and Banque de l'Union Européenne. Usinor, the state-owned steel group, would have 15%. The other 51% would be held jointly by Fives Cail Babcock, a private machinery company formed through a series of mergers in the 1970s, and Framatome, the nuclear-reactor builder in which Creusot has a 50% stake.

Britain: Stiffer Penalties for Delinquent Directors

After widespread consultations, the U.K. government has agreed to propose stiffer penalties for delinquent company directors. Any director of a company that is compulsorily wound up by the High Court would be automatically disqualified from holding further directorships for a period of up to 15 years, and his name would be included in a register at Companies House, where particulars of all U.K. companies are recorded.

In February, the government had published a White Paper on an insolvency law reform. This discussion document, based on a five-year study undertaken by a committee headed by Sir Kenneth Cork, proposed that the disqualification take effect from the date of the winding up. This proposal was modified in the wake of business protests: directors would now have a further 28 days in which to appeal to the High Court. A disqualification would become effective three months after issuance of the winding up order if a director could not show grounds for relief.

Alex Fletcher, the government minister responsible for corporate and consumer affairs at the Dept. of Trade and Industry, stressed the need for automatic disqualification because this would be the only sanction between voluntary and compulsory liquidation that could "encourage an earlier recognition" of a company's indebtedness. He said the persons whom the proposals were designed to catch are the "delinquent directors...who do nothing to prevent a company from collapsing."

Various specified grounds for relief from disqualification will be included in the proposed legislation. There would be safeguards for directors who have held office for less than a year and relief for those who had earlier opted for voluntary liquidation or who remained on the board to protect the interests of creditors and shareholders. Directors would also be able to avoid disqualification if an outside administrator had been brought in to try to rescue a company in financial difficulties. However, directors who were shown to have traded "recklessly" or fraudulently would no longer enjoy the privilege of limited liability but would be personally responsible for their company's debts. Legal proceedings for "wrongful trading" would go through the civil courts, where the degree of proof required is less than for a criminal conviction.

There has been much criticism of the fact that creditors often receive nothing when a company is wound up. The Cork committee proposed that there no longer be a list of preferential creditors, such as the Inland Revenue and the public utilities. However, the government does not propose to make this change, and unsecured creditors would not be given any additional protection. The government has also turned down the Cork proposal that all company liquidators belong to a professional body to create an "automatic discipline." Fletcher said that some liquidators are qualified by experience, and, if they have a "good track record," it would be unfair to exclude them. They would instead be licensed by the Dept. of Trade and Industry.

The draft bill to implement the new measure is expected before the end of the year and would become law by August 1985.

Italy: Stock Exchange Reform Set for Fall

New regulations will go into effect this fall extending to the other nine Italian stock exchanges certain procedures already in practice at the Milan stock exchange. Consob, the Italian equivalent of the U.S. Securities and Exchange Commission, has sent the regulations to the Italian banking, brokerage, and stock corporation associations for review.

Among the new rules is one concerning the "free transfer" of shares in companies that have applied for admission to trading. No limitations will be placed on the transfers, as was done, for example, by the now-liquidated Banco Ambrosiano, whose shares could be obtained only with board approval. Another rule will require a quoted company to make at least 25% of its shares accessible to public trading. Consob, however, retains the right to grant exceptions to these regulations.

The changes are part of an overall reform of the Italian financial market. New rules recently went into effect directing company groups to draw up consolidated balance sheets and amending the method used for certification of balance sheets.

Spain: 1985 Draft Budget Holds Wage Increases to 6.5%

The Spanish government will attempt to hold wage increases below inflation, to a rate of 6.5%, for the second consecutive year, according to the 1985 draft budget. Madrid hopes to bring the inflation rate down to 7% next year, from the current 8%. The budget also sets the M3 money supply at 13.1%, allowing a 7.5% increase in the amount of credit available to the private sector. According to the draft, which must be submitted to Parliament by Oct. 1, the gross domestic product should rise 3% in 1985. The draft lists total government expenditures of 6,400 billion pesetas ($39.1 billion) and revenue of 4,700 billion pesetas. The deficit of 1,700 billion pesetas represents a 300 million peseta increase over the 1984 deficit.

Meanwhile, the draft budget is forming the basis for talks between the government, employers, and unions on a wide-ranging pact for 1985 and 1986. The Communist-led Workers' Commissions are pushing for stronger action on job creation, while the government has formally abandoned its 1982 campaign promise of creating 800,000 jobs in four years. The employment picture is expected to improve, however, following projected total job losses of 220,000 in 1983 and 1984.

EURO COMPANY SCENE

United Technologies Automotive, Inc., and Germany's Grundig AG are planning a joint venture to develop, manufacture, and market electrical cables and other automotive-related parts for German distribution. UT will have a 74.9% share in the new company, United Technologies Grundig GmbH, and Grundig will own 25.1%. Production at the Bayreuth plant should begin in the first half of 1985.

Continental Illinois Corp. has agreed to sell its London merchant bank, Continental Illinois Ltd., to First Interstate Bancorp. of Los Angeles for an undisclosed price. The London subsidiary has a book value of $23.5 million.

The Premiere International partners have signed a preliminary agreement with Beta-Film of Munich to form a pay television service in German-speaking countries. A minority interest will be held by the U.S. partners, Columbia Pictures, Home Box Office, Showtime, Thorn-EMI, Twentieth Century Fox, and Warner Bros. The service is scheduled to be introduced before the end of the year to a test audience in Munich.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: Exemption Rules for Licensing Agreements

The publication this month of the European Commission's regulation on the exemption of certain types of patent licensing agreements from the Treaty's ban on restrictive practices is a milestone in EEC competition policy (Official Journal No. L219, August 16, 1984, page 15). The regulation, which is scheduled to take effect on Jan. 1, 1985, will ease EEC competition rules for patent holders and licensees. Parties to patent licensing agreements will be allowed to include certain restrictive clauses, and such agreements will still qualify for an exemption.

Under Treaty Article 85, all restrictive agreements are automatically void unless they qualify for an individual or group exemption. The group exemption is particularly advantageous because the parties do not have to notify their agreements. A patent licensing agreement is not subject to the ban of Article 85(1) if the patent holder, for a fee, grants another person the right to exploit the patented invention. Article 85(1) applies where the authorization to use the patent or other industrial property right includes clauses that restrict competi-

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tion to an extent not justified by the need to protect industrial property rights. In the new regulation, the Commission is seeking to protect industrial property rights so as to promote technical progress by making it worthwhile for companies to utilize patent licensing, while at the same time not abandoning the principles of the competition rules. By distinguishing between clauses in licensing agreements that automatically qualify for exemption and those that do not, the regulation offers legal security to licensors and licensees. Criticism from industry representatives, mainly from Britain and Germany, forced the Commission to make many concessions and to revise several drafts. The 1979 proposal underwent massive changes following continued criticism from industry and the European Parliament. The published regulation is far more liberal than the original proposal on the number and extent of restrictive clauses that licensing agreements may contain (*Common Market Reports, Pars. 10,112, 10,118)*.

A major concession was forced upon the Commission by the Court of Justice in the "Maize Seed" case relating to open and closed exclusive territorial licenses *(Common Market Reports, Par. 8805)*. A patent licensing agreement may contain a clause providing for an open exclusive license and still qualify for an exemption. The licensor is prevented from granting other licenses or exploiting the patented invention himself only in the territory granted to the licensee, so that parallel importers and other licensees remain free to sell in that territory. But a licensing agreement may not contain a clause providing for a closed exclusive license. In this case the licensor also commits himself to keeping others from importing the licensed product into the licensee's territory, so that the licensee enjoys absolute territorial protection.

A licensing agreement would not be disqualified from exemption for including such commonly used clauses as the licensor's commitment not to license others to exploit the licensed invention in the licensed territory or the licensee's obligation not to use the invention in Common Market territories reserved for the licensor and protected by parallel patents. The regulation also allows fewer common clauses to protect against active and passive competition. Exemption would not be jeopardized by a clause obligating the licensee to refrain from pursuing an active policy (for example, establishment of a branch or advertising) of marketing the licensed product in the EEC areas licensed to other licensees so long as the licensed product is protected in those areas by parallel patents. The same would be true of a clause committing a licensee, over a five-year period, to not marketing the licensed product in territories licensed to other licensees where the product is protected by parallel patents (passive competition). This provision on passive competition is also a new element that was put in the regulation at the request of several members of the Advisory Committee on Restrictive Practices and Monopolies, which the Commission had to consult before using its legislative powers *(Common Market Reports, Par. 2723)*.

U.K. to Revert to Deferred VAT Payments for Imports

The development of the Community's internal market, incomplete as it is, could suffer a serious setback if Britain carries out its plan to revert as of Oct. 1 to the Continental system of collecting value-added tax on imported goods at the border. The U.K., Ireland, and the Benelux countries have been collecting VAT at the place of destination by what is known as the deferred payment method *(Common Market Reports, Par. 10,411)*.

Part of the Commission's program to strengthen the Community's internal market is a pending proposal that would require the other five Member States to change over to the deferred payment method. Adoption of the measure would reduce costs for importers because deferred payment is less time-consuming for truckers. The Commission estimates that border formalities inside the Community cost businesses some $10 billion a year. If Britain reverts to border collection, the chances that the proposal will be adopted are slim, Commission lawyers say.

The five Member States that collect VAT at the border have expressed misgivings about the proposal. A major objection is the fear that once goods have crossed the border the chances of tax evasion are greater. (Commission lawyers say that an importer's or a trucking firm's failure to pay VAT at the inland tax office would hurt its chances of continued importing in the future.) Another objection is that collection responsibility would be shifted from border customs to inland tax offices. Germany and France hesitate to make this change, which would mean more work for the understaffed tax offices and less work at border checkpoints.

Germany: Employers Turned Down on Benefits Issue

The social security court in Frankfurt has rejected an application filed by a German employers' association to lift a temporary order suspending a Federal Labor Office circular. In that circular, FLO president Heinrich Franke had instructed the 142 labor exchange offices not to grant unemployment benefits to employees laid off because of a lack of supplies caused by a metalworkers' strike in Baden-Württemberg and Hesse. The unions had obtained the temporary order from the same Frankfurt court that suspended the circular. After an appellate social security court had confirmed the order, Franke in a new circular told the labor exchange offices to pay unemployment benefits, with the reservation that the decision is upheld in the main proceedings. Some DM 200 million were paid out *(Doing Business in Europe, Par. 40,573)*.

The Frankfurt social security court has rejected the action brought by the Hessian association of employers in the automobile, metalworking, and engineering industries because the assoiation did not have a substantial interest. The court found that its June 12 order was valid only so long as the industrial dispute lasted. Since the dispute over the introduction of the 35-hour workweek has ended, the employers' association no longer has an interest in pursuing the issue, the court said.

Labor law experts largely concur with the ruling. They estimate that it will take four to six years before the Supreme Social Security Court gives its final verdict on the legality of the circular, which was based on the principle of neutrality that the FLO must follow in labor disputes. According to this principle, a union that has started an industrial dispute by telling its members as well as nonorganized employees in a particular region to walk off their jobs, causing disruption of supplies in nonstruck regions, should not be indirectly aided by unemployment compensation to employees laid off by employers outside the struck region who have run short of supplies.

Whether this principle is still valid will eventually be decided by the Supreme Social Security Court. The Kohl administration wants to know whether the high court will confirm the FLO's principle of neutrality. Even if the Supreme Court confirms the doctrine, this would not necessarily mean that the Labor Office would ask the 200,000 workers who received the benefits to return the money, even though the funds were paid out with reservation.

Italy: Proposed Tax Reform to Raise More Revenue

Just before the Italian government and Parliament went into the summer recess, Finance Minister Bruno Visentini presented a tax reform program that he expects would bring in at least 10,000 billion lire in additional revenue. Visentini, a former president of Olivetti and a Republican, had been instrumental in implementing a major tax reform ten years ago. He views the new project as "a reform of that reform." The previously enacted reform, which introduced a modern system of self-assessment, has generally proved its worth but, over the years, has been diluted by numerous exceptions granted by Parliament. Also, Visentini's successors and predecessors within the past ten years often held different views about the direction that the Italian tax system should take.

The proposed revision includes the scaling down of the value-added tax from eight different rates *(Doing Business in Europe, Par. 25,886)* to only four - 2%, 9%, and 18% for regular transactions and 38% for "luxury" items. The treasury could expect substantial gains from the introduction of lump-sum VAT assessment of businesses which avail themselves of simplified bookkeeping this year or which, on the basis of regular bookkeeping, report a turnover of no more than 780 million lire annually. The lump-sum VAT assessment would initially cover the years 1985-87.

A similar revision would introduce lump-sum income tax assessment, with small businesses having the option of choosing regular bookkeeping in order to document lower-than-average earnings. Businesses in Italy that are allowed to operate with simplified bookkeeping are notorious for reporting very low earnings, so that the fiscal authorities believe there is a large revenue potential in this area. Still more revenue would be expected from limiting profit distribution ratios: the principal owner of a family-run business would have to account for two-thirds of any profits, and only one-third could be distributed to other family members. Under present rules, profits may be evenly distributed among the family members.

The new legislation would severely limit the deductibility of expenses for self-employed persons, and those listed in professional or occupational registers would have to maintain journals and client lists. Real property investment and holding companies would be subject to stricter fiscal surveillance because these types of businesses are often used to camouflage large assets and incomes, according to the finance minister.

France: Unions Demand Loosening of Austerity Measures

The French unions are intensifying their pressure on the government to relax its economic austerity measures in the face of rising unemployment and sinking real-term incomes. The latest demand has come from André Geregeron, leader of the moderate Force Ouvrière union, who says government statistics underestimate the extent of French unemployment. Official figures show a 0.8% increase in July to 2.34 million jobless and predict a total of 2.5 million by the end of 1987. Geregeron, however, says that because the statistics exclude certain groups, the actual figure is over 2.5 million and should reach 3 million by the end of the year.

Union complaints were spurred last month when the government raised gasoline and telephone charges, while 1984 wage increases remain well below the expected inflation rate of about 7%. Although the new prime minister, Laurent Fabius, has pledged to continue the tough economic measures, Finance Minister Pierre Bérégovoy seems less committed to the policy. Due to increasing tensions since the Communists left the governing coalition last month, observers believe the Communist-led Confédération Générale du Travail may lead action in protest of the continuing austerity program.

Despite labor's complaints, recent Labor Ministry figures show that fewer working days were lost to strikes in 1983 than in any other year since 1950. The 1.48 million days lost last year amount to less than half the yearly average of 3 million for the last 30 years and slightly less than the average of 1.7 million since the current government took over in 1981. The CGT led 41% of the strike actions, followed by the Socialist CFDT with 12%, and Force Ouvrière with 1%. One-fifth of the lost days were due to strikes that did not have official union approval. Hardest hit by the strikes were the steel industry, machinery manufacturers, dockyards, and other enterprises that have had to lay off many workers.

Britain: Advertising Options Expanded for Accountants

Chartered accountants in England, Wales, and Scotland will be allowed to advertise their services more freely beginning on Oct. 1. However, certain limitations will remain, and the governing bodies of the institutes of chartered accountants have urged their members "to uphold the dignity of the profession."

For the first time, accounting firms will be able to advertise their services in national newspapers, rather than just in the local press, as well as on television and radio. However, published advertisements will be restricted in size to a quarter of a page in order to protect smaller accountancy firms with limited resources. Firms will not be permitted to advertise their actual rates, although they may explain the basis on which fees are calculated.

Chartered accountants will be able to list themselves in directories and participate in exhibitions and seminars. However, professional literature cannot be sent unsolicited to nonclients, and "cold calls" of any kind are outlawed. The new regulations also provide some guidance on what constitutes good taste in advertising. They call for the avoidance of any publicity that could be considered "sensational" or "shocking" or that makes "odious comparisons" or is "strident in tone, hectoring, or extravagant."

The president of the Institute of Chartered Accountants in England and Wales, Alan Hardcastle, says the new rules are much clearer than the present advertising restrictions, although there might be some difficulty in defining good taste. He says that, "in dealing with professional standards, there will always be an element of subjectivity."

Denmark: More Deficit Cutting in 1985 Draft Budget

The Danish budget deficit next year is to be reduced to DKr 42 billion after this year's planned DKr 45.5 billion, according to the 1985 finance bill presented by Finance Minister Palle Simonsen on Aug. 15. Last year's shortfall had still totaled DKr 54.1 billion. In his budget message to Parliament, Simonsen said that next year's deficit would correspond to 7.1% of GNP, compared with 8.2% this year and 10.5% in 1983. The new shortfall would be half of that projected for 1985 two years ago, when the non-Socialist coalition government of Poul Schlüter came to power.

Simonsen told the Folketing that it is the government's intention to eliminate the current-account payments deficit within three years and the budget deficit by the end of this decade. The draft budget projects expenditures of DKr 191.4 billion and revenues of DKr 149.4 billion. Public spending next year is to be held down to DKr 185 billion, which would practically amount to a freeze and still include reserves to cover inflation and wage cost risks. In this connection, Simonsen appealed to both the employers and the unions not to exceed a 2% limit for wage increases next year.

Simonsen devoted part of his message to Denmark's continuing debt problem, with the state now owing DKr 360 billion (70% of GNP), including foreign liabilities of nearly DKr 103 billion. The country's total foreign debt amounted to DKr 185 billion at the end of 1983, equal to 36% of GNP. Within the first six months of this year, the payments deficit rose by another DKr 10.5 billion, so that the foreign debt will continue to grow for the 21st year in succession. Despite the government's relative success in reducing the budget deficit, the crushing interest burden will cause the public-sector borrowing requirement to go up still further, to DKr 123.1 billion, after DKr 118.7 billion this year (projection) and DKr 114.9 billion in 1983.

The new budget, for which parliamentary passage in October appears assured, will offer more flexibility than previous ones, according to Simonsen. Individual ministries and government departments will be relatively free to make their own budget decisions; however, any expansion in one area will have to be compensated for by cutbacks in others, the finance minister warned.

Austria: Further Cutbacks Urged to Finance Debt

Austria will have to continue reducing its highly developed social welfare system because the state is no longer able to finance the steep increase in costs. This is a conclusion in the latest annual report of the state debt commission, whose chairman, Prof. Helmut Frisch, pointed out that 10% of the state revenues are needed merely to pay interest. In fact, to service the debt (principal and interest), Vienna had to set aside nearly 17% of total federal revenues in 1983 and will have to spend 20% this year. Frisch sees a particular need to curb the "dramatically increasing" expenditure for the old-age pension system and the high deficit of the federal rail system.

The Austrian state debt rose last year by almost 22%, to 416 billion schillings, following increases of 13-16% in the four previous years. In 1983, the increase totaled almost 75 billion schillings. In the past, Vienna had usually downplayed the trend, arguing that Austria still holds a middle position among the other European countries. Nevertheless, the report points out that the current rates of increase put the country in the top ranks and that the net deficit of 62 billion schillings projected for 1984 is too high. In fact, the shortfall would have reached more than 90 billion schillings had the government not recently come up with new fiscal restrictions, including a boost of value-added tax rates and the introduction of a tax on interest income from savings deposits and bonds.

Because of very high liquidity, 80% of new government issues last year were raised on the Austrian market, causing the domestic debt to go up by nearly 25%, to 291 billion schillings. Public-sector borrowing abroad again concentrated on Swiss francs (55.5%) and deutschmarks (31%). Austria's dollar debt amounts to only about 2%.

Spain: U.S. Leads Rising Foreign Investment

Foreign investment in Spain soared in the first half of this year in anticipation of the country's entry into the EC, scheduled for Jan. 1, 1986. In the first six months of 1984, the government received 1,110 applications for authorization of foreign investments totaling over 150 billion pesetas ($920 million). The green light has been given so far to 859 projects valued at a total 109 billion pesetas, compared with 70 billion pesetas for the same period in 1983. Even considering Spain's 12.2% inflation rate last year, the foreign investment increase of 56% in pesetas and 38% in dollars represents a great advance compared with stagnating domestic investment. Total foreign investment in Spain in 1983 amounted to 158.2 billion pesetas, down from 182.4 billion pesetas in 1982.

In the first half of this year, the U.S. share of approved investments totaled about 20.5 billion pesetas, including the 11.3 billion pesetas being put into General Motors Española by its parent company. Britain follows with 13 billion pesetas and Japan with 11.5 billion pesetas. Of the overall total, 12.1% was for the purchase of stock, 8.2% for the establishment of new ventures, and the remaining bulk for capital expansion. The metals and precision machine industries are benefiting the most from the influx of foreign capital, with a share of 40%. Insurance, financial, and other service companies account for 25.6%.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: Accession Issues First on Council's Agenda

The Community institutions resume work this week after the summer recess with a flurry of activity in the Council of Ministers and the European Commission. The foreign ministers of the ten Member States were to meet on Sept. 3 to try to come to an agreement on the remaining issues in the EC-Spain accession talks. Only when the Council of Ministers reaches a consensus on the remaining conditions that Community negotiators will present to their Spanish counterparts can the talks resume and be brought to a conclusion. The ten heads of government realized at the Fontainebleau summit meeting last June that the original Sept. 30 deadline for winding up the negotiations was unrealistic, and they set a target date of Oct. 31. Many Brussels observers consider even the end of October to be too optimistic. If the talks can be wound up this year, the most important deadline still could be met - accession of both Spain and Portugal on Jan. 1, 1986.

The three major issues still to be resolved are agricultural commodities, fisheries, and free movement. Among the farm

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trade problems is the prospect that Spain will be the EEC's third major wine producer after France and Italy. French and Italian wine growers are largely responsible for the perennial wine surplus that the present Community can no longer continue to finance. Italy is balking at a pending proposal that would provide for national wine production quotas similar to those enacted last April to slow milk production. So long as the Council of Ministers has not agreed on some method of controlling surplus wine production, it cannot present a proposal for the conditions under which Spain would join the common wine market organization. Spain's accession would also have consequences for the olive oil market now dominated by Greece and Italy. These two States have so far declined to agree to a reduction in financial support to their olive producers, which is part of a Commission proposal. The savings would make it possible to aid Spanish farmers.

Germany has been insisting on its position that Spanish and Portuguese workers should not be granted the right to move freely within the EEC prior to 1993. Most of the other Member States, led by the Netherlands, would be willing to extend this right years earlier and thus move toward a compromise with the Spanish and the Portuguese, who have been demanding free movement as of 1986.

Report Depicts Bleak Picture of Social Situation

The social crisis in the Community, marked primarily by rising unemployment, is "spreading like an oil slick," according to the Commission. In its recently released 1983 Report on Social Developments, the Commission points to the fact that overall unemployment has doubled since 1979 and reached a new record level at the end of 1983 with 12.5 million people out of work. Some 4.5 million of the total are persons under age 25, and roughly a quarter of these young unemployed have been without jobs for more than a year. Although the Commission sees an improvement in the Community's overall economic situation this year, the report on 1983 is bleak.

The Commission says that unemployed juveniles, women, and aliens - the groups most affected by social tensions - are having increasing difficulties in coping with their situation. The Commission also reports a dangerous rise in hostile and racist reactions against aliens in those regions and enterprises that have been hit the hardest by unemployment. National authorities have done too little to reduce social tensions, according to the EC Executive.

Europe is standing at a difficult juncture, the report states, and its social structures are facing the test of having to undergo a comprehensive process of economic revival and industrial adaptation. It is understood that the necessary changes have to be made fast, but there is also understanding that these changes cannot be made entirely at the expense of workers, the

Commission says. The EC Executive realizes the difficulties the Member States are facing in providing jobs for unemployed juveniles, protecting the rights of minorities, and at the same time pursuing the common good for all. Nevertheless, it says that measures must be taken quickly to improve the situation. For its part, the Commission plans to submit to the Council of Ministers a proposal that would aim at improving the legal status of aliens and thus increase their chances of integrating themselves into the States of their residence.

Germany: Tax Agents' Bank Raid Worries Taxpayers

A raid in early June by revenue agents at the Deutsche Bank's downtown Düsseldorf branch is worrying taxpayers concerned about banking secrecy in connection with tax matters. (The raid was disclosed in mid-August.) Criticism from the media, along with harsh statements from officers of two national banking associations, prompted a comment from the Justice Ministry in an attempt to soothe taxpayers and bankers.

The revenue agents appeared at the branch office with a search warrant signed by a local judge. The warrant alleged tax evasion by several Düsseldorf dentists and also named the branch manager as an alleged accomplice in aiding tax evasion. Revenue authorities suspected that the amount of gold the dentists bought and charged to business expenses could not possibly have been used entirely for dental work. Evidence obtained in the raid indicated that the dentists resold large quantities, cashed the checks at the branch bank, and failed to declare the receipts. Significantly, in collecting evidence, the tax agents also took along documents concerning the financial activities of other taxpayers.

Bank attorneys lodged an appeal with the Düsseldorf district court claiming the search was illegal, especially the confiscation of financial documents of persons not named in the search warrant. (The bank has also lodged an administrative protest with the regional tax office that supervises the anti-tax-evasion divisions of local tax offices.) The attorneys contend that confiscation of evidence that the revenue agents discovered by accident during the search is in violation of the Code of Criminal Procedure and statutory banking secrecy.

Justice Minister Hans Engelhard said the raid did not represent a departure from the tax authorities' current practice with respect to banking secrecy. Current practice bars tax authorities from approaching banks at random to find out who has an account, the size of deposits, and how much interest is paid. Only if the tax authorities have reason to suspect tax evasion may they compel the particular bank to disclose the relevant information, and then only when all other attempts, especially the questioning of the taxpayer, failed to establish his taxable income. Engelhard said it would be a travesty of justice if agents were to ignore evidence of tax evasion they discover by chance.

Ireland: Central Bank Optimistic on 1984 Economy

In its latest bulletin, the central bank of Ireland adopts a cautiously optimistic view of the country's economic prospects. Although unemployment levels are likely to go on rising during the remainder of the year, the bank reports continuing signs of economic recovery, due largely to a growth in exports. The report predicts that the annual rate of inflation at the end of 1984 will stand at "just over" 7%, while the average inflation rate for the current year will be 8.75% - a noticeable improvement when compared with the past few years.

The central bank forecasts an overall growth for the economy this year of 2.25%. It has revised from 13.75% to 16% its previous figure for an increase in the volume of exports, principally in the industrial rather than in the agricultural sector. This will, in turn, be reflected to some extent in increased imports of raw materials and equipment. However, the rise in exports at a faster rate than that for imports is likely to produce a trade deficit that is Ł140 million (Irish) lower than that in 1983, namely, one of about Ł330 million.

The bulletin estimates that the number of unemployed is likely to increase by around 20,000 this year, so that by the beginning of 1985 the total will be about 228,000. The central bank's earlier predictions that improved domestic demand and increased exports would result in added industrial investment, and consequently the creation of new jobs, have not been fully realized. Its previous forecast for volume growth this year in investment in machinery and equipment has been scaled down from 8.5% to 6.5% and in building and construction from 4.5% to 3.5%. The bank emphasizes that this uncertain timing of the investment response has "implications for the timing of any pickup in the level of employment in industry."

The forecast for personal consumer spending in 1984 has also been revised downward from 2.5% to 2% because this sector was more depressed in the early months of this year than was originally projected. However, predictions for government expenditures in the current year remain unchanged.

Irish Clearing Banks to Operate More Independently

The cartel operated at present by the four clearing banks in Ireland is undergoing significant changes, and in the future the banks are likely to operate much more independently. This is intended to combat more intense financial competition from building societies and other institutions.

The banks have already applied on an individual basis to the central bank for permission to increase charges for foreign exchange transactions. Now the two Irish-owned clearing banks, the Bank of Ireland and the Allied Irish Bank, which account for more than 80% of the country's retail banking business, are seeking to raise their charges generally. They say that the current charges cover only about one-third of the actual costs of transactions. The other two clearing banks, the Ulster Bank and the Northern Bank, which are subsidiaries of U.K. banks, are likely to follow suit.

The banks have not previously competed with each other on charges and interest rates, and any changes have been made jointly. However, it now appears probable that there will be more direct competition, and customers will be offered a range of incentives. Observers regard it as ironic that the first moves away from the cartel will result in higher bank charges to customers.

Britain: Accountant Institute to Speak Separately

The Institute of Chartered Accountants in England and Wales has notified the other five member organizations of Britain's Consultative Committee of Accountancy Bodies that, in the future, it will speak separately from the others on important professional and legal topics.

Alan Hardcastle, ICAEW president, said that his institute believes that the present structure of the CCAB is "unnecessarily rigid and bureaucratic" and operates "in the best interests of neither the public nor the profession," especially in those matters covered by the CCAB term "Parliamentary and Law." Inevitably, the views of the individual bodies differ, and in the experience of the ICAEW, the effort to reach a consensus for the government and others often "leads to the loss of valid points of view, to secure a compromise acceptable to all." The end result is "the lowest common denominator" and a situation where the institute cannot clearly promote the interests of its own members.

The CCAB was set up in 1971, and over the past 13 years it has been effective in collating and channeling the views of its member bodies, which also include the Scottish and Irish institutes, the Association of Certified Accountants, and the Institute of Cost and Management Accountants. However, the original vision of a unified accountancy profession has not developed, and the ICAEW has successfully prevented the ICMA members from being designated chartered management accountants.

Hardcastle said that his institute carries "the main weight of responsibility for the technical and ethical development of the profession" because of its "preponderant position." An example of how easily discussions among CCAB bodies can become controversial was the initiative taken about two years ago by the ICAEW to relax restrictions on publicity and advertising.

The ICAEW has made clear that it will continue to cooperate within the Consultative Committee of Accountancy Bodies on technical and international matters. However, observers believe that the CCAB's authority will be seriously undermined by the ICAEW's show of independence.

Italy: High Unemployment, But Cautious Optimism

The unemployment problem in Italy shows no sign of abating: the number of jobs in the country's large industrial enterprises has declined by 70,000 in the 12-month period since May 1983 and by 15% since 1981. The most critical decline has been reported for the chemical and pharmaceutical sectors, which employ 7.2% fewer workers than a year ago. In companies with more than 500 workers (there are just over 1,000 of such businesses nationwide), employment has dropped 5.2% in 12 months. Overall, unemployment well exceeds 2 million, for a rate of 11.9%, and 49.1% of all people under 25 are without work.

Despite these alarming statistics, a number of major companies are beginning to be cautiously optimistic. Large groups like Olivetti and Fiat as well as the chemical and textile industries have done relatively well on the export markets and have been able to regain important market shares. Order volumes are growing, and both production and productivity moved up encouragingly in July. For this reason, many plants in northern Italy, especially in Milan, started up again earlier than usual following the summer vacations. Also, the labor scene has been more peaceful than only last spring, and observers are not necessarily expecting much militant union activity in the coming weeks, even though the wage cost issue remains unsettled.

Reports from Rome say that the Labor Ministry will soon present a ten-year program designed to stimulate the creation of new jobs and to lower unemployment to 7-8%. This target is to be achieved partly by allowing more flexibility for worktime arrangements.

Netherlands: Draft Budget Cuts Deficit to 9.7% of GNP

The Dutch government plans to intensify its austerity measures with a 1985 budget that goes 10.5 billion guilders ($3.23 billion) beyond the reductions agreed upon in 1983. According to a draft budget approved by the cabinet, the 1985 deficit should amount to 9.7% of gross national product, compared with an estimated 10.7% this year. The budget, which will be presented to Parliament on Sept. 18, includes 160 billion guilders in expenditures and 135 billion guilders in revenues.

The additional savings will result from spending cuts, including a 2.5 billion guilder reduction in civil servant pensions. Government department budgets will be 2.5 billion guilders less than expected; 1.5 billion guilders will be saved on aid for international development and through school fees; health care benefits will be cut by 1.3 billion guilders; and social security and unemployment benefits will be lowered by 2.7 billion guilders. On the other hand, contribution rates will be cut as well in order to encourage the hiring of new workers. The unemployment rate currently stands at almost 18%. Although no tax increases are foreseen for 1985, a planned decrease in the corporate income tax rate from 43% to 41.5% will be canceled.

Worktime Cuts Have Limited Effect on Dutch Employment

The worktime reductions enacted in the Netherlands since November 1982, cutting the workweek to 38 hours, have had a limited effect on the creation of new jobs. According to a Labor Ministry survey, only 16.6% of 583 companies polled reported new hirings since Jan. 1, 1983. Twenty-five percent, however, expect their workforces to rise this year. Their predicted increases on the basis of the 10% worktime reduction are: 2.5% in 13% of the companies, 2.5-5% in 16.8%, 5-10% in 16.4%, and 10% and more in 2.6%. The rest of the companies predicting new hirings this year plan to increase their workforces by less than 2.5%.

One of the principal policies of the center-right coalition government since it came to power in late 1982 has been to encourage industry to favor worktime reductions over pay raises for the sake of creating more employment. The unions have supported this move, and both the FNV and CNV labor federations are campaigning for a 36-hour workweek by 1986 as a means of creating more jobs. They are being encouraged by modest successes in the recent past; the printing industry, for instance, reports that the introduction of the 38-hour week has resulted in a 2.4% boost in new jobs.

Belgium: Social Security Treaty With U.S. Takes Effect

A social security treaty between Belgium and the United States, which took effect on July 1, lays down the provisions of social security coverage for nationals of either country and their family members and survivors. As with similar agreements between the U.S. and other countries, a main consideration is that individuals who reside in the territory of either state are entitled to treatment corresponding to that given to nationals of that state. Not covered by the provisions are employees hired in their home country and sent by their employer to the other country on a temporary basis (of up to five years); in these cases, the social security coverage of the home country continues, and the employer has to provide a certificate of coverage to the authorities of the other country. An exemption would also apply, for instance, to an employee's transfer to Belgium from another foreign country where he or she had been temporarily assigned. (See also *Doing Business in Europe, Par. 21,457.*)

France: Government, Banks Lower Interest Rates

The French government and nationalized banks have lowered the interest rates on savings accounts and loans in an effort to bring down credit costs for industry and give a boost to the sagging economy. Finance Minister Pierre Bérégovoy initiated the measures by announcing a one-point reduction in savings deposit interest rates and cuts of one-half to one point in specialized lending rates in government investment and housing credit programs. Banque Nationale de Paris and Société Générale led the other commercial banks in dropping the base rate from 12.25% to 12%. Although the government had hoped for a greater effort, the banks were reluctant to lower the base rate any further for fear of hurting the franc on the foreign exchange markets.

Interest rate reductions had been expected under former Finance Minister Jacques Delors. However, a weakening in savings activity earlier this year prevented him from carrying out his plans. The current rate reductions follow a reversal in savings activity and a drop in inflation. The inflation rate of 7.8% over the last 12 months has been one point above the interest rate on savings.

EURO COMPANY SCENE

The Gillette Company has sold 60% of its shares in Germany's Braun Electronic GmbH to Analog & Digital Systems of the U.S. Gillette, now a minority shareholder in Braun, will sell another 20% of its previous holdings to ADS later this month.

Security Pacific Corp. of Los Angeles has purchased Wifag-Bank AG of Germany from Badische Kommunale Landesbank-Girozentrale. Wifag, which handles mainly consumer credit, has a balance sheet total of DM 317 billion.

Renault, the French carmaker, has decided against a takeover of International Harvester Co.'s debt-ridden European subsidiary. However, on Sept. 10 Harvester will resume negotiations on an agreement under which the parent company and the French government would contribute equally on loans to the ailing company. The current loans are due to expire on Sept. 30.

Echlin Corp., an auto parts manufacturer based at Branford, Conn., has purchased Grau Bremse GmbH for an undisclosed price. The German maker of air brake systems had sales of about $25 million last year.

Litton Industries, Inc., of Beverly Hills, Calif., plans to bring its holdings in Gildemeister AG, Germany's leading machine tool manufacturer, to 14.3% through a purchase of DM 8 million in shares at a rate of 150%.

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Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: Ireland Pushing for Vredeling Measure

Ireland, which assumed the presidency of the EC Council of Ministers in July and will hold it until the end of the year, wants to give new impetus to the controversial Vredeling draft directive. The proposal, named after former Dutch commissioner Henk Vredeling, would establish employees' rights with regard to consultation and access to information in multinational enterprises or in other companies with at least one subsidiary and employing more than 1,000 workers. The draft directive would require management to inform and to consult workers about decisions concerning their jobs. The original proposal was heavily amended upon the insistence of the European Parliament's conservative majority, echoing the negative sentiment in the business community, especially among U.S. corporate executives *(Common Market Reports, Pars. 10,265, 10,495).*

So far, only France, Greece, and Italy have come out in favor of the proposal. These three countries are run by Socialist governments alone or, as in Italy, by a coalition of Socialists and other parties. West Germany, the Benelux, Denmark, and Ire-

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land support the basic idea of the proposal but have not taken a definitive stand. These States are controlled by center-right governments, which historically have proven to be sensitive to the opinions of the national business associations.

Britain has been opposed to the measure from the very beginning, and the government did not alter its stand even after the Commission made significant changes. The Thatcher administration is basically opposed to extending employees' rights through legislation. Consultation and information procedures (proposed in the draft whenever employees' interests would be affected by a management plan) should be determined through voluntary negotiations between employers and employees, the British say.

Most Brussels observers are skeptical about the proposal's chances of adoption. They feel that the British labor minister is almost certain to exercise his veto if the measure is put up for adoption. Many observers believe that only a change of governments in Britain and Germany would greatly enhance the chances of approval.

Rich Crop to Add to Farm Policy Problems

Bumper crops of wheat and fruit this year are expected to add to the problems the EEC has been experiencing with its milk, meat, and wine surpluses. Overproduction has exhausted EEC financial resources and has brought the Community close to bankruptcy. The relatively cold spring, with above-average precipitation, did not have a negative effect on cereals or fruit trees, and record harvests of apples, pears, and plums are expected. Only the yield in apricots fell short of last year's results.

What concerns the European Commission the most is the 60 million tons of wheat expected to be harvested this season. Around 6.5 million tons from last year's crop are still in grain elevators. During the 1984-85 harvest year, roughly 2 million tons of wheat will be imported as a result of existing EEC commitments. Yet only some 45 million tons of the total of 68.5 million tons (harvested, stored, and imported) can be sold in the Community, including around 19 million tons for animal feed. If additional quantities were used as feed, this would only compound the situation on the milk and beef markets. Commission officials estimate that, of the 23.5 million tons of surplus wheat, only about 14 million tons could be sold outside the Common Market. **There have been no estimates yet of how much of this year's** 39 million tons of barley harvest (almost 2 million tons more than in 1983) could be marketed in other countries. This depends largely on the price difference between barley and wheat.

The Commission is almost certain to run out of funds by October and thus would be unable to make cash transfers to national intervention agencies for buying surplus commodities. (A proposal for an ECU 2 billion supplementary budget is pending before the Council.) Commission officials are therefore thinking about changing the intervention system for cereals. One idea under consideration is to exclude poor-quality wheat and other cereals from the system, which would mean that exporters of low-quality cereals could no longer count on subsidies when selling outside the EEC. Cereal exporters faced with this prospect and the red tape that quality control would involve have already voiced their opposition to these suggestions.

Production quotas similar to those enacted for milk *(Common Market Reports, Par. 10,581)* are not envisaged at this point.

Germany: Employment Opportunity Measures Proposed

The Kohl administration has proposed to the German parliament a bill containing a number of measures that would enhance the chances of employment for individuals without jobs and persons just leaving school. Employers would be allowed to hire individuals for a limited period of time up to one year. (Current law allows only employment contracts of an unlimited duration, with provision for a trial period.) With the proposed relaxation of rigid employment contract rules, the government hopes employers will be induced to hire people temporarily when the economy shows signs of moving out of a recession rather than waiting until it is back in full swing. Nothing would prevent them from turning a contract of limited duration into an unlimited one.

With regard to small enterprises that are subject to statutory dismissal provisions, the bill would disregard part-time employees working up to ten hours a week or 45 hours a month. Under the law, an employee who has worked for more than six months may not be discharged by businesses employing more than five persons if the discharge is socially unjustified *(Doing Business in Europe, Par. 23,436)*. It is hoped that the proposed amendment will prompt small businesses to hire part-time employees.

Women are currently entitled to six weeks' time off prior to and six months after giving birth *(Doing Business in Europe, Par. 23,433C)*, often putting employers into a tight spot with respect to finding temporary replacements. Licensed employment agencies are barred by law from placing people in jobs for longer than three months. The bill would allow placement for up to six months.

In cases of sick leave, an employee is entitled to full pay for up to a total of six weeks in a 12-month period for one illness *(Doing Business in Europe, Par. 23,454)*. Employers are refunded a portion of paid wages or salary from the pertinent health insurance fund. In turn, the health insurance funds are entitled to recover that portion by imposing a levy on all employers with more than 20 employees. The bill would raise this employment threshold to 30 employees, and severely handicapped individuals would be disregarded in setting the size of the workforce.

Finally, the measure would relax until the end of 1990 the job referral monopoly of the Federal Labor Office in Nuremberg and its 140-odd local offices. Individuals, businesses, or organizations that practice job referral, even without a fee, may under current law draw a fine of up to DM 30,000 for each violation *(Doing Business in Europe, Par. 23,427)*. On the other hand, practice has shown that individuals and organizations can often do a faster and better job of finding work for the unemployed than the FLO. The bill would empower the Federal Labor Office to authorize nonprofit organizations and individuals to find jobs for unemployed persons at no fee.

Only 61% of German Unemployed Receive Benefits

A recent report by the German Federal Labor Office repudiates the widespread belief that every registered jobless person receives unemployment compensation. Of the 2.2 million jobless in Germany at the end of July, only 1.35 million, or 61%, received unemployment benefits or assistance. However, some 850,000 who received nothing from the FLO were entitled to assistance from local governments, although their compensation was less than the federal payments.

Under the law, an unemployed person with children is entitled to unemployment benefits equal to 68% of his last wages or salary. (A single unemployed person is entitled to 65%.) Benefits are paid for 78 to 312 days, depending on the length of employment prior to dismissal. Thereafter, the jobless person is entitled to unemployment assistance for up to one year, and this amounts to 58% (55%) of last wages or salary *(Doing Business in Europe, Pars. 23,456, 40,533, 40,552)*. Often, jobless persons do not receive unemployment compensation because they do not fulfill the conditions, they have exhausted their claims, or their applications are still being processed.

According to the report, around 760,000 of the 1.35 million qualifying for compensation received unemployment benefits, while some 590,000 individuals got unemployment assistance. Monthly payments of unemployment benefits ranged from DM 1,100 to 1,330; payments to women averaged from DM 490 to 870. Unemployment assistance payments averaged from DM 900 to slightly more than DM 1,000 a month.

Britain: Stricter Controls of Hazardous Substances

The British Health and Safety Commission has issued a consultative document on the "Control of Substances Hazardous to Health," which follows more than two years of investigation by a special committee comprising representatives of industry, the trade unions, local authorities, and independent experts.

The chairman of the commission, Dr. John Cullen, said he believes the proposals would help employers, safety representatives, workers, and enforcement authorities "by providing one simple set of regulations" applying to all substances that endanger health. The committee had concluded that current legislation, centered on the Health and Safety Act of 1974, is unnecessarily complex and inhibits the introduction of new technology to control health risks. Also, it is not in line with international safety regulations, the committee said.

The new code of practice would ensure proper assessment and monitoring of health risks in order to sufficiently protect employees from the possible effects of handling hazardous substances. The actual nature of the substance and the risks to which employees may be exposed would be clearly identified and all requisite steps taken to avoid such risks. Employers would be required to keep records for a minimum of 30 years, monitoring any exposure to dangerous substances. To provide proper health surveillance, all employers would have to ensure that an occupational health record for every employee exposed to hazardous substances is retained for at least 50 years from the date of the last entry.

Observers believe that opposition to the proposals can be expected from some employers due to the increased costs that would result. The consultation period on the document ends in March 1985, and new legislation is expected shortly thereafter, to take effect two years later.

Meanwhile, new regulations have been laid before Parliament specifying that all dangerous substances, whether used in the home or in industry, be required to carry an eye-catching label warning of the inherent dangers. The regulations would take effect on Jan. 1, 1986.

France: Rules Relaxed on Creation of Businesses

The French Government has approved a series of administrative and financial measures designed to simplify the creation of businesses, especially small ones. According to Industry Minister Edith Cresson, the time needed for formalities to start a company will be cut from about three months to less than one. Under the new rules, company statutes can be presented in just two pages, instead of the twenty to forty pages currently needed.

An employee who wants to start his own business will be able to domicile the new venture at his current workplace, and businessmen will be able to establish headquarters in their homes, regardless of whether they own or rent them. In addition, commercial tribunals will be required to register new companies within 15 days of application, thus eliminating current delays of up to several months. Before registration with the tribunal, a new company will have to demonstrate only its intent to publish notification in an official journal rather than wait for actual publication.

The government is also starting a new savings program to aid in setting up new businesses. The plan provides for loans at a maximum interest rate of 8% to entrepreneurs who have saved certain amounts and established that their proposed enterprise is feasible.

Labor Representative Elections in State Enterprises

The French Labor Affairs Ministry has published the first results of the labor representative elections for the administrative boards of nationalized enterprises. The results cover 88 of the 114 state-controlled companies and give the largest gains to the unions affiliated with the Communist-led CGT labor federation. The Socialist CFDT received 22.8% of the vote, the moderate Force Ouvrière 16.9%, and the Christian CFTC 6.6%. The union of *cadre* (management personnel) employees wound up with 15.6%.

Conducted within the provisions of the Democratization Law for State Enterprises of July 26, 1983, the secret balloting in the first half of the year affected 1.47 million workers in the 88 companies. The labor delegates, who are entitled to about one-third of the seats on the administrative boards, were elected under a system that tends to favor the established unions. Only the "representative" labor organizations are allowed to submit candidate lists. The term "representative union," first established in French labor legislation in 1950, remains subject to interpretation by the Labor Affairs Ministry, which thus has the power to exclude or hinder politically unwanted bodies. For instance, in the works council elections, candidates of nonrepresentative unions are admitted only to the second round of balloting, and only under certain circumstances. This procedure makes winning seats very difficult for such independent organizations as the politically moderate CSL, which has its power base in the automobile industry. As a result, the nonrepresentative unions usually win no more than 3% of the votes.

The number of administrative board mandates for the labor delegates does not necessarily correspond to the vote percentages because the *cadre* representatives are guaranteed a certain number of seats. Thus, on the basis of the half-year results, the CGT won 25.4% of the labor mandates on the average, even though it will be much more heavily represented in certain companies (with 52%, for example, in the Electricité de France utility). The CFDT won 24.5% of the mandates, the CGC 19.6%, the FO 15.1%, and the CFTC 3.6%.

Greece: New Tax Rules for Foreign Companies, Individuals

With the help of new tax legislation, the Greek Socialist government plans to exercise some control over the net profits of foreign companies operating in Greece and the financial relations between such firms and their parents abroad. The proposed measures are part of Athens' efforts to achieve "better financial transparency" in the areas of import, export, and taxation.

To prevent "excessive" transfers of revenue abroad, foreign permanent establishments in Greece in the future will have to allocate their net earnings in such a way that transfers do not exceed 2% of gross income. The Papandreou administration also wants to put a ceiling on cost write-offs for payments on licensing agreements from subsidiaries to the parent companies; it will therefore require that the license taker withhold a 25% income tax from such payments.

An income tax rate of 20% will apply to net earnings from services provided by foreign businesses, construction offices, and research and planning organizations in Greece. However, construction activities of foreign businesses are subject to lower rates, ranging from 1.5% for public sector projects to 3.12% generally. At the same time, the government has issued new guidelines on the taxation of foreign nationals. Such individuals are obligated to submit tax returns only when they are wage or salary earners in the Greek private sector. Returns need not be filed by foreign nationals (1) whose work activity does not exceed 183 days in a calendar year, (2) who are paid by an employer established outside Greece, and (3) whose remuneration is not derived from the operating costs of a Greek establishment maintained by the foreign employer.

In other news, foreign banks operating in Greece are protesting a proposal that would force them to accept a closed-shop agreement with the Federation of Greek Bank Workers (OTOE). Athens reports say that the government recently approved a draft regulation that would require all banks to abide by a 1982 wage and salary accord between the OTOE union and the state-dominated banking sector. The agreement specifies that all contributors to an obligatory pension plan be OTOE members, which effectively forces all bank workers to join that union. The pact regulates pay increases, promotions, and such benefits as low-interest housing loans and free day-care centers. The 23 foreign banks operating in Greece - including Bank of America, Citibank, Continental Illinois, and Chase Manhattan - consider themselves exempt from the agreement, which they say is unconstitutional with respect to the closed-shop provision.

Norway: Payments, Budget Surpluses; Tax Changes

The rising value of the dollar against the krone should lead to unexpectedly large surpluses this year in Norway's balance of payments and state budget, according to the Norwegian central bank. Another favorable factor is the additional revenue from the country's North Sea oil fields, where production of oil and natural gas jumped a surprising 15% in the first five months of 1984. The payments surplus is expected to pass NKr 20 billion ($2.4 billion) or 4.6% of the gross national product. In May, the Finance Ministry had predicted a surplus of NKr 16 billion.

Although offshore wells are producing record amounts, the rest of Norwegian industry is fighting many problems, particularly the rapid rise in domestic costs in comparison with those in other countries. The industrial federation says that wage increases of 5.9% this year will result in a 2% loss of international competitiveness for Norway. While Norway's industrial production has risen only 1% during the past 12 months, the increase for its major trading partners was 6.5%, the central bank says. Loss of domestic business to foreign competitors has been particularly high in the machinery, electrical equipment, and textile industries.

In other news, a Royal Commission report has recommended that Norway eliminate tax benefits for those who invest in the stock market or savings accounts. These measures would be partially offset by easing progressive income tax scales, so that "people in about the same economic position pay about the same tax," according to Leif Aune, the commission chairman. The report also recommends increasing social security contributions to flat rates of 15% for wage earners and 20% for the self-employed.

Yugoslavia: More Price Controls Eased; Joint Ventures

Prices of consumer goods in Yugoslavia shot up during the first week in September as the government lifted most of its remaining price controls in accordance with conditions set by the International Monetary Fund. The inflation rate, which had passed 62% by the end of July, is expected to continue rising, although officials hope that the declining purchasing power will eventually slow the increase of prices.

On May 3, the government had lifted 50% of its price controls. Now only 8% of vital goods and services, including bread, electricity, and rail transport, remain under price restrictions, and another 33% are controlled through agreements between producers. The IMF had asked Belgrade to remove price restrictions on most goods, speed up the devaluation of the dinar, curb domestic credit facilities, and raise interest rates and energy prices as conditions for giving the country more loans. Yugoslavia already has foreign debts of $20 billion.

In related news, Belgrade has proposed amending its much-criticized joint venture law, which limits foreign equity participations in joint ventures to 49% and prohibits such ventures in certain sectors. Under the draft legislation, foreign companies would be permitted stakes of up to 99% in joint ventures in any sector of the economy. The excess profits tax would be eliminated, and joint ventures would not be subject to any of the levies that finance Yugoslavia's defense, energy, and public service programs.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: EC Court to Decide on Pension Bias

An important issue that has confronted labor courts in a number of Member States is now pending before the European Court of Justice - indirect discrimination with regard to company pensions (Case No. 170/84). This discrimination arises because part-time work, even if performed for 15 or 20 years, is usually not credited toward pension rights. The discrimination most often is against women, who make up the bulk of the part-time workforce.

A woman working for a department store in Frankfurt, Germany, went to court because her employer's company pension rules did not credit part-time work toward pension benefits. She had worked full-time from 1961 until 1972 and part-time from 1972 until 1976. A management-works council agreement reached in 1973 offered company pensions to any part-time employee with 20 years' seniority, provided at least 15 years were spent as a full-time employee. Charging that the pension system violated the German constitution's equal treatment clause, the woman

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brought suit in a lower court and won. After losing before the appellate labor court, she took her case before the Supreme Labor Court.

The Bundesarbeitsgericht, looking at the issue of alleged discrimination from the aspects of EEC law as well, put two questions to the Community tribunal. First, was Treaty Article 119 violated through indirect discrimination in the case of a department store that excludes part-time employees from company pension benefits, since such an exclusion affects disproportionately more women than men? If the answer is yes, two related questions were posed. May an enterprise justify that discrimination by arguing that the objective is to employ as few part-time workers as possible, even though such a policy is not necessarily expedient for department stores? Furthermore, does an enterprise have the duty to set up its pension system in such a way that appropriate account is taken of the special difficulties that employees with family commitments experience in fulfilling the pension requirements?

Protecting Forests Against Fire, Pollution

The Economic and Social Committee is unanimously supporting a Commission proposal aimed at protecting the forests against fire and pollution. In view of the widespread fire damage to Community forests, the draft regulation would provide for steps to strengthen preventive measures and introduce additional fire-fighting measures. Several steps are also proposed to deal with atmospheric pollution (acid rain). A network of posts would be set up in the major forest areas to monitor acid rain deposits. Teams of scientists from all Member States would cooperate in seeking methods of prevention; their work would be coordinated by the Commission. Some ECU 100 million would be spent in 1985-88 on fire fighting, fire prevention, and combating acid rain *(Common Market Reports, Par. 10,488)*.

After touring the Black Forest in Germany and the Mediterranean forests in France, members of the ESC noted that the damage caused by fire and even more by acid rain is assuming almost catastrophic proportions and requires a genuine Community forest protection policy. It is estimated that about one-third of Germany's forests are affected by acid rain, and total damage so far is placed near DM 30 billion, a figure that rises each year by DM 2 to 3 billion. The ESC points out that acid rain problems will spread to other Member States that have, until now, scarcely been affected or have been thought to be safe, such as the U.K. Therefore, all Member States must be made more aware of this threat, the committee says.

The ESC is aware that scientists still have not fully determined the relative importance of the various factors causing acid rain and the ways in which it damages the forests. In the ESC's opinion, there are a number of indications that atmospheric pollution from power and industrial plants, households, and automobiles is detrimental to the forests. The ESC believes that the major determining factor for the success of the proposed measures and generally all campaigns to save the forests will be greater public awareness of the need to conserve natural resources.

In Brief...

Hopes of meeting the Sept. 30 deadline for the completion of the accession talks with Spain and Portugal faded further during the first week of September when the latest meeting ended in another stalemate over terms and conditions. The next negotiating session was scheduled for Sept. 17 + + + The European Commission has started legal proceedings before the European Court of Justice against Germany, charging infringement of free-trade rules by the strict German insurance regulations. At the heart of the action, which has been described in Brussels as a "big test case," is Bonn's insistence that foreign insurers must be physically established in Germany in order to write policies there + + + In what Brussels observers saw as a surprise move, the Commission on Sept. 6 took the first formal step toward bringing suit against the Council of Ministers for failing to approve a supplementary budget designed to forestall the EEC cash crisis that is bound to arise within a month or so. The Commission formally "invited" the Council to okay additional expenditures to cover or reduce an expected spending overrun of ECU 2 billion, saying that failure to do so will lead to a suit before the European Court. The British government is balking at approving extra funds, arguing that this would violate Treaty provisions. A Sept. 6 emergency session failed to produce agreement on either a supplemental budget or the 1985 regular budget + + + The Commission is opening an anti-dumping investigation into U.S. and Japanese sales of titanium products in the Community. These products are used mainly in high-technology industries, such as aerospace.

Germany: Relief Plan Claims to Regain Top Ranking

Heeding the call of the Supreme Labor Court, the German government has proposed amendments to the Bankruptcy Act that would largely restore to employees' relief plan claims the top ranking they had been given by the high court over the past five years. This case law practice was stopped after the Federal Constitutional Court last October declared it unconstitutional, stating that the Supreme Labor Court had gone too far in its self-imposed task of filling what it considered a gap in the Bankruptcy Act *(Doing Business in Europe, Pars. 40,561, 40,570)*. The amendments would give employees' relief plan claims the same No. 1 priority as that accorded by law to unpaid wages and social security taxes.

The amendments would also modify the conditions for establishing a relief plan and limit the amount of compensation provided. The idea is to lower the cost of relief plans, which often discourages potential buyers from acquiring a bankrupt business. The amendments would require a relief plan, for example, if a business with a workforce of 200 wants to lay off 37 or more workers, instead of the current minimum of 20. A plan would also be required if an enterprise with 1,200 employees intends to discharge 120 workers or more (currently 60 workers). The funds put up under a relief plan could not exceed one-third of the bankrupt business's total assets available for distribution. Payments to an individual would be limited to two-and-a-half times the last monthly salary or wages. Current practice grants far more generous compensation, often amounting to four months' salary or more.

Opposition and union leaders have been attacking the government for what they term a "miscarriage of social policy" in the proposed amendments. Government officials, on the other hand, believe it is an attempt to be fair to all, including craftsmen who, as creditors, are often unable to collect even small sums because generous relief plans have exhausted the assets.

Fewer Bankruptcies, Lower Pension Insurance Rate

Employers in Germany with employee pension plans have welcomed an announcement made at the recent annual meeting of the PSV pension insurance fund (Pensions-Sicherungs-Verein) that their contributions will be lowered later this year as a result of a continued decline in bankruptcies. The Cologne-based institution administers part of special legislation passed in 1974 that assures employees of bankrupt companies up to three months' back pay *(Doing Business in Europe, Par. 23,433D)* and guarantees company pensions and contingent pension rights.

The number of bankruptcies in Germany increased in 1980-82 because of the economic recession; however, the trend reversed in 1983. This year the number of bankruptcies continued to decline, except in the construction sector. The overall number of business failures this year is 11% less than that for the same period of 1983.

According to the PSV's annual report, the volume of claims presented in 1983 was still a very high DM 517 million, but it was far less than the claims of over DM 1 billion in 1982. This decline resulted in a substantial cut in the 1983 contribution rate to 0.37% of a company's capital set aside for pensions, compared with 0.69% in 1982. Total PSV revenue in 1983 amounted to DM 550 million.

In 1983, the PSV backed up the claims of some 10,800 individuals who had pensions coming to them from their former employers who had gone bankrupt. Contingent company pension rights for some 14,200 persons were also guaranteed.

Last year the PSV had a membership of 33,750 employers that maintained pension plans. The PSV also guaranteed contingent rights for around 3.3 million employees.

Britain: Trades Union Congress Backs Striking Miners

The U.K.'s 1984 Trades Union Congress, held in early September, was overshadowed by the continuing miners' strike, now entering its eighth month. The great majority of the delegates voted in support of the National Union of Mineworkers' objectives of saving jobs, pits, and mining communities and for moves to make the dispute more effective through union action intended to stop the country's supply of electricity. However, this is likely to be of limited practical effect because two key unions in the electric utility sector voiced strong opposition. Also, the TUC unions did not commit their members to making direct financial contributions to striking miners; union leaders knew that such a move would encounter stiff opposition from many members.

Observers regard as particularly important the TUC decision to open the way for a resumption of direct talks with the government and the Confederation of British Industry through the National Economic Development Council. The TUC withdrew from this tripartite forum in February over the government's decision to ban trade unions at a defense headquarters in Cheltenham on security grounds.

The TUC is convening a conference of committees of public sector trade unions later this fall to plan coordinated action against any cash limit imposed by the government for the coming pay round. It also intends to campaign for a 35-hour workweek and, in the long term, for a retirement age of 55. Several motions were passed in criticism of the government's current economic policies.

France: Creusot Rescue Plan Collapses; Autoworker Cuts

After the French government temporarily suspended its proposed rescue plan for Creusot-Loire, the three major participants in that project have pulled out "for good." However, government officials are still hoping that the plan to take over the heavy-engineering group, which went into receivership in June, can be carried out in a modified form.

The suspension by the government followed union protests against the proposed initial elimination of at least 2,500 jobs. Over 3,000 Creusot workers temporarily occupied the train station in Montchanin, central France, while a similar protest was staged at Chalôns-sur-Saône in Burgundy. Union pressure was also a major factor in the withdrawal from the rescue effort of Fives Cail Babcock, the heavy-engineering group that was to have managed the plan. The nuclear power plant builder Framatome and the state-owned steel group Usinor pulled out shortly afterward, leaving only a group of state-owned banks.

Unless the rescue plan can be revived, most sources say the only workable option is to sell off the company's assets. In the meantime, the uncertainty is negatively affecting Creusot's finances. The company's revenues dropped by 40% in the first half of the year, and the decline is expected to accelerate.

In related news, workers in the seriously ailing French auto industry have been protesting planned labor reductions. On Sept. 3, the Communist-led Confédération Générale du Travail organized a work stoppage at Citroën's Aulnay-sous-Bois plant because of the company's intention of laying off 1,950 workers. Violent clashes between union demonstrators and police preceded the stoppage.

The Peugeot automobile group, which includes Citroën and Talbot, appears headed for further labor cutbacks following the resignation of Jean-Paul Parayre as chairman. Parayre, who led Peugeot through its expansion in the mid-1970s, was succeeded by Jacques Calvet, the former vice chairman who organized the recent job cuts at Citröen and Talbot. Calvet, previously chairman of Banque Nationale de Paris, has struggled with Parayre over the management of Peugeot since he became vice chairman two years ago.

Peugeot's labor policy is in keeping with Industry Minister Edith Cresson's belief that further layoffs are necessary to restore health to the auto industry. Cresson has promised a "significant financial effort" to aid automakers, but only if they initiate measures to improve their competitiveness.

Italy: Discount Rate Raised by One Point to 16.5%

In a surprising move designed to stabilize Italy's balance of payments and help control inflation, the treasury has raised its discount rate by one percentage point to 16.5%. The increase is in direct opposition to the government's previous policy of reducing interest rates as inflation dropped. Since February, the discount rate had been cut by a total of 1.5 points, from 17%. However, the central bank and Treasury Minister Giovanni Goria have been concerned that rising credit would lead to more imports and thus a turnaround in inflation. Lending to the private sector in the first seven months of the year ran 4% higher than the government had targeted, although inflation is down to 10.5%, from 12.6% a year ago.

Exports are currently rising at about 6%, but the payments deficit at the end of the first seven months still stood at 2,556 billion lire ($1.41 billion), compared with a surplus of 2,764 billion lire ($1.5 billion) a year earlier. The trade balance was also in the red, with a deficit of 10,000 billion lire for the first half, against 6,700 billion lire for the same period in 1983.

Several economists have criticized the increase in the discount rate, which is now the highest in any major industrialized country. They said other measures, such as tightening the tax system or limiting public spending, would also have helped stabilize the lira. The public-sector deficit, already likely to reach 9,500 billion lire or 15% of the gross national product this year, should be further aggravated by the rate increase. Luigi Lucchini, chairman of the Confindustria employers' association, called the move premature and said it would "confront companies with new obstacles and difficulties."

Austria: New Finance Minister; Interest Yield Tax

Fourteen months after taking over from Bruno Kreisky, Austria's prime minister Fred Sinowatz has announced a major reshuffling of his cabinet that is expected to strengthen the Socialist-Liberal coalition government as well as Sinowatz's political leadership. Observers view as the most important cabinet change the appointment of Franz Vranitzky as finance minister, replacing Herbert Salcher. The other portfolios affected were foreign affairs, transport and nationalized industries, family affairs, and education. (The three Liberals in the cabinet retained their posts.) Through these changes the premier wants to arrest the steady decline in popularity suffered by the Socialists and the government since the April 1983 general elections, when the Liberals became coalition partners.

The new finance minister previously headed Österreichische Landesbank, Austria's third-largest bank. Vranitzky's appointment has been welcomed by the country's banking community, with which Salcher had an extremely poor relationship, partly because of his introduction of an interest yield tax (see below). Earlier in his career, Vranitzky, 46, served for six years as the right-hand man of ex-finance minister Hannes Androsch and then went on to the central bank, the finance ministry, Creditanstalt Bankverein (Austria's No. 1 bank), and, finally, Österreichische Landesbank.

Vranitzky has made it clear that he intends to trim further the expenditure side of next year's budget but warned that the road to a balanced budget will be a long one. He also indicated that one of his first tasks will be to restore the functioning of the domestic capital market in cooperation with the commercial banks. That market has practically collapsed as a result of Vienna's introduction, as of last Jan. 1, of a 7.5% withholding tax on interest income from deposits and bonds.

Earlier this month, virtually all the top managers of Austria's leading banks supported a joint recommendation to the government to rescind the tax as soon as possible. They cited statistics according to which the total deposits of about 1,300 billion schillings held at the end of 1983 rose by only 11 billion schillings, or less than 1%, in the first seven months of the year. This actually meant a substantial decline because the increase included credited interest. The tax is also being blamed for the sharply reduced demand for Austrian bond issues and lively demand by Austrian investors for tax-free foreign bonds.

Sweden: Foreign Banks; 5% Pay Raise Accepted for 1985

Legislation allowing foreign banks to establish branches in Sweden will probably be sent to Parliament early in 1985, according to Finance Minister Kjell-Olof Feldt. A government committee that has been studying the issue for several months is expected to recommend by the end of September that such subsidiaries be permitted as of Jan. 1, 1986. Due to the "small market," however, the number of foreign banks admitted would be strictly controlled, at least initially, Feldt said. Twenty foreign banks now have offices in Sweden, but their activities are limited. Sweden would be the last country in Western Europe to remove restrictions on foreign banks.

In other news, unions representing 130,000 salaried industrial employees have accepted a pay raise of about 5% for 1985. The Social Democrat administration has been pushing for a 5% limit on 1985 pay increases as part of its plan to lower inflation to 3% next year, after a projected 6% in 1984. Leaders of the SAF employer organization and the LO federation of blue-collar unions have accepted the 5% ceiling, although they still disagree on the measures needed to reach that target.

EURO COMPANY SCENE

An affiliate of Du Pont Co.'s Conoco, Inc., is planning to develop a new oil field in the Dutch North Sea. Continental Netherlands Oil Co., operating for a group of companies, expects the field's first production by the end of 1985. Conoco holds a 30% interest in the oil field group.

Chase Manhattan Bank and Manufacturers Hanover Trust Co. will be the first foreign banks permitted to open branches in Portugal since that country's commercial banks were nationalized in 1975. Portugal passed legislation in February to liberalize its banking sector.

ITT Corp. has decided to reduce its share of Standard Telephones & Cables PLC to less than 25%, one month after increasing its holdings to 37.4%. ITT said the move is being made to "help ensure a successful merger" between STC and ICL PLC, the British computer company. If ITT had held more than 25% at the time of the merger, STC might have faced a lengthy government investigation of its plans.

Wang, the U.S. computer group, has signed a technical collaboration agreement with Jeumont-Schneider, the largest private telecommunications equipment maker in France. Because of concern over the growth of Compagnie Génerale d'Electricité, the state electronics conglomerate, Jeumont-Schneider is also negotiating alliances with IBM and Digital Equipment.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: Aligning Post-Graduate Training for Doctors

The European Commission is expected to submit to the Council of Ministers in the near future a draft directive that would harmonize national rules on training general medical practitioners. The measure would supplement two directives that have been in force since 1976. These directives entitle any medical doctor, whether specialist or general practitioner, self-employed or salaried, to practice medicine in another Member State. A doctor's basic training must include at least six years of higher education or 5,500 hours of theoretical or practical study. Specialists must have completed additional training of three to five years *(Common Market Reports, Par. 1486.23)*.

The Commission proposal would approximate the national rules on the length of post-graduate training and remove the barriers faced by foreign practitioners who want to treat patients insured by any of a Member State's mandatory health insurance funds. The two existing directives cover only access for general practitioners, without mentioning the requirements for treating persons insured under the national health system.

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

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Under the proposal, a doctor practicing in one Member State and wanting to open a practice in another State and treat patients covered by the national health service would have to complete a minimum of two years of post-graduate training. This proposed training period corresponds to the requirements of most Member States.

The Commission's preliminary proposal has run into opposition from and has caused dispute in the German medical profession because not all general practitioners in Germany have the same length of post-graduate training. As a rule, an individual who has successfully completed his or her medical studies and a one-year training period in a hospital is awarded a license to practice and is also permitted by the pertinent health insurance fund(s) to treat insured patients. A graduate may also become a specialist in general medicine after a four-year training period following the regular studies. The general medicine specialist differs from the other specialists, who must complete six years of training. One German medical association fears that adoption of the Council draft directive would eliminate the four-year training requirement for specialists in general medicine.

The German government has not taken a stand on the issue. Even if the government were to press for a retention of the requirement, it remains to be seen whether the other States would agree.

Lomé III Pact With ACP Countries Still Far From Settled

Commission officials and representatives of 64 African, Caribbean, and Pacific countries will meet again on Oct. 9-10 to try to remove the many hurdles to Lomé III, successor treaty to the Lomé II convention that expires on Feb. 28, 1985 *(Common Market Reports, Pars. 4281, 10,284)*. In four rounds of talks, the parties have reached agreement on tourism (the EEC will advise on such projects), fisheries (the ACP countries are willing to grant fishing rights to EC trawlers by special agreement), and financial and technical cooperation (the EEC offers financial and other help for a broad range of programs covering rural development, energy and mining, transport and communications, and water supply). Some 40 points remain to be settled.

There is agreement that Lomé III, like Lomé II, would continue to guarantee duty-free access to the Common Market for almost all products of the ACP countries except for agricultural commodities. However, agricultural commodities are the main export items of many ACP countries. Granting access for farm products has also run into opposition from the Community. The ACP countries want nontariff barriers to be lowered, for example, by raising quotas for textiles.

The EC and the ACP countries agree that Stabex, the export stabilization system, should receive additional funds during the 1985-90 period of Lomé III. However, the parties are far apart on the amount to be added. The ACP countries are hoping for more than twice as much as Lomé II's ECU 4.5 billion in total economic aid, including "substantial additional funds" for Stabex, a sort of insurance against lean years. (A similar system exists for mineral resources.) The Commission has proposed a total of ECU 8.5 billion. A majority in the Council of Ministers is prepared to subscribe to some ECU 7 billion in economic aid, or roughly 50% more than provided for in Lomé II. However, Britain and Germany believe that ECU 7 billion is too much. The Council was expected to reach a decision on its final offer at its Sept. 16-17 meeting.

Another issue linked to aid is the Community's desire for an eventual change in the philosophy behind Stabex. The Community wants the individual ACP countries, if possible, to broaden their range of crops and increase agricultural productivity and thus be better prepared to absorb major price fluctuations on world markets.

In Brief...

The EEC finance ministers have agreed on a modification of the European currency unit (ECU) that lowers the parity value of the German mark and the Dutch guilder, raises that of many of the other currencies, and incorporates the Greek drachma. The new composition of the ECU "basket" took effect on Sept. 17. From that date, the respective shares of the individual currencies are as follows: deutschmark 32% (previously 37%), French franc 19% (16.7), pound sterling 15% (15), Dutch guilder 10.1% (11.3), Italian lira 10.2% (7.8), Belgian/Luxembourg franc 8.5% (8.5), Danish krone 2.7% (2.7), Irish pound 1.2% (1), and Greek drachma 1.3% (0). At the same time, the central bank governors of the ten Member States have been called upon to draw up proposals to extend the use of the ECU in financial and economic transactions and to strengthen the operations of the European Monetary System + + + A draft directive published by the Commission on Sept. 13 seeks to eliminate or reduce an indirect tax on the raising of capital (capital duty), which is now levied by all Member States up to a level of 1%, or 0.5% in the case of corporate mergers. The tax is seen as a possible deterrent to investment and yet offers little revenue to the governments.

Germany: Hesitation About Signing Sea Law Pact

The German government's reluctance to sign the draft Convention on the Law of the Sea has found support from a German professor of international law. In a noncommissioned expertise, the jurist concludes that the convention would create an entirely new economic system for exploiting the resources of the sea. The rules that would govern seabed research and mining, the transfer of technology, the collection of levies, and raw materials policy are contrary to the national interest and the economic policy of the Federal Republic, the professor maintains.

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. These countries would have challengeable 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 operating along with national or private groups.

So far 133 nations have signed the draft convention. In the April 1982 vote, France, Greece, Ireland, and Denmark were in favor, and Germany, Britain, Italy, and the Benelux countries abstained. The United States was one of four countries that voted against the convention. The deadline for signing is Dec. 9, 1984. The convention will take effect if signed and ratified by at least 60 countries.

The Schmidt administration had had many misgivings about the draft convention (as a result, Germany's representative abstained from voting), and the Kohl government has even more doubts. The 200-mile rule means that 90% of the world's fishing grounds would become the property of coastal countries. Foreign trawlers could enter these waters only with a license and after paying a fee. Applying the 200-mile principle to the North Sea would give the U.K. and Norway 80% of the crude-oil resources there, leaving little for Germany. Bonn is especially critical of the seabed mining rules, not only because of the monopoly that the planned international seabed authority would have in controlling seabed resources but also because the bureaucratic apparatus would be dominated by the developing countries. Making Hamburg the seat of the international tribunal for settling disputes would be of little comfort to Bonn.

In mid-August, the German Foreign Ministry departed from the official line of thinking and, backed by the Economics Ministry and a seabed mining consortium, suggested to Christian Democratic leaders that Germany's signing the convention would not mean automatic ratification. Foreign Office officials say that the draft could be signed with the reservation that the signatories meet again to amend some of the seabed rules. By signing the convention, Germany would become a member of the drafting commission for amendments.

Budget Presentation; German Exports to U.S. Up by 47%

In presenting the 1985 draft budget to Parliament, the German finance minister, Gerhard Stoltenberg, has described the reduction of the domestic inflation rate from 5.4% to 1.7% as the most significant economic change within the past two years. Stoltenberg said that the federal, state, and local governments will continue their financial consolidation efforts, and he criticized again the "excessive" spending and borrowing policies of the previous, Social Democrat-led government.

The proposed 1985 budget provides for expenditures of DM 260.2 billion, a 1.2% increase over 1984. On this basis, the budget deficit would drop to DM 24 billion, which is considerably lower than Bonn's original projection of DM 33.6 billion. For the current year, the deficit estimate has been lowered to less than DM 30 billion.

The high-paced U.S. economy combined with the steady decline of the German mark against the dollar have resulted in a very steep increase in German exports to the U.S. From January to July, these exports totaled nearly DM 25 billion and thus were about 47% higher than during the same period in 1983. Germany's surplus in its trade with the United States soared from DM 900 million to DM 6.9 billion during the seven-month period, according to the latest figures released by the Federal Statistical Office.

German economists agree that the healthy performance of the U.S. economy and the correspondingly higher American demand for foreign goods have been the major factors in this development. However, of similar benefit has been the fact that the price of German goods in the U.S. has fallen by 19% since the beginning of 1983, which corresponds approximately to the loss of the D-mark's value against the dollar during that time. The United States is now Germany's No. 2 export market (France is first), moving up from the sixth rank. Two-thirds of all German exports to the U.S. are capital goods, mainly vehicles, machinery and machine tools, electrical products, chemical products, and iron and steel.

France: Draft Budget Cuts Taxes, Tightens Spending

The French government's 1985 draft budget puts the tightest squeeze on public spending since the war, setting an increase of less than the projected rise in the gross national product. Although the draft includes a 5% reduction across the board in personal income taxes, it also raises utility and fuel rates. The gasoline tax will jump 7% over the next 12 months to raise FF 4-5 billion more in revenue than inflation-linked increases would have brought. Paul Marchelli, leader of the white-collar Confédération Générale des Cadres union, said, "The government is taking back with the left hand what it gives with the right."

Many experts doubt whether the government can hold the 1985 budget deficit to 3% of the GNP, following a forecast of 3.3% for 1984. A growth rate of 1.8% is predicted for the economy next year, after an expected 1.3% this year; inflation should drop from the current 7.5% to 4.5% by the end of 1985.

The government wants to cut taxes from 44.7% to 43.7% of GNP next year. Besides the personal income tax reduction of FF 10 billion, the draft budget includes a FF 10 billion cut in the *taxe professionnelle (Doing Business in Europe, Par. 22,843)* and the elimination of a special 1% social security levy, which brings in FF 11 billion. The government is also planning a FF 1 billion levy on oil companies operating in France. Almost all public sectors would face budget cuts, and nearly 5,500 civil service jobs would be phased out through attrition.

The Communists, who left the government in July, have promised to fight the budget, which they say does little to help employment. Although increased expenditures are planned for job training and education, employment is still expected to fall by 0.6% next year. The government wants to keep 1985 wage increases level with inflation. However, higher social security payments should help to boost real disposable incomes by 1.6% next year.

French Employers Affirm Demands to Ease State Controls

Although the French employers' association (Patronat) has welcomed the newly organized cabinet's more favorable attitude toward corporate profits, its leader refuses to compromise on demands for increasing investment credits, lifting price controls, and loosening foreign exchange regulations. Yvon Gattaz insists that these measures are necessary to lead the French economy to a full recovery. Gattaz says that the price controls, currently in effect for approximately half of France's industrial products, are at the root of the French industrial weakness, while foreign exchange controls hinder exports and the establishment of French subsidiaries in other countries. The Patronat says that the proposed FF 10 billion reduction in local business taxes for 1985 is not enough compensation for the higher rates companies must pay this year.

The employers' refusal to yield in their demands contrasts with the attitude of the Socialist-led CFDT union, which recently retreated from its strict opposition to loosening the tax and labor regulations for small companies in the hope that more jobs would result. While the Patronat is pleased with the union's reversal on this issue, Gattaz has refused to make any concessions on his call for an easing of the rules governing part-time work and the hiring and laying off of other workers.

Ireland: Employment No. 1 Priority for Next Three Years

Irish Prime Minister Garret FitzGerald has outlined his government's strategy for the forthcoming three-year economic plan, stressing that his main priorities will be a reversal of the decline in employment and the achievement of a sustained economic recovery.

FitzGerald said that existing levels of taxes "shall present a ceiling beyond which we will not go and from which we shall achieve reductions as soon as possible." However, the government is convinced that some taxpayers are still not paying their legally required share, so steps will be proposed to secure additional revenue from tax evaders. Any money so raised will be used to relieve the burden of taxpayers whose tax is deducted at source.

Earlier this year, the government abandoned its original commitment to phase out the current deficit by 1985 and produced a budget less severe than the Fianna Fail opposition party had proposed. The new target is to reduce the deficit to slightly more than 5% of the gross national product by 1987. Currently, the deficit stands at 7.3% of GNP, and a cutback of Ł700 million (Irish) in government expenditures will be required over the next three years. The areas most likely to be affected are health and social welfare.

The government is concerned that interest payments are absorbing a growing proportion of the country's revenues. These payments rose from 5.5% in 1977 to 8% in 1981 and are expected to reach 11% by the end of the year. FitzGerald said that "there is a limit to the degree to which we can mortgage the future" and that particular emphasis will be placed on reducing this percentage.

Italy: Discussion Over Creation of "Heavy Lira"

Led by Francesco Forte, Italy's Minister for European Affairs, Italians are once again discussing the possibility of replacing 1,000 lire with one "heavy lira." Forte, a former finance minister under current Socialist Prime Minister Bettino Craxi, believes the time is ripe for such a decision in the coming year, assuming that inflation drops to a one-digit figure (10.5% is forecast for this year), the budget deficit and wage costs are brought under control, and no unexpected international crises arise. Both the treasury and the central bank are studying the issue, although no formal plans are expected in the near future.

Italy has never instituted post-war currency reforms, as Germany and France did, so that $1 currently equals about 1,900 lire. Two former treasury ministers formally suggested a reformed lira in the 1970s, but political uncertainty caused the idea to founder. During the times of Charlemagne, one "libra" represented the approximate value of one pound of silver. Some 1,200 years later, most Italian workers earn more than 1 million lire a month and still have trouble making ends meet.

Unless a change is made soon, the treasury will need to raise the highest denomination for bills from the current 100,000 lire to 500,000 or 1 million lire. Those who advocate "dropping three zeros" say that the change would help stabilize Italy's current economic recovery, in addition to simplifying bookkeeping. However, opponents charge that a reform would be expensive and inflationary, and they refer to the slow French acceptance of the 1960 substitution of one new franc for 100 old francs.

Sweden: Cabinet Veto of Bank Chairmen; Video Tax

Sweden's Socialist government is planning to submit to Parliament legislation that would allow the cabinet to veto the selection of board chairmen of commercial banks. With the help of the Communist party, passage of the bill is almost ensured, and the law would take effect on Jan. 1, 1985. Since 1971, the government has been able to appoint members to the banks' supervisory boards to represent the public. Under the proposal, the ministers could block the appointment of a chairman who they believe would not represent the interests of the general public. The cabinet would then choose a chairman from among the bank's directors. Foreign banks, which are expected to be permitted in Sweden by 1986, would also be subject to the veto.

One Finance Ministry official believes that passage of the bill would not have much effect on the banks because chairman candidates are already cleared informally through the Bank Inspection Board, a regulatory agency. However, Finance Minister Kjell-Olof Feldt has said that, if the veto power had been in force in recent years, he would have blocked at least one person from becoming chairman.

In other news, the government is reconsidering a special tax enacted late in 1982 that almost doubled the prices of video cassettes and recorders. In 1983, recorder sales plunged 50% and cassette sales 67%, while tape smuggling soared. Instead of the SKr 135 million in revenues expected from the tax, the government collected only SKr 25 million. Feldt has agreed to meet with Anders Appelqvist, head of the industry's Magnetic Tape Institute, to discuss the tax.

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Community: Unfair Trade Practices by Third Countries

A Council regulation that went into effect on Sept. 23 gives the Community a new instrument to combat unfair trading practices by businesses from third countries (Official Journal, No. L 252, Sept. 20, 1984, page 1). The measure enables the Community to retaliate against such practices, within the EEC or outside, far more effectively and on a broader scale than in the past. In addition to the antidumping measures that have applied in the EEC since 1979 *(Common Market Reports, Par. 3821)*, the Community's powers now include suspension of negotiated concessions (under GATT, for example) and imposition of customs duties and quotas. The decision-making process is shorter than the protracted method provided for under Treaty Article 113 *(Common Market Reports, Pars. 3815, 3816)*, particularly with respect to GATT's rules on the settlement of trade disputes.

The new regulation, No. 2641/84, first proposed in February 1983 *(Common Market Reports, Par. 10,465)*, gives Common Market enterprises the right to complain to the European Commission about unfair trade practices, such as illegal export subsidies,

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if they have sustained damage as a result. The Commission must complete its initial investigation within 60 days and compile a report within seven months. The regulation empowers the Commission to take third countries to the GATT forum for arbitration without prior agreement from the EEC Member States. If arbitration fails, the Commission needs the agreement of a majority of the Member States in order to retaliate.

Formal adoption of the draft regulation became possible after Denmark withdrew its reservations on several of 15 draft directives aimed at harmonizing national standards for a variety of products (see also "In Brief," page 3). The draft regulation and the 15 draft directives, though entirely unrelated, were joined politically by France and Germany. France was prepared to give its consent to the 15 proposals only when the commercial policy instrument measure was approved. Germany, which opposed the draft regulation due to its possible protectionist stance, agreed to adoption on the condition that the 15 directives be approved at the same time. When the foreign ministers voted on the draft regulation on Sept. 17, both Germany and the Netherlands voted against it.

Additional Measures Proposed to Curb Wine Surplus

The Commission has proposed new, drastic measures to curb surplus wine production, which has been putting a strain on Community finances. These measures would include a ceiling on the Community's overall production of table wines and compulsory distillation of any surplus above that ceiling; the surplus would be bought at half the guaranteed price. The measures would stop short of setting production quotas for individual Member States, a system enacted for the milk sector. If the output continues to rise, wine producers would get only 66% of the guaranteed price when selling to national intervention boards.

Measures already pending include a price freeze and further incentives to induce Italian and French growers to switch to other crops as well as a discontinuation of aid for the short-term storage of wine. Also proposed is a restriction on adding sugar to increase the alcohol content of wine, which is widely practiced in West Germany and Luxembourg. The proposals also call for an improvement in the quality of marketed wine by increasing compulsory distillation. Approval of these measures, proposed several months ago, is being blocked by Italy. The national farm ministers were to consider the combined proposals at their Oct. 1-2 meeting.

Commission statistics show that the Community's annual wine production over the past four years averaged 165 million hectoliters. From 1971 through 1980, the annual average was 154 million hl. Annual consumption, which averaged around 150 million hl from 1971-75, has dropped to some 135 million hl. Wine distilled to alcohol during 1971-80 averaged about 6 million hl each year, but the figure rose to some 20 million hl annually in 1978-82; this figure could even reach 32 million hl in 1984. Spain's and Portugal's accession would make the situation on the wine market even worse.

In the meantime, France has presented its ideas on how the EEC wine market could be put in order. The French government suggests that growers be paid a guaranteed price for only 85% of their average production and that wine distillation quotas be set for each Member State. Paris believes its plan would bring stability to the wine sector much faster than the Commission's proposals. The Italian government, which opposes the French plan as well, favors a fiscal approach to the problem. Italy believes that excise taxes, and thus prices, should be lowered to encourage wine consumption.

In Brief...

The Council of Ministers has formally adopted 15 directives that will remove barriers to intra-Community trade through the harmonization of standards. The products covered include gas cylinders, hot water appliances, electrically operated lifts, and electrical medical equipment. Of particular importance are six measures establishing common provisions for the manufacture of construction equipment and setting maximum noise levels for compressors, tower cranes, welding and power generators, and hand-held pneumatic concrete-breakers and picks. Adoption of the 15 directives, some of which were proposed many years back, brings to 176 the number of harmonization directives covering industrial products + + + The Commission has decided to slow down payments to national intervention boards in order to stretch the Community's remaining cash resources. (The Council of Ministers has failed so far to reach agreement on an ECU 2 billion supplementary budget to finance EEC farm policy spending for the rest of the year.) At the same time, the EC Executive has cut advance payments to the national intervention boards to 40% of the ECU 1.75 billion requested for October, compared with 50% paid out in previous months and 100% in former years.

Germany: Protest Over Anti-Pollution Plan for Cars

The German government has decided to propose legislation requiring anti-pollution devices for all new motor vehicles produced or imported after Jan. 1, 1989. Although the decision has removed the uncertainty surrounding the government's earlier informal plan calling for low-pollution cars as of 1986, it has not calmed criticism from many German legislators, carmakers, and at least two other EEC Member States.

Under the planned legislation, all vehicles manufactured in Germany or imported after the beginning of 1989 would have to be equipped with catalytic converters. New vehicles with an engine displacement of more than 2,000 cubic centimeters would have to meet the requirement by Jan. 1, 1988. The converters would greatly reduce automotive exhaust of nitrogen oxide. Emission of nitrogen oxide accounts for more than half of the overall pollution that is considered the cause of severe forest blight.

Buyers of vehicles with anti-pollution devices could count on incentives as of mid-1985. One suggested incentive would be an exemption for four to seven years from the road vehicle registration tax; another would be direct subsidies to buyers. (The state governments, which collect the tax, will express their choice in several weeks.) Buyers of low-pollution cars could also expect a slightly lower price for unleaded fuel. Owners and buyers of vehicles with conventional exhaust systems would be penalized by an increased road vehicle registration tax and costlier leaded fuel.

The Kohl administration's decision to drop its earlier plan has produced negative reactions from lawmakers of all political parties. (Last February the Bundestag passed a unanimous resolution backing the government in its original pledge to make the manufacture and importation of low-pollution cars compulsory as of 1986.) Government leaders say that the earlier plan was modified to improve chances for a Community-wide agreement on mandatory automotive exhaust standards or at least to reduce the opposition of several Member States to the German campaign.

The Commission's plans, which have the backing of Italy and France, strongest opponents of Germany's modified plan, call for mandatory low-pollution standards for all new vehicles by 1995 *(Common Market Reports, Par. 10,589)*. The German government believes that by making the concession to delay its original plan by three years it would greatly improve its legal position should the planned move be contested in court. A unilateral legislative move would constitute an obstacle to inter-State trade within the meaning of Treaty Article 30, German government lawyers concede. They believe, however, that the Court of Justice would accept their justification under Article 36, which allows restrictions for reasons of health, environment, and public policy *(Common Market Reports, Pars. 351, 352)*.

Britain: Trades Union Congress Recommends 35-Hour Week

In the wake of its annual conference, the U.K.'s Trades Union Congress has issued guidelines to its member unions for negotiating worktime reductions in the forthcoming round of wage talks. The document stresses that "unless the international campaign for reduced working time is intensified" existing moves toward a "two-tiered society" of fewer people working longer hours while unemployment increases will gather momentum.

The TUC has set a target figure of a 35-hour workweek and six weeks' annual vacation. However, because there is little prospect of achieving these aims in the near future, it has recommended pushing demands for shorter worktimes with no subsequent loss of pay. At present, blue-collar workers in the U.K. work a basic week of 39 hours in most industries, with other employees averaging 37 hours. The average annual vacation time is four to five weeks.

The TUC emphasizes that worktime reductions "must not be used as a pretext for even more overtime." Instead, the guidelines say, "where redundancies (layoffs) are threatened, unions should consider banning overtime completely." In other instances, overtime should be phased out, with simultaneous raises in basic pay.

Figures released by the Dept. of Employment show that average earnings in the U.K. were rising at an annual rate of 7.5% in July, with a corresponding figure of 9% in manufacturing industry alone. Both figures include overtime payments, which have decreased slightly this year.

The Confederation of British Industry has indicated that increases negotiated so far this year have averaged 6%, compared with 5.5% over the same period in 1983. Employment Secretary Tom King has warned that high wage settlements will have a serious impact on the competitiveness of Britain's manufacturing industry. Per-unit wage costs in manufacturing industry were 8% higher in July than a year ago. King said that this reflects the "continuing yawning gap" between the U.K. and its major competitors, at a time when Japanese and U.S. costs have actually fallen. "We must stop paying ourselves more than we can afford," King said.

Dockworkers Call Off Strike; Miners' Protest Continues

British dockworkers called off their second strike of the year on Sept. 18 after three weeks of a half-hearted work stoppage in support of striking coal miners. The port authorities estimate that losses of £14.5 million ($18.1 million) were incurred during the strike, which was actively supported by less than half of the dockworkers. The conflict began when workers at the Scottish port of Hunterston refused to load coal headed for British Steel Corp.'s Ravenscraig steelworks. After nonunion dockworkers were hired to handle the coal, members of the Transport and General Workers' Union went on strike throughout Britain.

The union has achieved a partial victory with the coal delivery quota system agreed upon in the settlement, which guarantees British Steel enough coal to maintain 85% of its normal production at Ravenscraig. However, the port authorities and British Steel have refused to promise not to use nonunion labor if further conflicts arise.

Transport union leaders have been meeting with the National Union of Mineworkers to discuss what further aid they can offer the miners, who have been on strike for 30 weeks in protest against the government's plans to close 20 pits and lay off 20,000 workers next year. Early in September, the Trades Union Congress had approved a statement in support of the miners, asking unions to ban the use of coal, coke, or oil carried across the picket lines. The electrical power unions are currently discussing whether they should act in accordance with the TUC statement, while the steelworker unions have continuously refused to do so.

Talks between the miners and the National Coal Board have broken down, despite the involvement of the Advisory, Conciliation, and Arbitration Service. Miners are still trickling back to work, although the pace has slowed from that of recent months.

Netherlands: Favorable Business Reaction to 1985 Budget

The Dutch business community has generally reacted positively to the details of the 1985 draft budget presented last month by Finance Minister Onno Ruding. The VNO industrial federation said the proposed easing of the tax burden will help companies to regain profitability and thus also have stimulating effects on the labor market. A VNO spokesman particularly welcomed the government's plan to reduce the corporate tax rate to 41% in two years' time, even though he said businesses would have preferred a cut to 40%, as had been originally announced by The Hague. The VNO expressed disappointment, however, over the limited extent of the proposed social insurance cost relief for employers, which would constitute only a very small fraction of the 1.3 billion guilders in total business relief proposed in the draft budget. On the other hand, the federation noted with satisfaction that the government appears to be winning back control over the public-sector finances.

The heaviest criticism of the draft budget has come from the country's labor unions, which claim that the proposals will impose a greater financial strain on workers and the recipients of social welfare assistance and old-age pensions. Through its present incomes policy, the unions argue, the government is "playing one part of the population against the other." Representatives of the public service and public-sector employees have expressed doubt over official assurances that the purchasing power of salaries and wages in these sectors will remain unchanged next year, saying that there is a good chance that the 1985 inflation rate will be higher than the targeted 1.5%.

In his budget message to Parliament, Ruding stressed the need to continue the economic austerity course that the government started two years ago, despite the substantial progress that has been made on many fronts. The main feature of the budget, Ruding said, is a total savings of 9.3 billion guilders designed to speed the recovery of state finances and to reduce the "collective burdens." These burdens are to be cut from 54.4% of the national income in 1984 to 52.6% in 1985. Ruding emphasized that the government is not proposing any new taxes or tax increases for the first time in many years.

Greece: Partial Cabinet Reshuffle to Boost Efficiency

Looking ahead to the 1985 parliamentary elections, Greek Prime Minister Andreas Papandreou has once again partially reshuffled his cabinet to enhance his government's efficiency and popularity and to reflect changed power structures within the governing party, the Socialist PASOK.

Dismissal notices were given to certain cabinet members who had failed to meet expectations. The most prominent, although most unpopular, among them was Trade Minister Vassilis Kedikoglou, who had often alienated the Greek business community by presenting and enforcing the government's policies in an extremely aggressive and inflexible manner. Kedikoglou was succeeded by Nikos Akritides, previously the transport minister. Also dismissed was the minister for the environment and urban planning, Antonis Tritfis, who has not had much success in implementing promised reforms. The most important appointment, observers said, was that of Akis Tsohatsopolous as the minister in charge of the Prime Minister's Office. Previously, Tsohatsopolous was the public works minister, and he is regarded as the No. 2 man in the PASOK party leadership.

The changes followed a recent session on the island of Crete by Papandreou and his closest advisers, when it was decided to revamp the cabinet rather than call early general elections. Previously, there had been speculation that Papandreou would call for elections this year instead of waiting until 1985 in order to deflect the rising challenge of the main opposition party, Nea Dimokratia, and its new leader, Konstantionos Mitsotakis.

Italy: Budget Sets 7% Limit for Inflation, Pay Raises

Italy's government was scheduled to present to Parliament this week the 1985 draft budget containing measures to cut inflation from the current 10.4% to 7% next year. The draft proposes a ceiling of 7% on pay raises for the country's three million public employees, while inflation-linked scales would hold social security and old-age pension increases to the same figure if the inflation target is met. To avoid another conflict over the *scala mobile* wage indexation system, Prime Minister Bettino Craxi is urging employers and workers to voluntarily hold 1985 pay raises to 7%.

The government hopes to slightly reduce the public sector deficit next year from the 95,000 billion lire ($50 billion) expected this year. Assuming a 3% growth of the gross national product in 1985, the deficit's proportion of GNP would drop to about 13% next year after an expected 15% this year and 17% in 1983. Although no major tax increases are planned, Treasury Minister Giovanni Goria hopes that a crackdown on tax evasion and a tightening of value-added tax regulations will bring in additional revenues. Also, a controversial bill granting amnesty to those who have built houses illegally would add about 5,000 billion lire in property taxes if passed.

In other news, Labor Minister Gianni de Michelis says that Italian labor laws must be reformed in order to meet the rising demand for jobs. The Socialist minister blames Italy's unemployment rate among young people, which at 32% in 1983 was the highest in Europe, on the complex labor laws that discourage new hirings. In Italy, firing employees is almost impossible, although they can be placed on a state-subsidized, permanent layoff status.

Switzerland: Voters Turn Down Anti-Nuclear Measures

Swiss voters on Sept. 23 rejected two intensely debated national initiatives that would have prohibited the construction of additional nuclear power plants and prescribed energy conservation measures. Both proposed constitutional amendments were supported by the environmentalist lobby, left-wing parties, and the conservative National Action group, and heavily opposed by industry.

In addition to prohibiting additional nuclear power plants, the first referendum would have eliminated the possibility of replacing the five existing plants at the end of their useful lives and of storing foreign-produced nuclear waste in Switzerland. The measure was rejected by 55% of the voters and a majority of the cantons, including those where the existing plants are located. However, voters in and around Basel were overwhelmingly in favor of the proposal, which would probably have prevented construction of the nuclear power plant planned for Kaiseraugst, near Basel.

The other proposal would have enforced a reduction in energy consumption, imposed an energy tax to finance alternative energy sources, and prohibited any expansion of nuclear power. Nuclear plants currently supply about 40% of Switzerland's electricity, while only an estimated 20% of the country's non-nuclear power resources are being tapped. The government had opposed the measure in order to keep avenues open for reducing Swiss dependence on foreign oil, which currently covers 67% of the country's energy needs. The measure was turned down by 54% of the voters.