Common Market Reports

EUROMARKET NEWS

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Community: German Low-Pollution Car Bill Under Study

European Commission officials have started examining the German government's proposal to allow the manufacture or import only of low-pollution cars as of 1989 to see whether it can be reconciled with the Treaty of Rome. A report on the findings of the Commission's competition, internal market, and environment divisions may be finished within several weeks. However, the EC Executive is not expected to announce its decision on the proposal until after the European Parliament has taken up the Commission's own proposals on low-pollution cars, which were submitted to the Council of Ministers last May *(Common Market Reports, Par. 10,589)*.

Bonn's proposal would require anti-pollution devices for all new motor vehicles manufactured or imported after the beginning of 1989. New vehicles with an engine displacement of more than 2,000 cubic centimeters would have to meet the standards as of 1988. Buyers of new cars equipped with catalytic converters would not have to pay road vehicle registration tax for a limited period. (All eleven German states, which collect that tax, have backed the government's plan calling for an exemption of four to seven years, depending on engine size.)

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

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Commission lawyers are examining the German government's bill under Treaty Article 30 and case law based on that article, which bars quotas in intra-Community trade and all similar restrictions having an equivalent effect *(Common Market Reports, Pars. 321, 322)*. They first have to decide whether the proposed exemption from the registration tax would distort competition affecting trade between the Member States. German government lawyers say competition would not be distorted because, regardless of whether the low-pollution cars are imported or German-made, the buyers would be treated equally so far as the exemption is concerned. The proposed exemption would roughly offset the higher price of cars with catalytic converters. Foreign car makers could hardly allege discrimination, prohibited by Treaty Article 7 *(Common Market Reports, Par. 191)*, because German car makers would be treated in the same way, government officials said.

A far more difficult task for Commission lawyers will be to scrutinize the German bill under the aspect of Treaty Article 30 in conjunction with Treaty Article 36, which permits exceptions from the free-trade principle for public health and environmental reasons *(Common Market Reports, Pars. 351, 352)*. At this point in the initial phase of the examination, Commission lawyers tend to the view that to bar foreign vehicles, especially from France and Italy, from the German market after Jan. 1, 1989, could not be justified under Treaty Article 36.

Observers in Bonn and Brussels can visualize a compromise: to allow imports after Jan. 1, 1989, of French and Italian cars without catalytic converters would meet the letter and spirit of Treaty Article 30, and yet the German government could not be accused of retreating from its principle of protecting the environment. French and Italian cars make up less than 15% of the German market.

BAT, Reynolds Bring Suit Against the Commission

British American Tobacco (BAT), London, and R.J. Reynolds Industries, Winston-Salem, N.C., have brought suit against the Commission in the European Court of Justice. They are asking the EC Executive to rescind its decision to drop the antitrust investigation against Philip Morris, Inc., New York, and South Africa's Rembrandt Group Ltd. (Case Nos. 142 & 156/84).

In 1981, Philip Morris, Inc. (PM), planned to acquire from the South African Rembrandt Group 50% of Rothmans Tobacco Holding Ltd., the British holding company that controls Rothmans International. Since Rothmans International owns the entire stock of Germany's Brinkmann Corp., the German Federal Cartel Office barred the merger plan with respect to the effect on the German market, and its decision was affirmed in court *(Doing Business in Europe, Pars. 40,524, 40,571)*. BAT and Reynolds lodged complaints with the Commission, contending that the planned merger and the resulting strong market position of PM and Rembrandt would restrict competition within the Common Market. The Commission launched an investigation, and during that time, PM and Rembrandt modified their merger plan. PM acquired only 38.8% of Rothmans stock, and its voting rights were restricted to 24.9%. The Commission then discontinued its investigation and told BAT and Reynolds that it no longer had any objections to the finalized merger *(Common Market Reports, Par. 10,579)*.

BAT and Reynolds contend that the Commission failed to make provision for preventing violation of EEC competition rules by PM and Rembrandt. They also say that the Commission admits in its decision that the merger agreement allows PM to take over Rothmans or to acquire an interest equal to that held by Rembrandt if a third party wants to acquire Rothmans stock. The restrictions that the Commission forced upon PM with respect to the latter's role in the management of Rothmans, among others, are not far-reaching enough, according to the plaintiffs. BAT and Reynolds also contend that Rothmans, Imperial Tobacco, and PM represent an oligopoly that abuses its dominating position on international markets.

Germany: Employers, Union Dispute Recent Contract

Employers in Germany's steel, engineering, and automotive industries and the metalworkers' union are again locked in a major dispute over how to incorporate the general clauses of the recent union contract into individual management-works council agreements. The union is trying to renege on the issue of a flexible workweek (ranging from 37 to 40 hours) and instead insists on a 38.5-hour week for all workers.

Last July, the metalworkers' union (IG Metall) and management representatives of the steel, engineering, and automotive industries in northern Baden-Württemberg and Hesse accepted the chief mediator's compromise on a shorter workweek, thus ending one of the longest and costliest labor disputes in postwar Germany. The contract, which set the pattern for subsequent contracts in other regions, provides for a 38.5-hour workweek starting next April 1. However, it also gives management and the works councils leeway to negotiate a workweek ranging from 37 to 40 hours. Employers accepted the compromise only because it allowed for flexibility in arriving at a workweek that may be longer or even shorter than the 38.5-hour standard. Small and medium-size businesses were particularly satisfied with this feature because it enabled them to let qualified employees work longer hours, especially if substitutes could not be found.

IG Metall leaders are now trying to obtain what they failed to achieve in collective bargaining - a 38.5-hour workweek for all employees. Works council members attending seminars reportedly are being told to refuse to consent to any management-works council agreement that fails to grant the entire work force a 38.5-hour workweek as of April 1. Union publications are promoting the same approach. Works council members are being told to carry contract talks well into next year; if an agreement is not reached or a certain point is not settled, the issue should be submitted to the conciliation board *(Doing Business in Europe, Par. 23,446)*. The idea is to put management under pressure, with time running out.

Employers' association officials would not object if management, for organizational reasons, came forward with an offer of a 38.5-hour workweek for all employees, as Ford AG did in Cologne. Nevertheless, they are hoping that union leaders will abandon their goal of breaking the recent union contract. The association says that never before in postwar Germany has a union tried to back out of a commitment assumed in a labor contract. Association lawyers are reluctant, however, to challenge the union's tactics in court because a suit would revive the hostile atmosphere that prevailed during the strike. The outcome of the dispute will depend greatly on how independently works council members will act in the face of pressure from union leadership.

Britain: Self-Regulation for Financial Institutions

Norman Tebbit, Britain's secretary for trade and industry, has indicated that the U.K. government may still introduce tough legislation to control financial institutions and their activities in London. However, he emphasized that he personally favors "self-regulation under clear guidelines, backed by statute," if possible.

Self-regulation would be most in keeping with the main policy objectives that Tebbit has outlined, especially his goal of having the City and its institutions provide a competitive service to British industry, commerce, and government. To achieve the necessary international competitiveness, Tebbit believes, the London financial markets must be given "the maximum freedom" to compete and to innovate, while ensuring that London "is recognized as a clean place to deal."

Tebbit said that self-regulation would be the best way of reconciling the provision of competitive financial services with investor protection. This would require a framework of maximum disclosure of market information and tough standards to be applied in order to combat fraud, he said.

Tebbit will be meeting with other ministers and Robin Leigh-Pemberton, governor of the Bank of England, and plans to publish a consultative document before the end of the year. Legislation should be introduced in the 1985-86 parliamentary session.

Leigh-Pemberton has strongly endorsed the concept of self-regulation in the City's financial sector. He has suggested that this be accomplished through one coordinating body, "so that you don't have a state of affairs in which certain parts of the City are regulated in a different way from one another."

Greece: Seeking to Resolve Legal Conflicts With EEC

European Commission experts and their Greek counterparts have conferred in Athens over alleged Greek violations of EEC laws and regulations as well as delays in the adaptation of Greek legislation and regulations to Community rules. It was reported that the experts discussed 24 different instances of such violations and that the two sides were able to narrow their differences in a number of cases. The discussions are to be continued this month in Brussels, and both sides expressed the hope that progress can be made on those topics where the stalemate continues - particularly, the status of the National Pharma Office, the state crude oil monopoly, government procurement policies, and automobile imports. An agreement is also pending on fertilizer imports, which are supposed to be liberalized as of Jan. 1, 1985; Athens is now asking to introduce import quotas for a transitional period.

Athens reports said that the Greek Socialist government agrees in principle to conform to the EEC's proposals and requirements, particularly since most of these demands do not touch vital Greek interests. On the other hand, Athens is fighting for temporary exemptions in sectors it considers of prime importance. One of these is the state crude oil monopoly, which the government wants to retain for another five years. Another "protected area" concerns the monopoly of Greek fruit and vegetable exports by the Agrex organization. The EEC Commission questions the alleged private status of Agrex, which benefits from substantial state subsidies and promotion support.

In related developments, the Greek government is apparently making a special financing plan for the Mediterranean regions a bargaining point in the Community's accession talks with Spain and Portugal. Athens reports referred to a letter by Prime Minister Andreas Papandreou indicating that Greece might withhold approval of the accessions unless there is approval first by the Council of Ministers of the Integrated Mediterranean Programs (IMPs). The Commission-sponsored IMPs provide for the spending of ECU 7.33 billion over a five-year period to benefit Greece, Italy, and France.

Greek 'National Pharma Industry' Gears Up for Production

While European Community criticism of Greece's new National Pharma Office intensifies, the related "National Pharma Industry" is going ahead with its efforts to launch production of "national" pharmaceuticals and register the pertinent trademarks. Unconfirmed reports predicted the production start this year of the first such drug, an antibiotic, by a yet-unnamed third-party manufacturer. Greek pharmaceutical producers are alarmed by reports that the National Pharma Industry has filed 66 trademark applications, 48 of which are said to have already been approved by the trademark commission of the Commerce Ministry. Spokesmen for the producers said the industry has been "overpowered" by the unusual speed with which the trademarks had been applied for and approved. They contend that most of the new drugs to be produced under state control will duplicate pharmaceuticals either produced in Greece or imported.

Meanwhile, the European Commission has stepped up its challenge of the National Pharma Office with a letter to the Foreign Ministry in which Brussels asks that Athens adapt to EEC rules by modifying its Law No. 1316 in such a way as to remove the state monopoly status of the Office within one month. A similar move had been rejected by the Greek government in August 1983. A Commission inquiry last April about the nature of the Office's revenues was apparently left unanswered. The EC Executive continues to be of the opinion that the provisions of Law No. 1316 have turned the drug trade in Greece into an illegal state monopoly.

Austria: Partial Withdrawal of Interest Yield Tax

The controversial Austrian tax on interest income from savings deposits and bonds, which had been introduced last January, will probably be rescinded within the next few weeks, except for foreign-currency bonds, mortgage savings, and bonus certificates *(Genusscheine)*. The interest yield tax *(Zinsertragsteuer)* had been a purely budgetary measure and was supposed to raise some 3.5 billion schillings in extra revenue for the treasury. However, the new tax has led to the virtual collapse of the Austrian capital market, prompting the country's top commercial banks to pressure the government to withdraw the tax.

The new finance minister, Franz Vranitzky, who took over the post last month and had previously headed Österreichische Landesbank, indicated upon taking office that he planned to eliminate the tax at least for bonds, which would mean a revenue loss of only 200 million schillings. However, critics argued that this step would tend to spare the better-earning bond purchasers, while holders of savings deposits would have to continue paying the tax. As a result, Vranitzky has reportedly devised with the banks a plan for the gradual reduction and partial elimination of the tax. According to this plan, the tax would be retroactively eliminated for securities, while it would be lowered from 7.5% to 5% for savings deposits. In return, the finance minister would rescind the tax relief for bonus certificates, which had been introduced in late 1982; this move would bring in about 1 billion schillings in additional revenues.

Norway: Krone Devalued by 2%; Foreign Bank Branches

Norway decreased the value of the krone by 2% on Sept. 24 in an attempt to counteract the damaging effects of the rising dollar on Norwegian exports. Because the value of the krone is tied to a combination of other currencies, exports from the manufacturing sector drop when the dollar, and thus the krone, increases in value. This is the fourth time the krone has been devalued in the past two years: the value was lowered by two steps of 3% each in the fall of 1982, and an adjustment in the currency basket last summer meant another drop of 2%.

On the other hand, a large percentage of the payments for oil and natural gas from Norway's North Sea fields is in dollars, so profits from that sector rise when the dollar is strong. Norway's offshore profits so far this year are running about 25% higher than previously expected. As a result, the surplus in the country's balance of payments for the first five months of the year amounted to 12.1 billion kroner, against 4.3 billion kroner for the same period in 1983.

In other news, nine banks, including three from the U.S., have applied to establish the first foreign banking subsidiaries in Norway. The U.S. banks, Chase Manhattan, Citibank, and Manufacturers Hanover, have had representative offices in Oslo for some time. The other banks are Banque Nationale de Paris, Banque Indosuez, and Banque Paribas of France, Samuel Montagu & Co. of Britain, and Wermlandsbanken and Upplandsbanken of Sweden. Banque Nationale de Paris and Banque Indosuez want to establish joint ventures with Norwegian banks. The Finance Ministry says the application for a subsidiary to be owned jointly by the two Swedish banks will not be cleared until foreign banks are permitted to operate in Sweden.

Switzerland: No Extradition of Marc Rich; Ellis AG

Switzerland has turned down a U.S. request for the extradition of Marc Rich and Pincus Green, principal officers of the Swiss-based commodities trader Marc Rich & Co. AG, who have been charged with fraud and racketeering. The Swiss government says that the charges are not directly covered by the U.S.-Swiss treaty of 1900 that allows for extradition in the case of such crimes as murder, arson, and forgery.

Observers predict that the Swiss refusal may open the way for a settlement between the two countries concerning Marc Rich documents subpoenaed by a U.S. court in a tax evasion case against the company's American unit, Marc Rich & Co. International. It is doubtful, however, that any settlement would involve dropping the charges against Rich and Green. The Swiss Justice Dept. is pressing for a reply to its July 13 offer to hand over the documents if the American court lifts a $50,000 fine imposed on the subsidiary for each day the papers are withheld. Switzerland contends that compliance with the U.S. court order might violate Swiss laws prohibiting the disclosure of internal business information to others abroad.

In related news, Swiss police said that they are ready to aid the U.S. Justice Dept. in its investigation of insider trading involving Ellis AG, a Zurich-based finance company. However, a spokesman warned that this offer could be blocked later in the Swiss courts. The Securities and Exchange Commission is seeking the names behind certain Ellis accounts that may have been used to process insider transactions as part of a ring that allegedly netted over $40 million during a seven-year period. The case is complicated by the fact that insider trading is not a criminal offense in Switzerland. Also, Ellis, a subsidiary of the A. Sarasin & Cie. bank of Basel, is not a bank and therefore not subject to a 1982 U.S.-Swiss memorandum covering banking secrecy.

EURO COMPANY SCENE

IBM Italy and Elsag, a member of the state-owned Italian IRI-STET group, have announced the formation of a joint venture for the design and production of plant automation equipment. The move has been described as IBM's first technical collaboration project with a European manufacturer. The agreement is one of three between IBM and the STET finance holding; the other two involve research collaboration with CSELT and the purchase of microprocessors from SGS, both STET subsidiaries.

The joint venture contract, details of which were to be announced later, represents for STET a first step on the road to more intensive cooperation with IBM, especially in the areas of telecommunications and electronic data transmission. The Italian government intends to invest substantial funds in these areas over the next few years but needs U.S. technological and financial help. The joint company, to be based in Genoa, will be controlled 51% by Elsag and 49% by IBM.

Deutsche Bank, Germany's No. 1 commercial bank, has purchased International Telephone & Telegraph's West German household products subsidiary, Leifheit AG, for DM 120 million. The sale is part of ITT's current streamlining of assets and reduction of debts, with the aim of concentrating on high-technology areas. Leifheit, which had been bought by ITT in 1972, reported 1983 net income of DM 10.3 million on sales of DM 97.2 million. Deutsche Bank last month underwrote a public offering in Germany of 65% of Leifheit shares, at DM 300 per share.

ITT last month announced plans to establish its European transit center in the Netherlands, involving both the port of Rotterdam and Schiphol Airport. The company said the center will handle about 2 billion guilders' worth of goods annually, including at least 3,000 containers via Rotterdam.

Massey-Ferguson will probably discontinue production of combine harvesters at its Marquette plant in northeastern France at the end of the year. The plant has been closed since June, when 1,400 workers were sent home, and will remain shut down for at least another three months. The company has been looking for a buyer for the operation but does not anticipate much success.

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Community: Disagreement Among Ten Stalls Accession Talks

Internal disagreement among the ten Member States over terms of Spain's and Portugal's entry into the Community is preventing major progress in the accession talks. At their Oct. 3 meeting in Luxembourg, the ten foreign ministers merely agreed on the EEC's offer to Lisbon concerning Portugal's sugar production levels. This offer was not presented to the Portuguese, however, to avoid having the EC-Portugal negotiations move ahead of those with Spain. (Sugar is the last remaining key issue to be settled with Portugal.) Brussels observers are wondering whether the Portuguese will accept the offer. To better utilize the capacities of its refineries, Portugal imports some 300,000 tons of sugar cane annually, approximately 120,000 tons of which originate from the Ivory Coast, Swaziland, Zimbabwe, and Malawi, which are members of the African, Caribbean, and Pacific (ACP) group linked with the EEC by the Lomé II Convention. The EC's offer would allow Portugal to import only 70,000 tons of sugar from ACP countries.

The ten Member States still have not reached a consensus on the details of three key points in the Community's offer -

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olive oil, industrial tariffs, and social issues, such as the free movement of labor. All three issues are of great significance to Spain. Most Member States consider absolutely necessary rules that would guarantee olive oil producers prices up to certain quantities to be established after Spain's accession. Italy and Greece, however, oppose this idea and are not inclined to compromise.

Spain objects to the fact that the barriers to its citrus fruit exports to the other States would be dropped completely only after ten years, while it would be expected to eliminate all obstacles to imports of industrial goods after seven years. Nor can Spanish negotiators see justification for the Community's hard stand on the issue of free movement of labor; the EEC would grant Spanish and Portuguese workers the right to move freely only after a seven-year period. Germany is the main supporter of this condition. Bonn also wants to save money in connection with children's allowances by not paying the full amount to a Spanish or Portuguese worker employed in another Member State and having children in his home country.

Accession by the target date of Jan. 1, 1986, is still possible, according to Brussels observers, although time is beginning to run out. The delays in the accession talks are also causing difficulties for Spanish Premier Felipe Gonzalez, who has called for a convention of the governing Socialist party in mid-December to convince his followers that Spain should remain in NATO. Madrid observers believe that Gonzalez will achieve his goal only if he can show that the accession talks are progressing satisfactorily.

Support for Strategy to Meet High-Tech Challenge

The Economic and Social Committee is backing wholeheartedly the European Commission's drive for a Community strategy to meet the challenge posed by new technologies. In a recent, unanimously approved opinion, the committee expressed its belief that this challenge can be met only by a series of measures, including education and training, efforts to reduce working time, and moves to involve employees and consult them about the introduction of new technology. Workers' and employers' representatives on the committee all see the potential for social disruption that new technologies have in revolutionizing lifestyles and employment over the next ten years. The committee members concur on the remedies.

Last January when the Commission presented its ideas on a Community strategy to meet the challenges of new technologies, it predicted a rise in overall unemployment in the next decade as innovations eliminate millions of jobs in labor-intensive manufacturing industries, even though it stated that it expects about 4 million jobs from new information technology. The EC Executive also pointed out that, although all Member States agree on the need to catch up with the U.S. and Japan, the Community has not done enough to deal with the social implications of technological change. The measures envisaged by the Commission include partnership programs between industries and universities (financed with EC funds), studies on the impact of new technologies on employment, working time, pay, and other elements of working conditions, and research leading to the formulation of principles that would eventually guide the social partners when new technologies are introduced into an enterprise.

Supporting the Commission's proposals on improved education and training of technicians and qualified specialists, the ESC goes one step further by reviving its earlier suggestions calling for specific basic and supplemental training programs for workers and executives to keep pace with technological progress. The committee favors statutory or contractual guarantees (for instance, by employers) with respect to further training and retraining assistance for persons affected by changes connected with the industrial application of information technology. The ESC also supports the Commission's proposals on working conditions and the reorganization of working hours.

In Brief...

The Commission has submitted to the Council of Ministers a draft directive on workers' health. The measure would require the Member States to ban or restrict the use in plants of certain agents established or believed to be dangerous to human health. Some of the agents are used in chemical compounds, including dyes, pesticides, and antioxidants. The States could grant exemptions from the proposed ban under certain conditions. The measure would be the fourth to be adopted under the Council's 1980 framework directive + + + The Council of Ministers has temporarily resolved the Community's financial crisis by approving in its first reading an ECU 1.9 billion supplementary budget for 1984 and an ECU 25.9 billion draft budget for 1985. Both measures were sent to the European Parliament for consideration. However, agreement on the 1984 supplementary budget does not mean that the Community might not still face cash problems at the end of this month. The supplementary budget must be approved by the Parliament, and Britain consented to the measure only on the condition that the EP withdraw its veto holding up payment of a refund to the U.K. of ECU 750 million, to which the Council agreed + + + The German government is supporting France's position before the European Court of Justice on the contested issue of price maintenance. In a brief submitted to the Court, Germany backs France's view that French legislation requiring book publishers and importers to set a binding price does not constitute an obstacle to intra-Community trade. The German position is based on a survey of German book publishers and retailers. The case arose when the Leclerc department store chain sold books up to 15% below the fixed price in violation of French law, which allows retailers to reduce the price by only as much as 5% (Case No. 229/83).

Germany: Abolishment of Tax on Foreign-Held Bonds

Nonresident holders of German bonds can expect abolition of the *Kuponsteuer*, the tax withheld on interest paid to them. The Kohl cabinet has authorized Finance Minister Gerhard Stoltenberg to prepare a bill that would repeal the 19-year-old statute imposing the tax, retroactive to Aug. 1, 1984. Nonresident holders of German government and industrial bonds would not have to pay withholding tax on interest after that date. The tax yielded DM 210 million in revenue in 1983, a relatively low amount.

The German government's Oct. 3 decision to have the law repealed coincided with the French government's announcement on the same day that a similar French provision imposing a 25% withholding tax on new domestic bond issues would be abolished. These two decisions were coordinated to strengthen the D-mark and the French franc against the strong U.S. dollar, thus improving the competitive standing of the German and French capital markets. The two countries are trying to counter a similar measure taken by the U.S. government last July.

Germany in particular is hoping that the abolition of the withholding tax will stimulate the inflow of capital and keep interest rates down. The tax is withheld on interest paid to nonresident individuals, corporations, and other recipients holding government bonds *(Doing Business in Europe, Par. 23,353)*. It was enacted in 1965 to discourage speculators hoping for a revaluation of the deutschmark (the inflow of speculative currency was then fanning inflation). Today, high interest rates in the United States have reversed the flow of capital, and nonresident investors and Germans find the American capital market more profitable since the gap between the two countries' interest rates is about 6%.

In recent years, German bankers and Bundesbank officials have demanded the abolition of the *Kuponsteuer*. In July, Bundesbank president Karl-Otto Pöhl urged immediate action on the matter.

The bill must be approved by both houses of Parliament. Stoltenberg expects some resistance in the upper house from those states that would be most affected by the loss of revenue. For example, the state of Hesse expects an annual revenue loss of some DM 50 million, or half of the total revenue all eleven states have coming to them from the tax. There are a disproportionately high number of companies in Hesse that have issued bonds bought by nonresidents, and Hessian communities also have been active in issuing bonds to finance projects. Although Hesse's state government has announced opposition to the planned measure, passage of the bill seems certain.

Foreign Banks Demand Equal Treatment by Bonn

In a hearing before the parliamentary finance committee on Oct. 3, representatives of the foreign banks in Germany complained about alleged disadvantages suffered by foreign branch operations in comparison with their German competitors. The hearing was held in conjunction with the proposed amendment of the German banking law *(Kreditwesengesetz)*. The Association of Foreign Banks in Germany represents 24 institutions and has made its own recommendations on proposed changes in the present banking legislation.

One of the main complaints by the foreign bank branches is that, according to Section 53 of the *Kreditwesengesetz*, only the capital paid in by the parent bank is considered capital assets. Other kinds of capitalization - for instance, via a silent partner - are available only to banks operating under a German form of doing business. Also, the foreign banks allege, the German tax revenue offices tend to be "suspicious" of loan transactions between a branch and its parent bank abroad, the result being that such transactions are, for tax purposes, generally charged to the German branch wherever possible.

Because of such alleged inequities, the Association says that more and more foreign banking institutions feel pressured to operate under a German form of business, so as to avail themselves of the same conditions as their German competitors. However, this trend is considered questionable, since it constitutes an impairment of the principle of free settlement. The Association points out that many German banks are represented abroad by branches, rather than full subsidiaries.

The foreign banks demand that the German banking law be modified to allow them to be treated equally with respect to raising capital via silent partners *(stille Gesellschafter)*. They also ask that they be permitted to raise subordinated loans and that such loans be treated as equity capital. They say that the right of equal treatment is guaranteed by both the Treaty of Rome and bilateral commercial agreements - for instance, with the United States.

Belgium: Judiciary Gains New Court of Arbitration

As of Oct. 1, a national Court of Arbitration *(Cour d'Arbitrage)* has been added to Belgium's judicial system, supplementing the configuration of courts as laid out in the country's constitution. The new court will serve principally to settle disputes between the national government and legislature, on the one hand, and the regional authorities and institutions, on the other. Constitutional experts emphasize that, through the new court, it will be possible for the first time in Belgian history to challenge laws passed by the national parliament.

The Belgian state reforms of 1970 and 1980 brought the first reductions in central powers by creating regional governments and assemblies for the three principal regions of Flanders, Wallonia, and Brussels. The reforms also opened the way for supplemental institutions representing Belgium's main language groups (Flemish, French, and, to a lesser extent, German). Despite these concessions to the regionalists, the central state continues in its dominant position, not least because the purse strings are controlled from Brussels. Under these circumstances, the new arbitration court is not expected to bring much change to the existing balance of powers, political experts say.

France: Paris Plans New Youth Employment Programs

The French government has unveiled a series of measures that it says will drastically reduce youth unemployment, currently standing at over 900,000 of the total 2.5 million jobless. However, the unions and employers say that the plan will probably mean only a temporary improvement in employment statistics, rather than a long-term solution. According to the Organization for Economic Cooperation and Development, unemployment among young people in France will rise from the current 25% to 28.5% next year unless major steps are taken.

Earlier this year, the government had announced a program to create job or educational opportunities for approximately 425,000 workers under the age of 25. According to Labor Minister Michel Delebarre, the new measures should help an additional 480,000 workers. In keeping with Prime Minister Laurent Fabius' promise to arrange job or educational opportunities for all unemployed persons under the age of 21 by the end of 1985, Delebarre said "work of public benefit" will be offered to many of them, funded by the national and local governments. The program also calls for companies to expand educational opportunities, the funds they expend being recovered through lower apprenticeship and educational levies. The state itself plans to open an additional 100,000 places in three-month training courses, besides offering training extensions to 80,000 current students and apprentices.

Ireland: Three-Year Economic Recovery Plan Presented

The Irish government has unveiled a three-year economic recovery program for 1985-87, the major priority being to stop and reverse the continuing upward spiral of unemployment, which currently stands at 17% of the working population. Other main objectives include making sure that the rapid rise in the tax burden is stopped as soon as possible and providing "stability and certainty" by clearly establishing the direction of economic policy.

Prime Minister Garret FitzGerald said that the government plans stringent controls on public expenditures and on pay raises in the public sector over the next three years. The government intends to reduce public-sector borrowing from the current level of 17% of GNP to about 11% by 1987. At the same time, it proposes to bring down the budget deficit from 7.5% of GNP to 5% in the same period. Foreign borrowing is also to be reduced, which would free more funds for productive investment in the private sector.

The document emphasizes that there would be no further rise in the share of output absorbed by taxation. There would be annual adjustments in the income tax brackets and allowances, so that the overall income tax burden would not increase. The government's measures enacted in 1983 to permit detailed investigations into tax affairs "are now beginning to show their effect," and the first list of tax evaders will be published next year.

Value-added tax rates on a wide range of goods are deemed too high. VAT is now levied at six different rates *(Doing Business in Europe, Pars. 25,364-66)*, and this structure is too complicated and leads to serious anomalies, according to the government. The document says that although a uniform VAT rate is not feasible "in the foreseeable future," progress will be made toward reducing the high rates "on a selective basis" and reducing the different number of rates, so far as possible. VAT on newspaper sales is coming down from 23% to 18% next March and by further, unspecified, percentages in 1986-87.

Other proposed measures include a major boost for the construction industry, with an extra Ł53 million (Irish) for road building, Ł32 million for educational facilities, and Ł30 million for the Dublin airport. A land tax of Ł10 per acre would be levied as of 1986 on farms with more than 20 acres, and grants of Ł5,000 would be available for local authority tenants who wish to buy their own houses. The excise duty on spirits is to be reduced "at an early date" by Ł1.75 per bottle.

A program of industrial expansion and other special measures is intended to increase total employment by 45,000 jobs in the three years, absorbing the growth in the labor force during that period. There is to be a new six-month training and placement system for the long-term unemployed and, similarly, a new arrangement to provide part-time jobs for such individuals.

Greece: New Bonus System to Lure Larger Investments

The Greek Economics Ministry has decided to raise the qualifying amounts of private investments eligible for state bonuses (Law No. 1262/82) to encourage larger investments. So far, the vast majority of applications for bonus payments have involved small projects.

In the future, investments of up to 800 million drachmas (currently 400 million) will be eligible for state bonuses, without any obligations on the part of the investor. For investments ranging from 800 to 1,000 million drachmas, the state will participate in the venture's equity capital to the extent of half of the investment above the 800 million drachma level. For investments of 1,000 million drachmas or more, the state participation in the equity capital will be the full amount above the 1,000 million drachma level. The size of the bonuses (up to 50% of the investment value) is determined by the economic importance of the project and other criteria.

Spain: Union, Employers Sign Two-Year 'Social Pact'

Following several months of negotiations, the Spanish government has succeeded in having the UGT labor union and the employers sign an agreement aimed at securing the "social peace" and stimulating investments, at least during the remaining two years of the government's tenure. The Communist CCOO labor federation is not a party to the pact, however, and the CEOE employers' federation has expressed skepticism over the agreement's chances of success.

The document of nearly 90 pages contains mainly job creation and investment promotion measures as well as fiscal policy guidelines. The government agrees to limit the increase in the tax burden to 0.8 points in each of the next two years and to reduce the budget deficit to 5% and 4.5%, respectively, of the gross national product. There is to be no rise in tax rates, but more efficient collection procedures and a more rigorous fight against evasion will be instituted. The social insurance contributions of the employers will be lowered by an average of 0.6 points. The employers had originally demanded a reduction of 1.0-1.5 points.

The state will raise its investment aids by 50 billion pesetas and boost the funds available to the state employment institute by 30 billion pesetas in order to help create 16,000-19,000 new jobs. The public sector is to provide at least 25,000 new work openings during the next two years. At the insistence of the unions, a national "solidarity fund" will be set up next year, to be jointly administered and financed by the government, the employers, and the unions.

The employers' federation and the UGT, Spain's largest union, agreed for their part to keep pay raises within a band of 5.5% and 7.5% next year. For the year 1986, the raises would range from 90% to 107% of the inflation rate. Civil servants and public-sector employees will receive a raise of 6.5% next year.

Common Market Reports

EUROMARKET NEWS

Issue No. 823 *Report No. 512, October 23, 1984*

IN THIS ISSUE

Community: EEC Company Law Thresholds to Be Raised

The Council of Ministers has agreed in principle on a draft directive that would raise the threshold criteria of the Fourth Company Law Coordination Directive concerning the annual accounts of certain types of companies *(Common Market Reports, Par. 1371)*. The increase would permit the Member States to maintain the volume of exemptions provided under the Fourth Directive. Without the increase, a far greater number of small and medium-size companies would become subject to EEC company law because inflation has pushed their balance sheet totals and turnovers above the thresholds provided for in the directive. Once a company exceeds the thresholds, it must abide by the standards for the drawing up, publishing, and control of financial statements that the Member States were required to adopt in line with the Fourth Directive. Formal adoption of the draft directive with the raised threshold criteria is expected within a few weeks.

For small companies, the balance sheet total of ECU 1 million and the turnover level of ECU 2 million would be raised to ECU 1.55 million and ECU 3.2 million, respectively. For medium-

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

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size companies, the balance sheet total of ECU 4 million and the sales threshold of ECU 8 million would be raised to ECU 6.2 million and ECU 12.8 million, respectively. The workforce thresholds would remain the same. The Fourth Directive commits the Council to examining every five years the need to raise the threshold amounts to compensate for economic and monetary changes *(Common Market Reports, Par. 1373C)*.

The Fourth Directive is linked to the Seventh Directive on consolidated accounts in that it allows Member States to exempt small and medium-size groups of companies that stay below the balance sheet total and annual sales thresholds set forth in the Fourth Directive *(Common Market Reports, Par. 1421F)*. The increase would permit the Member States to continue to exempt small and medium-size groups of companies from the consolidated accounting requirements.

The Benelux countries, Denmark, France, and the U.K. have passed legislation complying with the Fourth Directive, which was adopted in 1978. Germany, Greece, Ireland, and Italy are in violation of the deadline for compliance, which was originally set for August 1980 and then extended by one year. Germany plans to put the necessary legislation into an act including provisions required by the recent adoption of the Eighth Directive on auditors' standards *(Common Market Reports, Par. 1431)*. (The Member States have until Jan. 1, 1988, to comply with the Seventh Directive, which was adopted in mid-1983.)

Consensus on Single Document in Intra-EEC Trade

The Council of Ministers has made progress toward completing the Community's internal market by agreeing in principle on the basic draft regulation introducing a single customs document for intra-Community trade. The measure will be formally adopted once the Council reaches a consensus on several specific draft regulations that would set forth technical details of the document. Adoption of the basic and specific draft regulations would greatly simplify formalities in intra-Community trade because the single document would replace some 70 customs documents now used by the ten Member States. A single document would also speed the computerization of freight clearance, and the simplification of paperwork would save traders considerable cost. Estimates put the cost of frontier formalities (including truckers' waiting time) at $10 billion each year.

The Member States still differ on how much information the single document should require. Although the Council at its recent meeting agreed to reduce the number of demands for information from 70 to 58, traders think 58 questions are still too many. (Last year, the States' requests for information totaled 100.) Representatives of national importers' and exporters' associations and the chambers of commerce have told the European Commission that an attempt should be made to trim the number of specific requests for information to 45 or less. Germany is still insisting on transport statistics largely because of its important role as a transit country. France and Italy are interested in exchange control information.

Commission officials see no chance for Council agreement on the content of a single document similar to the form used since July 1 in trade between Belgium, the Netherlands, and Luxembourg. The form, called "Benelux 50," has just 14 boxes to be checked. The document does not have to be shown on leaving the country because the formalities are handled by the importing state. The governments of the three countries have presented their model to the other Member State administrations.

The Benelux countries have been forerunners in simplifying trade formalities for decades. Their Economic Union was completed in 1960 and is to last for 50 years. Even before "Benelux 50" was introduced, truckers had to wait at border crossings inside the Benelux area only about 15 minutes, compared with an average of 75 minutes throughout the rest of the Community.

In Brief...

Responding to pressure from the Commission, the Japanese government has agreed to reduce exports of video cassette recorders to the Common Market, but it has not said by how much. Last November, Japan agreed to limit its 1984 VCR exports to the EEC to 5.05 million units (3.95 million recorders and 1.1 million VCR kits). This figure was agreed on by Japanese and Commission officials on the assumption that total sales, including those of European video manufacturers, would be accordingly higher. The Japanese estimated the total to be near 6.4 million sets, while Commission officials figured on 5.4 million, at the most. As it turned out, actual 1984 sales will be only 4.4-4.6 million units. Since export agreements among businesses are generally negotiated two months in advance, and most VCRs to be sold in the next three months have already been exported, the promised reduction would have to be put into the new accord for 1985 + + + The Commission is considering legal action against Germany over the German government's recent action exempting thousands of small farmers from more than half of the milk production reduction required by EEC rules. This action authorized German farmers who produce less than 30,000 kilos of milk annually to limit their production cuts to 2%, less than half the 4.1% required by the EEC. Although this cut, which benefits small producers, is compensated by greater cuts for large dairy farmers, Commission officials believe that the action violates both the letter and the spirit of recent EEC rules + + + The Commission has decided to raise steel production quotas for the fourth quarter to reflect increased demand. At the same time, it raised minimum prices. Both measures were taken under the Community's emergency system enacted by the Council of Ministers in October 1980 under Section 58 of the Coal and Steel Treaty.

Germany: State's Disengagement Plan to Be Revealed Soon

Finance Minister Gerhard Stoltenberg will reveal next month his plan for the German government's partial or full disengagement from 12 companies. He can expect no problems except in the case of Lufthansa, the national airline. Stoltenberg wants the federal government to cut its 74.3% interest in Lufthansa to 51%. The governing Christian Democratic party (CDU) and the Free Democrats support Stoltenberg's plan. However, the Christian Social Union (CSU), the CDU's Bavarian sister party headed by Franz-Josef Strauss, is against reducing the government's share in Lufthansa. Strauss, a member of the airline's supervisory board and chairman of the supervisory board of Deutsche Airbus GmbH, believes that a strong engagement is necessary to retain Lufthansa as a buyer of Airbus models and to block possible influence by foreign buyers of Lufthansa stock.

Among the 12 enterprises that Stoltenberg wants sold are at least four subsidiaries of the government-owned VIAG holding (Vereinigte Industrie-Unternehmen AG). They are Thyssengas, Bayernwerk, Bayerische Wasserkraftwerke, and Vereinigte Aluminium-Werke (VAW). VIAG is a prominent example of the government's role in the economy. Bonn owns, controls, or has a major interest in 900 companies with 440,000 employees and total sales of some DM 115 billion (1983). The best-known enterprises, in addition to Lufthansa, are the Salzgitter steelmaking and mining group (100%), the Saarbergwerke mining group (74%), and Volkswagen (20%).

The government's sale of 4 million VEBA shares last year was a complete success from a financial viewpoint. Through the sale, Bonn lowered its interest in VEBA from 43.75% to 30% and brought the treasury some DM 800 million. However, the government was disappointed that so few VEBA employees took up the offer to become shareholders of VEBA, whose activities include energy, chemicals, trade, transport, and services. The reasons for the rejection were manifold, among them a cumbersome purchasing procedure for the employee/investor. Stoltenberg's latest plan also calls for the sale of stock to employees, and bankers hope that the government has learned from the VEBA example and acts accordingly.

Belgium: Government Guidelines on Payroll Increases

The Belgian government has issued precise guidelines to those employer associations and labor unions that have not yet been able to agree on new collective framework contracts. The Martens administration is giving the highest priority in this respect to the safeguarding of the Belgian economy's competitiveness: worktime adjustments, it argues, are possible only within strict pay rise limitations.

Last July, the representatives of the employers and the unions had sketched a basic plan for industry sector agreements on worktime reductions. However, the governing body of the Socialist union subsequently rejected this plan and came out for a central agreement. The Christian unions also posed conditions, which were not accepted by the employers. At that point, the government stepped in by decreeing that all future pay contracts will have to abide by the rule that any payroll increases cannot exceed those of the average of Belgium's seven leading trade partners.

Specifically, the government guidelines do not permit payroll increases in excess of official index adjustments. In those industry sectors where production increases permit a payroll boost, the increase will have to be limited to 1.5% and be used exclusively for new hirings. The government is promoting part-time work, so long as no loss of jobs is involved. The guidelines further provide that existing agreements on worktime reductions may be extended, but only if there is a corresponding cut in pay. All negotiations are to be conducted at the sectoral rather than the central level. (This rule is being sharply criticized by the unions, which say that it weakens their bargaining position.) Should both sides fail to conclude sectoral agreements, then the talks have to be conducted at the company level. Negotiations on the general introduction of the 38-hour workweek may not start before early 1985.

In addition to limiting the extent of payroll increases, the government has decided on a further measure to safeguard competitiveness. Previously, Brussels had decreed that one quarterly wage index increase in both 1985 and 1986 was to be paid not to the employees but to the state treasury in order to aid the budget. Now the government has agreed to leave these funds at the disposal of the employers, thereby fulfilling a key demand of the industrial associations.

Britain: Sanctions Against Misleading Advertising

The British government is planning to introduce in the near future legal sanctions to curb advertisements that "deceive, mislead, or confuse with regard to any material fact." The Director General of Fair Trading, Gordon Borrie, is to be given powers to apply for court orders to ban such advertising. Currently, the advertising industry has a self-regulatory body, the Advertising Standards Authority, which acts as a voluntary watchdog. However, there has been increasing criticism that this body is not sufficiently powerful to deter misleading advertisements and cannot impose adequate sanctions on those who do not conform with its rulings.

Meanwhile, as previously reported, restrictions on advertising in the legal and accounting professions were relaxed on Oct. 1, with a varied response. Most of the largest accounting firms have placed prominent newspaper advertisements, while the principal legal firms have displayed a marked reluctance to advertise in the press. Both professions are concentrating on providing explanatory brochures or developing periodicals to keep clients abreast of current fiscal and legal developments.

Some observers regard the rules on legal advertising as too restrictive. For example, a solicitor may not claim to be a specialist in a particular field or suggest that his services are offered at a lower price than those of his competitors. However, Michael Zander, professor of law at the London School of Economics, has predicted that advertising will be beneficial and will probably generate more work. He said that only about 13% of lawyers advertise in the U.S., where advertising has been permitted since 1973, and most of these represent small firms. Zander predicts that the same pattern will develop in the U.K.

France: Paris Cracks Down on Illegal Alien Workers

The French government is tightening its crackdown on illegal alien workers to include a centralized electronic system containing information on foreign workers and their families. Another measure will urge employers offering seasonal work to hire unemployed citizens rather than foreigners. Rules governing the immigration of family members will also be more strict. Previously, a foreign worker had only to prove to local French authorities that he could provide for his family members after they were already in the country on tourist permits. In the future, a worker will have to demonstrate to immigration authorities before the arrival of his family that his income exceeds a certain amount, that he has a permanent residence, and that he has been living in France for at least one year under "orderly circumstances."

Paris is particularly concerned about workers from Algeria, Tunisia, and Morocco. These nationalities comprise over one-third of the foreign population in France, estimated at between 3.7 million and 4.5 million. In September 1983, the government decided to limit the stays of citizens of those three countries to three months. Although fines for companies that hire illegal aliens were raised at that time, Paris also simplified permit procedures for those aliens who are legal residents.

Sweden: Panel Recommends Admission of Foreign Banks

A Swedish government committee has recommended that foreign banks be permitted to establish branches in Sweden beginning in late 1985. Finance Minister Kjell-Olof Feldt said that such a bill should be ready for presentation to Parliament during its spring session next year. Because most countries accept applications from foreign banks on a "principle of reciprocity," the recommended legislation would open doors for Swedish banks throughout Europe. Sweden is currently the only country in Western Europe that does not permit subsidiaries of foreign banks.

The committee has recommended that applications be accepted for wholly owned units of foreign banks and Swedish units owned jointly by several banks, preferably with a majority owner. The applications would be considered on the basis of the financial status and reputation of the parent, previous links with Sweden, and the range of services to be offered. According to the panel, foreign units should be required to offer interest-bearing deposits to individuals and be encouraged to offer extensive consumer banking activities. Committee chairman Nils Hoerjel said that Swedish bankers had advocated the latter recommendations so that foreign units would operate under restrictions similar to those placed on domestic banks. The panel has also advised the government to limit the equity capital for foreign subsidiaries to SKr 25-75 million, with funding in kronor raised on the domestic money and capital markets.

Norway: Record Budget for 1985; Foreign Participations

According to a draft submitted to Parliament earlier this month, Norway's 1985 budget provides for record expenditures of NKr 216 billion, based on estimated revenues of NKr 195 billion and a net borrowing requirement of NKr 21 billion. Finance Minister Rolf Presthus said that the budget increase of 5.2% is aimed at strengthening Norway's international competitiveness and providing more funds for "important domestic areas."

For 1985, the budget draft projects a 1% rise in GNP, including offshore oil and shipping activities. Without the offshore sector, the increase is estimated at 2.3% in real terms and 8.5% in nominal terms. Presthus is asking for a total of NKr 455 million in tax relief for individual taxpayers and households and of NKr 2.4 billion for industry. On the other hand, he is planning tax increases of about NKr 424 million, which would affect beer, tobacco, automobiles, gasoline, heating fuel, and electric power, among other items. By introducing a national lottery in the spring of 1985, the government hopes to raise extra revenues of NKr 300 million annually.

In other developments, the Industry Minister has proposed that Parliament relax the concession regulations governing ownership participations in Norwegian companies. The proposal would open the way for foreign investors to purchase larger stakes in Norwegian enterprises and thus make it easier for domestic companies to acquire foreign capital. In general terms, nonresident investors are now limited to participations of 20%. For banks, the limit is 10%, and in the shipping sector, 40%.

Spain: INI Chief Dismissed; Job Cuts in State Sectors

The Spanish government has removed Enrique Moya from his position as chairman of the state industrial group Instituto Nacional de Industria (INI) and replaced him with an economist closely associated with the Socialist administration. The appointment of Luis Carlos Croissier, previously undersecretary at the Ministry of Industry, represents a reversal in Madrid's policy of placing independent businessmen in key public sector positions. Croissier had been influential in drawing up the economic platform of the Socialist PSOE party when it came to power in 1982.

Moya, who had previously been a member of the business lobby Circulo de Empresarios, was named to head INI in December of 1982. The undercapitalized group's losses jumped from 137 billion pesetas to 161 billion pesetas in 1983 and are expected to reach 200 billion pesetas this year. INI dominates Spain's steel, coal, and shipbuilding sectors and includes Iberia, the national airline, and Seat, the car manufacturer, all of which have been plagued by heavy losses. The government had turned down Moya's request for 500 billion pesetas in capital over a three-year period and cut an anticipated 200 billion peseta financial injection for 1985 to 137 billion pesetas.

Madrid's goal for INI is to reduce the group's workforce of over 200,000 by at least 20,000 workers. Cuts of 10,500 jobs have already been announced, mainly in the steel, railroad, and shipbuilding industries. The reductions are part of a program to restructure Spanish industry before the country's expected 1986 entry into the European Community.

EURO COMPANY SCENE

The court-appointed receiver for IBH Holding AG, the German construction machinery group that failed last December, is considering a suit against General Motors Corp. because of the automaker's recent refusal to make a DM 137 million payment. The receiver charges that GM made four purchases of IBH stock from 1980 to 1982 without properly paying for them and thus contributed to the company's collapse.

Continental Illinois Corp. has said it will sell or close its banking operations in Belgium, the Netherlands, and Switzerland as part of an effort to reduce its asset base to a level that will not require outside financial support. The bank also plans to cut its European work force of 1,300 by nearly one-third.

Kentucky Fried Chicken is planning to invest £60 million in the next five years to add 350 restaurants to its current 166 in the U.K. The investment was postponed earlier this year after the value-added tax on hot carry-out food went into effect on May 1 and profits dropped. In related news, McDonald's has announced plans to begin franchising its restaurants in the U.K.

Common Market Reports

EURO MARKET NEWS

Issue No. 824 *October 30, 1984*

IN THIS ISSUE

Community: Price Maintenance Lawful for Books, AG Says

The Member States' price maintenance provisions for books do not violate the Treaty of Rome's rules on competition and the free movement of goods, according to Advocate General Marco Darmon. These price maintenance provisions were enacted for reasons of cultural policy, an area not covered by the Treaty of Rome, Darmon said in his conclusions on a referral case delivered recently before the European Court of Justice (Case No. 229/83). The AG added that in the areas remaining under the Member States' jurisdiction, provisions of the Treaty of Rome could be applied only whenever substantial economic risks preclude application of the Treaty's rules on free competition.

The Member States may make the production and sale of books a matter of national cultural policy and accord the economic factor second rank, Darmon said. However, this does not entitle the States to allow book publishers and retailers complete freedom to disregard competition in fixing prices. Publishers and retailers may not set prices so high as to deter book publishers and retailers in other Member States and thus hamper book imports, the AG pointed out.

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The case, which has been closely followed in all Member States because of the principal issues involved, arose when France's Leclerc department store chain, in violation of French law, sold books up to 15% below the fixed price. French law requires 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 Court of Justice whether the national law is compatible with EEC law.

Darmon believes that the French law is compatible with EEC competition rules because publishers are free to set wholesale prices, and the retail price is agreed on in negotiations between publishers and bookstore owners. French law in no way restricts the freedom of foreign book publishers to negotiate the import of books with French dealers, Darmon said. The law preserves competition by allowing bookstores and importers to lower prices by more than the 5% margin when at least two years have passed since the book was put on the market or imported and more than six months have gone by since the last shipment.

Financial Aid Issue Disrupts EC-ACP Negotiations

Disagreement over the volume of financial aid has been the major reason for an adjournment of the negotiations between Community representatives and officials from 64 African, Caribbean, and Pacific countries. The talks are aimed at a new accord to replace the second Lomé Convention (Lomé II), which expires on Feb. 28, 1985 *(Common Market Reports, Pars. 4281, 10,284)*. Community negotiators have offered aid amounting to ECU 7 billion (roughly 50% more than Lomé II provides), but ACP representatives have asked for ECU 8.3 billion (around 80% more). The Member States had flatly refused the ACP countries' original demand for ECU 11-12 billion.

Commissioner Edgard Pisani, in charge of EEC development aid, is optimistic about reaching a compromise on the aid matter in the coming weeks. The Commissioner is confident that the new convention will be signed on Dec. 7 at Lomé, capital of Togo. Most Member States want to offer the ACP countries aid "that is closer to ECU 8 billion than ECU 7 billion," Pisani said. This would mean that Germany and the U.K. would have to retreat from their insistence that the volume of financial aid not exceed ECU 7 billion.

Financial aid is not the only issue on which EC and ACP negotiators do not agree. The ACP countries want additional concessions in trade policy matters, especially improved access of their agricultural commodities to the Common Market. Greece and Italy are reluctant to give ground here because increased fruit imports from ACP countries would hurt their fruit and wine producers. Pisani believes that a compromise on both issues will be necessary to secure a successful conclusion to the talks. For example, an aid volume of ECU 7.5 billion could be compensated for by improved access of ACP farm products to the EEC.

In Brief...

The Council of Ministers has reached agreement on two recommendations in the telecommunications sector. Although these recommendations are not binding in the way directives are, they are nevertheless considered a first step toward widening the telecommunications market. One recommendation urges Member State governments to open at least 10% of their national markets to foreign suppliers. Most markets are now the preserve of domestic manufacturers. The second recommendation asks the national telecommunications administrations to consult each other in advance to ensure that any new services are introduced on the basis of a common, harmonized approach + + + The Council of Ministers has reached an informal accord under which the Member State governments will examine the impact on domestic companies of a series of U.S. measures restricting the transfer of technology. Of these measures, the Export Administration Act has had the biggest impact because of the wide powers it gives the U.S. government to control the export of goods, technology, and expertise for reasons of defense and foreign policy. Quick completion of the impact studies would allow the Community to lobby more effectively next year when the new Congress deliberates on an extension of the Export Administration Act, which expired last September but was extended on an ad hoc basis.

Germany: Shorter Workweek Will Not Create Jobs, Study Says

The compromise that ended the 1984 labor dispute in the German metalworking and printing industries over the introduction of the 35-hour workweek will not produce any new jobs, according to a recent survey. The study, made by Industriebank AG-Deutsche Industriebank among small and medium-size firms in both sectors, confirms the view of many experts that these firms will attempt to apply rationalization measures to compensate for the additional cost of reduced worktime at the same pay.

Long before the 1984 strike, one of the longest and costliest in postwar Germany, economists and industry executives disagreed with union leaders' views on the economic impact of a shorter workweek. Union leaders had pressed for the shortened workweek by arguing that employers would be compelled to hire more workers, thus lowering unemployment. While economists and industry executives conceded that large companies with shift work might have to hire additional workers, they argued that small and medium-size businesses would attempt to absorb the added cost by investing in new machines for increased automation. Although the compromise providing for an average 38.5-hour workweek as of April 1, 1985, in the metalworking and printing industries fell short of the unions' goal of a 35-hour workweek, most managers of small and medium-size firms are indeed investing to absorb the increased labor cost rather than hiring to make up for the lost working time.

According to the survey, half of the companies in the metalworking industry and two out of three printing companies plan to rely on overtime next April before deciding on additional capital investments. Around three-quarters of the managers contacted by the surveying bank indicated that they have the backing of the works councils for their planned strategy. While most small and medium-size companies can count on the works councils' cooperation, large enterprises will not fare as well because of the high percentage of union affiliation among their workers.

The bank is less optimistic about the works councils' cooperation in implementing the principle of the flexible workweek, a cornerstone of the union contract. That contract gives management and the works councils leeway to negotiate a workweek ranging from 37 to 40 hours. Around 70% of the employees covered by the survey want the works councils to consent to arrangements under which clerical staff and untrained employees would work 37 hours a week, while qualified employees in production would work 40 hours a week. Union leaders are trying to influence works council members through pamphlets and conferences not to accept this type of workweek arrangement.

Britain: Self-Regulatory Bodies to Protect Investors

The British government is planning to establish two regulatory bodies to protect investors against financial malpractice. Alex Fletcher, minister for corporate and consumer affairs, said that "we have set out our preferred approach as being self-regulatory within a new statutory framework."

One of the bodies would regulate the securities, investment, and futures sectors, and the other would control the marketing of life insurance policies and unit trusts. Comprehensive legislation will be introduced in the 1985-86 parliamentary session to give the trade and industry secretary the authority to delegate to the two bodies the powers to register individual firms and to make and enforce rules of conduct. The two bodies will probably be set up by next summer in advance of the legislation.

Fletcher said that the government wants the institutions to be administered largely by the financial services industry itself, "with a framework of clear and simplified investment laws." Another government concern is that the regulators be "free to react quickly and sensibly" to changes in practice and market circumstances as well as to deal with any breaches of their rules.

The minister stressed that the government does not want to be directly involved in, or provide, financial assistance to the regulating bodies. Fletcher said he believes this would be to the agencies' benefit and would preserve their financial independence as well as stimulate efficiency. In any case, he said, "it is appropriate that the users and suppliers of financial services, rather than taxpayers, should bear the cost of regulation."

Basic requirements for the two bodies would include safeguards to protect investors and ensure compliance with competition policy. The government also proposes setting up an independent tribunal that would be the final arbiter in any dispute about registration decisions or penalties. Members of the tribunal would be appointed by the trade and industry secretary.

Bryan Gould, opposition spokesman on trade matters, said that the two bodies would be "simply inadequate" to guarantee the degree of investor protection needed for London to compete internationally. Other observers believe that the structure of the two bodies may prove cumbersome, and they envisage the possibility of a future merger.

France: Bond Tax Privileges Lifted; Wealth Tax Raised

The French government has repealed the special tax exemptions for private French holders of a controversial state bond issued in 1973 under Valéry Giscard d'Estaing, who was then finance minister. While foreign and institutional investors will continue to benefit from the tax relief, which includes exempting the first FF 5,000 of interest income, other bond holders will be subject to income tax on their entire interest income from the bonds.

The government expects its move to bring additional revenues of FF 450 million in 1986. The FF 6.5 billion "Giscard bond" has cost the state FF 22.5 billion in interest payments since 1973 because it is tied to the price of gold, which has risen from FF 11,000 to FF 104,000 per kilogram since 1973. Budget Minister Henri Emmanuelli said that by the time the bond matures in 1988 it will have cost the state FF 104 billion.

Observers believe the repeal is part of an attempt to win Communist approval for the 1985 budget. Since the Communists left the government in July, they have increased their resistance to the Socialist government's economic austerity policies. The opposition parties have denounced the measure, saying that it will hurt French credibility in international capital markets.

Another recent measure designed partially to appease the Communists is an increase in the wealth tax from 1.5% to 2% for taxpayers with assets above FF 20 million. The rates for persons holding assets of FF 3.5 million to 20 million will remain the same, however. (See also *Doing Business in Europe, Par. 22,870*.) The expected FF 300-400 million in extra revenue will be used to help fight poverty, especially of the "new poor" - the long-term jobless whose unemployment benefits have run out.

Italy: Visentini Firm on Retail Taxes Despite Protests

Nearly 1.5 million Italian shopkeepers, an estimated 70%, did not open for business on Oct. 23 in protest of government tax proposals that they say threaten their livelihood. The retailers staged their action under the slogan "We are closing today so as not to close forever." On behalf of their members, the three major labor federations criticized the retailers' lockout as "immoral" and threatened a general strike for more fiscal equality; the unions strongly support the government on this issue.

The shops remained closed on the day when the sponsor of the bill, Finance Minister Bruno Visentini, met with leaders of the five government coalition parties to discuss suggested changes. Visentini did agree to a few "technical" modifications but not to a complete revision of the draft legislation, which is currently being debated in the senate. In fact, he reportedly threatened to resign if his proposals are not accepted - a move that would possibly bring down the government.

The retailers are directing their protests mainly against the proposed procedures governing tax prepayments, tax assessment, and the tax classification of family-operated businesses. According to Visentini's plans, income tax prepayments would be based on a generally valid coefficient and no longer on the self-assessment of the retailers. The coefficient would be determined on the basis of turnover and value-added tax due on turnover. The tax authorities would be allowed to make estimates in calculating tax assessments. The law would also do away with the practice of spreading income among various family members, so as to come under a lower tax bracket. If all these proposals were to get through, Rome could expect to collect an additional 10,000 billion lire in revenue next year.

Visentini is rejecting the shopkeepers' protests that the proposals are unfair and inequitable by referring to statistics indicating an extreme degree of tax evasion among retailers. According to the latest data, 935,000 Italian retailers (including, for example, furriers and jewelers) report an average annual income of only 6.5 million lire ($3,359). Retail employees, on the other hand, who have the income tax withheld from their pay, have an average taxable income of 10.5 million lire a year. These blatant discrepancies, says Visentini, can no longer be ignored.

Austria: Further Efforts to Curtail Budget Deficit in 1985

After one month in office, Austrian Finance Minister Franz Vranitzky has presented to Parliament a 1985 draft budget that continues the government's modest steps toward curtailing the budget deficit. Assuming a real increase of 3% in the gross domestic product next year, the net budget deficit of 60.4 billion schillings would represent about 4.4% of GDP, compared with the 61.5 billion schillings and 4.8% expected for this year. The draft budget lists revenues of 368.7 billion schillings (345.6 billion in 1984) and expenditures of 463 billion schillings (440 billion). No major tax changes are planned, other than the previously announced reduction, from 7.5% to 5%, in the interest yield tax *(Zinsertragssteuer)* on savings deposits and securities.

The budget framework assumes an inflation rate of 4-4.5% in 1985, with a rate of 5.5% expected for this year. A slight drop in the unemployment rate, from an estimated 4.6% this year to 4.4% in 1985, is forecast.

Spain: Constitutional Court Hears Rumasa Appeal

Spain's Constitutional Court has begun to consider a new appeal of the government's 1983 expropriation of the Rumasa conglomerate owned by José María Ruiz-Mateos and his brothers. In December, the court had narrowly rejected an appeal by the Coalición Popular opposition party. The new appeal concerns alleged infringements of legal safeguards for the Ruiz-Mateos family. Until the appeal is decided, extradition proceedings on charges of monetary and commercial fraud will probably be delayed for Ruiz-Mateos, who is currently living in West Germany.

The complex Rumasa empire, which included 18 banks and over 200 other companies, was expropriated on Feb. 23, 1983, under constitutional provisions permitting such actions for reasons of economic emergency. At the same time, government officials suggested that Rumasa was not only in severe financial trouble but also the center of major financial wrongdoings. The latest appeal is expected to delay the government's sale of the remaining Rumasa assets, which was to have been completed by the end of the year.

Switzerland: Bern Expects Last Budget Deficit in 1985

The Swiss government's 1985 draft budget, which was presented on Oct. 19, shows a projected deficit of SF 414 million, based on expenditures of SF 22.645 billion and revenues of SF 22.231 billion. Should Parliament accept all relief measures proposed by the government, the 1985 deficit would, for at least three years, be the last in a long string of budget deficits that started in 1971. However, Finance Minister Otto Stich has warned that the danger of a relapse into red figures remains as acute as ever.

The budget is based on the assumption of a 1.5% real-term rise in GNP. Stich expressed the hope that Switzerland's economic situation will not significantly deteriorate, that no new inflationary pressures will build up, and that the pending budget relief measures will be realized. Under those circumstances, he said, the federal government can confidently expect to report modest budget surpluses as projected in the adjusted finance plan for 1986-87 and in the budget "perspectives" for 1988.

EURO COMPANY SCENE

International Harvester Co. and France's Renault have outlined a joint arrangement for the production of tractor parts in an effort to lower costs and raise sales. Although the companies' marketing and distribution networks would remain independent, joint investment, engineering, and service companies would be set up in Europe.

SmithKline & French Laboratories, a division of SmithKline Beckman Corp., and the pharmaceutical section of Altana Industrie-Aktien & Anlagen AG of Germany have agreed to collaborate on the research and development of anti-ulcer compounds termed "proton pump inhibitors."

National Starch & Chemical Corp., Bridgewater, N.J., a U.S. subsidiary of the Unilever group, will separate on Nov. 1 from its European partner of long standing, Roquette-National of France. The move is part of a comprehensive reorganization of National Starch's European activities, the intent being to distribute special starches under its own name to European industry. The company considers itself the market leader everywhere in the world except in Europe, where the United States' Corn Products ranks No. 1.

American Telephone & Telegraph Co. and Olivetti, the Italian data processing equipment maker, have signed an agreement for the joint production and marketing of new work stations and personal computers. The products will be compatible with AT&T's Unix operating system and IBM's MS-DOS system. AT&T bought a 25% share in Olivetti last December.

The British government has rejected a proposed joint venture between IBM and British Telecom to develop an electronic data network in the U.K. The government said a venture between "two such powerful companies would be a significant deterrent to market entry by others." However, the government is willing to grant separate licenses to IBM, BT, and other companies.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: U.K. Supports Modified Car Price Proposal

The European Commission has received support from the British government for its modification of one major clause of a draft regulation on the exemption of automobile distribution agreements. The regulation would automatically exempt from the Treaty of Rome's ban on restrictive practices those agreements relating to the distribution and servicing of motor vehicles that meet the requirements enumerated in the regulation. Car manufacturers would no longer have to register such agreements with the Commission *(Common Market Reports, Par. 10,493)*.

The original clause in the proposal that has run into mounting opposition from EEC car manufacturers ever since the proposal was published in June 1983 would have denied exemption whenever a car maker's price in one Member State differs by more than 12% from that in another Member State for the same model. Because of opposition from automobile manufacturers in the four Member States concerned - France, Germany, Italy, and the U.K. - and the dissatisfaction of several Member State governments, the Commission was forced to drop the outright ban on price differ-

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

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entials of more than 12%. France, Germany, and Italy have yet to comment on the modified clause, which would empower the Commission to investigate whether the price differentials are indeed justified.

Neither the British government nor consumers in the U.K. are happy about the price differentials, according to U.K. Industry Minister Norman Lamont. Speaking before automobile executives and car distributors at last month's automobile show in Birmingham, Lamont said that Belgian pre-tax prices for all makes of cars are about 23% lower than U.K. prices. Consistently high differentials are bound to lead to the conclusion that the market is being partitioned by the franchise dealer system, Lamont said. The amended proposal goes a long way toward removing car makers' worries, he said, adding that he does not expect the Commission to proceed against car manufacturers where the market is atypical or distorted by tax policies, as in Belgium or Denmark, even when the price differential is more than 12%.

Commission lawyers and national antitrust experts will meet later this month for a final discussion of the measure. There is still some opposition to another clause that would force car manufacturers to make all the models they produce available in all Member States. Competition policy Commissioner Frans Andriessen has come out against any further changes in the proposal. He would like the regulation to take effect on Jan. 1, 1985. There are indications that the measure may be approved by the Commission by the end of the year, but it would not come into force until July 1, 1985.

Bonn Opposes Extension of EEC's Steel Aid Code

The German government plans to resist any moves to extend beyond 1985 the Community code on aids to the steel industry. Bonn would bring legal action in the European Court of Justice against any Member State that continues to aid its steel mills after Dec. 31, 1985, when the aid code expires. Belgium and Italy are reportedly considering an extension of subsidies because several of their steel companies are behind in the restructuring process that requires mill closures, production cutbacks, and layoffs.

Since the end of 1974, the steel industry in the Community has been in a state of crisis marked by cutbacks in production, falling prices, loss of jobs, and considerable financial losses. No Member State has been spared. Steelmaking plays a key role in the national economy of all States except Denmark and Ireland.

Although the Commission has used the powers it has under the Coal and Steel Treaty to stem the deterioration caused by the steel market crisis, it was not until 1981 that the Council of Ministers granted the EC Executive the broad crisis management powers it needed to cope with the problem. In August 1981, the Commission introduced the code governing aid to the steel sector. Under the code, subsidies must be linked to a restructuring program and may not in any way lead to an increase in capacity. The aid must be degressive, and the volume must be proportional to restructuring. Subsidies may not distort competition; they must be "transparent" and be reviewed by the Commission beforehand.

Part of the Commission's steel policy is financial support from the Community. Steel mills wanting to rationalize receive low-interest loans. Substantial Community grants have been given and continue to be made available for industrial conversion and diversification in major steelmaking sectors. By the end of 1985, some 130,000 jobs are to be created to compensate for layoffs in the steel industry.

In Brief...

The Commission has taken preliminary procedural steps under Treaty Article 169 in preparation for a suit against Bonn regarding its car pollution control plan. Community rules require each Member State to inform the other States and the Commission at least two months before announcing legislative plans involving changes in industrial norms. The German government's plan, which has not yet been put into a formal proposal, would, as of 1989, allow the manufacture or import of low-pollution cars only. France, Italy, and the U.K. are opposed to the idea, and the plan conflicts with the Commission's own proposals *(Common Market Reports, Par. 10,589)* + + + The Council of Ministers has decided that the tariff reductions due to be made on Jan. 1, 1986, should be advanced to July 1, 1985, if the major trading partners, including the United States, take similar action described in the agreement reached by the OECD. The Council has also decided that for certain products of particular interest to developing countries, the tariff reductions due on Jan. 1, 1986, should be moved forward to Jan. 1, 1985. (A list of these products is being compiled by the Commission and the Article 113 Committee.)

Germany: Changes Proposed in Social Security Sector

The German government has proposed several changes in social security provisions in its attempt to save the old-age pension funds from bankruptcy. The contribution rates would be raised from the current 18.5% to 18.7% of assessed wages and salaries on Jan. 1. The increase would apply until Dec. 31, 1989 *(Doing Business in Europe, Par. 23,453)*. At the same time, the unemployment insurance contribution rates would be lowered from 4.6% to 4.4% for an unlimited period *(Doing Business in Europe, Par. 23,456)*.

Officials of the country's 15 old-age pension funds say that the additional revenue expected from the proposed increase in rates would barely make up for the annual deficits and would certainly not be enough to build up the amount of minimum reserves to the level that the old-age pension funds had in the early '70s. The opposition Social Democrats and Greens criticize the government for what they call a mere shuffling of figures - transferring funds from the government's Labor Office, which has a DM 4.6 billion surplus, to the account that supports the old-age pension funds with annual subsidies.

Additional expenditures will be required if the administration succeeds in reviving a proposal of the Social Democrats providing that all women who were born after 1920 and who have accrued old-age pension rights be given an additional year of coverage for each child. Approval of the proposal would mean that a woman would be entitled to an additional DM 25 pension per month for each child. The "baby year" would cost the taxpayers some DM 140 million in 1986, around DM 700 million in 1987, and roughly DM 1 billion in both 1988 and 1989.

The proposed changes would also extend unemployment benefits for jobless persons over the age of 49 from 12 to 18 months. Employees who quit could be barred from receiving benefits for 12 weeks instead of the present eight weeks *(Doing Business in Europe, Par. 23,456)*.

Belgium: Tax Benefit Successful in Promoting Investment

The tax benefit enacted in 1982 for investors in Belgian stocks and certificates has been successful in boosting private investment, according to Belgian Finance Minister Willy de Clercq. In 1982, about 195,000 Belgians qualified for the benefit with investments of nearly BF 10.5 billion, De Clercq said. Although figures are not yet available for 1983, he said he believes that even more Belgians have been taking advantage of the benefit.

As of Jan. 1, 1982, investments of BF 40,000 per taxpayer plus an additional BF 10,000 for each family member can be subtracted from taxable income, so long as the stocks, bonds, or investment certificates are held for at least five years. The benefit cost the government BF 5.5 billion in tax revenues in 1983.

Britain: Crackdown on Submission of Corporate Accounts

The British Dept. of Trade and Industry intends to step up prosecutions of directors of limited companies who fail to submit annual corporate returns and sets of accounts to the Companies Registry at Cardiff. This move follows recent criticism by the Parliamentary Public Accounts Committee to the effect that the register of companies has become increasingly out of date and unreliable because documents are submitted late or not at all.

Currently, 998,982 limited companies are registered in Britain, and the figure is expected to top 1 million by the end of November. However, the returns and accounts are up to date for only about two-thirds of the companies. Part of the problem lies in inadequate government staffing, making it difficult to investigate defaulters. The increasing number of company formations is also a significant factor. In 1979, 66,500 new companies were formed, rising to 72,500 in 1981, 87,200 in 1982, and 95,700 in 1983. There seems little prospect of this number diminishing in the near future.

The Dept. of Trade and Industry estimates that around 80% of the registered companies will have fully complied with their legal obligations by mid-1986, and most of the others will either have closed down or ceased active trading. Company directors who are in arrears face a maximum fine of £2,000.

An annual return must be filed within ten months of the end of a private company's business year and within seven months in the case of public companies. The deadline is extended by three months for a company with overseas interests, and new companies do not have to file a return for the first 18 months of business.

France: Businesses to Benefit From Loss Carrybacks

In its tax legislation for 1985, the French government intends to introduce a new procedure for taxing losses that differs considerably from the existing system. Under the present procedure, losses can be carried forward for up to five years. In the future, it would be possible for eligible businesses to carry losses back for a period yet to be determined. (The government has proposed five years, but political resistance in Parliament may reduce the period to three years in the final bill.)

The novelty of the loss carryback lies in the fact that tax credits would be replaced by tax claims against the government. If, for instance, a business closed the year 1984 with a loss, it would be able to reflect this loss as an outstanding claim in its annual accounts, provided it showed corresponding profits in the previous (three or five) years. Such an entry in the accounts would have to be reported in advance to the fiscal authorities and be approved by them.

A claim would have a life of ten years and would be reduced by any subsequent profits within that period. Any claim remaining after the ten years would then be paid off by the state. If a business were to go bankrupt during the life of a claim, the state would settle the remaining claim to the benefit of the creditors. A tax claim could be negotiable as a security against a loan.

Through the new system of the loss carryback, the government wants to preserve budget funds and yet help financially ailing businesses that had a good earnings record in the past and are making an effort to return to profitability. The benefits of the loss carryback would accrue only to businesses that are deemed deserving of financial support and are subject to corporate income tax *(impôt sur les sociétés - Doing Business in Europe, Par. 22,805)*. The business would have to have invested in the previous three years at least as much as it had written off.

Credit Controls to Be Eased for French Banks

The French government plans to relax its system of credit restrictions as of Jan. 1, 1985, in a move that will increase competition among the country's mostly nationalized banks. The new measures will allow banks to compete for additional loan business based on any increases in their capital base. The banks will be required to keep certain levels of reserves, in the form of capital or non-interest bearing deposits, with the Bank of France. Finance Minister Pierre Bérégovoy said the new system will be simpler and will give banks more freedom in loan matters. The banks, however, have responded cautiously, saying they are not certain how much more control they will have.

The current *encadrement de crédit* system places on the amount of bank credit limits based on such factors as the bank's size and the type of credit involved. This system, put into force in 1972, has become increasingly complicated and ineffective because of the numerous exceptions that have been granted. However, most banks have been operating under the loan ceilings this year due to the lagging economy, increased corporate liquidity, and greater funding on the financial markets.

The new system is part of an overall government policy of encouraging banks to raise their capital levels, which are well below international averages. The government also hopes the move will cause interest rates to drop and help to limit the increase in the money supply to 4-6% next year, compared with this year's target of 5.5-6.5%.

Weak Response to Call for French Public-Sector Strike

The general strike called in the French public sector and the state-controlled industries on Oct. 25 has generally been billed a failure and a defeat for its sponsors, the Communists. In calling the walkout, the Communist-led CGT labor federation had tried to force the Socialist government to agree to substantial pay increases for civil servants and the public sector. However, the response to the appeal was the weakest in many years, and the general public suffered little inconvenience. In Paris, subway and bus services proceeded almost normally. There were noticeable disruptions in rail and air services, however, mainly where CGT members held key positions.

One reason for the strike's failure was the half-hearted support of the other labor unions. Representatives of these unions pointed out that, when the Communists were part of the government, the CGT had tolerated even greater sacrifices by public sector employees without calling a general strike.

The wage freeze of June 1982 and the 1% solidarity levy for the unemployed were cited as the two most prominent examples.

Ever since the Communists left the government alliance with the Socialists in July, the CGT has been openly trying to stir up and aggravate labor and social confrontations in many areas. The inclination to strike is, however, steadily declining in France, despite shrinking wages and higher unemployment. The statistics now list 900,000 jobless, most of whom receive only meager unemployment compensation. Against this background, the general public has little sympathy for civil servants (who have absolute job security) and public sector employees who protest purchasing power losses of 3-4%. (Public sector pay has been raised twice so far this year, by a total of 3%, while the inflation rate stands at 7%.)

Greece: $200 Million in Foreign Investments in Three Years

Foreign investments covered by Capital Protection Law No. 2687/53 totaled about $200 million over the last three years, according to the Greek Economics Ministry. The investment value would rise to some $500 million if domestic capital connected with these investments were included, the Ministry said. The leading foreign investors were the Arab countries, West Germany, the U.S. and Canada, and Finland, and activity was concentrated on the production and export of farm commodities, chemical products, cables and batteries, and oil products and on construction projects. In most cases, the investments covered modernizations and expansions as well as logistical facilities, such as warehouses.

In commenting on the report, Greek industry representatives said that the most recent foreign investments have done little to change the poor climate for industrial and commercial investment in Greece. The majority of projects, they said, involved investments that were very small and did not influence slumping productivity or stimulate the economy and employment generally. They anticipated no fundamental change in the investment outlook, given the restrictive economic policies of the Socialist government.

Sweden: Tax Increases to Slow Imports; Options Trading

The Swedish government has proposed a package of tax increases designed to slow down the current increases in domestic consumption and imports. The package is a response to a recent report by the National Institute for Economic Research, which warned of a probable slowdown next year of the country's two-year-old economic recovery. The Social Democrat government expects to raise SKr 3.8 billion next year through higher taxes on gasoline, electricity, charter flights, alcohol, and tobacco, which would go into effect on Dec. 1. With the help of the Communists, the government is assured of a vote in favor of the increases.

At least SKr 1.75 billion of the extra tax revenue would be used for job creation programs that the government hopes would reduce the unemployment rate from the current 3.2% to under 3% next year. The tax increases should also restrict the 1985 rise in domestic consumption to 1.5% instead of the expected 2.3% and improve the current account by about SKr 2 billion. However, the package would probably cause inflation to rise above 7% this year, almost double the original 1984 target of 4%. Finance Minister Kjell-Olof Feldt is still insisting on his goal of cutting inflation to 3% by the end of 1985. However, the tax increases should hurt the government's efforts to hold wage increases to a maximum of 5% next year.

In other news, three Swedish financial institutions are planning to form a brokerage early next year to begin a one-year test of options trading. Options will be limited initially to the eight most-traded stocks on the Stockholm exchange and later be expanded to 25 companies.

Switzerland: Tougher Banking, Capital Market Rules

The Swiss National Bank has called for a tightening of banking and capital market regulations, particularly those concerning financial institutions owned by foreign banks. Markus Lusser, the central bank director, said stricter rules are needed for about 100 such institutions, involved mainly in capital market and stock exchange activities, that are operating under "inadequate control." The central bank's recommendation follows a revision by the Swiss Banking Commission last April of the conditions for the establishment of Swiss branches by foreign banks. Among the changes was the requirement that the foreign banks guarantee the "durability and solidity" of their transboundary operations in terms of organization, personnel, and finances.

Lusser also said that more information should be published concerning the issuers of private placements. Currently, no prospectus is published for private placements; investors must depend on information supplied by the underwriting banks. The central bank also wants to have procedures instituted for licensing traders in innovative areas such as futures and options.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: British VAT Move Seen as Setback to EEC

The development of the Community's internal market suffered a serious setback on Nov. 1 when the U.K. reverted to the Continental system of value-added tax collection on imported goods at the border. Under this system, imports are not cleared by customs at U.K. ports and airports unless VAT is paid immediately or there is a prearranged agreement to defer payment until the fifteenth day of the month after importation. To obtain deferment, importers must present a bank guarantee.

Britain's move, which had originally been expected for Oct. 1, reportedly was delayed one month to give the Council of Ministers another chance to approve a proposal that would have introduced the deferred payment method in all Member States. Under that system, VAT is paid at the place of destination rather than at the border crossing. Ireland and the Benelux countries, in addition to the U.K., have been collecting VAT by the deferred payment method.

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The pending proposal, part of the European Commission's program to advance the customs union to a genuine internal market, would require the other five Member States to change over to the deferred payment method *(Common Market Reports, Par. 10,411)*. Adoption of the measure would reduce costs for importers because deferred payment is less time-consuming for truckers.

Germany and France have been the principal opponents of adoption. Both are reluctant to make the change because it would mean more work for the understaffed inland tax offices. Other grounds for objecting to the measure are the fear of tax evasion (once the goods have crossed the border, it is easier to avoid paying the tax) and the fact that deferred payment would cause a delay in the cash flow of revenue. (The Commission was prepared to accommodate the States by allowing extended periods for the changeover to the deferred payment system.)

Parliament Urges Positive Action for Women in Employment

The European Parliament has come out overwhelmingly in favor of a draft recommendation on positive action for women in employment. In its resolution, the EP makes some negative comments about the lack of equal treatment of women and men in the Community, and it is highly critical of the fact that the recommendation would not be binding on the Member States.

The EP says that existing provisions are not adequate in themselves to remove de facto inequalities affecting women in working life. There are obstacles to the achievement of equal opportunities in practice that are not subject to law; they arise from the double responsibilities of women at work and in the family and from the traditionally male-centered organization of work. In the current economic crisis, the Member States are especially reluctant to expand women's rights, the EP points out, so that positive action is required to safeguard equal opportunities and to supplement existing legislation. While positive job action legislation has been enacted in the United States and Sweden, no such programs exist in any of the EEC Member States, in either the private or the public sector. Although the proposed recommendation would leave it up to the Member States to work out the strategy for positive action, the EP wants these States to adopt framework legislation for the implementation of appropriate measures to increase the participation of women in all sectors of working life where they are underrepresented.

Reiterating its stand taken last January in a resolution on equal rights for women, the EP maintains that a binding legal instrument such as a directive would be the best means of making progress. A recommendation is a weak approach in this case, the EP says, although it can play a useful part in making positive action better known and achieving progress toward equality between women and men. Because the proposed recommendation would be nonbinding, progress would have to be monitored, so the EP suggests that the Commission report back on the States' follow-up measures after two years, instead of the proposed three-year interval. Once the Commission has made its first report, the EP suggests, it should thereafter report annually to the Council of Ministers and Parliament to see if and to what extent the States have taken positive action measures.

In Brief...

The Commission confirms in its 1984-85 economic report last year's recovery trend, which it says should continue in 1985. The Community growth rate for 1984 is put at 2%, the same figure as is expected for next year. However, the report confirms what virtually all economists have been saying for some time: a growth rate of 2% or slightly more will not make a dent in unemployment. Last year's unemployment rate was 10.6%; this year's hovers around 10.9%; and in 1985 it could even reach 11.5% + + + Commission and Japanese government officials wound up their recent biannual talks on trade, especially on how to reduce Japan's export trade surplus with the EEC, with a surprising agreement on one point: both sides believe that Japan's 1984 trade surplus will be roughly the same as in 1983 - ECU 13 billion. Commission officials nevertheless pressed their negotiating partners for more positive action to open the Japanese market to imports from the EEC.

Germany: Strengthening of Free Enterprise System Urged

A powerful conservative organization affiliated with the governing Christian Democrats has called on the German government to use the remainder of the current four-year legislative term to strengthen the free enterprise system. The organization, called the CDU-Wirtschaftsrat (economic council) and made up of members of Parliament, industrialists, and corporate executives, wants the administration to concentrate on cutting subsidies (they took up DM 29 billion of the 1984 federal budget), selling stock of state-owned companies, and, most important, proposing some relief from corporate taxation.

In the 19 months since the national elections, the government has done little to live up to its promise to cut subsidies. Aid is given not only to individual branches of industries, such as shipyards and coal mines, but also to the national railways and to the state governments for certain projects. In one notable exception, the federal government withdrew its financial support from the publicly financed construction of hospitals. Hospital capacities in Germany are too large because local and state officials overestimated demand in the '70s and early '80s.

As previously reported, the Kohl administration is expected to take a decision this month on where and to what extent Bonn should withdraw from economic activity by selling stock of government-owned companies. What is known thus far of Finance Minister Gerhard Stoltenberg's plan would seem to satisfy the CDU economic council. Going beyond what was expected, it calls for a further disengagement of the government from companies such as Volkswagen and Lufthansa and also suggests the sale of nationwide transport firms.

There are no plans at the moment to cut corporate taxes. (The government is now filling in the details of its preliminary bill on individual income tax relief.) The CDU economic council suggests reducing the corporate tax rate from 56% to 50% *(Doing Business in Europe, Par. 23,339)* because corporate taxation is much higher in Germany than in most other European countries and the United States. The burden on corporate profits is roughly 70%, while the rates in the U.K. and the U.S. are 35% and 45%, respectively. Germany's partners in the Community are also pressing for a reduction in the tax burden as part of the EEC tax harmonization drive.

High Court Holds German Surcharge Law Unconstitutional

Germany's Federal Constitutional Court has declared the 1982 income surcharge law to be unconstitutional because the federation lacks the constitutional power to impose this kind of surcharge. As a result of the decision, taxpayers who paid the surcharge under protest will get their money back soon, while some 1 million taxpayers who paid the levy without protest will have to wait until Parliament passes refund legislation, which may take several months.

Under the now-invalidated law, corporations as well as individual taxpayers in the medium-income and upper-income brackets were subject to a 5% surcharge on their income tax from 1983-85; the money was to be refunded without interest during the years 1990-93. Taxpayers could reduce their surcharge liability, or even avoid paying it entirely, by making corresponding investments *(Doing Business in Europe, Pars. 40,470, 40,552)*.

While individuals owning a business had little difficulty in reducing or eliminating their surcharge liabilities by investing accordingly, those deriving income from employment could not. In the opinion of two lower tax courts, this different treatment violated the constitution's equal treatment clause, and so they put the issue to the country's highest court *(Doing Business in Europe, Par. 40,534)*. Several individuals with employment income also lodged constitutional complaints with the Federal Administrative Court, alleging discrimination. The Supreme Tax Court, too, had misgivings about the validity of the surcharge law: its major objection was that the federation lacks the power to legislate a refundable surcharge *(Doing Business in Europe, Par. 40,579)*.

In arriving at its Nov. 6 decision, the Federal Constitutional Court examined only the constitution's clauses on legislation and revenue. In invalidating the law, the court declared that the refundable surcharge is neither a tax nor a special levy, which would have been lawful. There was no need to examine the surcharge under the constitution's equality law, according to the court.

Belgium: Legal Base for Private TV, Radio Commercials

A government working group has laid the foundation of a bill that would create the legal base for allowing commercial advertising on radio and television in Belgium. Until now, Belgian viewers and listeners have been exposed only to commercials beamed from stations located abroad (for instance, in Luxembourg). Prime Minister Wilfred Martens said he anticipates that the law will take effect by Easter 1985.

The decision of the cabinet group is expected to be of significance with regard to the efforts of two business groups to launch private television in the Flemish part of the country. These efforts made little progress in the past because of the lack of a legal framework. The best chances for the speedy start of a private TV program are given to a group established by three Flemish newspaper publishers and subsidiaries of the country's two largest holdings, Société Générale de Belgique and Groupe Bruxelles Lambert (GBL). Both holdings are also shareholders in Luxembourg's Cie. Luxembourgeoise de Télédiffusion.

Britain: Curbs on Bidders in Takeover Attempts

The British government minister for corporate and consumer affairs has announced that companies involved in takeover bids will in the future be prevented from exerting a material influence on their targets while the bids are being scrutinized. Alex Fletcher has been reviewing the pertinent policy with the director of fair trading in the light of recent problems regarding certain mergers.

Fletcher said that the company making the bid will be stopped from obtaining the power to exercise a material influence through limits on the acquisition of shares. "By way of guidance," he said, this would normally involve setting a limit of about 15% of the company's stock. If, at the time of the scrutiny, the bidding company has already acquired shares beyond the point at which the question of the power to exercise material influence arises, the minister would seek to "prevent any material increase in its shareholding." In addition, the voting rights of the bidding company would be restricted with respect to the excess shares, and the minister might limit the acquisition of the target company's assets. (See also *Doing Business in Europe, Par. 24,003.*)

Foreign Companies Hold Large Share of U.K. Investment

The U.K. government is currently reviewing the aid it provides to various regions, particularly Scotland, to stimulate overseas investment in industry. At the same time, the Scottish Development Agency and the Scottish Industry Dept. have produced studies pointing to the success of U.S. companies in Scotland, especially in the expanding microelectronics sector. These companies were the major foreign investors, accounting for 71% of those employed by corporations based abroad. According to the SDA, foreign companies are responsible for 80 of the 200 plants and 90% of the 40,000 jobs in the electronics industry.

SID figures show that manufacturing companies owned by interests abroad accounted for 19% of Scotland's gross manufacturing output in 1981, a percentage that is probably appreciably larger now. Foreign companies provided 17% (or 81,457) of the jobs in Scotland and 37% (£617.3 million) of the net capital expenditures in 1981. The productivity of foreign-owned companies in Scotland was considerably higher than that of domestically controlled companies, both in Scotland and in the U.K. as a whole. With so much dependence on foreign companies, observers believe that further inducements will be offered to boost foreign investment.

Italy: IRI Spending Cuts; ECU Loan to Development Fund

Italy's state industrial holding group, Istituto per la Ricostruzione Industriale, is initiating an austerity program next year to reduce its general spending by 10%, or 600 billion lire. Romano Prodi, IRI's chairman, said he also plans to increase the group's private capital, beginning with an offer of 10,000 "investment plans" to IRI management at 2.5 million lire each. The plans, valued at 3 million lire each, will be composed of shares in eight IRI companies. Prodi also suggested that the group may sell some of its 14 banks, only four of which he considers "essential." The group sold its Banco di Spilimbergo last year under the chairman's direction.

In other news, Istituto Bancario San Paolo di Torino and four U.S. banks have agreed on a loan of ECU 50 million to Isveimer, a state agency for the development of southern Italy. The banks said that this is the first such ECU loan financed in the U.S. The Italian bank will lend the ECU equivalent of \$9.8 million; Chase Manhattan, Manufacturers Hanover Trust, and First National Bank of Chicago will each advance \$7.6 million; and Irving Trust will lend \$5.3 million.

Sweden: Government Proposes to Boost Private Savings

The Swedish government has proposed several measures to stimulate private savings and thereby help finance the country's growing debt. The first proposal would raise from SKr 600 to SKr 800 per month the limit on deposits into the tax-free *alleman sparandet* savings system, which was launched last year. The Socialist government predicts that this move would generate an additional

SKr 2 billion in 1985; this year, the system is expected to contribute SKr 10 billion toward the state's borrowing requirements of SKr 100 billion. To encourage participation by younger adults, the government is proposing such investment incentives as collateral-free housing loans.

Another part of the savings package, which is expected to be approved during the fall parliamentary session, would exempt holders of shares in tax-free mutual funds from capital gains taxes. Sweden's 35 mutual funds currently manage SKr 1.1 billion and should receive SKr 2 billion in new capital next year.

Because real-term wages have declined annually over the past seven years, private savings have also fallen off sharply. This year, Swedish households collectively are expected to borrow more than their combined savings.

Switzerland: Insider Trading; Extended Stock Options

The Swiss cabinet has added to its proposal to ban insider trading a provision that would penalize individuals who disclose confidential company information for any reason. Previously, the draft legislation included sanctions only against those who hoped to profit through trading based on such data. The bill should be ready for submission to Parliament by next spring.

Under present Swiss law, only the passing of insider information to third parties is prohibited, and the U.S. government has complained that American nationals are bypassing the U.S. prohibition of insider trading by carrying out transactions through Swiss banks. However, the members of the Swiss Bankers' Association are currently bound by a 1982 gentlemen's agreement to supply the U.S. Securities and Exchange Commission with information if a neutral commission finds clear evidence of insider trading.

In related news, four Swiss stock exchanges on Oct. 29 opened trading in longer options on selected Swiss and foreign stocks. Traders at the Geneva, Basel, Lausanne, and Bern exchanges can now deal in options of one, two, three, or nine months. Initial trading was hesitant and concentrated in Basel, although bankers believed the turnover would pick up following an intensive informational campaign on their part, particularly among foreigners.

Illegal Foreign Purchase of Swiss Land; New Central Bank Chief

A federal court in Lausanne has declared void a real estate purchase by a Swiss company that was formed to circumvent laws governing the sale of property to foreigners. The company was set up in 1971 with Swiss capital of SF 50,000 and foreign capital of over SF 1 million. In 1973, the firm bought a parcel of land in the canton of Graubünden without requesting the authorization required for the purchase of real estate by aliens. Under a 1907 law concerning companies formed "to serve illegal purposes," all assets of the company could be turned over without compensation to the city where the company headquarters are located.

In other news, Pierre Languetin has been named to head the Swiss National Bank when Fritz Leutwiler retires at the end of this year. Languetin, vice president of the bank since 1976, said that he will continue the current policy of aiming for growth as inflation-free as possible through control of the money supply. Markus Lusser, the bank's third-ranking officer, will move into Languetin's present position.

EURO COMPANY SCENE

IBM Deutschland, IBM's German subsidiary, is negotiating a cooperation agreement with Triumph-Adler AG, an office equipment unit of Volkswagenwerk AG. Although details have not been disclosed, the agreement is believed to concern electronic typewriters to be supplied by the German firm and modified for use with IBM computers.

Citibank is planning to expand its network in France through the purchase of 90% of the stock of a private French bank, Compagnie Génerale de Banque Soficam. The purchase would add at least 12 branch offices to Citibank's French operations, which are currently limited to Paris and Monaco. Soficam had a 1983 balance sheet total of FF 3.3 billion.

Warner Communications and Polygram Records, the European joint venture between Philips of the Netherlands and Siemens of Germany, have called off their merger proposal due to opposition from the U.S. Federal Trade Commission on antitrust grounds. The agreement would have set up two companies - one in the U.S. owned 80% by Warner and one in Europe owned 50% by Warner and 50% by the Polygram partners.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: EEC Protests to GATT Over U.S. Wine Law

The European Commission has lodged a formal protest under the General Agreement on Tariffs and Trade (GATT) in Geneva, objecting to recent U.S. legislation on wine imports. A law passed by the U.S. Congress near the end of the last legislative session grants American grape growers the right to call for punitive action against unfair imports of European wine. Although the law allows just one attempt to prove unfair competition, Community officials are deeply concerned over the implications for trade if the attempt succeeds.

The Commission's protest, filed at the GATT council meeting on Nov. 6-8, comes as California grape growers are preparing their case for higher tariffs on imported Community wine in retaliation against subsidies paid to grape growers in the Common Market. Commission officials viewed with skepticism the assertions of U.S. delegates that no action against the Community wine industry is likely for several years because no complaint has been filed and no investigation has been initiated since passage of the law.

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

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Wine has also been the focus of another trade dispute between the United States and the EEC since 1982. The key issues are whether American grape growers and winemakers have been hurt on the U.S. market by unfair competition from French and Italian producers of ordinary table wines and whether American wine exporters are confronted with barriers when selling wine in the Common Market. Last January the American Grape Growers Alliance for Fair Trade called on the U.S. government to impose additional duties on ordinary table wines imported from France and Italy. In July the EEC acted to ease the access of American wine to the Common Market *(Common Market Reports, Par. 10,599)*.

The Commission has consistently rejected allegations that French and Italian wine or any other EEC-produced wine is unfairly subsidized. It contends that the Community's policy program for ordinary table wines, which includes distillation into alcohol and EEC or national grants to French and Italian producers to reduce vineyard acreage, has brought results: the acreage has decreased by some 8%, and production of ordinary table wines is declining *(Common Market Reports, Par. 525)*. Brussels also claims that the damage, if any, suffered by U.S. grape and wine producers is not caused by imports of ordinary table wines from France and Italy but rather by an abundant 1982 grape crop, a slowdown in the annual rise of wine consumption, and a price war among California's largest wineries.

Bundesbank Opposes Expanded Role for ECU

The German Bundesbank is not likely to relent in its opposition to expanding the role of the European currency unit (ECU) by allowing customers to open ECU accounts with banks. Leonhard Gleske, a member of the central bank's managing board, told bankers, industrialists, and government officials at a recent symposium in Frankfurt that the current success of the European Monetary System (EMS) should not be used as a vehicle to promote the ECU into a sort of Community currency. It would be illusory to believe that extended use of the ECU could overcome the obstacles presented by the divergent results of national economic policies in terms of controlling inflation and budget deficits, Gleske said. Extended use of the ECU could even endanger the small progress achieved in monetary integration through the EMS.

When the European Monetary System was launched in March 1979, the European unit of account (EUA) was renamed ECU. Until that time, the Community institutions had used the EUA for drawing up the EC budget, settling claims and obligations, and setting common agricultural prices *(Common Market Reports, Par. 3603)*. In the past two years, banks in Brussels and Luxembourg have set up ECU accounts for the EC institutions, thus paving the way for private use of the ECU. The unit has been used on a growing scale in most Member States, especially in Belgium and Luxembourg, as book money in private payments, transferred from one account to another by means of payment orders or checks.

Germany has been a notable exception because of the Bundesbank's opposition. The Commission's attempts to widen the role of the ECU as a medium of private payment have been unsuccessful.

As early as March 1982, Germany blocked Commission-sponsored efforts in the Council of Ministers to develop the EMS further in several areas, among them an expansion of the system's intervention rules and promotion of private use of the ECU. The Commission's plan, backed by France, Belgium, and Italy, would have meant for hard-currency members, such as Germany and the Netherlands, greater use of their reserves to support currencies under pressure. Because of continuing strain on the EMS (seven currency realignments since 1979), the German government and Bundesbank officials have said in the past that further development of the EMS would make no sense unless the members make some progress in aligning economic performances, especially in lowering inflation rates and improving their payments balances.

In Brief...

Advocate General Otto Lenz is scheduled to deliver his conclusions in the case of the European Parliament v. Council of Ministers on Jan. 8, 1985 (Case No. 13/83). (The EP filed the suit on the grounds that the Council has failed to act on a common transport policy as required by the Treaty of Rome.) The unusually long period between the hearing of oral arguments (Sept. 17) and the presentation of the AG's conclusions is seen not only as an indication of the intricate issues involved but also as a sign of division within the European Court of Justice. This division is also demonstrated by the fact that by the day the parties' oral arguments were heard, the Court had not yet agreed on who was going to be the AG for the case. Normally the AG is appointed prior to the hearing of arguments + + + Succumbing to pressure from the Italian government, the Commission has proposed a one-year relaxation of the Community's steel industry aid code to allow for grants to cover operational losses. Under the code, due to expire by the end of 1985, the Member State governments may aid their ailing steel industries only if the grants are used to cut capacity and to modernize. The Commission proposed the relaxation in the hope that Italy and Belgium and perhaps Luxembourg will not carry out their threat to ignore the aid ban after 1985.

Germany: Tax Exemption Proposed for Low-Pollution Cars

The German government has proposed tax legislation in support of its drive to get high-pollution cars off the country's roads. This drive, which has yet to be cast into a proposal specifying the technical details for manufacturers, is aimed at certifying, after Jan. 1, 1989, only those models, including imports, that meet the strict exhaust standards applied in the U.S. and Japan. (For models with engines over 2,000 cubic centimeters, the deadline would be Jan. 1, 1988.) The campaign has intensified the threat of a trade and legal battle between Germany and the other EC Member States.

In order to induce car buyers to switch to low-pollution models even before Jan. 1, 1989, the bill would provide for exemption from the vehicle registration tax, thus offsetting the extra cost of catalytic converters in new cars. Exemptions would range from two to ten years, depending on engine size. New models with engines up to 1,400 cc displacement and registered before Jan. 1, 1987, would be exempt from the tax for ten years. The savings would be DM 2,016, roughly two-thirds of what a catalytic converter would cost for a model of this size.

To compensate for the revenue losses, the measure would raise the registration tax from the current DM 14.40 per 100 cc to DM 16 per 100 cc for all conventional models without catalytic converters in circulation on Jan. 1, 1986. Anyone buying a car without a catalytic converter after Jan. 1, 1986, would have to pay DM 21.60 per 100 cc.

Since catalytic converters work effectively only when the engine burns unleaded gasoline, which is more expensive to produce, the government wants not only to offset the higher price of unleaded gasoline but also to make it a bit cheaper than leaded fuel: the excise tax on unleaded gasoline would be lowered, and that on leaded gasoline raised, by DM 0.02 per liter. (At present, the excise tax is DM 0.55 per liter.)

Britain: Government to Focus on Inflation, Public Debt

In the Queen's Speech to Parliament on Nov. 6, the British government outlined its legislative program for the 1984-85 session, saying that there would be no basic changes in the direction of economic objectives. The government will continue to pursue policies founded on "sound money and lower public borrowing" and aimed at securing a further reduction in inflation. Firm control of public spending will be maintained, and ministers will work for a "more flexible and competitive economy" through lower taxation, further reform of the fiscal system, and more efficiency in the public sector. The government will continue to expose state-owned businesses to competition and, "where appropriate," return them to the private sector.

Among the forthcoming legislation announced was a bill to increase competition in retail banking by completing the transition of the trustee savings banks to private sector status. The government also wants to privatize the operations of the National Bus Company. Legislation will be introduced to improve the company pension rights of those who stop working before reaching the regular retirement age and to ensure that employees are able to obtain information about their pension plans. At present, employees who leave early are entitled only to a deferred pension from their employer's plan based on salary and service at the time of retirement.

The government proposes to introduce a bill to reform insolvency laws in England, Wales, and Scotland. Procedures would be simplified, and voluntary arrangements would be encouraged for the settlement of debts outside of court. Incorporated in the bill will be tough measures against delinquent directors who abuse the privilege of limited liability and against company liquidators whose actions are not in the best interests of creditors. Directors of a company that is compulsorily liquidated would probably face automatic disqualification from holding other directorships, although such a move has been widely opposed by business organizations. However, exceptions would be allowed in certain cases, such as when a director has been recently appointed or remains on the board in the interests of creditors and shareholders. Provision would be made for a new procedure involving an administrator appointed by the court to help reorganize and save a company faced with insolvency.

In the Queen's Speech, the government also emphasized its deep concern about unemployment, although it noted that the number of employed persons is "steadily rising." The government will continue its policies designed to increase opportunities for employment and training.

The Confederation of British Industry employers' group, at its annual conference being held simultaneously, expressed mounting concern over the government's failure to deal with the growing problem of unemployment, an opinion also held by many Conservative members of Parliament.

Italy: Bank Deposit Guarantee Fund; Inflation Warning

The governor of Italy's central bank has recommended that the Italian Banking Association supervise the establishment of a fund to protect deposits in the event of future bank failures. Speaking at the association's annual meeting, Carlo Azeglio Ciampi said that the fund should amount to 4,000 billion lire, or about 1% of the total current deposits of the Italian credit system, with a specific minimum in cash reserves. The president of the association would serve as president of the fund, and the board of directors would be composed of representatives of the member banks.

Ciampi's recommendation comes in the wake of the 1982 failure of Banco Ambrosiano, formerly Italy's largest private bank. Italy has no system of deposit insurance, while other European countries, including Germany, Britain, and Belgium, have funds similar to the one suggested by Ciampi. The Banking Association plans to discuss the proposal on Dec. 3.

In other news, the Bank of Italy, in its semiannual economic bulletin, has warned the government that labor costs and the public debt must be brought under control next year if the goal of a further reduction in inflation is to be met. Following a 1983 inflation rate of 14.7%, this year's rate should be down to 10.9%, just above Rome's forecast, according to the central bank. In order to achieve the 1985 target figure of 7%, it said, wage increases would have to be limited to an "unlikely" 7%, and the public debt would have to be held to the 1984 figure of about 96,000 billion lire. The bank said that next year's annual growth rate may fall only slightly to 2.5%, from an estimated 2.8% for 1984, but only if the inflation target is met and exports are thus boosted.

Netherlands: Austerity Drive Must Continue, EEC Says

The Dutch government does not have much room to maneuver in its attempts to get a grip on the country's most pressing economic problems - high unemployment and an excessive public-sector deficit - according to the European Commission. In its latest economic report, the EC Executive describes as ambitious but necessary the government's aim to reduce the net borrowing requirement to somewhat less than 10% of the national income. Despite the fact that economic growth in 1985 is expected to continue at the 1984 rate of 2% in real terms, the Commission does not expect much of a positive impact on unemployment, which is among the highest in the EEC.

The center-right coalition administration of Premier Ruud Lubbers recently submitted a 1985 draft budget providing for expenditures of 164.2 billion guilders and savings of 9.3 billion guilders. At that rate, the public-sector deficit would be lowered to 9.7% of the national income. The Commission endorses this austerity campaign and advocates its continuation next year, so that The Hague would be able to achieve its target of 7.5% in 1986. Brussels points to the rising burden of debt servicing and declining revenues from the Dutch natural gas reserves as inhibiting factors.

Among the favorable developments in the economic situation of the Netherlands, the Commission lists, next to improved economic growth, the enhanced international competitiveness of Dutch industry. This trend, the report says, will continue to aid exports despite weakened world trade. Strengthened competitiveness has also had a beneficial effect on investments, particularly in the export industries, as well as on profitability.

France: Further Easing of Foreign Exchange Controls

As of Nov. 14, the French government further loosened foreign exchange controls, a move that is expected to help direct investments abroad as well as private international money transfers.

The new rules also facilitate the denomination in European currency units (ECUs) of loans raised by European Community institutions on the French capital market. French buyers of these bond issues do not have to pay the foreign exchange premium that normally applies when residents purchase foreign securities.

Business enterprises are now permitted to finance up to 50% of their EEC investments in French francs. Previously, they had to fund 75% of such investments via foreign exchange loans. Last August, the government lifted its curbs on the use of business credit cards abroad. Not affected by the relaxation of controls are investments outside the EEC, which still make up two-thirds of French investments abroad.

The new rules allow French residents to transfer abroad up to FF 1,500 a month, rather than in a quarter. Last August, the government again permitted the use abroad of credit cards by French tourists, which had been banned in March 1983 as part of a package of currency controls to protect the French payments and trade balances.

Financial observers said that the new measures are probably less extensive than originally planned and that the government had to be mindful of possible pressures on the franc within the European Monetary System. The easing of curbs has come in response to demands by the European Commission, following the decision by the EEC heads of government that the Community should move more quickly toward closer monetary cooperation and integration of the financial markets.

Cuts in French State-Subsidized Loans; Tax Evasion

The French government plans to reduce the volume of state-subsidized credits to industry next year in an effort to simplify loan procedures. Currently, there are five categories of interest rates on subsidized loans, ranging from 9.25% to 14%, compared with the market rate of 14.5% for medium-term and long-term loans. Finance Minister Pierre Bérégovoy said that these loans will be offered only at the 9.25% rate next year. The number of loans issued at the low rate is expected to rise only slightly, although more loans will be offered at market rates to make up for the cuts.

The change is part of the Socialist government's recent move away from heavy industrial subsidies. Paris is currently making available about FF 50 billion in medium-term and long-term industrial loans, two-thirds of which are subsidized. The government expects to save about FF 3 billion in 1985 as a result of the credit reduction; that amount should increase gradually as subsidized loans mature and are replaced at higher market rates.

In other news, the amount of delinquent taxes recovered by the French government totaled FF 19.27 billion in 1983, a FF 3.26 billion increase over 1982, although the number of audits remained constant at about 41,000. In the past two years, fines against tax evaders have jumped by 126%. The recovery of delinquent value-added taxes rose by about 50% in 1983, despite fewer instances of VAT evasion being discovered. The largest single VAT recovery in 1983 amounted to FF 202 million.

EURO COMPANY SCENE

General Motors Corp. is discussing the possibility of a partnership with Empresa Nacional de Autocamiones SA (Enasa), Spain's state-owned manufacturer of small trucks and industrial vehicles. GM said the deal could involve a joint venture, sharing of components, or GM's purchase of a share in the Spanish company. Enasa has been in the market for a foreign partner since it ended talks with International Harvester Co. over two years ago.

Hewlett-Packard is investing $15 million in an expansion of its South Queensferry, Scotland, plant. The project involves the development and production of microwave and telecommunications equipment.

Mobil AG, the German subsidiary of Mobil Oil Corp., may close its Wilhelmshaven oil refinery by April 1985. Completed in 1976 at a cost of almost DM 1 billion, the country's largest refinery operated at only half of its 8-million-ton capacity in 1983. Because of the overall decline in the demand for oil products, the refinery's main export customer, Mobil Sales & Supply Corp., plans to stop buying from the refinery at the end of March 1985.

Walker Deutschland GmbH, a German unit of Tenneco, Inc., has sold its Mannheim truck parts factory to Moco Fahrzeugteile GmbH, a newly formed German group, for an undisclosed price. The sale will permit Walker to focus on the production of muffler systems and catalytic converters in the face of a German decision to require catalytic converters in all new cars as of 1989.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: Farm Policy Reform Structure Wobbling

An important pillar of the still incomplete EEC farm policy reform structure almost collapsed in mid-November because of mounting resistance of several Member States to the stringent system of milk production cuts. France told the other States that administrative problems prevented it from meeting the Nov. 14 deadline for collecting farmers' milk "superlevy" payments. Belgian and Dutch government leaders then said that if the French government is granted a postponement they cannot ask their farmers to pay the levy for exceeding milk production quotas. Germany has defied the levy rules by exempting thousands of small farmers from more than half of the required reduction in milk output. Italy is facing the threat of legal action from the European Commission over its failure to implement the levy rules. Rather than risk a collapse of the quota system, the Council of Ministers agreed on Nov. 13 on a compromise that allows all of the Member States to delay collection until mid-February 1985.

The milk production quota system and supporting measures were enacted last March to reduce the huge butter and milk pow-

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der surpluses that threaten to bankrupt the Community *(Common Market Reports, Par. 10,581)*. Each Member State is allotted part of the Community's overall annual production quota of 98 million tons of milk over the next five years. In order to penalize farmers for continued excess production and to pay for the disposal of surplus milk, a so-called superlevy is imposed if production quotas are exceeded. Farmers must pay the levy within 45 days after the end of a quarter. Because the first two quarters of the 1984-85 reference period (April 1-Sept. 30) are lumped together, the first payment of the levy was due on Nov. 14. All Member States except France had started collecting the levy and made corresponding transfers to the Commission. Greece and Italy were granted a grace period for collection, but it was Rome's failure to take any administrative steps in anticipation of the eventual deadline that brought the Commission's threat of legal action.

The postponement of collection leaves the stringent milk production control system untouched. However, it has raised doubts about whether the system will really work. The postponement also sets a poor precedent for similar plans, such as the pending proposals to control excess wine production.

Meanwhile, some 1,000 German farmers in the Münster region have filed a complaint with the Federal Constitutional Court, contending that the milk production control system is unconstitutional.

Ministers Move Toward Controlling Growth in Spending

The Council of Ministers has agreed on cost control procedures to prevent future Community cash shortages. The accord, which still must be formally approved after consultations with the European Parliament, would put restrictions on the growth of agricultural spending and grant the Member States' finance ministers a greater role in controlling general Community spending. Approval would mean that spending could not rise faster than EC revenues.

Efforts to control the annual increases in spending on the common agricultural policy (CAP) were made every year in the past decade, but the goal of imposing clamps on surplus production was never reached. Agricultural spending in recent years has risen by as much as 18% a year to finance the soaring cost of milk, cereal, meat, and wine surpluses. CAP spending has almost doubled in the past five years and now accounts for more than two-thirds of the Community's budget (ECU 28 billion in 1984). The first real step forward came last March, when the Council agreed on the milk production quota system. Commission officials believe that the new accord would keep annual increases in farm spending down to a one-digit percentage.

The accord would take effect when Spain and Portugal accede to the Community. Their accession is planned for Jan. 1, 1986, even though the Ten and the two applicant countries are still far apart on several key issues. Germany and Britain have made a cost control accord a precondition for enlargement. Admission of Spain and Portugal is expected to raise costs by at least ECU 1 billion a year.

Until Spain's and Portugal's accession, the starting point for cost control would be the average of 1984-85 agricultural spending. This figure would be used to compute next year's CAP spending volume.

In Brief...

On Nov. 8, the Council of Ministers moved one step closer to adoption of the first draft directive on weights and dimensions of trucks and trailer trucks. Adoption of the controversial measures, which is expected next month, would put a 40-ton limit on the weight of loaded trucks in inter-State transport. Britain and Ireland would be allowed to bar foreign trucks weighing more than 38 tons; the two countries would have to move in line with the common standards before the end of 1986, but the exact date has not yet been set + + + Thirteen German chemical fiber manufacturers have brought suit in the European Court of Justice against the Commission. They want the Court to invalidate the EC Executive's July 4 decision that exempted from the ban of Treaty Article 85(1) an agreement among the Common Market's ten largest synthetic fiber manufacturers. The agreement was designed to cut surplus capacities. The Commission granted the exemption under Article 85(3), reasoning that the contract would help the parties achieve greater specialization and restructuring. Consumers would eventually benefit because they would be able to buy better and cheaper products from a healthy industry *(Common Market Reports, Par. 10,606)*. The 13 plaintiffs allege that the Commission's decision is based on several unproven, unverifiable assertions concerning the European fiber industry's economic situation, especially its excess capacities, projected capacity cuts, profitability, and future development.

Germany: Many Health Insurance Funds to Raise Rates

Next year millions of employers and employees in Germany will be facing health insurance contribution rate increases ranging from 0.2% to 0.5%. Around 150 of the country's 1,450 health insurance funds have already submitted plans for increases for government approval, including the Barmer Ersatzkasse (BEK), the country's largest health insurance fund, which insures 6.4 million of the country's 21 million employees. Hundreds of other funds are expected to follow suit now that renewed efforts to slow the rise of costs in the health care sector have failed.

Current health insurance contribution rates, shared equally by employer and employee, average around 11.5-12% *(Doing Business* *in Europe, Par. 23,454)*. The rates are established on a cost basis by the governing bodies of each health insurance fund; increases must be approved by the government. Approval is virtually certain because the funds know that only cost-covering increases stand a chance of being approved.

Efforts to control rising health care costs started in the mid-1970s with agreements between the health insurance funds, hospitals, medical professions, and drug manufacturers. Physicians were encouraged to be more cost-conscious in prescribing medicine; the hospitals agreed to be prudent in raising charges; and the health insurance funds limited dental coverage.

Rising unemployment and reduced revenues in the late 1970s and early '80s required additional cost-cutting measures, some of them backed by law. The health insurance funds informed physicians that they would no longer pay for expensive drugs when cheaper ones had the same effect. These funds also became less generous in paying for spa treatments of insured employees. Since mid-1983, all old-age pension recipients have been required to pay 1% of their monthly benefits to the health insurance funds, and, starting next January, they will have to pay 2%. (Formerly, pensioners paid nothing for medical coverage - *Doing Business in Europe, Par. 40,511.)* These and other efforts helped the health insurance funds to avoid raising contribution rates in recent years. However, modest wage settlements in the past three years have meant correspondingly modest increases in revenue. While these settlements averaged around 3%, the costs that the insurance funds incurred by paying higher doctor, hospital, and drug bills rose by some 8% annually in the past three years.

In recent weeks, representatives of the health insurance funds and hospital, medical, dental, and drug manufacturer associations have met to negotiate further cost-cutting measures, without much progress. The insurance funds would like to commit physicians to prescribing the cheapest drugs, but doctors, supported by drug manufacturers, resist such a commitment. The health insurance funds also want drug advertising to be reduced and dental coverage to be cut to what is absolutely necessary.

German Refund Move After Court's Surcharge Ruling

The German government and Parliament have reacted quickly to the Federal Constitutional Court's recent decision declaring the 1982 surcharge law to be unconstitutional. A rider to the 1985 omnibus tax bill would establish refund procedures. The bill *(Doing Business in Europe, Par. 40,569)* was passed by the lower house on Nov. 15, and upper house approval is expected next month. Under refund provisions in the invalidated law, taxpayers could not expect their money back before 1990 *(Doing Business in Europe, Pars. 40,470, 40,552)*. The Federal Constitutional Court invalidated the law, which imposed a 5% refundable surcharge on the income tax of taxpayers in the medium-income and upper-income brackets. The federation lacks the power to enact a refundable surcharge, the high court said.

Under the Bundestag-approved bill, employed taxpayers who met their 1983 surcharge liability through withholding could apply directly to the local tax office for a refund. The employer would immediately return the surcharge withheld in 1984 and be credited for the amount. Self-employed taxpayers who met their 1983 surcharge liability by making advance payments could deduct the surcharge from whatever taxes they owe. A taxpayer who owes no taxes would receive a check from the tax office.

Britain: Curbs of Partnership Tax Advantages Proposed

The British government is likely to curb before long the tax advantages currently enjoyed by members of partnerships. The Inland Revenue has just issued a consultative document that proposes various changes which would have a significant effect on the way the profits of partnerships are assessed for tax purposes.

The document was issued in the wake of a sample survey by the House of Commons Public Accounts Committee, which showed that 23% of actual profits earned by partnerships are nontaxable under the present system. The document estimates that the annual tax loss to the Inland Revenue is at least £30 million.

The first three yearly tax assessments of a newly formed partnership currently are based on the profits during the first year of operation. Subsequently, the assessment is related to the actual profits each year, with special cessation rules in the last year of business. However, if the partnership is terminated after five years, it is possible to ensure that a sizeable portion of the profits is attributed to the two years not directly assessed.

Current rules also permit a partnership to be wound up whenever a partner dies or a new one is admitted. The Companies Act 1967 permitted partnerships of more than 20 partners, leading to some businesses that have over 200 partners. Consequently, many firms have the option of terminating the partnership each year and forming a new one.

The consultative document puts forward various alternatives to reduce the current level of tax avoidance. One proposal suggests that the commencement and cessation rules for a partnership be applicable only when the actual business begins or ends, rather than when there is a change in the membership. Another possibility would be to apply the special rules only if there is a change of more than 25% in the total number of partners.

The document also envisages that tax would generally be assessed on the current year's profits and that any necessary tax adjustments would be made either regularly every five years or in the last year of business. A further alternative would be to extend from five years to nine the minimum length of the trading cycle in which the present commencement and cessation rules could apply. It is also suggested that each partner be assessed individually for tax purposes.

France: Paris to Remove Some Industrial Price Controls

Price controls are to be lifted by the end of 1985 on about 6% of regulated French industrial goods and services, although the government will maintain strict control over other prices as part of its plan to bring inflation down to 4.5% in 1985. Finance Minister Pierre Bêrêgovoy has listed television sets, household appliances, personal computers, and some automobile parts as examples of goods to be deregulated. He added that the "rigor must continue" in other sectors, including the ailing automobile industry.

Because of lingering inflation, which is still expected to top 7% this year, the government has not been able to free as many industrial prices as it had anticipated when it forecast a 1984 inflation rate of 5%. About 35% of French industrial goods and 75% of services and retail merchandise have controlled prices. The National Price Committee was to meet on Nov. 20 to decide the maximum 1985 price increases for those items. Observers expected the limit to be set at about 3-3.5%.

New French Central Bank Chief; Bourse to Trade Futures

The French government has named Michel Camdessus, previously deputy governor of the central bank, to replace as governor Renaud de La Genière, who was not asked to renew his recently completed five-year contract. De La Genière became governor in 1979 under President Valéry Giscard d'Estaing. Although the Bank of France governor's power is more limited than that of the chiefs of many other central banks, De La Genière became known for his advocacy of monetarist policies and his efforts in support of the franc within the European Monetary System.

Camdessus had been deputy governor of the bank since August, following two years as the director of the Treasury. He is also well known as chairman of the "Paris Club" of creditor nations. Observers predict that Camdessus will prove less independent than his predecessor and more supportive of government moves toward increased use of the European currency unit and a possible shift toward expansionary policies before the parliamentary elections in 1986.

In other news, the Paris stock exchange plans to begin trading in futures contracts on fixed-income securities in mid-1985. Based on a theoretical bond yielding 12%, a contract will allow investors to trade FF 500,000 of fixed-yield instruments. The move is an effort to improve liquidity in the bond sector, where trading in 1984 averaged about FF 26 billion a month, compared with FF 18 billion a month in 1983.

Italy: Tax Evasion Rift Poses Threat to Government

A temporary truce has been called in the fiscal battle between the Italian parliament and Finance Minister Bruno Visentini, but political observers believe that the dispute could still bring the government down. Following the Nov. 16 rejection by the Chamber of Deputies of Visentini's 1985 draft budget, the finance minister negotiated a compromise on his tax evasion bill with the senate finance committee, against the votes of the Social Democrats. The compromise provides that identified tax evaders would not face imprisonment unless they had defrauded the state by more than 50 million lire (about $27,000). Visentini also agreed that the tax authorities would give a 30-day warning to shopkeepers and professionals whose incomes would be assessed after their tax declarations became "suspect." Proposed measures seeking to prevent income splitting among family members of small businesses are to be reduced in scope.

Through his tax legislation, Visentini wants to crack down on rampant fiscal evasion among Italy's three million shopkeepers, small businesses, and professionals. In their original form, his proposed measures would have gained the Treasury an extra 10,000 billion lire in revenue next year. Visentini's aims are strongly endorsed by the country's labor unions, which called for a four-hour general strike on Nov. 21 to lend force to their support. By their protest, the unions are pointing to the inequities of the present system, under which tax is withheld from the paychecks of the employed while many small businesses and self-employed persons are defrauding the government of huge amounts of revenue.

The government's situation in this matter is more than tenuous because the Christian Democrat, Social Democrat, and Liberal coalition partners draw much of their voting support from small business. These factions are now apparently trying to kill the tax evasion bill by various means, which explains the series of recent defeats by the Craxi administration despite its nominal parliamentary majority. Although ostensibly ready to curb tax evasion, these coalition partners claim that Visentini's proposals are too harsh and would unduly penalize a business sector on which the economy depends.

Norway: Domestic Bond Sales; Statfjord Field Transfer

Norway has banned the sale of domestic bonds to foreigners in an attempt to slow the surge of capital into the country. According to the central bank, foreign investors lured by interest rates of over 12% purchased about NKr 3 billion of Norwegian bonds in the seven weeks beginning on Oct. 1, compared with approximately NKr 100 million in all of 1983. Until the ban was enacted, a foreign investor had been permitted to buy up to NKr 1 million of domestic bonds. Because Norway's current account surplus is growing steadily with North Sea oil revenues, the government has been encouraging the export, rather than the import, of capital.

In other news, Oslo has decided that Statoil, the state oil company, will take over from Mobil Corp. the operation of the Statfjord field in the North Sea between Jan. 1, 1987, and Jan. 1, 1989. The three-party coalition government came close to splitting over the decision when the dominant Conservatives wanted to delay the takeover until 1995. The original lease had specified that Statoil would become the operator in 1983; in 1982 Parliament postponed the move until 1987, when field development should be completed.

Sweden: Company-Sponsored Worker Funds Proposed

The Swedish government has proposed that companies be required to put 10% of their 1985 pre-tax profits into special funds for research and worker education. The bill, which is expected to be passed by the end of the year, would require about 8,000 publicly traded companies, economic associations, savings banks, and insurance company units to make tax-deductible deposits of an estimated SKr 5-10 billion into non-interest-bearing accounts at the Riksbank, Sweden's central bank, by spring of 1986. A government agency, after considering the recommendation of an employee committee, would decide whether a company could use the "renewal funds" for requested projects. After five years, any unused funds would be returned to the company.

The government acceded to labor demands for the measure in the hope that the unions will accept a 5% wage increase ceiling for 1985. In spite of the high company profits expected for 1984 and 1985, Stockholm wants to limit pay increases to help hold inflation down to 3% next year.

Industry representatives are opposed to the funds, saying that they would reduce companies' flexibility. However, observers believe that some companies would simply attempt to use the funds for projects that would be carried out under any circumstances.

Common Market Reports

EUROMARKET NEWS

Issue No. 829 Report No. 515, December 4, 1984

IN THIS ISSUE

Community: Setback in Drive Against Car Pollution

The European Parliament has failed in its first attempt to push through a car pollution control proposal of its own that could have offered a compromise between the European Commission's draft directive and the German government's plan to reduce toxic automotive exhausts. The EP proposal was regarded as a guide for the Dec. 6 meeting of environment and industry ministers of the ten Member States to discuss the Commission's proposals. The Commission hopes the ministers will make a policy decision then on the introduction of low-pollution automobiles.

A majority of EP members of different political parties from France, Italy, and the U.K. blocked consideration of a compromise proposal drawn up by a German member and supported by the EP's Economic Committee. Under this proposal, European car producers would have been compelled to manufacture low-pollution cars as of Sept. 1, 1986. Car makers that for technical or financial reasons could not meet that deadline would have been granted a respite until the beginning of 1989. The proposal also called for the introduction of unleaded gasoline as of mid-1986.

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

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Opposition to the EP proposal, which was also supported by Commissioner Karl-Heinz Narjes, did not come as a surprise. Parliament's proposal was much closer to Bonn's initiative than to the EC Executive's proposed EEC legislation. Under Bonn's plan, all new motor vehicles produced in, or imported into, Germany after Jan. 1, 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 have catalytic converters by Jan. 1, 1988. In contrast, the Commission's proposal, which is strongly backed by Italy and France and has received some favorable comments from the British government, calls for mandatory low-pollution standards for all new vehicles by 1995 *(Common Market Reports, Par. 10,589)*.

But, rejection of the proposal does not end the battle in the European Parliament over anti-pollution plans for cars. The EP will return to the issue in the second week of December when it considers a draft resolution on the Commission's proposal. This draft resolution also calls for an earlier application date for rules on low-pollution cars to reduce automotive exhaust of nitrogen oxide. Emission of nitrogen oxide accounts for more than half of the pollution that is considered the cause of severe forest blight.

Aid Compromise Clears Way for Lomé III Pact Signature

Early this month, representatives of the Community and 66 African, Caribbean, and Pacific countries will sign the third Lomé Convention to replace Lomé II, which expires on Feb. 28, 1985 *(Common Market Reports, Pars. 4281, 10,284)*. A compromise offer on the volume of aid agreed upon by the ten Member States and accepted by the ACP countries cleared the way for the signing ceremony on Dec. 7 in Lomé, capital of Togo. Under the new treaty, the 66 ACP countries (Angola and Mozambique have joined since Lomé II) will be receiving over the next five years some ECU 7.5 billion in aid, roughly 58% more than was provided under Lomé II. The ACP countries had originally demanded ECU 8.3 billion, around 80% more. The compromise offer, involving ECU 500 million more than the EC's original offer, became possible after Italy raised its contribution and the shares of the prospective eleventh and twelfth EC states, Spain and Portugal, were added.

Lomé III differs from the current pact in that it puts greater emphasis on rural development to secure more food for the ACP inhabitants. A number of model projects involving new and improved farming methods that were successful in several African countries will be introduced on an expanded basis in other countries. The Community will support fewer industrial projects in the ACP countries, not only because interest in such projects has declined there but also because less money will be available for large investments. Any future industrial project will have to be laid out more thoroughly in talks between Commission and national officials, and the Commission will be more careful about actual expenditures.

The Community will also give advice on tourism projects as well as technical and financial support in developing the areas of energy, mining, transport (especially road construction), communications, and water supply.

For the first time, Community negotiators succeeded in including a human rights clause in the convention. Leaders of many ACP nations refused to accept such a clause in the past. The preamble of Lomê III also condemns racial discrimination in South Africa.

In Brief...

The Council of Ministers has agreed to extend the Fifth Directive on shipbuilding aids until the end of 1986 instead of letting it expire at the end of 1984. The extension means that the Member States will be authorized to continue to help finance restructuring projects of national shipyards and to win orders in a declining market. In 1983, the EEC's share of new shipbuilding orders fell to an all-time low of 11% of the world market, compared with the 17% average of previous years + + + The European Court of Justice has invalidated the Commission's 1982 decision declaring the Belgian government's aid to a paper company to be incompatible with Treaty Article 92. The government aided the company by buying an interest in the enterprise. In what is considered a test case, the EC Court found that the Commission failed to explain why it prohibited the purchase of stock by the government, while at the same time authorizing low-interest credits to the company. The Commission also failed to present proof that government acquisition of the holding in the paper mill distorted competition, the Court said (judgment of Nov. 14, 1984, *Intermills SA v. Commission*, Case No. 323/82).

Germany: Sixth State to Grant Employees Special Leave

All employees in the German state of North Rhine-Westphalia, except civil servants and apprentices, will be entitled as of next year to an additional five days off annually at full pay to advance their vocational and political knowledge. Under a new law passed in October by the state legislature, an employee may demand these five days at any time during the year to attend recognized courses and seminars, but management may insist on a postponement because of urgent production or office work. The employer and employee may come to an arrangement under which the latter takes ten days off every other year.

North Rhine-Westphalia, with 17 million inhabitants Germany's most populous state, is the sixth of the eleven states to enact this type of legislation. The other five are West Berlin, Bremen, Hamburg, Hesse, and Lower Saxony. An estimated 8 million employees in North Rhine-Westphalia will qualify for this special leave. Based on experience gained in other states, state officials say that not more than 4% of the eligible employees will take advantage of the statutory privilege. With annual vacations of four to six weeks, 13 paid legal holidays, and generous sick leave, employees in Germany work fewer hours per year than employees in any other industrialized country. Thus, most are reluctant to take advantage of the additional five days. Many employees also believe that they will not gain much by attending training courses and political seminars.

There are some legal doubts about the states' right to enact special leave legislation along these lines. The employers' association of North Rhine-Westphalia is considering bringing suit before the Federal Constitutional Court. Although the high court has repeatedly confirmed the states' constitutional rights in cultural matters, it has never had an opportunity to say whether the state legislatures may enact laws on educational leave.

Belgium: State Subsidies Triple Corporate Tax Revenue

Belgian public-sector and private enterprises are receiving about three times as much in subsidies as they contribute in corporation tax revenue, according to a study recently published by Kredietbank of Brussels. The government supported the economy with subsidies of BF 332.3 billion last year, compared with BF 246.1 billion in 1982. These figures represented 7.9% (6.9) of GNP and 17.4% (13.9) of public-sector expenditures. However, the report points out that the subsidies benefiting business and industry are still lower than those going to private households in the form, for instance, of social welfare benefits. Subsidies for private households totaled about 11% of GNP in 1983.

The authors of the study complain that the lack of official data and incomplete statistics make it exceedingly difficult to track the flow of state subsidies, aside from the fact that such aids are often purposely "hidden." Public-sector subsidies are generally identified in budgets, whereas private-sector subsidies originate from a variety of sources, some of them quite obscure. Partly for these reasons, the report could not yet provide a detailed list of recipients for 1983.

In 1982, BF 151.7 billion was paid to public-sector enterprises, of which about BF 100 billion went to the national transportation sectors, such as the NMBS railway system and Sabena airlines. Private enterprises received a total of BF 94.4 billion. A substantial section of the Kredietbank study is devoted to state aids given to nationalized industries, notably in the steel, textile, shipbuilding, glass, and coal mining sectors. In 1983, these aids totaled BF 124.5 billion (up from BF 56.9 billion in 1982), not including state-guaranteed loans.

According to the report, the steep rise in state subsidies in Belgium since 1975 has been indicative of the general financial crisis in both the private and public-sector economy. At the same time, this rise contributed measurably to the growing deterioration of government finances. Nevertheless, the government has felt compelled to come to the aid of stricken enterprises in order to forestall bankruptcies and the loss of thousands of jobs. However, the Kredietbank report warns that the volume and variety of state subsidies and aids in Belgium have reached an intolerable level, with highly negative effects on the functioning of a free-market economy and on competition.

Britain: Finance Bill to Close Corporate Tax Loophole

Next year's U.K. Finance Bill will include measures that would affect the tax position of more than 100 multinational corporations, according to John Moore, financial secretary to the Treasury. These measures will involve changes in the regulations regarding the tax relief on interest payments currently enjoyed by companies that, for tax purposes, are resident in both the U.K. and another country. The Inland Revenue has emphasized that it intends to levy additional tax only on those multinationals that are deliberately established to gain "an artificial tax advantage." The new rules would not apply to companies that are "genuinely trading."

Tax treaties usually provide that when a company holds dual residence one country grants relief for the tax liability arising in the other country of operations. However, the Inland Revenue alleges that multinationals often set up dual-residence companies in order to borrow money for the group. The interest payments on these loans create a tax loss, which is used by the multinational to obtain relief on the interest in both countries. "Between the two of them," says the Inland Revenue, "the two exchequers are paying for the bulk of the cost of the borrowing."

The measures would restrict the relief available to a whole group by prohibiting dual-residence companies from offsetting their losses against profits made by other companies in the group that are subject to U.K. tax. However, the Inland Revenue concedes that it would be "draconian" to completely deny tax relief on interest payments by dual residents. The changes would apply as of April 1, 1985, so that multinationals would have some time to reorganize their activities. The changes would provide additional revenues of approximately £100 million annually.

U.K. Chancellor Forecasts Steady Economic Growth in 1985

The U.K. can expect 1985 to be a year of "investment-led and export-led growth" with "no sign whatever" of a resurgence in inflation, Chancellor of the Exchequer Nigel Lawson said in his supplementary financial statement on the U.K. economy. After four years of steady growth, Lawson said, he expects the government's firm monetary and fiscal policies to edge inflation down slightly to 4.5% by the end of next year.

Lawson said output and employment should continue to grow, with total output expected to rise by a further 3.5% next year. Business investment (excluding the North Sea offshore sector) is expected to increase in real terms by 7%, following an 11% rise this year. The public-sector borrowing requirement is predicted to be held to £7 billion, or 2% of GNP, in line with government targets announced earlier this year at the time of the Budget.

The chancellor said that the 1985 Budget will probably hold further net reductions in taxes, which he estimates at roughly £1.5 billion. Government spending on training and employment will be increased by £80 million, but unemployment is expected to stay at around 3 million until at least early 1986.

Lawson also said that the Bank of England will cease issuing £1 notes at the end of 1984, although the bills will continue to be legal tender for at least a year. Because the £1 coin has about fifty times the life of the note, the withdrawal is expected to save £3 million in 1985 alone.

Switzerland: "Para-Bank" Licensing; Marc Rich Papers

The Swiss central bank has recommended that financial institutions with "para-bank" status, particularly foreign ones, be more closely regulated. Markus Lusser, a central bank director, told the Association of Swiss Holding and Financial Companies that the regulatory framework for bank-like companies should be reevaluated. Of the 1,600 financial institutions operating in Switzerland, about 100 hold the status in question. These enterprises are carrying out more and more banking activities, such as accepting deposits.

Lusser recommends that prospective financial enterprises undergo a licensing procedure and that the Swiss banking law be extended to cover bank-like institutions. Enterprises controlled by foreigners should be permitted to engage in only those operations that Swiss banks may carry out in the applicant's country, Lusser said. He is particularly concerned about Japanese institutions that profit from such transactions as convertible loans in Switzerland, while Swiss banks have difficulties conducting the same activities in Japan. Lusser said that foreign companies "are welcome in Switzerland, so long as the countries of origin show us the same openness."

In other news, the Swiss government has agreed to hand over documents subpoenaed by a U.S. court in the tax evasion case against the American unit of Marc Rich & Co. AG, the Swiss-based commodities trader. Switzerland had originally offered on July 13 to give the documents to the U.S. court if it lifted a $50,000 fine imposed on the subsidiary for each day the papers were withheld. In October, Marc Rich & Co. pleaded guilty in the case and agreed to a $200 million settlement with the U.S. government.

Switzerland had confiscated the papers in late 1983 and early 1984 because the court had subpoenaed them rather than going through proper diplomatic channels. Swiss officials have now agreed to meet with U.S. officials, probably in March, to discuss improved bilateral legal assistance arrangements.

Yugoslavia: Joint Venture, Profit Restrictions Lifted

The Yugoslav parliament has approved measures lifting restrictions on the amounts of company profits and foreign participation in joint ventures. Previously, a foreign equity in such projects was limited to 49%. The legislation also guarantees the repayment of the real value of a foreign equity, protects existing contracts against changes in economic policy measures, ensures quicker processing of joint investment contracts, and reduces tax rules for foreigners.

The government hopes that lifting the restrictions will help increase the flow of capital into the country, which currently has a $19 billion foreign debt. The legislation is also expected to aid Yugoslavia in acquiring modern technology and boosting production of high-quality goods.

Greece: State to Keep Control of Rescued Enterprises

The Greek government will continue to maintain control of some 130 private industrial companies that it intends to rescue financially, according to Economics Minister Gerassimos Arsenis. "The bulk of shares will go to the public sector and remain there," Arsenis said on Nov. 22. The minister indicated that Athens' policy does not preclude the sale of shares to small private investors, workers' associations, or local councils. However, he definitely ruled out the return of the companies to their original owners.

The government's rescue efforts involve the rescheduling and conversion of debt to equity capital. The companies affected are said to owe about 200 billion drachmas to the state banks and foreign creditors. By next summer, Arsenis said, the government will have started debt salvage talks with shareholders and creditors.

The economics minister again defended Athens' policy of taking control of "problem industries," claiming that 17 of the companies rescued so far will report earnings of 268 million drachmas this year, following losses of 544 million drachmas in 1983. Allowing ailing enterprises to shut down, Arsenis said, would cause unemployment to shoot up to 35%, from the current 10%. In this connection, he criticized family-owned businesses and state banking officials for letting the businesses borrow heavily, without investing or modernizing. In fact, the minister said that the nationalized banks themselves continue to stall the government's rehabilitation efforts by being reluctant to help finance companies subject to official rescue measures. Arsenis said that, in his opinion, the state banking system itself is in need of rehabilitation, so as to be able to contribute to the country's economic development.

EURO COMPANY SCENE

A Paris commercial court has agreed to the takeover by Rockwell International of the Nantes printing equipment manufacturing operations of Creusot-Loire, the bankrupt French heavy engineering group. Rockwell plans to invest FF 80 million in the plant.

Indy Electronics of California is planning to spend £20 million to set up a plant for the assembly of microchips in Irvine, Scotland. The operation should begin production in August 1985.

Du Pont is setting up a plant in Bristol, England, for the production of connectors for electronic equipment. Part of a program to invest $20 million in 1984 and $40 million in 1985 in the European electronics industry, the Bristol plant will require an initial capital investment of about $6 million from Du Pont as well as government financial assistance under the Industry Act.

Borg-Warner Corp. of Chicago has agreed to sell its 24% stake in financially ailing Van Doorne Transmissie to the Dutch government for "less than the company's initial investment." An earlier Borg-Warner offer to sell had been turned down as too expensive by the other Van Doorne partners, Volvo of Sweden, Fiat of Italy, and the Dutch government, which already owned a minority stake.

Scott Paper International, Inc., a subsidiary of Scott Paper Co., has arranged to acquire Productos Sanitarios e Higiénicos Sancel SA, a Spanish producer of sanitary tissue paper, for an undisclosed amount. Scott also owns 92% of Gureola-Scott SA, another Spanish paper manufacturer. Together, the two Spanish firms have annual sales of over $80 million.

Cargill, Inc., the Minneapolis-based food and grain trading company, has taken over a majority share of Acli Coffee GmbH of Hamburg. Acli will remain an independent coffee trader for the European market.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: Legal Consequences of State Aid Ruling

European Commission lawyers say that the recent annulment by the European Court of Justice of a Commission decision on Belgian state aid will have legal consequences beyond that case. In its decision, the EC Executive declared Belgium's acquisition of an equity interest in a paper mill to be incompatible with Treaty Article 92 on state aid. A major reason for the Court's annulment of the decision was the Commission's failure to explain why it decided that the stock purchase by the state was incompatible when at the same time it authorized a low-interest credit to the same company (judgment of Nov. 14, 1984, *Intermills SA v. Commission*, Case No. 323/82).

Treaty Articles 92 *et seq.* bar any type of state aid that is likely to affect trade between Member States and that adversely affects competing companies. However, certain social, regional, or sectoral aids are permissible to correct regional imbalances or to help certain industries adapt to changed market conditions. Sectoral aids must be exceptional, limited in time, and

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lead to long-term viability of the industry or individual enterprises confronted with structural problems *(Common Market Reports, Pars. 2921, 2922)*.

In the case of the Belgian paper mill, the aid was a BF 2.3 billion interest acquired by the regional Walloon government. The Belgian government also provided a guarantee for a BF 1 billion credit obtained by the paper mill from banks; thus the state aid was in fact a low-interest loan. The Commission had taken the position that the holding was aimed solely at rescuing the firm and produced no compensatory justification in the common interest. By contrast, the Belgian government's guarantee of a BF 1 billion bank loan was linked to the company's restructuring efforts and would help shift the emphasis in production toward special paper and away from bulk production paper. The Commission thought this would put the company in a better position to face competition, particularly from outside the EEC.

The Court of Justice said that the Treaty of Rome covers all types of state aids, regardless of their form. For this reason, it does not matter whether aid is granted in the form of credit or acquired interest. No aid, especially the acquisition of a holding, may automatically be considered to be incompatible with Treaty Article 92, according to the Court. It went on to say that the Commission must always examine whether an aid is contrary to Article 92(1) or whether that aid may be authorized under Article 92(3). The Court could not see how the fact that the BF 2.3 billion was used to pay off debts could be construed to be contrary to the Community's common interest, especially since acquisition was accompanied by a restructuring plan.

Commission Proposes Greater ECU Role in EMS

The Commission has proposed a further development of the European Monetary System (EMS), closer coordination of the Member States' economic policies, and liberalization in the movement of capital. These proposals are set forth in a draft regulation that the Member States' finance ministers are expected to discuss at their upcoming meeting.

The EMS, established in March 1979 *(Common Market Reports, Par. 3603)*, would be further developed under the proposal by expanding the role of the European currency unit (ECU), the EMS's currency. The Commission wants the central banks to increase usage of the ECU in the following ways: (a) by setting the interest rates paid on central bank holdings of ECUs closer to money market rates; (b) by allowing central banks to swap their ECUs for dollars via the European Monetary Fund; and (c) by permitting central banks outside the EEC to hold ECUs as part of their official reserves.

A number of measures that the Commission originally wanted to propose were dropped from the draft regulation because of opposition from several Member States. One of these measures concerned wider use of the ECU among private investors. Several Member States allow investors to open ECU accounts with banks, but Germany's Bundesbank is opposed to this practice. Another measure would have removed restrictions on ECU transactions between central banks and allowed central banks to make greater use of the ECU in defense of their currencies' parities in the EMS exchange rate mechanism. Here the opposition came from Germany, Britain, and the Netherlands.

Part of the proposed closer alignment of the Member States' economic policies is an improved and formalized warning process. The Member State governments would inform each other of changes in their economic policies and adjustments needed in their balances of payments. This warning process would go beyond what the Treaty of Rome requires a Member State to do in informing the other States and the Commission about unilateral measures to cope with a balance of payments crisis *(Common Market Reports, Pars. 3781, 3782)*.

A further liberalization of capital movement would include not only certificates of investment trusts but also the issuance of shares, other equities, unlisted securities, long-term commercial loans, and certain mortgage loans. Progress in the liberalization process has long been stalled and in fact has even regressed since the early 1960s because several Member States have made use of the Treaty's safeguard clauses to protect their currencies and have imposed exchange controls *(Common Market Reports, Pars. 1602.35, 1602.43)*.

In Brief...

The Commission insists that the Member States comply with the Council of Ministers' March decision introducing a milk production quota system, whereby farmers who exceed their individual quotas must pay a "superlevy" *(Common Market Reports, Par. 10,581)*. The EC Executive has rejected the Council's plan to postpone collection of the levy from Nov. 15 until Feb. 15, 1985, but it has agreed that the payments due on output for the April-September half of the marketing year do not have to be made until Dec. 15 + + + The Commission has threatened the French government with legal action before the European Court of Justice unless Paris initiates steps to repeal vehicle tax provisions considered to be discriminatory. Under French law, owners of small and medium-size cars pay the same vehicle registration tax, but owners of cars with engines of three-liter displacement or more are required to pay four times as much. The Commission contends that this discrepancy must be seen as a way of discriminating against foreign-made cars, especially Mercedes-Benz, BMW, Jaguar, and Rover, because France's two car makers manufacture only small and medium-size cars. The Commission also believes that the excessive tax supports the French government's "Buy French" campaign + + + Six German margarine manufacturers have brought suit in the European Court of Justice against the Council of Ministers. The plaintiffs, supported by the national margarine manufacturers' association as intervenor, are demanding damages based on the allegation that the recent Council regulation providing for subsidized butter sales violates Treaty Articles 39 and 40. Although there have been pre-Christmas sales of low-priced butter in the Community virtually every year in the past two decades, it is the first time that legal steps have been taken against the sale.

Germany: Bonn's Position on Draft Sea Law Criticized

The German government's decision to refrain from signing the UN Draft Convention on the Law of the Sea and to support instead the signature by the European Community is being criticized by German lawyers specializing in international law. The main target of the criticism is not the refusal but rather Bonn's hope that some of the Convention's provisions can be changed.

The Convention was agreed on in April 1982 after ten years of negotiations. Of the 168 countries participating, 138 have signed the draft, while the United States, Britain, and Turkey have refused to do so. The Law of the Sea would establish an international legal order for over two-thirds of the earth's surface. The main issues for which rules would be laid down are international navigation (free passage through straits), maritime zones (extending the 12-mile limit to 200 miles), conservation of fisheries resources, protection of the maritime environment, and, most important, exploration and exploitation of seabed resources.

Like the Schmidt administration, the Kohl government is especially critical of the monopoly that the planned seabed authority would have in controlling seabed resources, but it also fears that the bureaucratic apparatus would be dominated by the developing countries and indirectly by the Soviet Union. The rules would govern seabed research and mining, transfer of technology, collection of levies, and raw materials policy.

German specialists in international law predict that the Kohl administration's hope for improvements in Convention provisions via the EC's ratification will not materialize for two reasons: First, the Community has not been accorded any rights in seabed mining. The only powers that the Member States have transferred to the EEC in this respect are the conservation of fisheries resources and the protection of the marine environment. Second, the Preparatory Commission, of which the EC could become a member, would not be able to change articles of the Convention but only the seabed authority's rules of procedure and the procedures and directives concerning companies that have invested in seabed exploration. However, even changes in these procedural details and directives would be difficult to accomplish, the critics say.

Old-Age Pension Funds Must Borrow for First Time

For the first time in the history of Germany's 93-year-old social security system, the old-age pension funds have had to borrow to raise enough cash for the social security benefits of some 12 million recipients at the end of this month. Although the amount borrowed was relatively small (around DM 300 million) when compared with total pension benefits of roughly DM 11 billion, the borrowing itself is symptomatic of the social security system's financial state. Back in the late 1960s, Germany's 18 old-age pension funds had approximately six months' reserves; last month it was reported that the reserves had dwindled to cover no more than about a month.

The pension system is in a financially tight position for several reasons, among them increased benefits in the early '70s and the economic recession, with increasing unemployment, since the mid-'70s. The old-age pension funds expect a financial infusion later this month when employers pay in the amount withheld from employees' Christmas bonuses. Legislation now pending would give the pension funds an additional DM 1.8 billion next year *(Doing Business in Europe, Par. 40,599)*.

Britain: Fewer Mergers Referred to Monopolies Commission

The fact that only four of the mergers proposed in Britain in 1984 have been referred to the Monopolies and Mergers Commission, despite "exceptionally high merger activity," demonstrates the government's wish to intervene only when necessary, according to Alex Fletcher, U.K. minister for corporate and consumer affairs. Under the current guidelines, 214 mergers qualified for referral. In the past few years, the Commission has been required to investigate an average of eight or nine mergers annually despite lower numbers of qualifying mergers.

Fletcher made it clear that the likelihood of a referral will probably not be made any more "predictable" through the setting of criteria such as market share. As soon as such an attempt is made, he said, "a case pops up which demands to be treated as an exception to the rule." Failure to make exceptions in these cases would lead to objections from aggrieved parties, Fletcher said, while making the exceptions would ruin the criteria's effectiveness.

In most cases, the effect on competition has been the reason for referral to the Commission. Fletcher believes that the current system has the best possible balance. The minister can choose whether to follow or reject the advice of the Director General of Fair Trading concerning a merger investigation *(Doing Business in Europe, Par. 24,011D)*. Companies that may become involved in a merger are urged by Fletcher to take advantage of the confidential guidance given by the Director General of Fair Trading concerning the likelihood of referral.

Slow Progress on U.K. Broker Fees; Insider Trading

The dismantling of fixed commission scales for dealings in securities is unlikely to happen before the fall of 1986, shortly before the deadline imposed by the U.K. government, according to Nicholas Goodison, chairman of the London Stock Exchange. There had been expectations that the move would be made this year, but apparently the extensive technological and structural changes involved cannot be completed any earlier. Goodison said that "we are reaching a clear idea" of the timing involved. He stressed, however, that the exchange's ability to meet the government's deadline "very much depends on avoiding technological accidents."

In related news, the government is having difficulties detecting and prosecuting violations of the provisions of the Companies Act 1980 that make insider trading in stocks and bonds illegal. Alex Fletcher, minister for corporate and consumer affairs, said that six persons have been prosecuted under the provisions, and two persons are awaiting trial. Although this is "not the most impressive statistic," he said, the government remains committed to the legislation.

France: Foreign Investment Rules Eased; Car Price Rise

The French government has eased the rules for foreign investment in France by shortening the waiting period for official authorization. Previously, EC investors were free to set up French subsidiaries or purchase equity stakes in French companies if Paris did not respond to their applications within two months. Non-EC investors had to wait until their proposals were approved. Under the new measures, any foreign investor may go ahead with his plans if he does not hear from the government within one month. In addition, the government can no longer attempt to persuade investors to locate their businesses in certain areas.

In other news, French automakers will be allowed to raise their domestic prices by an average of 2% after Dec. 15. This means that car prices will have increased by an average of 7.7% this year, compared with an expected annual inflation rate of 7%. The latest price move is particularly intended to help Renault, the state-owned group, whose losses should top FF 7 billion in 1984. The move comes as somewhat of a surprise after Finance Minister Pierre Bérégovoy's recent statement that "rigor must continue" in price-controlled sectors, including the ailing automobile industry, in order to meet the 1985 inflation target of 4.5%.

Greece: 1985 Draft Budget Cuts Taxes, Maintains Deficit

Greece's 1985 draft budget centers on plans to hold the deficit to this year's 10.2% of GNP mainly by cracking down on tax evaders. Economics and Finance Minister Gerassimos Arsenis expects tax revenues to jump by 31.5% in 1985 despite the approximately 25 billion drachmas that should be lost due to wide-ranging tax cuts for persons with middle and low incomes. Observers believe, however, that Athens will have to resort to increased borrowing to finance the deficit. The draft budget also includes the imposition of a value-added tax on cigarettes and a new tax on travel tickets. Arsenis expects net receipts from EEC funds to rise by about 12.9%, from 88.3 billion drachmas in 1984 to 99.7 billion drachmas in 1985.

Spending on public investments would be expanded by about 25% in the hopes of stimulating the economic recovery. Health and welfare allotments would rise by 38.7% to finance a national health plan and improve the welfare system. Education spending would grow by 30.1% and defense spending by 19.1%.

Italy: Exchange Controls Eased; Tax on T-Bill Funds

Italy has reduced some of its foreign exchange controls following pressure from the European Commission and the modest easing of French restrictions a few weeks ago. Previously, the purchase of foreign stocks by Italians was permitted only when the investor deposited a sum equal to 50% of the share value in a non-interest-bearing account with the central bank. The size of these deposits has been reduced to 40% for investments in EEC and OECD countries and 30% for shares issued by EEC corporations. In addition, mutual funds are no longer required to make such deposits on the 10% of their assets that may be invested abroad. Italian companies are now permitted to pay for imported goods and services before the due date; they may also hold onto foreign currency for longer periods before making and after receiving payments.

For individual Italians, the 5-million-lire limit on credit card use abroad for tourism has been lifted. Italians are also now allowed to take abroad the cash equivalent of ECU 700 (1 million lire) per trip, instead of the previous 300,000 lire.

In other news, banks, companies, and insurance institutions will no longer receive a tax exemption for funds they invest in Italian treasury bills. An estimated 50% of the bills are held by such institutions. The tax relief for private citizens is still in effect. The government uses the income from the bills to finance a major portion of the public debt.

Netherlands: Stricter Rules for Stock, Capital Markets

Dutch Finance Minister Onno Ruding has submitted to Parliament a bill that would tighten the rules governing the stock and capital markets. With little parliamentary opposition expected, the legislation could supplement the current law, which dates from 1914, by next summer.

Ruding intends the bill to protect investors from stockbrokers with fraudulent intentions. Firms would need authorization to deal in stocks, bonds, options, and currency, commodities, and real estate futures. Prospective brokers would have to fulfill requirements with respect to management, financial guarantees, public access, technical knowledge, and reliability. They would be permitted to offer only securities that are, or are due to be, quoted on EC exchanges or certain other exchanges. A prospectus would have to be issued at the time of the offering based on specific information. The new rules would not affect regular trade through established authorities such as the members of the Stock Exchange Association or the European Options Exchange in Amsterdam.

In the past few years, the Netherlands has become a refuge for brokers wanting to evade strict regulations in other countries. The Finance Ministry suspects about 100 incidents of fraud in the past two years, involving some 200 million guilders. In many cases, the investors' money is believed to have gone into foreign bank accounts, rather than into securities.

EURO COMPANY SCENE

Voters in the Swiss canton of Schaffhausen have rejected an initiative that would have prevented Guardian Industries Corp. of Michigan from building a glass factory in the canton. Local authorities, who want the factory and the 400 jobs it will create, won out over the environmentalists, who believe emissions from the plant will aggravate the problem of diseased forests. Five bordering German communities are joining in a court appeal to stop the project.

Regal International of the U.S. and Hutchinson of France are launching a joint venture in the U.K. for the supply of anti-corrosion and insulation materials to offshore oil producers. Hutchinson-Regal will be owned 51% by the French rubber company, which is a subsidiary of the Total oil group, and 49% by the U.S. company, which manufactures rubber products for use in the oil and gas sectors.

Chase Manhattan is planning to become a minority partner in the London stockbroking firms of Laurie, Milbank and Simon & Coates in anticipation of taking them over when regulations permit, probably in 1986. The two firms will be merged to form a securities group that will apply to become a primary dealer in the new gilt-edged market now being devised.

Common Market Reports

EUROMARKET NEWS

Issue No. 833 *Report No. 517, January 3, 1985*

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Community: Budget Problems Spoil Advances Elsewhere

An assessment of the Community's accomplishments and defeats in 1984 should not overrate the confusion and consternation caused by the Greek government last month when it demanded increased spending in the Mediterranean regions as a condition for admitting Spain and Portugal. The agreement that the heads of government reached at the Dublin summit in December on ways to prevent the wine surplus from expanding was in itself a notable accomplishment and a condition for making Spain and Portugal an offer on the issue.

After more than a year of wrangling over agricultural and budgetary reform problems, the Council of Ministers achieved a breakthrough at the end of March with a partial reform of the costly common agricultural policy by imposing controls on surplus milk production. However, the milk quota system will have to be followed by similar accords on other surplus commodities such as sugar, beef, and wine if the Community is to stave off bankruptcy. The European Parliament suspects that the tentative agreement that the Council reached in November on new

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guidelines for controlling future spending, particularly on agriculture, is a plot to reduce its already limited budgetary powers.

After four years of arguing over Britain's EC budget payments, the heads of government at their June Fontainebleau summit agreed on a system to reduce the U.K.'s contributions for the 1985-88 period. The settlement, albeit temporary, cleared the way for expansion of the Community's financial resources by raising the ceiling on Member States' contributions from 1% to 1.4% of value-added tax receipts. The agreement, which must be ratified by the Member States' legislatures, is to take effect the day Spain and Portugal become members of the Community (scheduled for Jan. 1, 1986, although a later date is more likely).

On the legislative side, the Council of Ministers passed over 20 draft directives harmonizing national technical standards for a range of products, including hot water appliances and electrical medical equipment. The Council also approved a draft directive for the harmonization of national laws on misleading advertising, necessitated by the growth of satellite and cable television and the resulting transnational advertising.

The Council reached agreement on a single document that would considerably speed up clearance through customs. However, a proposed directive that would shift VAT collection from border offices to inland tax offices, thus reducing waiting time at the borders, does not have a good chance of adoption: Germany and France refuse to make the change, and Britain, which applied the inland collection system until Nov. 1, therefore reverted to the Continental system on that date. The truckers' blockade at the Brenner Pass and other crossings into Italy to protest Italian customs officials' slowdown demonstrated in a dramatic way just how far the Community is from a genuine common market, although the blockade did bring some minor improvements at Italian border checkpoints.

In the foreign trade policy field, the Community in September added a new weapon to its arsenal to combat unfair trading practices by third-country businesses. Common Market enterprises are now entitled to complain to the European Commission about such unfair practices if they have sustained damage. The Community and the 66 African, Caribbean, and Pacific countries signed a new trade and aid convention (Lomê III), which will take effect on March 1.

On Aug. 2, the Commission announced a settlement in the four-year-old dispute with IBM over the company's alleged unfairness to competitors through abuse of its market-dominating position in the sale of mainframe computers and related software. This settlement, unique in the Commission's antitrust practice, requires IBM to disclose interface information about its mainframe computers promptly and fully.

The European Court of Justice handed down several important decisions in 1984, among them one requiring the States to ensure equal treatment of women and men in access to employment.

Belgium: Deficit Cuts Needed As Growth Slows

Almost three years of Belgian austerity policies have succeeded in improving some sectors of the economy, but recent reports warn of a coming slowdown in growth and the need for deficit reductions. Analyses by the European Commission and the Kredietbank predict a 1985 growth rate of 1%, following about 1.5% in 1984, while Société Générale de Banque forecasts a rate of 0.5%-1%. All three blame the sluggish growth partly on the austerity programs as well as on reduced export growth due to a slowing international economy. Industrial investment, however, jumped by 5.6% in 1984, and a rise of 3.2% is expected this year.

Prime Minister Wilfried Martens' main budgetary goal is to cut the deficit to 7% of GNP by 1987, from the current 11%. However, the International Monetary Fund is urging annual reductions of 2%. The center-right coalition government is under pressure to cut taxes in anticipation of the elections scheduled for May. (Martens wants Parliament to extend his administration's term to four years, delaying the elections until December.) Because of the strict wage limitations that have been applied under Martens, private consumption is expected to fall again by about 1.3% in 1985.

Britain: Lower Taxes, Inflation, Interest Rates in '85

In his autumn economic statement, U.K. Chancellor of the Exchequer Nigel Lawson outlined the prospects in the coming year for lower interest rates, steady reductions in taxation, and further progress toward reduced inflation. In October, the annual rate of inflation rose to 5% from 4.7% in September, but the chancellor forecast an overall figure of 4.8% for the last quarter and 4.5% by the end of 1985. Income tax thresholds are almost certain to rise in this year's Budget, and interest rates have been declining, with further downward movement expected this year.

The number of unemployed continues to rise, with about 3.2 million, or 13.4%, of the workforce unemployed at the end of November. For the second successive month, however, the rise in unemployment slowed, which some observers regard as slightly encouraging. Jobless rates vary from 20% in Northern Ireland to 18% in northern England and less than 10% in the southeast.

Largely due to the prolonged miners' strike, 18.7 million working days were lost through industrial stoppages in the first ten months of 1984, compared with 3.2 million for the same period in 1983. Figures from the Dept. of Employment show that the U.K. lost more working days through strikes in October than in any single month since March 1980.

The Treasury expects economic growth of 2.5% this year, after 3.5% in 1984, despite steady productivity improvements. The current account deficit stood at £542 million in the third quarter of 1984, considerably worse than the £379 million in the second quarter. Investment overseas should top £10 billion again.

Denmark: Budget, Payments Ills Remain Despite Growth

Danish domestic demand remained stagnant at year end, but business benefited from growing exports and improved profit margins, with wage growth (5.5%) being slower than inflation (6.5%). GDP grew at close to 4% for the whole of 1984. By the end of the third quarter, industrial production was up 8% over the same period in 1983, while domestic orders had risen by 7% and foreign orders by 22%. The most dramatic recovery was evident in business investment, which was estimated to have gone up by 25% in 1984, with a further increase of 10% expected for 1985. GDP growth, however, is predicted to slow to 3% in 1985.

Denmark's underlying problems remained unsolved. The budget deficit and worsening foreign payments situation continued to cause particular headaches for Poul Schlüter's center-right coalition. Despite rigorous austerity and the resulting cut in the projected 1985 budget deficit to DKr 42 billion (7.1% of GNP) from the expected DKr 45.5 billion in 1984, Denmark's net borrowing requirement continued to rise as a consequence of rising debt payments. The costs of servicing the debt were increased by the high parity of the dollar, and import costs rose for the same reason. As a result of this and of increased imports of capital goods, the mild improvement in the current account deficit in 1983 (DKr 10.3 billion) was wiped out in 1984. Instead of the planned DKr 8.4 billion, the deficit should reach nearly DKr 20 billion. The foreign debt was expected to rise by DKr 30 billion to DKr 215 billion by the end of 1984.

France: Socialists Try to Correct Past Mistakes

The replacement of Prime Minister Pierre Mauroy by Laurent Fabius and the withdrawal of the Communists from the government in mid-1984 marked a switch in French economic policy to an emphasis on tax reductions and improved financial conditions for businesses. The attempts at social redistribution and increased state control during President Mitterrand's first years in office, at a time of economic recession, were seen to have been a costly mistake. The 1985 budget is putting the tightest squeeze on state spending since the war. The 5% cut in income taxes is to be balanced out by heavy increases in fuel and utility prices, aimed at bringing these prices into line with costs, while spending is to be severely restricted. In view of the rise in foreign currency debt from FF 100 billion in 1980 to over FF 500 billion in 1984, the government has little choice left in economic policy matters. Debt servicing costs have risen to FF 70 billion and could reach FF 100 billion by 1986.

GNP rose by 1.3% in 1984 and is expected to expand by a further 2% in 1985. However, since wage growth is barely keeping pace with inflation, the main impetus for economic growth has to come from investment and exports rather than domestic consumption. Investment intention surveys at the end of 1984 suggested that an

11% increase in the private sector could be expected. Because of a 9.4% increase in sales in 1983 and a 4.9% rise in productivity, the financial situation of companies has improved enough to permit new investments. However, the competitiveness of French enterprises still leaves much to be desired, and trade results in some areas have not come up to expectations. Although exports of consumer goods did well, those of investment goods dropped, and the trade balance was saved largely by rising sales of military hardware. The trade deficit for 1984 is expected to reach FF 30 billion, after a 1983 deficit of FF 45 billion. The current account deficit is forecast at FF 20 billion, an improvement over 1983's FF 34 billion.

Germany: Economy Continues on Its Way to Recovery

During the last months of the year, after the prolonged metalworkers' strike, the German economy showed many positive signs, yet the Kohl administration was left with a tarnished image because of the Flick party-donation scandal and continued differences among the coalition parties. Statistics available in mid-December provided sufficient proof that the economy was on its way to recovery. By early December, the gross national product had risen by some 2.5%. Increased exports and substantial investments in fixed assets contributed heavily to economic growth. Foreign orders, aided by a strong dollar, were roughly 15% over those in 1983, while domestic orders were some 6.5% higher.

The GNP might have risen by 3% had it not been for the seven-week strike in early summer in the metalworking, automobile, and engineering industries that at one point idled over 400,000 workers. Called to force the introduction of a shorter workweek, the strike led to a sudden interruption of growth in the second quarter and was the costliest walkout since the end of the war. Although the country's car makers were able to make up most of the production losses through additional shifts, the other industries affected could not. It soon became clear, even to some of the hardliners in the metalworkers' union, that the strike would not produce any new jobs. High wage costs run up in the 1970s had necessitated continued rationalization.

The Kohl administration can point to several successes of its economic policy. Inflation has dropped to slightly over 2%, not only a record for the past 15 years but also exceptional when compared with the inflation rates of Germany's EEC partners. Further progress was made in consolidating public finances, especially by additional cutbacks in government spending and reduced borrowing. However, the administration is still a long way from its target of cutting borrowing to zero (DM 29 billion in 1984 and an anticipated DM 25 billion in '85). One of the biggest challenges facing Bonn is how to prevent a collapse of the social security system. The current remedy consists of stop-gap measures.

High unemployment, especially among unskilled and low-skilled labor, continues to cast a shadow over the economy. At the end of the year, unemployment stood at 2.1 million (8.6% of the workforce), 100,000 less than at the end of 1983. Most economists believe that new investments are the only answer to creating lasting employment. They say that the pressures for rationalization investments will diminish only after several years of wage settlements at a rate lower than productivity gains. This would lower labor costs, provide bigger corporate profits, and thus create the climate for investments to produce jobs. The government can take some credit for its efforts in the fall to help school leavers find jobs: 750,000 youngsters started apprenticeships in 1984.

In 1985 the German economy is expected to progress in its recovery at about the same pace as in 1984. Investments in fixed assets should continue to rise strongly, but overall growth in investments will probably be dampened by a weak construction sector. Unless there is a considerable pickup in construction activity precipitated by new home building, overall unemployment could rise by up to 70,000.

Greece: Conflicting Assessments of Economic Situation

Any assessment of the current Greek economic situation is made difficult by wide discrepancies between official pronouncements and business opinion. Finance and Economics Minister Gerassimos Arsenis recently predicted that the year 1984 will wind up with increases of 2.2%-2.5% in GNP, 8% in exports, 1.5% in private consumption, and 2.3% in disposable incomes. Unemployment has not risen lately, according to Arsenis, and the public-sector debt has remained stationary in relation to GNP. The annual inflation rate for 1984 is expected to be 18%.

In direct response to Arsenis' statement at a recent press conference, a spokesman for the center-right opposition said that economic development in Greece has shown "absolutely no improvement" in the past three years (since the Socialists came to power), with the exception of agriculture. Private investment has been declining steadily, while unemployment (currently at 320,000) continues to rise. Business representatives describe Athens' price and trade intervention policies as "disastrous" and point to widespread apprehensions caused by the "socialization" of certain sectors, such as the drug industry. The only truly positive development is seen for exports, which rose by 22.4% in the first six months of 1984.

Ireland: Inflation Down, Unemployment Still Rising

In line with the Irish government's National Plan, the past year has seen a significant decline in the annual rate of inflation to 7.9%. However, Liam Connellan, director general of the Confederation of Irish Industry, said that a 4% rate is essential in 1985 if Ireland is to compete on an equal basis with the rest of Western Europe.

When the three-year economic plan was introduced last September, Prime Minister Garret FitzGerald made the fight against unemployment his main priority. However, the number of jobless continues to rise and now stands at about 200,000, or 14% of the workforce. The government has been largely successful in keeping pay awards down, but the role of the Labor Court has come under increasing attack from the Irish Congress of Trade Unions. Matt Merrigan, ICTU president, said that a tendency by the court to side with the employers or government on pay norms would amount to "a recipe for industrial chaos."

Interest rates have risen two points, to 17.5%, contrary to international trends, due to heavy government borrowing on the domestic market to avoid a squeeze on foreign borrowing. About 45% of Ireland's external debt is in dollars, and currency fluctuations have added Ŀ100 million (Irish) to the 1985 debt servicing charges. An encouraging feature is the anticipated 17% rise in export volume over 1983 as well as a 27% increase in value to Ŀ8.8 billion, of which manufactured goods should comprise Ŀ5.6 billion.

Italy: Unexpected Improvements Boost Confidence

After three years of recession, Italy experienced improved productivity and business profitability in 1984. By the end of the year, the five-party center-left coalition headed by Prime Minister Bettino Craxi had succeeded not only in regaining confidence in the Italian economy but also in remaining in power longer than the post-war average for Italian governments. A series of acquisitions and share purchases in Italian companies by foreign corporations such as AT&T, Germany's Allianz, and Sweden's Electrolux showed that prospects in Italy were seen as promising. Inflation fell below 10%; the budget deficit ceased to grow beyond the 15% of GNP it had already reached; and GNP rose by 2.4%. The balance of payments, however, which featured a surplus of 727 billion lire in 1983, is likely to show a deficit of 3,964 billion lire in 1984.

In the 1985 budget, Rome has set its inflation target at 7%. However, it has to be mindful of the experience of 1984, when wages rose by 15% and moved far ahead of inflation, despite cuts in wage indexation. Unemployment remained high at 10.5% as some employers began attempting to force through direct dismissals.

At the end of 1984, the government seemed set to risk its parliamentary majority on a tax reform promising 10,000 billion lire annually in extra revenue. The reform would bring back under state jurisdiction parts of the "underground economy," which consists mainly of small businesses operating outside the framework of government taxes and statistics.

Luxembourg: Worst of Steel Crisis Overcome

Things have settled down again in Luxembourg in economic terms after the peak of the steel crisis passed. This year, the Grand Duchy is once more looking for a measure of growth (1.6%-2%) following last year's disappointing 0.5%. The performance of the neighboring German and Belgian economies will be a factor here. After a 9% inflation rate in 1983, the government is seeking to hold wage increases this year to 4.2%, somewhat less than the predicted rate of price expansion. To maintain the massive aid necessary for Arbed Steel, the country's leading industrial company and employer, the administration plans to continue the "temporary" extra taxes first imposed in 1983. For 1985, a budget surplus of LF 3.2 billion has been projected, following an expected surplus of LF 800,000 in 1984 and a shortfall of LF 2.1 billion the year before.

Netherlands: Brighter Outlook for Profits, Exports

When will Dutch businesses begin to invest and to step up new hirings? This is the key question asked by government economists in the Netherlands at the turn of the year as the general business climate there continues to brighten. The center-right administration of Premier Ruud Lubbers feels that it has laid the groundwork for the upturn and that it is now up to business and industry to make the commitments needed to boost investment and employment. In its 1985 budget, The Hague has intensified previous austerity measures seeking to reduce further the public-sector deficit, from 10.7% to 9.7% of GNP, and to cut the net borrowing requirement to less than 10% of national income. Both steps are necessary for the government to regain maneuverability for its economic policy, according to a recent report by the European Commission.

The economic upturn in the Netherlands is currently most visible in improved business profits and the encouraging trade balance. Most experts expect an economic growth rate of 2%-3% for 1984 and a similar performance for the new year. Unemployment receded at a faster rate in the fall than originally expected; in September, the seasonally adjusted rate dropped from 17.8% to 17.5%, or 819,000.

In order not to endanger these modest achievements, the government is hoping for both employers and unions to show restraint in the upcoming round of collective bargaining. The high wage cost increases of the past are now being held responsible for both extensive job losses and the reduced competitiveness of Dutch enterprises on the world markets. Lubbers recently appealed to the industrial partners to keep this in mind at the bargaining table and to come up with responsible settlements.

Common Market Reports

EUROMARKET NEWS

Issue No. 834 *January 8, 1985*

IN THIS ISSUE

Community: Accession Talks Concentrate on Three Issues

The foreign ministers of the ten Member States and Spain will meet toward the end of the month to tackle the most contentious areas of the accession negotiations - agricultural trade, wine, and fish. The Member States have yet to agree among themselves on a detailed offer to be made to the Spanish negotiators. The Permanent Representatives and European Commission officials are trying to come to an agreement on the conditions to be presented to Spain's negotiators on the three crucial issues.

At their Dec. 3-4 Dublin Summit, the heads of government formulated the conditions for Spain's entering the common wine market organization by agreeing on national wine production quotas, among other measures. Spain would be the EEC's third largest wine producer after France and Italy. French and Italian grape growers have been largely responsible for a perennial wine surplus that the Community cannot continue to finance. The Community negotiators will have to convince their Spanish counterparts to accept restraints on their country's wine growers sim-

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ilar to those that the present Community's growers will be facing once the Dublin compromise is put into detailed regulations.

On the fisheries issue, the EC's five leading fishing nations (the U.K., Denmark, France, Germany, and Ireland) fear the prospect of Spanish trawlers entering Community waters. Spain's fishing fleet is almost as big as the combined fleet of all the States. Spanish trawlers would force thousands of fishermen out of business and deplete EEC fishing grounds. Thus, the leading EC fishing nations want Spanish fishing boats to be kept out for ten, or possibly 15, years.

Spain's foreign minister Fernando Moran is optimistic about the prospect of winding up the negotiations by the end of March, at the latest. This optimism was expressed after EC, Spanish, and Portuguese negotiators resolved two key issues before the Christmas recess - phasing out Spanish tariffs on imports of industrial products (down to zero over a seven-year period) and restraining Spanish steel exports. Moran's optimism is not widely shared because the issues are intricate, and Greece still threatens to block Spain's and Portugal's accession unless the Council makes progress in allocating more money for the Mediterranean areas.

New Commission Faces Superlevy Decision

The new Commission under President Jacques Delors will be faced with a difficult decision at its first meeting on Jan. 9: it must decide whether it wants to continue the tough stand its predecessor took against Member States that defy the milk levy system. The outgoing Commission acted on Dec. 19 to penalize States that failed to make "superlevy" payments for excess milk production by Dec. 15. The EC Executive decided to withhold 25% of advance dairy support funds, amounting to ECU 100 million, due to be paid in January to France, the Benelux countries, and the U.K. It also decided to initiate the necessary procedural steps for suing these States in the European Court of Justice.

After years of debate on how to cope with milk powder and butter surpluses created by excess milk production, the Council last March took the first step in reforming the costly common agricultural policy. Part of the reform was a superlevy payable by farmers who exceed their individual production quotas *(Common Market Reports, Par. 10,581)*. Application and collection of the levy have become a crucial test of the States' credibility and their ability to reform CAP. So far only Germany and Denmark have introduced the administrative measures for collecting the levy. Prior to the Dec. 15 deadline, Germany collected the levy from farmers who breached the production quotas. Denmark did not have to collect the levy because its farmers abided by their individual quotas. Italy and Greece are not required to collect the levy before May, as provided in the Council's March 29, 1984, accord.

France was the first State to question the March agreement, and Belgium followed. Both States said they could not collect the levy on time. The French government argued, moreover, that it did not need to collect any levy from its farmers for the April 1-Sept. 30 reference period because it had cut the national milk production quota below the ceiling set in the March accord. Commission officials say, however, that the national ceiling and individual production quotas are two different things: the superlevy is imposed on farmers who exceed their quotas. After France declined to collect the levy, Luxembourg, the Netherlands, and the U.K. also declined collection until farmers in the other States are required to pay.

In Brief...

The European Court of Justice has held Italy in breach of Community obligations for having prohibited domestic truck operators authorized to transport goods between Member States to connect their trucks to trailers licensed in another State. Italy had demanded that truck operators with a license issued by the Italian government under either the Community quota system or a bilateral agreement with another State obtain a second license for interstate transport with a trailer from another State. The Court held that a license is always issued to the trucking firm and never for a particular vehicle. Italy's practice cannot be reconciled with a 1976 Council regulation. Moreover, it discriminates against multinational trucking firms that have agreed to use each other's trailers in interstate transport, the Court said (judgment of Dec. 13, 1984, Case No. 113/83) + + + The Council of Ministers has formally approved Community legislation providing for a single customs document to be used in trade between Member States. After Jan. 1, 1988, exporters, importers, and trucking firms as well as national customs will use one customs form. The document contains 48 boxes for information, less than half of the data currently required by the various national documents, which will be replaced by the single form + + + The Commission has proposed a draft directive that would require repeal of Member State laws preventing home buyers from obtaining mortgages from banks outside their own State. No attempt would be made to harmonize national rules governing the types of mortgages available in the ten Member States. The proposal would also encourage lending institutions to denominate mortgages in European Currency Units (ECUs).

Germany: Major Tax Cut Bill Sent to Parliament

The German government has finally sent to Parliament its bill providing for major income tax reductions in 1986 and 1988. Submission of the bill was delayed because of disagreement among the coalition parties over whether the tax cut should be made in one step (in 1986) to boost the economy in the event it begins to slow its recovery.

As of 1986, taxpayers with families would be entitled to a per-child exemption almost six times greater than the current one - DM 2,484 against DM 432. There would be an unprecedented increase in the individual taxpayer's basic exemption - for single taxpayers from DM 324 to DM 4,535 and for married couples from DM 648 to DM 9,072. This proposed sharp rise in the basic exemption would in effect relieve several hundred thousand low income taxpayers from paying any income tax at all. Children's allowances for providers in the low income brackets (annual income up to DM 18,000 for single, DM 36,000 for married taxpayers) would be increased by DM 46 monthly for each child *(Doing Business in Europe, Par. 23,457)*. All in all, the tax cuts and increased cash grants for children proposed for 1986 would cost the federal and state treasuries around DM 11 billion.

A change in the tax rate structure, scheduled to take effect in 1988, would mitigate income tax progression for taxpayers in the medium and high income brackets. Single taxpayers with an annual taxable income over DM 18,000 (married taxpayers with an income over DM 36,000) now pay 22% income tax, and the tax rate rises progressively to 50% on incomes of DM 60,000 for single taxpayers (DM 120,000 for married taxpayers). A slower progression has been proposed: a single taxpayer with an annual taxable income of DM 44,000 (for a married couple, DM 88,000) would be paying about DM 600 less in income tax. (A single person's current tax bill on that taxable income is DM 10,297.) The proposed change in the tax rate structure would cost the treasury some DM 9.2 billion annually.

Bonn's Tax Policy Decisions Will Affect Homeowners

The German government is expected to make a number of policy decisions in January, and those in the field of taxation will concern millions of taxpayers. Homeowners would be affected most by a change in the way their property is valued for income tax purposes.

In Germany, an individual is taxed on the rental value of his own home or an apartment he occupies in a building he owns. A condition for taxing this fictitious income is that the taxpayer live in the house or apartment or that the home at least be available to him for permanent occupancy. The rental value is computed as a percentage of the assessed value of the property established for purposes of the net worth tax and the real property tax *(Doing Business in Europe, Pars. 23,361, 23,363)*.

Since the assessed value of real estate is low compared with commercial value, the amount the tax office adds to the income of an owner of a one-family home is usually not very much. It is not the government's plan to abolish the current system applied to taxpayer-homeowners but in conjunction with it the government would propose legislation denying taxpayers the privilege of deducting from their income any interest payments on mortgages and, more important, bills paid for house repairs and maintenance.

There would be no basic change in the current legislation that accords tax relief to potential home buyers. Under Section 7b EStG (Income Tax Law), a taxpayer buying or building a one-family home or condominium may deduct from his annual taxable income over a period of eight years 5% of the purchase price or construction cost up to a maximum of DM 200,000 (DM 250,000 for a two-family home). These amounts would be raised to DM 250,000 and DM 300,000, respectively. In other words, a taxpayer buying a two-family house would be entitled to deduct from his income a maximum of DM 15,000 annually over an eight-year period. This tax benefit has been one of the most effective instruments used to stimulate construction of private housing in Germany, and the government sees no reason for any major change here, especially since investment in private homes is currently declining.

Britain: Insolvency Bill Tougher on Company Directors

The British government has published the provisions of its Insolvency Bill, which represents the first major reform plan in this area in more than 50 years. The bill incorporates over half of the 350 proposals originally put forward by the Insolvency Review Committee. However, it does not include the committee's recommendation that the Inland Revenue no longer have a prior claim on an insolvent company's assets for unpaid income and corporation taxes.

Alex Fletcher, minister for corporate and consumer affairs, emphasized that "honest and responsible directors" will have "nothing to fear" from the new legislation, which would introduce much stiffer sanctions against delinquent directors. Fletcher said that there must be a presumption of negligence if directors fail to take any of the measures set out in the bill to minimize financial damage leading to compulsory liquidation.

Under the bill, directors of companies that undergo compulsory liquidation would be automatically disqualified from assuming other directorships. However, the process could be suspended for three months to allow appeals.

Relief would generally be granted if the director had joined the board within the last three months. Exceptions would also be made if, during the previous three months, the director had acted in the best interests of the company's creditors by giving proper notice that an administrator should be appointed or the company be wound up voluntarily.

A court-appointed administrator would be able to assemble a new management team to formulate rescue or reorganization proposals. This procedure would be particularly helpful when there is a good chance that the enterprise can be continued as a going business. There would be a 12-month moratorium on pre-administration debts, and the administrator would be responsible to all creditors, rather than to a single creditor as in a traditional receivership.

When there has been "wrongful trading," directors could become personally liable for some or all of the company's debts. This would occur when the director knew or "ought to have known" that there were no reasonable prospects of the company's avoiding insolvency "and did not take the steps he ought to have taken to minimize the potential loss to the creditors."

A system has also been proposed for the licensing of insolvency practitioners who do not hold professional qualifications. This system would outlaw "cowboy liquidators" and ensure that creditors are adequately protected through insurance bonding against dishonesty and negligence.

France: Workers Reject Pact on Flexible Labor Rules

Members of the major French union federations have rejected flexible labor regulations that union and employer negotiators had agreed upon after almost eight months of talks. A majority of the rank-and-file members considered the agreement an attempt to undermine current protective labor laws. Leaders of the Communist-led CGT union have also refused to sign the draft agreement.

The pact would have enabled French companies to lay off employees more quickly and to deal more flexibly with other labor issues. The Patronat employers' federation has long held that these changes are necessary for the further recovery of the French economy. A system would also have been set up for consultations between employers, unions, and workers on the impact of technological and industrial changes.

French Laws Tighten Limits on Industrial Pollutants

France has passed legislation drastically reducing the limits on pollutant emissions in many industries in an effort to cut down on the acid rain believed to be damaging the country's forests. All buildings and factories built after the end of this year and equipped with incineration-type heating systems must use a specific low-pollution system, at a cost increase of approximately 5%. Coke, a cheap but sulfurous by-product of refineries, is prohibited as a heating material as of 1986. A changeover from coke to coal is expected to bring a cost increase of 6%.

The anti-pollution measures also require several hundred large oil tanks in France to be fitted, by 1990, with equipment for the reduction of hydrocarbon evaporation. By the same date, printing plants, auto paint shops, and dry cleaners must be able to incinerate or treat their waste products. Garbage-burning facilities will have to reduce their emissions of hydrochloric acid by 90%, and aluminum plants must lower their emissions of hydrofluoric acid by 75%.

Loosening of Paris Development Regulations Proposed

The French government has proposed relaxing the strict controls governing property development in Paris that have protected the city's historic architecture since the mid-1960s. In recent years the controls have been found to be more damaging to local business than encouraging to economic activity in the provinces. The tight supply of office space in the capital spurred rent increases of up to 25% in the past year and has forced many multinational companies to locate their European offices elsewhere.

The proposal would alter the *agrément* licensing system so that licenses would no longer be required for the development and occupation of offices and industrial sites in five new towns near Paris. Main offices of international companies would be exempt from the *agrément* procedures, and the tax on new office and industrial space would probably remain at FF 400 per square meter. However, most of the historic buildings in the heart of Paris would continue to be protected.

Italy: Cabinet Decree Puts Tax Reform Into Effect

The Italian coalition government last month overcame disagreements among the five member parties and issued a decree that introduced the heavily debated tax reform measures on Jan. 1. Parliament must approve the decree by Feb. 19 for it to remain in effect. Finance Minister Bruno Visentini, sponsor of the reform, had originally hoped to see the measures clear Parliament by the end of the year. The bill barely made it through the Senate and then bogged down under changes suggested in the Chamber of Deputies.

The decree legislation, which is essentially the same as the original bill, cracks down on rampant tax evasion among Italy's three million shopkeepers, small businesses, and professionals. The coalition expects the legislation to pull in additional revenues of 5,500 billion lire in 1985 and 12,000 billion lire in 1986, if approved by Parliament.

Shopkeepers have carried out organized closures to protest the bill, while labor unions staged a four-hour general strike in support of the reform. Dissent within the government coalition comes mainly from the Christian Democrats, who depend on small business for much of their voting support. In view of the local elections scheduled for May 12, it is not certain whether Visentini will be able to gather enough parliamentary votes in favor of the decree legislation.

Switzerland: Domestic Demand Leads Continued Recovery

Led by domestic demand rather than exports, the Swiss economy in 1984 continued its recovery, begun in mid-1983, from a two-year recession. The latest OECD economic survey forecasts a 1985 growth rate of 2%-2.5%, following 0.7% in 1983 and 2.6% in 1984. However, the government's Economic Studies Commission predicts growth of just 1.6%, with correspondingly lagging domestic demand. The OECD expects domestic demand to slow slightly, to 2.6%, this year after hitting 3% in 1984. Despite further deterioration of the trade balance, the current account should again show a surplus of about SF 8 billion in 1985, due mainly to returns on capital investments.

Continued rationalization and modernization in the industrial and service sectors should result in a further rise in company investments this year. The OECD cautions, however, that Switzerland must remove administrative obstacles to these advances so that modernization can spread to more areas. Unemployment should decline slightly in 1985 from 1984's rate of about 1%. Inflation is expected to drop from 2.8% to 2.5%. The OECD says, however, that this improvement could be inhibited if the rate of growth of the monetary base is 3% or less. (Since the OECD survey was issued, the Swiss central bank has set a 1985 goal of 3%, following 2.5% in 1984.)

EURO COMPANY SCENE

International Signal & Control Group, a manufacturer of defense and communications systems, has purchased the Italian electronics group SI.EL. from Bastogi, a Milan financial group, for 75 billion lire. SI.EL.'s three divisions produce radio systems, mobile telecommunications equipment, and data handling systems.

The management of General Electric's U.K. electrical engineering subsidiary, Simplex-GE, has bought out the unit for £27.5 million. This is the third division GE has sold in the past year as part of its move to concentrate on the high technology sector.

McDonnell Douglas Corp. and Guinness Peat Aviation Ltd. of Ireland are expected to form a joint company to buy McDonnell's MD-80 commercial jetliners and market them in Europe and Africa. McDonnell would own 50% of Irish Aerospace Ltd.

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Common Market Reports

EUROMARKET NEWS

Issue No. 835 Report No. 518, January 17, 1985

IN THIS ISSUE

Community: Auditors Again Find Many Irregularities

In examining the Communities' 1983 financial year, the Court of Auditors has once again discovered a large number of irregularities and examples of mismanagement. In its just-published annual report covering fiscal 1983, the court does not exclude any of the Community institutions from its criticism, but it is most critical of how the European Commission handled EC finances.

Set up in 1977, the court audits the legality, regularity, and financial management of the resources collected from European taxpayers for the three Communities. Thus, the court's tasks are similar to those of the Member States' accounting offices. But in contrast to its national counterparts and its predecessor in the Community, the Audit Board, the court is not confined to *a posteriori* audits. It may carry out audits before accounts are closed, and it may submit its comments on specific questions and give its opinion at any time at the request of any Community institution *(Common Market Reports, Pars. 5035, 5037)*.

Because almost two-thirds of the Community budget is spent

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COMMON MARKET REPORTS (ISSN 0588-649X), published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $980 per year. Second-class postage paid at Chicago, Illinois. **POSTMASTER:** SEND ADDRESS CHANGES TO COMMON MARKET REPORTS, 4025 W. PETERSON AVE., CHICAGO, ILLINOIS 60646. Printed in U. S. A.

on financing the common agricultural policy, it is not surprising that most of the irregularities occur in this sector. Correspondingly, most of the Court of Auditors' criticism is directed against the EC Executive, the principal manager of CAP. For example, the Commission postponed expenditures of at least ECU 2 billion from the financial year 1983 to 1984, thus artificially limiting the rise of CAP expenditures to 28%, where it was actually an estimated 41%.

The court's report underlines the need to reform the costly common agricultural policy. In scrutinizing the storage costs of farm surpluses in 1983, it reveals a doubling of expenditures in one year, from ECU 1 billion in 1982 to ECU 2 billion. The total value of milk powder, butter, meat, grain, tobacco, and oils stored in warehouses all over the Community is put at ECU 7 billion, 75% more than in 1982. Commenting on the sharply increased storage costs, the court rebukes the Commission for not having done enough to slow the rise in surplus storage. Exporting surpluses as soon as possible after harvesting and production instead of storing them is much cheaper in the long run, it says.

Bonn Supports Capital Duty Reduction Proposal

The German government is supporting the Commission's proposal to restrict the imposition of taxes on the raising of capital and also to lower the tax rates *(Common Market Reports, Par. 10,624)*. These taxes, also called duty on capital, are imposed by the Member States on stock corporations and limited liability companies at the time of formation, reorganization, increases in capital, or certain transfers of the company seat.

Under the recent Commission proposal, the 1% tax rate rule that is now mandatory for all Member States under an amended Council directive *(Common Market Reports, Pars. 3032, 3033, 3033A)* would be made flexible: the States would be free to abolish the tax altogether or to enact a tax rate between zero and 1%. Mergers, now subject to a 0.5% rate, would be exempt. Utilities and companies pursuing cultural or educational objectives or otherwise devoted to serving the common good would also be exempt. (The Commission hopes that the European Parliament and the Economic and Social Committee will render their opinions on the proposal in the coming months and that the Council of Ministers will adopt the measure in due course, so that it can take effect on Jan. 1, 1986.)

The German government has indicated that it will propose abolishment of the tax *(Doing Business in Europe, Par. 23,212)* as soon as the Council adopts the proposal and grants the Member States the freedom to do so. Germany, like the Commission, has favored abolishment of the tax all along to promote freer movement. Several Member States are reluctant to give up this source of extra revenue, and the Commission has had to pursue in stages its ultimate goal of abolishing the tax. Still, the

Commission believes that budgetary considerations should take a back seat to the principle of capital movement as provided in the Treaty of Rome, the ultimate goal being a common capital market. The Commission also maintains that every attempt should be made to ease enterprises' access to risk capital, and abolishment of the duty on capital would be one, albeit small, such attempt. There is an additional argument in favor of doing away with the duty on capital: while some Member States allow companies to deduct the duty from their corporate income, others do not.

In Brief...

Scientists at the Community's research center at Ispra, Italy, have developed a new method of eliminating sulfur dioxide from the exhaust smoke of power plants, industrial plants, and other large units fueled by oil or soft coal. The Commission is asking for bids from businesses to test the method for two years in a pilot project, and it is prepared to contribute ECU 5 million of the total costs, estimated at ECU 6-8 million. The company that wins the contract for the project may apply the new method, Mark XIII A, without paying a fee, and it would obtain a license for the construction of two plants using the method. The novelty of the new process, using a bromide solution, is that all the substances needed to extract sulfur dioxide from exhaust are produced in the process itself. There is no longer a need to add any new substances to keep the process going, nor is it necessary to eliminate waste water and other wastes. The current method creates waste water and large amounts of calcium sulfate and limestone + + + The United Kingdom was by far the biggest beneficiary of the European Social Fund in 1984. Of the ECU 1.4 billion distributed by the Fund to the States to combat unemployment and underemployment, the U.K. received nearly ECU 600 million, or 32%. Italy was second with ECU 416 million, or 22%. The Fund pays for 50%-60% of the costs incurred by the Member States for qualifying measures to reduce unemployment.

Germany: Additional Financial Help for New Businesses

The German government will shortly institute another program providing financial aid to new businesses. Founders of new enterprises will be entitled to a premium on capital accumulated in a special bank account for the purpose of launching a business. The premium will be 20% of the accumulated capital, up to a maximum of DM 10,000. Last December, Parliament authorized the federal government to spend DM 200 million for the program in 1985.

The prospective founder will have to commit himself to saving a specific amount for three to eight years. At the end of the third year, at the earliest, he could withdraw the amount and apply for the premium. The premium will be granted only once and only after the new business is started.

There are already two major programs that have proven successful in helping individuals establish new businesses and, significant in times of high unemployment, in creating new jobs. Under one of the programs, individuals under the age of 50 can obtain a maximum loan of DM 100,000 from the government for 20 years without furnishing the collateral that banks usually demand. During the first ten years, the founder does not have to make any repayments on the principal. From the third to the tenth year, he pays interest at rates that are substantially lower than those demanded by commercial banks.

During the first 11 months of 1984, some 17,000 new businesses were supported by the government under the two programs; around 85,000 people found jobs in the new small businesses. Officials estimate that in 1985 and 1986, approximately 33,000 individuals will get financial support from these programs to start new businesses. The investment volume will be about DM 6 million, and some 165,000 jobs should be created. The officials point out that state support for would-be investors is justified by the high number of small businesses that go bankrupt each year.

Health Funds Doubt Usefulness of Hospital Cost Law

Health insurance fund officials in Germany doubt that the new Hospital Cost Financing Law will do much to slow rising costs and thus play a role in holding down employees' and employers' health insurance contributions. The government's original bill, which would have given the health insurance funds a say in the construction and modernization of hospitals, was watered down before passage. Under the first version of the bill, the funds would have been allowed to bar uneconomical hospitals from treating their insured members. The new law merely provides that the states should strive for agreement with the funds when planning or modernizing hospitals, but this is not a binding requirement.

In 1983, the country's 1,450 health insurance funds paid for the treatment of 25 million insured persons, at a cost of DM 100.5 billion, of which DM 30.8 billion was for hospital care. More often than not, regional politics was the cause of overcapacities in hospitals. The federal government concluded that it no longer made sense for the state to contribute money to hospital investment, and it decided to abandon its role as a financial supporter.

Despite the compromise in the new law, government officials are nevertheless optimistic about keeping health costs under control. Hospital administrations will be bound by the hospital rates negotiated with the health insurance funds at the beginning of the year. They will no longer be able to say they erred in their calculations and therefore need more money to cover the previous year's deficit. Instead, hospitals will have to make up losses themselves. Hospital rates will have to be more flexible, reflecting actual costs, and thus will no longer be on a (high) lump-sum basis.

Britain: Government Concession on Capital Allowances

British Chancellor of the Exchequer Nigel Lawson has announced a tax concession for corporations concerning the ways in which first-year capital allowances can be claimed before they are eliminated in April 1986. The change is a result of concerted protests from various industries.

In the 1984 Budget last March, the chancellor stated that the first-year capital allowance would be immediately reduced from 100% to 75%, with further cuts to 50% on April 1, 1985, and to zero on April 1, 1986. A phased reduction was also enacted for the rates of corporation tax against which the capital allowance is offset. *(Doing Business in Europe, Par. 23,832).*

The government subsequently proposed preventive measures intended to stop corporations from artificially bringing forward capital expenditures to take full advantage of the remaining allowances. As a result, a corporation would have had to actually expend the money on the particular capital equipment or be contractually obligated to do so before the end of the period in question in order to claim the allowance.

Such a measure would have been contrary to the traditional accounting treatment of capital expenditure, by which the expenditure is recorded as soon as it is incurred, even if a credit period is allowed. Accordingly, the chancellor said that the government will now accept standard accountancy practice in determining the date on which the particular capital expenditure was incurred. This will normally be the date on which the ownership of the asset passes to the purchaser.

France: Employers Halt Labor Talks; Job Cuts Continue

The French Patronat employers' association has broken off talks with the unions on flexible labor regulations and has called for government mediation. Yvon Gattaz, Patronat chairman, said the employers will make no further concessions. Members of the major labor federations recently rejected a pact that negotiators on both sides had agreed upon after almost eight months of talks. Labor Minister Michel Delabarre said he hopes that the talks will resume without government intervention.

In related news, the 1984 pace of industrial worker layoffs should continue this year, with 100,000 job cuts in the first half, according to INSEE, the government statistics institute.

About 214,000 industrial jobs were eliminated in 1984, including 140,000 in manufacturing. INSEE expects unemployment to rise to almost 2.5 million by mid-year, despite government measures to reduce joblessness among youths. Industry Minister Edith Cresson says that 15,000 workers in the automobile industry must be laid off to boost productivity.

Greece: Parliament Okays 1983-87 Five-Year Plan

The Greek Parliament has approved Prime Minister Andreas Papandreou's five-year plan for 1983-87 - two years late and a year after approval of the preliminary summary. Papandreou's highest priority is the modernization of industry and agriculture. Economics Minister Gerassimos Arsenis predicts an average growth rate of 3-3.5% over the five years, 2.4% being anticipated for 1984 and 3% for this year. The government expects private bank deposits to jump 55-60% in the next three years, mainly through an increase in the money supply.

Opposition leaders criticize the plan's failure to anticipate future losses in employment and wages as well as gains in inflation. They say that the predicted rate of economic growth is unrealistic and that the foreign debt actually amounts to 50% of GNP, or $20 billion, rather than the $8 billion announced by the government. The Opposition accuses the Socialist administration of aiming for a reduction of private business and says that business' lack of confidence in the government has led to a severe drop-off in investment.

Portugal: VAT Introduction in July; 1985 Draft Budget

As of July, Portugal will put a value-added tax on most goods and services in a move that is expected to intensify company cash-flow problems and temporarily boost inflation. At rates of 16% (standard), 8%, and 30%, VAT will replace the current 17% transaction tax and several other duties. The overall taxation level should remain about the same, although the number of contributors will double. Portugal is required to introduce the VAT system before its entry into the EEC, scheduled for Jan. 1, 1986.

Companies are anticipating problems with the requirement that VAT be paid within two months of a transaction. The tax on imports will have to be paid before the goods enter the country. The government believes that money movement will quicken and bureaucratic red tape will eventually decline as a result of these deadlines. Initially, however, inflation is expected to spurt due to increased company costs.

In other news, the cabinet has drawn up a draft budget for 1985 that is somewhat less austere than the 1984 measures. The draft includes a deficit of 325 billion escudos, or 9.5% of GDP, which is approximately equal to the amount of interest due this year on the public debt. The projected deficit is much higher than the 7.5% that Lisbon and the International Monetary Fund had tentatively agreed upon. However, the government wanted to set a realistic figure so as to avoid a repeat of 1984's last-minute deficit increases.

Switzerland: Road, Truck Taxes Spur Foreign Protests

Switzerland is considering a tax on the fuel in the tanks of foreign trucks crossing its borders. The measure would be in retaliation against those by other countries protesting new Swiss road-user and heavy-truck taxes. As of Jan. 1, all users of Swiss motorways began paying an annual SF 30 tax, and a sliding-scale levy went into effect on heavy buses and trucks entering the country. Swiss voters approved the taxes in a national referendum early last year, despite opposition from the government and other European countries. *(Doing Business in Europe, Par. 40,600).*

On Dec. 17, French truckers blocked crossings along the Swiss-French border to protest the taxes, and the International Road Transport Association has threatened further action. Paris has also reinstituted an axle tax on Swiss trucks entering France that had been dropped in 1969.

Yugoslavia: OECD Inflation Warning; Gas Rationing Ends

Yugoslavia should concentrate on reducing its 55% inflation rate through moderation in nominal income developments and elimination of structural imbalances, the OECD says in its annual report on Yugoslavia. The organization acknowledges, however, that "prospects for rapidly unwinding the current inflationary spiral are not very promising." Recent and future removals of price controls will favorably affect the economy in the long run, the OECD says, but the short-term effect will be to maintain a high level of inflation.

Because Yugoslavia is not a full member of the OECD, the organization did not make its own economic forecasts for the coming year. It did say, however, that it views as unrealistic Belgrade's 1985 goals of a 14.5% increase in exports in convertible currencies and a 3.5% rise in GNP. The current account surplus in convertible currencies was expected to reach a record $850 million in 1984. Although servicing charges for the foreign debt should amount to $3.5 billion this year, the debt itself should drop by about $750 million, from $18.75 billion in 1983.

In other news, Belgrade ended, as of Jan. 1, gasoline rationing and mandatory deposits for Yugoslavs traveling abroad. The measures had been introduced two years ago to stem outflows of foreign currency. Motorists were permitted only 40 liters of gasoline per month, and Yugoslav travelers had to make a $25 deposit before leaving the country. Due to numerous exceptions, however, only about 2% of those traveling abroad have actually been paying the deposit.

EURO COMPANY SCENE

ITT Corp. plans to invest DM 6.4 billion in its 50 German subsidiaries over the next five years, an increase of 50% over the previous five years' amount. Of the total, DM 4.2 billion is allocated for research and development and DM 2.2 billion for capital expenditures.

In related news, Standard Elektrik Lorenz, a German ITT subsidiary, has agreed to form a joint venture with REL, a state-owned Italian group, for the production of video recorders. The new company, Vidital SpA, is expected to begin the first Italian production of video recorders by the end of the year.

Du Pont intends to expand its European electronics operations, at an estimated cost of $25 million, as part of its worldwide efforts to raise its current $1 billion in electronics sales by 50% over the next five years. The company plans to open a new U.K. facility near Bristol for the production of electronic connectors and two new photopolymer production facilities at its Neu Isenburg, Germany, plant. The company is also enlarging the capacities of its Dutch and French plants.

Coastal Corp., a Houston-based energy group, plans to close its Antwerp refinery due to the overcapacity in the European refining industry. The Antwerp facility has a capacity of 65,000 barrels per day but has recently been handling only 47,000.

Centocor, Inc., of Malvern, Pa., will receive $2.5 million in equity financing from a Dutch agency, MIP Equity Fund, to set up a drug manufacturing venture in the Netherlands. The agency was started in 1982 to encourage industrial development. It was capitalized at 1 billion guilders, with 57% of the money coming from the government and the rest from pension funds, banks, and insurance companies. The venture will produce Antimyosin, a drug used to determine the extent of tissue damage after a heart attack.

Common Market Reports

EUROMARKET NEWS

Issue No. 837 Report No. 519, January 30, 1985

IN THIS ISSUE

Community: CAP Reform Must Continue, Commission Says

A continued reform of the common agricultural policy (CAP) is essential to ensure the Community's participation in the world market on an increasingly competitive basis and at lower cost, according to the European Commission's latest report on the agricultural situation in the Community. The EC Executive predicts continued growth of farm commodity surpluses until the end of 1990. Tobacco and mutton should be the only cases in which demand will exceed supply.

Reviewing the progress made so far in reforming the common agricultural policy in the milk sector, the report sees only a limited reduction in milk output. In late March 1984, the Council of Ministers introduced a milk production quota system, established a "superlevy" to penalize farmers exceeding their individual quotas, and restricted the open-ended price guarantees for surplus commodities *(Common Market Reports, Par. 10,581)*. Despite the levy (collected only from German farmers for the April-September period), milk production remained high in 1984,

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exceeding consumption by 11 million tons and making last year the largest milk production year ever. At the end of 1984, butter stored in government and private refrigeration warehouses topped 850,000 tons, a 23% increase over 1983.

The Commission's report also reviews farmers' incomes and gives an explanation of why Germany's farm minister, Ignaz Kiechle, recently rejected any price cuts for German farmers for the 1985-86 marketing year. In 1984, German farmers' incomes dropped by 1.9% over the previous year. The report records an average increase of 3% in farmers' incomes across the Community, a figure that camouflages a wide disparity: Danish farmers earned 20% more, but Belgian farmers earned 7% less. The income situation and the need to make progress in the CAP reform could make this year's Council talks on the Commission's price proposals for 1985-86 more difficult than at any time in the past.

Delors Assigns Top Priority to Development of EMS, ECU

Commission president Jacques Delors has given the strengthening of the European Monetary System (EMS) top priority in the new Commission's work over the next four years. Delors' aim is to develop the European Currency Unit (ECU) into an official reserve currency. He is not disturbed by the fact that his predecessor, Gaston Thorn, was unable to reach the same goal. Italy, in the Council's presidency during the first half of this year, also wants to see an extension of the EMS and broadened use of the ECU. Germany has been adamantly opposed to granting the ECU a greater role in monetary transactions, let alone turning it into an official reserve currency.

Last December the Council failed to agree on several Commission proposals aimed at developing the European Monetary System. (The system was founded in 1979 to provide greater monetary stability - *Common Market Reports, Par. 3603*). The Commission had proposed making the ECU a more attractive reserve medium for central banks in the EMS by increasing the interest rate on their ECU reserve holdings, making the ECU more easily convertible into currencies, and giving non-EC institutions like the Bank for International Settlements and central banks of non-EEC countries closely linked to the Community the right to hold ECU deposits. The proposals also called for further economic and financial integration by better coordinating national economic policies and abolishing obstacles to the free movement of capital.

Whether Germany approves or rejects the proposals depends largely on the central bank, not the government. The Bundesbank enjoys a high degree of independence from the federal government, and no administration has ever attempted to lessen this independence or ignore the central bank's advice. The Bundesbank is in favor of extending the EMS by getting Britain to join. (The U.K. is the only major EC State that is not an EMS member.) Germany's central bank also believes that the Italian lira's 6% fluctuation margin should be brought down to the normal 2.25% margin. However, the Bundesbank has opposed any moves toward making the ECU a genuine European currency because this could lead to the creation of a European central bank having the functions of an independent lender.

In Brief...

The German government has granted a respite to those farmers who exceeded their milk production quotas and are therefore subject to the EEC "superlevy." Payment of the levy for the October-December 1984 reference period is due on Feb. 15, but Germany has told farmers that it is not collecting these payments, at least not for the time being. The German decision is a response to the lack of action by the other Member State governments (except Greece), which have either fallen behind in collecting the superlevy or failed to take the necessary administrative measures for collection. The Commission has taken the procedural steps available under Treaty Article 169 before bringing suit against the delinquent Member States + + + Unemployment in the Community at the end of 1984 remained at 12.8 million, the record total it attained last October. The overall unemployment rate for 1984 stayed at 11.4%. Ireland had the highest rate (16.9%), followed by Belgium (15%) and the Netherlands (14.3%). Italy and the U.K. also had unemployment above the EC average - 13.2% and 12.2%, respectively. Below the Community average were France (11.1%), Denmark (9.6%), and Germany (8.1%). Luxembourg had the lowest jobless rate in the Community, at 1.8%. Figures for Greece are not included in EC unemployment statistics because it does not register all of its unemployed.

Germany: Smog Alarm Brings Ruhr District to Standstill

For the first time since Germany's 1974 Clean Air and Noise Abatement Act went into effect, two states have made full use of the powers they have to cope with dangerous smog situations. The administration of North Rhine-Westphalia imposed a smog alarm recently as the sulfur dioxide content in the air over the heavily industrialized Ruhr area rose above the permissible maximum of 0.4 milligrams per cubic meter because of a weather inversion. All private driving was banned in inner-city districts of 10 major metropolitan areas of the Ruhr region from 6-10 a.m. and from 3-8 p.m. This was followed by a one-day total ban for private motorists. Steel mills in the area were told to cut production by half, and other large factories were forced to switch to less polluting fuel, which they are required to keep on hand for such an emergency. Power plants were compelled to burn low-sulfur coal. A smog alarm and a partial ban on private driving were also issued by the state of Hesse for the cities of Giessen and Kassel.

All of the measures were in line with the federal Clean Air and Noise Abatement Act, which leaves enforcement entirely to the states *(Doing Business in Europe, Pars. 23,544A, 23,544D)*. The Act even gives the states discretion in designating those regions that are more susceptible to pollution than others and preparing emergency measures there in advance. This freedom explains why Cologne, only 100 kilometers away from Germany's Ruhr region, was not included in the alarm plan, although at one point the sulfur dioxide content there was as high as that in the areas where the smog alarm was imposed.

Lower Tax Proposed for Cars With Anti-Pollution Devices

The German government will soon propose a bill that would provide owners of cars lacking an anti-pollution device with a monetary incentive to have such a device installed. The amount and duration of the tax reduction owners would receive would depend on the extent to which the device cuts down on toxic gases.

A car owner who has his car fitted with an anti-pollution device that converts 50% of the engine's carbon monoxide, hydrocarbons, and nitrogen oxide into harmless carbon dioxide, nitrogen, and water would pay DM 13.20 instead of DM 18.80 per 100 cc of engine displacement. The annual tax savings would be granted for the car's life. If a car owner decides to have his vehicle fitted with a cheaper device that cleans engine exhaust by only 30%, he would save the same annual amount in vehicle registration tax, but only for three years. The bill would increase the current motor vehicle tax of DM 14.40 per 100 cc displacement to DM 18.80 per 100 cc to penalize car owners who do not install an anti-pollution device.

Although the measure would add considerably to the tax offices' work, it would remove the remaining uncertainty over car exhaust controls. In November 1984, the government proposed an exemption from the motor vehicle registration tax for all new models equipped with catalytic converters *(Doing Business in Europe, Par. 40,604)*. The exemption would be granted for two to seven years, depending on engine size. (Cars with smaller engines would be exempt for the maximum seven-year period.) Uncertainty over the passage of this bill has led motorists to delay buying new cars and caused a decline in new orders for some manufacturers.

Government officials admit that the proposed system of tax incentives and penalties would mean more red tape, contrary to the Kohl administration's promise to reduce bureaucracy. For the sake of an improved environment, though, more red tape would be justified, they say.

Belgium/Luxembourg: OECD Reports Progress in Recovery

Belgium's economic recovery program has begun to show positive results, but the measures represent "only a first step on the long road to recovery," according to the OECD's latest economic survey on Belgium and Luxembourg. The organization points out that the country's economic competitiveness remains poor, productivity has not yet returned to the level of the 1970s, and wage and capital cost increases have led to higher unemployment.

The OECD forecasts a 1985 growth in GDP of just under 2%, after a similar figure in 1984. Unemployment is expected to average 13.5-14% this year. The report emphasizes the need for Belgium to reduce its public-sector deficit of 11% of GNP and its public debt of over 100% of GNP. Demand for Belgian exports, however, is expected to move the current account back into surplus for the first time since 1976.

In its analysis of Luxembourg's economy, the OECD points to the steel industry as a leader in the recovery, with GDP growth of about 2% in 1984 and the same expected for this year. A deceleration of import prices should contribute to a drop in the inflation rate from 6.5% in 1984 to 5.5%, or approximately the EEC average. Unemployment could decrease to 1.75%, from 1.8% in 1984.

Britain: Foreign Banks' Share of Loan Market Rises

Foreign banks made substantial advances in the British loan market in the twelve months ending in November 1984, according to the Bank of England. These banks now account for almost one-third of total loans to U.K. residents, having increased their share of outstanding loans to 32%, from 26.5% in November 1983.

Overseas banks are now responsible for a record 36% (up from 32%) of loans to the manufacturing sector. The category of lending by foreign institutions that shows the largest percentage improvement is the "other financial" area. This includes loans to hire-purchase companies, credit companies, and non-statutory deposit takers, with particular activity in the consumer credit markets. Overseas banks have also been active in the domestic mortgage market, having raised their lendings by £801 million in this period, and further expansion is anticipated.

One reason for the growth in foreign lending is the fall of the pound's value, which has raised the sterling value of overseas currency loans to U.K. borrowers. Foreign banks were responsible for £14.5 billion of the £25.8 billion increase in loans during the reference period. American and Japanese banks have made particular inroads. In November 1984, total lending by U.S. banks to U.K. residents stood at £17.8 billion, compared with £8.8 billion by Japanese banks and £20.9 billion by other foreign banks.

Ireland: New Tax Benefits for Offshore Oil Exploration

Irish Finance Minister Alan Dukes has announced new tax proposals for offshore oil exploration, including more favorable capital allowances with respect to development costs and a longer time limit for writing off exploration costs. Dukes said that he believes these proposals would make Ireland more competitive with other countries in the fiscal treatment of petroleum production. Observers believe these moves are a response to U.K. changes benefiting exploration companies. The Irish government has also extended the deadline for the third licensing round by four months, to June, in the hope that more companies will apply.

The new provisions would allow development costs to be set against profits at 40% annually on a declining balance basis. In addition, exploration costs incurred onshore or offshore during the previous 15 years and interest on loans to finance development or production could be used to offset petroleum profits.

The proposals do not cover the question of government participation, an area of major concern to oil companies. Currently, the government is entitled to take up to half of the equity in a producing field, while the oil company bears the full cost of development.

Austria: Anti-Car-Pollution Regulations Proposed

Austria could soon become the first European country to adopt measures for reducing the pollutants in automotive exhaust. The proposed regulations, based on the 1983 U.S. rules, are expected to cut auto exhaust pollution in Austria by 37% by 1990 and 63% by 1995.

Gas stations would have from April 1 to Sept. 30 to begin carrying lead-free, regular-grade gasoline. The 50-groschen price difference between regular and super gas would be maintained by raising the tax on super and lowering it on regular. Both prices would rise by about 10 groschen per liter to absorb the higher cost of lead-free gas.

As of Jan. 1, 1987, all new cars with an engine capacity of more than 1.5 liters made in or imported into Austria would have to be equipped with catalytic converters. All other new cars would be required to have the equipment after Jan. 1, 1988. Beginning on Oct. 1, persons buying new cars that conform to the anti-pollution rules before the deadline would receive tax refunds. The proposed refunds range from 7,000 to 2,500 schillings, depending on how close to the particular deadline the car is bought. Those purchasing cars without converters after Oct. 1 would pay a higher road tax.

Austria's proposed timetable for introducing the anti-pollution measures is far ahead of its neighbors'. Switzerland and Germany are planning similar regulations that would go into effect in 1988 and 1989, respectively. Austria is still studying the issue of truck exhaust, which contributes heavily to its pollution problem because of the major freight transport routes passing through the country.

Norway: Curbs Enacted to Restrain Short-Term Market

The Norwegian government recently put into effect measures designed to slow the country's credit expansion. The total amount of loans by Norwegian banks for the first nine months of 1984 was NKr 28.2 billion, over four times the goal of NKr 6.1 billion laid out in the budget.

To deter foreigners from investing short-term funds in Norway, the treasury bill rate was lowered, from 10.25 to 8.25%, a move that should promote a drop in short-term money market rates. To restrain bank lending, the requirements for primary reserves were raised, from 10 to 11% for banks and from 7 to 11% for finance companies. Banks may now charge money market interest rates for overdrafts above a certain limit to prevent customers from using large overdrafts to make gains on the short-term market. The Finance Ministry also announced that, at the end of January, it will begin issuing a new form of state bonds carrying a 12.5% interest rate. Following this announcement, interbank rates fell from 13-13.5% to about 12.5%.

Portugal: Foreign Investment Up; New Unemployment Fund

Foreign investment in Portugal jumped by 30.8% in the past year, from $146 million in 1983 to $191 million in 1984. Based on major projects already scheduled, the total is expected to improve again this year. Due to unstable economic and political conditions, foreign investment had plunged from $151 million in 1981 to $123.7 million in 1982.

Viana Baptista, head of the Foreign Investment Institute, hopes to see an increase this year in the share of foreign capital going to industry, which captured 35% of the total in 1984. The U.S. was the leading investor, with 35% of the total, followed by France (12%), Switzerland (11%), and the U.K. (10%). The ten EEC Member States together provided 36%.

In other news, the Portuguese government has added 4 billion escudos to its 1985 unemployment expenditures. This fund will be used to pay workers who have been employed for at least three years two-thirds of their former income for a minimum of six months. An extra month of pay will be allotted for each year worked above the minimum. The Portuguese unemployment rate is currently 15% among women and 6% among men, for an average rate of 10.3%.

Switzerland: Price, Interest Rate Surveillance Bill

The Swiss government has introduced a bill that would set up a price surveillance institute in accordance with a voter initiative passed two years ago. The initiative was in response to the 1978 expiration of the price surveillance system that had been established five years earlier by emergency decree. Passage of the referendum constituted, in effect, an order to the federal government to establish "indefinite and competitively motivated price surveillance of enterprises with a strong market position, particularly of cartels or cartel-like associations...."

One of the major reasons that the price surveillance initiative passed was the concern of homeowners and renters over cartel influence on mortgage rates. Currently, banking cartels in Zurich, Basel, and Geneva set the interest rates for their members, although the central bank also has some control. The government's bill specifies that the surveillance institute would become involved when cartel agreements result in an "improper" rise in interest rates. However, there is no specific mention of direct influence on mortgage rates, causing speculation as to whether the bill would fulfill the voters' intentions.

The central bank is opposed to inclusion of interest rates in the price surveillance system because this would overlap with its duties. Banks argue that the proposed institute would also duplicate some functions of the Cartel Commission. Many small regional banks fear that, without a cartel to protect interest rates, they would be forced out of business.

EURO COMPANY SCENE

Ford Motor Co. is investing DM 330 million in the expansion and modernization of its transmission manufacturing plants in Cologne and Düren, Germany. The plants are scheduled to begin producing new five-gear transmissions with aluminum casings in 1987.

Empresa Nacional de Autocamiones SA (Enasa), the state-owned Spanish truck manufacturer, is seeking to sell a majority stake to General Motors Corp. GM has replaced Japan's Toyota and Nissan group as the preferred partner, an Enasa spokesman said. The deal would also involve GM's taking over Seddon Atkinson, a U.K. manufacturer acquired by Enasa last year after International Harvester pulled out of both companies in 1982.

Nabisco Brands, Inc., and its Dutch subsidiary, De Erven de Wed. J. van Nelle NV, should reach an agreement soon on the unit's independence from the parent company at an estimated price of about 240 million guilders. Nabisco wants to withdraw from van Nelle because its products, including coffee, tea, chocolate, and tobacco, lie outside of Nabisco's normal lines.

Common Market Reports

EUROMARKET NEWS

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Community: EP's Suit Against Council Valid, AG Says

The European Parliament's suit against the Council of Ministers charging inaction in the transport policy sector is admissible, according to Advocate General Carl-Otto Lenz. In his conclusions delivered to the European Court of Justice on Jan. 23, Lenz maintained that the Council had failed in its duties to bring about a common transport policy and had thus violated the Treaty of Rome. However, the Council violated the Treaty only to the extent that it failed to adopt five European Commission proposals prior to the Dec. 31, 1969, end of the transitional period, the advocate general said. Parliament contends in its suit that the Council had neglected its duties by having failed to pass 16 pending measures. (Four were adopted between 1983 and December 1984.)

It was the first time that Parliament had brought suit against another Community institution under Article 175, which allows the Member States and Community institutions to sue the Council or the Commission for inaction *(Common Market Reports, Pars. 4645, 4646)*. The Council maintains that the suit is not

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admissible because Parliament does not have the capacity to bring suit before the Court of Justice.

Advocate General Lenz said that the EP's action is valid, especially to the extent that it is based on Article 75, paragraph 1, subparagraphs a and b *(Common Market Reports, Par. 1811)*. The Council failed to fulfill its obligations prior to the end of the transitional period, Lenz said. These obligations included establishment of common rules applicable to international transport to or from Member States as well as the creation of conditions under which out-of-State carriers may provide transport services within a Member State's territory. In Lenz's view, the Council violated the EEC Treaty to the extent that it failed to act on Commission proposals providing for those rules and conditions. (In December 1984, the Council formally adopted two of these proposals - one establishing common weights and dimensions of trucks and the other further liberalizing the quota restrictions imposed by individual Member States on cross-border road haulage.)

However, Parliament's action is unfounded on several other points, the AG says. It has no basis to the extent that it invokes Treaty Articles 3e and 74 (establishing the principles and objectives of a common transport policy), Article 61 (providing for free movement of services), and Article 84 (extending the transport policy to sea and air transport).

Council lawyers are no longer confident that the EC tribunal will reject the action as unfounded. Their previous confidence was largely based on the fact that there has never been a case establishing that the Council's failure to act in any sector constituted an infringement of the EEC Treaty. EP lawyers expect the Court of Justice to condemn the Council at least for its failure to act on five proposals, all related to facilitating inter-Member State transport.

The Court's judgment is expected in May or June. The Court is not bound to follow the AG's conclusions.

Disagreement Revealed Over CAP's Future Course

Even before the Commission formally presented its farm price proposals for the 1985-86 marketing year, there was major disagreement over the future course of the common agricultural policy. While farm Commissioner Frans Andriessen is convinced that price reductions for most commodities should be the guiding principle in adapting excess supply to stagnating demand, Germany's agriculture minister, Ignaz Kiechle, believes that emphasis should be placed on making farmers' incomes secure.

In his first public speech since being appointed Commissioner for EEC farm policy, Andriessen said that only price cuts will enable the Community's farmers to sell more at home and abroad. In fiscal 1985, the EEC cannot afford to continue spending at the same rate as during the last two years (increases of 28% in fiscal '83 and 17% in fiscal '84), Andriessen emphasized. The Community's revenue in 1983 and 1984 rose by 5% and 6%, respectively. Pointing to the Community's general budget problems, Andriessen said that even if the Community had plenty of money it would have to reform its runaway common agricultural policy to achieve market equilibrium. The farm Commissioner stressed that continued high prices for EEC agricultural commodities would aggravate the balance of payments problems of the developing countries and the East Bloc, which account for 60% of the Community's farm produce exports.

Kiechle reminded his audience at the opening of the Berlin Farm Fair that, in controlling the growth of milk surpluses through production quotas, the Council of Ministers last March was guided primarily by the idea of keeping prices at the then-prevailing level. According to Kiechle, this approach was chosen to protect small farmers from agri-business farms. In Kiechle's opinion, the 1984 milk production quota and accompanying measures were taken to prevent the Community from going bankrupt through CAP spending. The measures should eventually bring about enough financial latitude to allow price increases and, at the same time, relieve the Community from having to get rid of its surpluses on the world market, Kiechle said.

In Brief...

The European Commission has reiterated its objections to the German Bundespost's plan to introduce cordless telephones under the monopoly it has in the mail and telecommunications sector. The plan, presented by German Postal Minister Christian Schwarz-Schilling and criticized by Economics Minister Martin Bangemann, would deny businesses the right to manufacture and market cordless telephones. The Bundespost alone would designate the manufacturers and sell the phones. In the Commission's view, the plan would in effect expand the Bundespost's monopoly and thus violate Treaty Article 37. That article bars using state monopolies to control imports or exports between Member States in any way (*Common Market Reports*, Para. [illegible], [illegible]) + + + The new Commission, continuing to take the same tough stance on state aids that was pursued by its predecessor, has told the French government to suspend for one month subsidies to two shipyards, Normed and Alsthom-Atlantique, and to the large textile manufacturing group Boussac. The EC Executive contends that the shipyard subsidies totaling FF 3.3 billion were not given subject to a cut in capacity as required by EEC rules, and the FF 480 million aid to Boussac was likely to distort inter-State trade. Paris did not get prior authorization from the Commission for any of the aid.

Germany: More Incentives for Pollution Control

The German government is working on legislative plans that would offer additional tax incentives for pollution control investments. Present law permits taxpayers acquiring assets for pollution control purposes or manufacturing them for use in their plants to deduct from taxable income in the first year 60% of the cost of acquisition or manufacture and 10% in each of the following four years. Experience acquired since the law took effect in 1975 has shown that the deduction is claimed almost exclusively for assets acquired or manufactured to combat post-pollution situations, such as a sewage plant for water treatment or air filters to clean emissions. The plan under consideration would permit taxpayers to deduct the cost incurred when investing in methods and processes that reduce pollution in the production process.

Small and medium-size businesses would be entitled to deduct from taxable income as much as DM 200,000 of the total pollution control cost in the first year. In addition, these businesses could receive government grants amounting to 20% of the cost incurred by acquiring or manufacturing pollution control devices and facilities. The government believes that these measures would spur considerable investments by medium-size companies.

The Kohl administration is also considering a proposal to exclude the value of pollution control assets in computing a taxpayer's net worth and business taxes *(Doing Business in Europe, Pars. 23,361, 23,385)*. However, this exclusion would apply only with respect to investments made after the tax amendment takes effect. The planned exclusion would account for the fact that assets used for pollution control purposes as a rule do not yield a return on the investment.

Finally, the government is contemplating additional funding for its European Recovery Program. The ERP offers low-interest loans to founders of new businesses as well as financial support to small and medium-size businesses investing in pollution control devices. Such investments by medium-size companies accounted for less than DM 200 million of the DM 4.2 billion in ERP funds spent in 1984. The government wants to add "massively" to this part of the program, without saying at this point how much. Financial assistance would be expanded and would also be granted for research, manufacture, and marketing of modern production processes having no negative impact on the environment.

Britain: OECD Calls Monetary Policy Effective

The British government's strategy for controlling the money supply and reducing inflation during the past two years has been more successful than originally anticipated, according to the OECD's latest economic survey. The report generally approves of the measures taken to increase competition in the U.K. financial system, such as the abolition of exchange, pay, price, and dividend controls. The organization says that these moves, as well as the abolition of minimum commissions on share transactions and other proposed changes, should "contribute to a more efficient allocation of resources."

The OECD is more critical of the government's privatization program, including the recent issuance of British Telecom shares. According to the report, the government needs to "look closely at the promotion of efficient resource allocation" in the majority of nationalized industries that remain under state ownership.

The survey concludes that the U.K.'s poor overall economic performance stems from the "inefficient use of capital or poor quality of investment," rather than a low level of investment. The OECD views positively the 1984 Budget measures to encourage more profitable investment through reductions in corporate taxes and the phasing out of first-year capital allowances. A recovery in company profits is expected to further boost investment.

Continued growth is forecast for the U.K. economy through mid-1986, although at a slowing pace. The slowdown is largely the result of the ten-month-old miners' strike, the OECD says, but "there does seem to be some weakening in the underlying pace of recovery." Export markets are expected to increase at 5% annually through June 1986. However, rising imports should keep the current account in deficit.

France: Measures Proposed to Boost Construction Sector

The French government has proposed a package of tax benefits, interest rate reductions, and state financing to stimulate the ailing construction sector. Although the Housing and Transport Ministry calls the package "a big step for the revival of the construction industry," many industry leaders want the government to take more decisive action. Observers say it is likely that consumers would simply switch a portion of their spending from other sectors to (home) construction, resulting in a small effect on the economy as a whole.

Included in the package is a half-point reduction in the interest rates on state-aided loans to home buyers as well as an increase in the percentage of these interest payments that is tax-deductible. The maximum tax deduction for energy-saving home improvements would be raised by 50%. Consumers would be able to obtain loans more easily to buy vacation homes, and rent restrictions would be eased. The measures also include plans to construct 10,000 and renovate another 20,000 low-cost apartments. An additional FF 700 million would be made available for such projects as highway construction and the improvement of port facilities.

Some 73,000 workers in the construction sector lost their jobs in 1984, following about 60,000 layoffs in 1983. Last year 300,000 construction projects were started, less than half of the number begun each year in the early 1970s.

Guidelines Presented for Franc-Denominated CDs

The French Finance Ministry has presented the country's banks with its guidelines for the introduction of franc-denominated certificates of deposit (CDs) later this month. The government hopes that by issuing these guidelines and discussing the matter with the banks it can calm fears that the CDs will draw large amounts of investment funds out of the regular bond market. After Finance Minister Pierre Bêrégovoy's surprise announcement of the CDs last December, heavy selling resulted in a 2% drop in bond prices in a single day.

To discourage a speculative market with many small participants, the treasury proposes that the CDs be issued in minimum amounts of FF 10 million, with maturities of six months to two years. Based on studies of the British and Japanese markets, government officials believe that the volume of French CD issues will not exceed FF 40 billion, compared with the volume of FF 150 billion in short-term mutual funds. Financial observers expect a CD volume of FF 10-20 billion annually.

French Steel Merger Proposed; Corporate Profits Up

The presidents of Sacilor and Usinor, the French state-owned steel groups, have asked Industry Minister Edith Cresson to approve a merger of the two companies. Cresson is believed to favor such a merger, although steel purchasers are lobbying against it. Such a move would create a steel company with sales of FF 65 billion and production of 19 million tons annually, second in size only to Japan's Nippon Steel. The two presidents say the merger is unavoidable due to the groups' combined losses of FF 10 billion in 1983 and FF 8 billion in 1984. The steel groups are also requesting FF 30 billion in state aid and a partial consolidation of their debts.

Sacilor and Usinor are already closely linked in most of their product areas. In March 1984, the government told them to set up a jointly held long products subsidiary, Unimetal, and an engineering unit, Ascometal, and to coordinate their sales policies. The main area in which they remain competitive is sheet metal. The company presidents are proposing the creation of a joint holding company to oversee the entire product range.

In other news, operating profits of French companies have returned to the level they were at before the 1974 oil crisis, due mainly to falling blue-collar wages. For the year ending with the first quarter of 1985, corporate profits are expected to rise by 4-6 percentage points more than during the previous 12-month period. Mainly responsible for the rising profits are productivity gains and the government's success in holding labor costs below inflation last year. Hourly wages increased by an estimated 6-6.3% in 1984, compared with an inflation rate of 6.7%.

Greece: Strikers Protest Athens' Labor Policies

Greek bakers, construction workers, and bank employees staged a 24-hour strike, and 40,000 strikers marched through Athens on

Jan. 22 to protest the government's wage policy. The workers are demanding minimum wages of 1,600 drachmas per day and 36,000 drachmas per month as well as pensions of 32,000 drachmas per month. The previous week, Athens had set minimum wages of 1,422 drachmas per day and 31,932 drachmas per month, with further raises expected in April and September. The government said larger increases would be detrimental to its fight to bring inflation down from the current 18% to 16% this year.

With its restrictive earnings policy, the Socialist government is leaning toward a conservative, monetaristic approach to fighting unemployment, although it has repeatedly voiced its objections to such a policy. This ambivalence has often resulted in one law working against another with regard to unemployment. For example, state grants are offered for specific private projects to promote new jobs, while at the same time the creation of those jobs is hindered by the country's strict labor laws.

Unemployment currently stands at about 350,000, or 8%, and is especially high among women and youths. Although this number lies under the EC average of 11.4%, the Community does not include Greece in its total because the country does not register all its unemployed. In its preliminary plan for 1983-87, the government predicted the creation of 270,000 new jobs, but officials now say that 150,000 is a more realistic figure. Economics Minister Gerassimos Arsenis blames the country's unemployment problem on the international recession and structural economic weaknesses that existed when the current government took over in 1981. Among these weaknesses, he says, are many heavily indebted companies and a "premature" accession to the EEC.

Italy: Coalition's Political, Economic Problems Mount

Although the Italian government has just won a vote of confidence in the Senate over its tax proposals, the five-party coalition of Prime Minister Bettino Craxi is facing a difficult year, and so is the country's economy. Despite the minor success in the Senate, Finance Minister Bruno Visentini's tax package, which aims primarily for more fiscal equity in the retail sector, is still a long way from final passage. Also stalled are reform proposals concerning the old-age pensions and housing. Another dispute within the coalition and among the governing parties has erupted over the decision of the country's highest administrative court not to block a possible national referendum against the government's amended pay indexation *(scala mobile)* legislation. The Communists and the labor unions are campaigning for such a referendum against the decree-law, through which Rome had hoped to contain the inflationary effect of automatic wage adjustments.

A long, severe winter (which has brought frost and snow even to Rome and the country's south) is adding to Italy's numerous economic problems, led by inflation, high unemployment, and the massive state debt. In the last few weeks, many Italians have been confronted with electric power shortages and supply shortages, especially of fruit, vegetables, meat, and winter shoes and clothing. The Industry Ministry in Rome has appealed to both wholesalers and retailers to practice more "price discipline," in reference to doubled and tripled prices for some commodities.

In view of the latest developments, the predictions for 1985 of the leading economic research institutes are far less optimistic than those of the government planners. The average forecasts are now for a growth rate of about 2%, inflation of around 10%, and unemployment in excess of 2.6 million. Most experts agree that Rome can no longer afford to postpone the rehabilitation of the state budget and public-sector finances. So long as the government is unwilling or unable to deal with these problems, they say, it will be impossible to lower interest rates on the capital market and thus stimulate much-needed private investment and employment.

Most political observers are highly skeptical of the Craxi administration's ability to enforce a strict austerity policy in the near future because all parties are already girding for the administrative (municipal) elections on May 12.

Spain: Private Investment Emphasized for Job Creation

Spain's 1985 draft budget centers on measures to increase private investment and employment, while public-sector investment would decline. The proposals represent a departure from the Socialist government's 1982 platform of using public investment as a "motor for the economy." Among the measures are reductions in corporate taxes and employers' social insurance contributions. Madrid also recently named the electronics industry a "preferential interest" sector and announced tax rebates and other incentives to promote investment in that sector. The government is particularly interested in attracting foreign partners for joint electronics ventures.

Spain is counting on private investment to reduce unemployment, which last year rose by 11.1% to hit 2.6 million, or 19.74%. Labor Minister Joaquín Almunia has proposed eliminating about 1 million from the official tally, including persons over 55 or "pre-retirees," students, workers receiving professional or job training, and persons on temporary disability.

Aside from employment, Spain's economy showed an overall modest improvement last year. Inflation dropped to 9%, the first single-digit rate since the mid-1970s. Growth reached the 1984 government target of 2.5%. An increase in exports of almost 20% and a $1 billion rise in tourism income led to a current account surplus of $2 billion, after a $2.3 billion deficit in 1983.

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Community: Action Urged Against Counterfeit Goods

The European Commission wants the EEC to act against the growing international trade in counterfeit goods. The Commission has proposed to the Council of Ministers that trademark owners in the Common Market be given the right to block entry of counterfeit goods and, possibly, to have them destroyed (Official Journal, No. C 20, Jan. 22, 1985, page 7). A trademark owner who has reason to suspect that shipments of counterfeit goods are about to enter the Community could ask the Member State's national customs administration to impound the goods for ten days. During that period, he would have to substantiate his case. His request for the impounding of counterfeit goods could pertain to one or several import operations and thus could be valid for either a fixed or an indefinite period. Customs or the Commission could ask the trademark owner to furnish security to indemnify them or to compensate the importer if it was later established that the impounded or destroyed goods were not counterfeit.

If the trademark owner proves that the goods are counterfeit, the administration would inform the customs offices likely

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

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to deal with the imports. If the products were indeed imported and put up for clearance, the customs office would impound them and inform the importer as well as the trademark owner.

The rising volume of international trade in counterfeit goods not only violates trademarks but also often infringes copyrights. It is estimated that pirates have captured two-thirds of the video tape market in Germany, France, and the Benelux countries. Illegal recording of audio tapes is also spreading. The Community is expected to act against imports of pirated books, tapes, and records once the Commission has presented its Green Paper on the topic, which could be next month. Commission officials say that passage of the draft regulation against counterfeit trademarked goods has priority, but the scope of the measure could be extended thereafter to include pirated books, tapes, and records.

Angry Reactions to Farm Price Proposals

The Commission's farm price proposals for the 1985-86 marketing year have provoked the expected negative criticism from several Member States. The proposals call for a 2.5% higher price for milk and other price changes, including a 2% increase for olive oil and a 6% decrease for citrus fruits and tomatoes. Many products, including various kinds of meat, wine, sugar, and tobacco, would maintain current prices. In the key cereal sector, however, the draft calls for an unprecedented 3.6% price cut.

Although the overall impact of the proposals would mean a mere 0.1% rise in farm product prices, even this negligible increase would add an estimated ECU 140 million to the total forecast farm budget of ECU 20 billion in 1985. (Last year's farm policy budget of ECU 16.5 billion was dramatically exceeded due to sharp increases in surpluses of several commodities, necessitating an ECU 1.8 billion supplementary budget.)

If the proposals are adopted in their present form, Germany and Italy will feel the brunt - German farmers because they are the major cereal producers and Italian farmers because they are the major fruit producers. This is why the strongest complaints against the Commission's proposals came from Bonn and Rome. However, the Greek government is also angry over the proposals.

In suggesting a 3.6% price cut for cereals, the Commission actually exercised restraint. Under last year's Council accord introducing several measures against excessive farm policy spending, the EC Executive could have proposed an even more drastic price cut. Part of the accord is a price guarantee up to a ceiling of nearly 126 million tons of cereals. Since 140 million tons were produced in 1984 (10% more than the agreed ceiling), the price cut should have been even steeper.

The 1984 milk production quota system is showing some effect. (The 1984 milk output declined by 3% over 1983 production.) Thus, the Commission considers a small price rise of 2.5%

to be justified. Still, less milk means more beef as farmers are selling cows for slaughter. Despite the austerity thinking behind the proposals, farm spending in the 1985-86 marketing year (April 1, 1985, through March 30, 1986) would exceed resources by an estimated ECU 2 billion.

In Brief...

Objections from the Commission and opposition from German Economics Minister Martin Bangemann have forced Germany's Postal Administration to change its plans on the introduction of cordless telephones. Postal Minister Christian Schwarz-Schilling wanted the cordless telephone manufactured and sold under the Bundespost's telecommunications monopoly. A customer could have legally obtained a cordless phone only from the Bundespost. The EC Executive saw in the plan a monopoly extension prohibited by Treaty Article 37 + + + Responding quickly to a European Court of Justice decision on Jan. 29, the French government partially lifted gasoline price controls the next day. The EC tribunal had ruled that the 1928 French law empowering the government to set prices for gasoline was contrary to the EEC Treaty's principle of free trade between Member States. Also in violation of EEC competition rules were the provisions governing service stations' rebates. (A service station operator was allowed to grant a maximum rebate of 18 centimes on each liter of super and 17 centimes on each liter of regular.) For more than a year, several supermarket chains had ignored the law and granted larger discounts + + + The European Parliament has passed a resolution calling for an amendment to the Commission's proposal on harmonization of national provisions governing loss carrybacks (*Common Market Reports, Par. 10,623*). The amendment would extend from two to three years the period during which losses may be carried back. Commissioner Francis Arthur Cockfield told Parliament that the Commission would incorporate the amendment in the draft directive. Cockfield declined to accept other changes, however. (Most of the amendments originally envisaged were removed from the resolution.)

Germany: Better Union Relations; Works Council Act

The Kohl administration has taken two important steps to mend strained relations with the leadership of the German labor federation (DGB). Chancellor Helmut Kohl and DGB president Ernst Breit have agreed to establish working groups to discuss issues of mutual interest. Even more important to the business community is the fact that Christian Democratic members of Parliament will discuss with union officials the amendments to the 1973 Works Council Act that they plan to propose. The recently re-established government-union dialogue, and also critique from business leaders, has convinced the Christian Democratic legislators to make some significant changes in their legislative plan.

The major objectives of the planned amendments are to make works council elections more democratic and to guarantee nonaffiliated employees adequate representation. To this end, the backers of the planned legislation originally contemplated proposing repeal of the statutory requirement that a candidate may run for a seat on the works council only if his nomination is signed by at least one-tenth of the employees. Union officials were strongly opposed to the planned removal of this requirement because it would have greatly improved the chances of potential nonunion candidates. The fear of losing control over the works councils was the main reason for union officials' opposition. Business representatives also saw trouble ahead if members of the Communist and Green parties sat on works councils. Thus, leading business executives asked the Christian Democrats to reconsider their plan. The redrafted amendment requires an employee to obtain the signatures of 3%, rather than 10%, of an enterprise's workforce before becoming a works council candidate.

Despite union pressure, the Christian Democratic group has not retreated from its intention of proposing other amendments. One of these would allow executives in lower and middle management to put up candidates and have a committee of their own *(Sprecherausschuss)* to represent their interests. However, the legislators are prepared to make some concessions on the details of the planned rules.

Britain: Censure Vote on Economic Policies Defeated

Britain's Conservative government defeated a parliamentary censure vote called on Jan. 31 by the opposition Labour Party over the country's economic policies. The vote was considered a strong sign of parliamentary disapproval of the government's economic program, although the Conservative majority had made the outcome (395 to 222) predictable. The censure vote came just after the announcement that the U.K.'s seasonally adjusted unemployment rate rose to 13% in January from 12.9% in December. The Employment Dept. said that the rise was due to an increase in the working-age population as well as the continuing effects of the ten-month-old miners' strike.

The vote was also intended to call attention to the government's inability to raise the pound's value against the dollar. During the last week of January, Britain's banks raised their base lending rates to 14%, the third such move this year, in an effort to defend the pound. None of the increases (totaling 4.5 percentage points) have had much effect. Uncertainty about oil prices, and thus Britain's North Sea oil revenues, continues to depress sterling's value. Observers are worried about the effects of the high cost of borrowing on the recovering economy, and many believe the government may now have to limit the tax cuts it has promised for the coming year.

France: U.S., Japan Dominate Foreign Investment Rise

The U.S. and Japan are leading France's largest investment boom in ten years, which is expected to continue this year. In 1984 foreign companies were responsible for the creation or rescue of over 13,000 jobs in France, an increase of 17.5% over the previous year, according to DATAR, the French authority for regional policies. U.S. and Japanese enterprises each accounted for 37.5% of those jobs, followed by Germany with 10%.

The largest new foreign investment in 1984 was the takeover of Dunlop France by Japan's Sumitomo, a move that saved 3,700 jobs. Other important takeovers included purchases by Rockwell International of the printing operations of the failed engineering group Creusot-Loire and by Germany's GEA of the group's copper-finishing works. The largest expansions of existing facilities were undertaken by Material Research and Owens Corning of the U.S. and Canon and Akai of Japan.

DATAR predicts a continued rise in foreign investment in France based on the government's recent liberalization of foreign exchange controls and the easing of regulations governing the start of new companies. Foreign companies currently account for 25% of the total turnover of all businesses in France and for 33% of exports. According to the Industry Ministry, the foreign companies, with average sales of FF 738,000 per employee, are generally far more productive than French companies (FF 465,000).

Further French Income Tax Cuts Studied; Loan Repayment

The French Finance Ministry is studying the possibility of cutting personal income taxes by 3% in 1986, following a 5% across-the-board reduction this year. President François Mitterrand, whose Socialist Party will have to fight to maintain its parliamentary majority in the 1986 elections, has called for cuts in personal income and company taxes each year until his term of office expires in 1988. The government also plans to eliminate the 3% wealth surtax on high incomes next year. The cuts in personal income taxes would cost the government FF 6-7 billion in 1986. Officials are denying that further tax cuts would make Mitterrand's deficit reduction goals impossible to realize.

In related news, Finance Minister Pierre Bérégovoy said the government hopes to repay ahead of schedule a 1983 loan levied on all French taxpayers. The FF 11 billion loan, which was part of an economic austerity program, was based on the personal income tax paid on 1982 earnings and carries an annual interest rate of 11%, payable at maturity. Bérégovoy said he anticipates repaying the loan at the end of 1985 or the beginning of 1986, ahead of the maturity date of June 1986, in an effort to stimulate the economy.

Italy: Another Attempt to Reform Stock Exchange System

Franco Piga, the head of Consob, the Italian version of the U.S. Securities and Exchange Commission, has outlined various reform proposals for the country's stock exchange system that he hopes to realize this year. In a newspaper interview, Piga said he wants to speed up admission procedures in order to further open up the very tight market. He intends to stiffen reporting requirements for companies quoted on the exchanges and admit to the market only companies that report positive results. A medium-term goal would be to exclude all companies that do not offer at least one-fourth of their shares for free trading.

The number of trading days for the so-called parallel market, which normally exceeds the trading volume of the principal exchange, is to be extended from one to four or five per week, on a trial basis. At the same time, Consob wants to subject this market to tighter controls, which would also be true of newly introduced investment funds.

One of the main objectives of the reform would be to integrate Italy's ten regional stock exchanges into a national system. The Milan stock exchange alone accounts for nearly 90% of transactions in Italy. The consolidation would be accomplished by a lowering of commissions: at present, the commission structure is partly responsible for the fact that only one-fourth to one-third of share transactions are conducted on the exchanges, while the remainder are handled directly by the banks.

The reform proposals have to be viewed against the background of the spectacular Italian stock market boom of 1981 and the equally spectacular crash later the same year. In many ways, the financial climate in Italy is now similar to that of 1981: key economic indicators are pointing up; many companies are reporting improved earnings; the newly established investment funds are trying to build up their portfolios; and foreign investors are showing renewed interest. This upswing is also stimulating the bourse. Milan's daily trading volume rose steadily in January and pushed share prices up by an average 16.5% for the month. (By comparison, prices rose by only 16.9% in all of 1984.)

Financial observers warn that the Milan exchange is ill-prepared for another boom, and stock exchange authorities have recently imposed safety measures to prevent the market from "overheating." The market continues to be constricted, and the exchange's "cleanup" of the list of quoted companies also has not made much progress over the years. Last year, the shares of nine companies were newly listed, while those of five others were withdrawn because the companies no longer met the requirements. Despite the net increase, the 144 listings at the end of 1984 still fell short of the 152 ten years ago. However, the total capitalization of quoted companies rose significantly within the year, from 35,000 billion lire to nearly 50,000 billion lire.

One of the major problems with which the Consob authorities have to cope is the market's dependency on a handful of powerful financial groups, which have no real interest in a reform. The companies of the state holdings represent the largest of these groups, with an accumulated capitalization of 16,800 billion lire. Among the private groups, the Agnelli (Fiat) family controls 12 listed companies, or nearly 7,500 billion lire. Other prominent names are Gemina-Montedison (also affiliated with the Agnellis), Carlo De Benedetti (Olivetti), Bonomi, and Pesenti.

Ireland: Budget Includes Income, Value-Added Tax Reforms

Irish Finance Minister Alan Dukes has presented Parliament with a 1985 draft budget that contains major changes in the income and value-added tax structures. The resulting reductions in total revenue from the taxes would be offset mainly by steep rises in excise duties.

It has been widely held that tax reforms are needed to expand employment, reduce the opportunities and incentives for tax evasion, and restore the competitive balance between domestic and foreign businesses. The draft budget replaces the five current income tax rates with three - 35%, 48%, and 60%. (The highest rate is currently 65%.) The 35% bracket would be widened substantially, and personal allowances would be increased from Ł3,600 (Irish) to Ł3,800 for a married couple and from Ł1,800 to Ł1,900 for a single person. *(Doing Business in Europe, Par. 25,322, 25,323.)*

Dukes has proposed an "equally radical reorganization" of the VAT system, including the abolition of the 35% maximum rate, which is currently applied to a wide range of household goods. These items would be taxed at 23%. The five current rates would be cut to three - zero, 10%, and 23%. Dukes said these changes would reduce the administrative burden as well as improve employment opportunities. *(Doing Business in Europe, Par. 25,361.)*

There would be no increases in the excise duties levied on beer, wine, and spirits. (However, the excise duty on gasoline and diesel fuel has already been raised by 10 pence per gallon, effective Jan. 31. The taxes on tobacco products have been similarly increased.) *(Doing Business in Europe, Par. 25,373.)*

All corporation tax payments would be due six months after the end of the accounting period. Currently, the first payment is due after six months and the second anywhere from one day to nine months later. The change would be gradually implemented by shortening the time between the first and second payments until only a single payment would be due, in 1987 at the latest. This move would result in additional revenues of Ł10 million in 1985 alone.

Partial relief from the advance corporation tax would be extended to distributions made up to Dec. 31. Also, the expiration date would be moved from March 31, 1985, to March 31, 1988, for the 100% allowance for plant and machinery and the 50% initial and 4% annual allowances for industrial buildings. *(Doing Business in Europe, Par. 25,331.)*

Austria: Banks Agree on Interest Rate Limits

Austria's banks have yielded to pressure by the country's finance minister and central bank and agreed to voluntarily place minimum limits on lending rates and ceilings on savings rates in an attempt to boost depressed bank profits. Since the liberalization of the then highly restricted banking system in 1979, banks have been more concerned with increasing their market shares than with maintaining profits. The ratio of equity to lending has fallen to 2.2%, and several financial institutions have failed while trying to keep up with the pace of the larger banks.

The banks' agreement links their borrowing and lending rates to the state bond yields. Under the current bond yield of about 8.25%, interest rates will be limited to 6.5% for six-month savings deposits and 7.25% for longer-term deposits. Private borrowers will have to pay interest rates of at least 8.5% and commercial clients a minimum 8.25%. The agreement, which will remain in effect for six months beginning in March, is meant to allow time for the government to draw up stricter legislation on capital requirements.

EURO COMPANY SCENE

Clark Equipment Co. and Sweden's AB Volvo have signed a preliminary agreement merging their construction units, Clark Michigan Co. and Volvo BM AB. Each parent will own 50% of the new company, to be registered in the Netherlands. The joint venture will be one of the leading construction equipment companies in the world, with sales expected to top $800 million this year.

Caterpillar Belgium SA, a subsidiary of Caterpillar Tractor Co., plans to invest BF 4-4.5 billion in Belgium through 1989. The funds will be used for modernizing facilities in Charleroi and developing the production of diesel engines for industrial and agricultural machinery.

Tyler Refrigeration GmbH, Limburg, Germany, has been taken over from its parent company, Tyler Refrigeration Corp., by its general manager, Heinrich Büns. In the future the U.S. company intends to work outside of the United States only through licensees. The subsidiary had a profit of less than 1% in 1984 on sales of DM 16 million.

Common Market Reports

EUROMARKET NEWS

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IN THIS ISSUE

Community: Compromise Sought on Car Emission Issue

EEC officials and Member State experts have met many times in the past months and will continue their efforts to find a compromise on the issue of car emission controls by March 7. On that date, the States' ministers in charge of environmental affairs are expected to approve such a compromise or find one themselves that would settle the differences between Germany and some of its Common Market partners, notably France, Italy, and the U.K. There has been some movement toward a compromise between Germany and the others, who largely support the European Commission's draft directive *(Common Market Reports, Par. 10,589)*. Cars with engines over two liters would have to meet emission standards earlier than the 1995 deadline proposed in the Commission's draft.

Hoping to eliminate one of several causes of forest blight, the German government has proposed that new car models manufactured in or imported into Germany after Jan. 1, 1989, meet strict automotive exhaust standards (models with two-liter engines after Jan. 1, 1988). These standards, identical to those

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applied in the United States, can be reached under current technology only by automobiles fitted with catalytic converters. To encourage motorists to buy models equipped with converters prior to the target dates, the Kohl administration has proposed legislation providing for an elaborate scale of exemptions from the motor vehicle registration tax *(Doing Business in Europe, Par. 40,604)*. Car owners having their models fitted with anti-pollution devices after purchase would also save some tax.

France and Italy are more critical than the U.K. of the German plan requiring converters on new models. French Premier Laurent Fabius during his recent visit to Bonn cautioned Chancellor Helmut Kohl against a unilateral move. French and Italian automobile manufacturers fear that the extra costs for converter-equipped cars would cut into sales. They believe (and they are supported by their British counterparts) that further improvements in engine technology would be a better approach to solving the problem of toxic emissions.

The Commission has not yet decided on the length of the transitional period it could request under EEC rules before the German government enacts its measure. A Council directive adopted in March 1983 not only requires Member States to inform the Commission about planned new standards but also gives the EC Executive the right to request a delay in enactment from three months up to a maximum of one year. Bonn has told the Commission that its measure would not be enacted before the end of March.

Easing of Border Controls Proposed for EC Nationals

The Commission has proposed that customs and passport controls for Member State nationals traveling from one State to another be reduced to spot checks. Only in exceptional situations and specific cases involving national security would the States be allowed to reintroduce full-fledged controls, and then only temporarily.

In drafting the proposal, the Commission was inspired by the system in force between France and Germany under the terms of an agreement signed on July 13, 1984. At border crossings between the two countries, customs and passport controls are on a spot-check basis only, if cars bear the green "E" sticker, which indicates that drivers and passengers are French or German nationals and are not bringing in more than what Community residents are entitled to import tax-free. In most instances, the relaxed controls have eliminated backups at border crossings.

At their June 1984 summit at Fontainebleau, the EEC heads of government committed themselves to putting into effect what has been called a "People's Europe" - making the Community a practical reality for its 270 million citizens by adopting measures that will have positive effects on everyday life. They made July 1, 1985, the deadline, although Commission officials see no chance of its being met.

Abolishing customs controls for persons traveling by car or train would not present great difficulties, the officials say. The biggest problem involves the proposed abolishment of immigration formalities for Member State nationals. (Third-country citizens residing in any of the ten Member States would remain subject to passport controls.) Increasing crime is the major reason why the States are reluctant to forego passport controls. Illegal immigration also remains a considerable problem for all of the States. The current upsurge in terrorist activities in Germany and France has reinforced the opposition of officials in both countries to a further relaxation of passport controls.

In Brief...

The Commission has awarded ECU 180 million to 270 companies, universities, and research institutes to enable them to collaborate on a broad range of high-technology research projects. The 104 long-term projects, backed by matching funds from project participants, cover microelectronics, advanced computer design, office automation, and computerized manufacturing techniques. The awards were the first granted under the Community's ECU 1.3 billion Esprit program (European Strategic Program for Research and Development in Information Technology). This program is designed to help enable European industry to catch up with Japan and the U.S. in the area of high technology + + + The number of cases granting protection against imports of goods from other Member States and against dumping from third countries declined in 1984. Under Treaty Article 115, a Member State, after obtaining permission from the Commission, may under certain circumstances bar the import of goods from another Member State if these goods originated in a third country. There were 215 requests for such import bans in 1984 (253 in 1983), and 165 were granted. Although the number of anti-dumping proceedings rose from 38 in 1983 to 49 in 1984, provisional anti-dumping duties were imposed in only 13 cases in 1984 (22 in 1983) and final duties in six cases (20 in 1983) + + + The German government has moved to comply with last year's Court of Justice decision holding certain tax-exempt sales on "butter boat" cruises to be contrary to EEC law (judgment of Feb. 14, 1984, Case No. 325/82). A regulation taking effect on June 1 stipulates that individuals taking part in cruises from North and Baltic Sea ports into international waters without stops at foreign ports may import smaller tax-free quantities of cheese, butter, meat, cigarettes, and wine than what is now permissible. The Commission brought the action against Germany when Germany failed to change its current practice following the Court's first decision on the matter (judgment of July 7, 1981, Case No. 158/80; *Common Market Reports, Par. 8766*).

Germany: Another Stopgap Move to Support Pension Funds

Bonn's coalition parties have agreed on yet another temporary measure to save the country's old-age pension system from bankruptcy. Under planned legislation, the contribution rate to the pension funds would rise as of July 1 from the current 18.7% to 19.2% of assessed wages or salaries. The unemployment insurance contribution would be reduced to 4.1% (now 4.4%). The legislation would remain in effect until the end of 1986.

The plan represents the second legislative stopgap move within the past five months to prevent the financial collapse of the national pension system. On Jan. 1, the contribution rate went up from 18.5% to 18.7%; the increased rate is to be applied until the end of 1989 *(Doing Business in Europe, Par. 40,599)*. Officials have calculated that in about half a year the country's 18 old-age pension funds will be approximately DM 3 billion short of the DM 11 billion, one-month minimum reserve that they are required to maintain by law.

There are several causes for the expected revenue shortfall. Moderate wage settlements in 1984, stagnating employment, and, above all, the DM 900 million that aliens, mostly Turks, got back from the pension funds under special legislation after leaving Germany for good (*Doing Business in Europe, Pars. 40,550, 40,575)*. In this latest plan, the Kohl administration is breaking its promise to forego higher taxes because the planned reduction in unemployment contributions will not compensate for the rise in pension contributions.

Bonn Decides in Favor of A-Reprocessing Plant

The German government has given the political go-ahead for a commercial nuclear fuel reprocessing plant. The DM 10 billion plant is to be built and managed by DWK, a company set up by the country's utilities to deal with the problem of nuclear waste. Though scheduled for the beginning of 1987, the construction start is expected to be delayed by legal actions brought by environmental groups and farmers owning property near the site at Wackersdorf, a village 80 kilometers east of Nuremberg. DWK officials hope the facility will be completed by 1994, at the latest, when the present contract with a French reprocessing plant expires.

The administration's decision ends years of wavering on what to do with the nuclear waste from Germany's 14 A-power plants, which supply 18% of the national electricity needs. The main alternatives are depositing spent nuclear fuel materials in underground caves or reprocessing these materials. Work will continue on a storage facility in underground salt deposits at Gorleben, 100 kilometers southeast of Hamburg.

In 1979, federal and state officials signed an agreement committing the federation and the 11 German states to building a reprocessing plant. Because of opposition from environmental groups and growing resistance from Social Democrats, the Schmidt administration did nothing to adhere to the commitment assumed in the agreement.

Despite the considerably higher cost of constructing and running a reprocessing plant (some 40% above that necessary for developing and maintaining a storage facility), the Kohl administration had several reasons for giving the go-ahead. The reprocessing method is far more economical because 35% of the energy left in the uranium-enriched elements used by an A-power plant is recovered. (This also saves foreign exchange, since all nuclear materials must be imported.) Furthermore, the government does not want Germany to fall behind in applying and further developing reprocessing technology, developed so far in a small pilot project near Karlsruhe. The technology applied by the U.S., Britain, and France has proven safe and reliable. Finally, the government, committed to the expansion of the A-power potential for generating electricity, wants to avoid continual battles in court. The German Atomic Energy Act ties the operation of nuclear power plants to the safe handling of nuclear waste. Government lawyers do not want to take a chance that some day a high court will deny the operational permit for an A-power plant because safe handling is not guaranteed.

Britain: Offsetting Corporate Currency Exchange Gains

The British Inland Revenue has issued a provisional statement of practice that would allow corporations greater flexibility in offsetting their currency exchange rate gains against losses and thus reducing their corporation tax liabilities. The statement comes in the wake of a House of Lords decision in December 1983, when the court determined that Marine Midland Bank was not liable for corporation tax on the notional exchange rate profits on its dollar loans. The bank had sought to more or less match its dollar assets and liabilities so as to hedge its foreign exchange risks.

The House of Lords did not clarify the fiscal consequences of exchange rate gains or losses where risks are not fully hedged. This uncertainty has caused accounting problems for corporations with overseas assets and liabilities. John Moore, financial secretary to the treasury, said that companies may use the practice statement to determine their tax liabilities, but he also stressed that the provisional statement might be altered in the light of further comment.

The Inland Revenue has made it clear that fully matched foreign exchange positions do not give rise to a taxable loss or profit that could be offset against tax. The revenue will not generally concern itself with detailed analyses of exchange differences in corporate accounts. However, tax may possibly be due if gains appear as a result of the translation of foreign currency assets or liabilities into sterling at the date of the balance sheet. Such translations are in accordance with accountancy practice, tax authorities say. However, they recognize that exchange rate losses on capital items can be set off, at least partially, against corporation tax if the company has an unmatched position.

British Upper House Defeats Insolvency Bill Provision

The U.K. government has suffered a setback in its proposals for the automatic disqualification from company management of directors of companies facing compulsory liquidation. The House of Lords defeated by a substantial majority the proposal that, when a court issues a compulsory winding-up order, it also automatically issue a provisional disqualification order against all the company's directors. The disqualification would have taken effect after three months and would have lasted for three years unless successfully challenged in the interim period.

Widespread criticism has described the measure as arbitrary, contrary to natural justice, and inhibitive of the recruitment of non-executive directors. Innocent directors, critics say, would be unable to practice for several months and might incur substantial legal costs in challenging the disqualifications. The government stressed that the measure was aimed at preventing abuses of the limited liability law and encouraging directors to take early remedial action in the event of financial difficulties.

The House of Lords approved an amendment to the Insolvency Bill that would make disqualification discretionary. An application to the high court would be required from the Secretary for Trade, the Director General of Fair Trading, the liquidator, or the insolvent company's creditors. The applicant would have to prove that the particular director was guilty of fraud, negligence, or failing to keep proper accounts. Directors would not be disqualified if they could prove that they had done their best to minimize losses to creditors. However, the length of disqualification would be raised to five years and could involve personal liability for the company's debts. These procedures would also apply to voluntary liquidations.

Observers believe that it will now be difficult for the government to pursue its original proposal, which was called a "sledgehammer to crack a nut" when the amendment was proposed. The Insolvency Bill represents the first complete overhaul of insolvency law in over 50 years.

France: Public-Sector Wage Pact; State Capital Grants

A majority of the French labor unions representing public-sector employees appear ready to sign an agreement with the government limiting wage increases to 4.5% this year, in compliance with the official inflation target. The teachers' union (the largest in the public sector) supports the pact, as do the Socialist-led CFDT and the centrist Force Ouvrière, although they are more hesitant. The Communist-led CGT remains opposed.

The government has refused to accept labor proposals for extra raises to make up for the purchasing power lost to inflation in previous years. The unions have achieved a partial victory, however, in a clause allowing further pay increases if the 1985 inflation rate is higher than the government forecast. Negotiations for such increases would take place early in 1986, shortly before the parliamentary elections.

In other news, Paris has begun to allot to the nationalized companies this year's capital contributions, which is expected to total around FF 13.6 billion, down from FF 14.9 billion in 1984. The state electronics companies are to receive a total of FF 2.75 billion, following FF 3 billion last year. Of that amount, FF 1.3 billion will go to Thomson SA, the largest electronics group; FF 1 billion to Cie. des Machines Bull, a computer company; and FF 450 million to CGCT, a former ITT telecommunications subsidiary. Of the remaining capital funds, the ailing car group Renault is expected to receive as much as FF 2.5 billion.

Italy: Parliament Okays Private TV Decree Law

The Italian Senate approved a decree law just three hours before it expired on Feb. 4 to allow the country's private television networks to continue operating. The three largest private networks, all owned by businessman Silvio Berlusconi, were shut down last October because of a law permitting only the state-controlled RAI company to broadcast nationwide. Berlusconi had been attempting to get around the rule by airing the same programs simultaneously from a chain of stations around the country. Prime Minister Bettino Craxi immediately issued a decree law permitting the stations to reopen, so long as Parliament ratified the law within 60 days. This decree was defeated, mainly through Communist opposition, and the second one passed only because a vote of confidence was attached to it.

Since private television stations were first permitted in Italy in 1976, they have grown to capture almost 60% of the average audience. Berlusconi's stations alone hold an audience share of 40.2%. Private television claimed 32.3% of the total 3,181 billion lire spent on Italian advertising last year, while the total television advertising bill accounted for 47.4%. Most of the private stations, however, are "wash-house operations," capable of broadcasting only to small areas.

Sweden: 5% Wage Hike in 1985; Poor Worker Fund Results

Sweden's LO federation of blue-collar workers and the SAF employers' organization have agreed to the government's request for a 5% limit on 1985 wage increases for some 600,000 workers in private industry. The framework for the pact, which was worked out through lengthy negotiations, will also raise the amount of sick pay for blue-collar workers so that they receive 100% of their regular pay by 1986, up from the current 50%.

Details of the agreement must still be worked out between individual unions and employer groups. The main factor affecting these talks will be the Socialist government's promise to cut taxes, thus allowing workers higher inflation-adjusted pay for the first time in seven years. A major devaluation of the krona two years ago has led to spiraling inflation, and the resulting high pay demands have hindered the government's inflation-fighting efforts. Wages and inflation rose more than 8% in 1984, despite a price freeze last spring. Prime Minister Kjell-Olof Feldt last summer notified employers and unions that he was prepared to institute wage controls if a moderate settlement was not forthcoming. Feldt has said that a 5% limit on pay raises is needed to hold inflation down to 3% this year.

In other news, Sweden's controversial wage-earner funds have not had as big an effect as expected during their first year. The funds were set up to buy shares on behalf of workers with money obtained through company taxes. The five regional funds, which received SKr 1.5 billion in 1984, purchased far fewer stocks than anticipated and had a paper loss of SKr 60 million on those transactions. Most profits came from simple bank deposits, and one fund even had to use some of its working capital to pay the mandatory 3% into the national old-age pension system. The poor performance has added fuel to the political opposition's fight to abolish the funds and should prove a major issue in the September elections.

EURO COMPANY SCENE

Local officials near Edinburgh, Scotland, have turned down a request by Union Carbide, Inc., to build a £6.7 million factory there for the blending of over 100 gases. Residents fear a gas leak similar to the recent one in Bhopal, India, that killed more than 2,000 people. Methyl isocyanate, the gas involved in Bhopal, would not have been used in the Scottish plant.

The Opren Action Committee is planning to file suit in Britain on behalf of over 1,000 people claiming damages from Eli Lilly & Co. as a result of side effects allegedly caused by the anti-arthritis drug Opren. The drug, known as Oraflex in the U.S., was withdrawn worldwide in August 1982 because of reported side effects, including damage to the skin and liver.

Deak & Co. has requested approval from a U.S. bankruptcy court to sell its Swiss banking subsidiary, Foreign Commerce Bank, to Dow Banking, a Zurich unit of Dow Chemical Co., for about $48 million. Dow would then transfer the bank to an undisclosed client. Deak filed for bankruptcy in December and would use the proceeds from the sale to help pay off creditors. The banking unit was not involved in the bankruptcy filing.