Common Market Reports

EUROMARKET NEWS

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The Pound Afloat: The reason given for the U.K.'s decision to float sterling was the weight of international short-term capital movements which, despite concerted intervention from the Bank of England and European central banks, had necessitated massive support operations. The U.K. is anxious that the rate should quickly move to a "realistic" level, at or around the old parity of $2.40 representing an effective 8% devaluation against the dollar. A formal devaluation coupled with a wage freeze was urged by the Bank of England, but this would be politically embarrassing in the light of the U.K. Chancellor's repeated statements that the pound was "not at an unrealistic rate."

The decision to float has been taken in spite of a danger that this may provoke an international or European monetary crisis. European markets tend to consider sterling as the dollar's first line of defense and, although the U.S. Treasury reaffirmed the Smithsonian Agreement, there are fears throughout Europe that pressure on the U.S. currency could disrupt the exchange rate relationship established last December.

On the Continent, the Dutch and Belgians have put forward a scheme for a joint float of Common Market currencies against the dollar. It will not easily be implemented, since speculation in the exchange markets has pushed the various EEC countries in different directions. The Germans have been under pressure to revalue, the Italians to devalue. Total opposition to a Community float is expected from France (this would sever the ties between the franc and gold), and the French also are adamant that Britain should reaffirm its allegiance to the European monetary agreement and return to a fixed parity. The Swiss banking community, usually an accurate barometer, has indicated it expects a formal U.K. devaluation of between five and 10% together with devalued Italian lire and Danish kroner. In its opinion, the other EEC currencies will float.

It has been emphasized throughout Europe that the decision of any

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one country to float is a blow to European monetary cooperation. For Britain, the float means that U.K. industry will become more competitive abroad. Politically, however, the decision is out of line with the high priority the U.K. government has consistently acknowledged for EEC monetary cooperation.

Postscript to Stockholm: To the optimists among environmentalists, the U.N. Conference on Human Environment at Stockholm was clearly disappointing because its final declaration did not even mention such complex problems as the population explosion, aligning economic growth with global resources, and tolerance levels of the earth's biosphere - all at least as important as pollution of water, air, and soil.

The declaration confined itself to setting forth the objectives to be attained and the principles to be observed to reduce pollution in countries plagued by the ills of civilization and to help the still nonindustrialized nations to avoid the pitfalls. Perhaps the most significant principle is that any nation must see to it that activities carried on within its boundaries do not cause environmental damage beyond its frontiers.

The action plan, though not containing all proposals originally meant for it, is a significant step nonetheless because it sets up the framework (and its 106 recommendations lay down the content) for international cooperation. There are three elements in the cooperation scheme:

- an earth watch, a network of 110 observation stations and research activities to provide the facts for decision-making;
- environment management, a broad term that includes not only actions to determine criteria and tolerance levels of pollution but the drafting of international agreements as well, and
- supporting action in the field of education and financing.

The content of international cooperation will pertain to possible effects of air pollution on weather and climate; depletion of global energy resources; preservation of rare species of plants and animals and the earth's forests; biocides and toxic metals; noise; city planning, and impact of environmental measures on international trade, particularly with developing countries.

German Industry Fights Cash Deposits: Fundamental disagreement over several aspects of Germany's Cash Deposit Law (*Bardepotgesetz*) may culminate in court action after a round of discussions between the Bundesbank and industry representatives has produced no conclusive results. A number of major corporations have threatened to take joint legal action against the Federal Bank in order to force clarification of disputed points. The controversial law, enacted four months ago, requires companies borrowing abroad to deposit with the Bundesbank 40% of foreign loans exceeding DM 2 million. The measure was designed by the Bonn government to slow the inflow of foreign exchange into Germany.

Among the law's contested provisions is that pertaining to the discounting of endorsed bills of exchange abroad which industry feels constitute no true credit obligations since they do not show up among the liabilities on the balance sheet. There also are questions about the treatment of roll-over credits involving a change of currency denomination while in force. Furthermore, companies are objecting to the Bundesbank practice of declaring a standing credit as a new loan if the debtor has not exercised his option to withdraw. Another issue concerns the operating capital of the branches of foreign companies active in Germany. In this context, the Bundesbank is not willing to accept the DM 2-million cash deposit exemption for each of several branches a foreign company might maintain in Germany.

From the start, industry and economic experts held the law to be untenable in its present form, mainly because high domestic interest rates still make it cheaper for German companies to borrow on the Euro-dollar market rather than at home. These warnings find confirmation in the fact that current cash deposits put "on ice" in special accounts so far total only DM 592 million ($183.5 million). Several of Germany's largest corporations of international standing and with a high foreign debt apparently have balked at honoring the cash deposit requirements. The Bundesbank in turn has issued attachment orders to which the companies immediately raised legal objections. Both sides are now determined to involve the administrative courts in the dispute (which, conceivably, might take years to resolve). The law does require the companies, however, to abide by the regulations no matter what the eventual outcome of the legal actions.

Meanwhile, in Bonn, the Finance and Economics Ministry is hard at work trying to plug the holes in the law through which foreign exchange continues to come into Germany. In doing so, the government is hoping to win the voluntary cooperation of the banks, which so far have been instrumental in finding the loopholes in the Bardepotgesetz for their clients.

Swedish Payroll Tax to Double: Just before summer recess Sweden's Parliament approved a last-minute revision of the government-drafted tax bill doubling the payroll tax from 2 to 4%. The measure, which had Communist support, represents a turnabout from what the government originally had in mind: an increase of the VAT rate from the present 17.5 to 20% to make up for losses expected from an income tax reduction proposed in another bill.
Financial observers in the Swedish capital brought up what is considered a discrepancy in recent government policy. In December 1970 the government obtained legislative approval for a number of measures designed to encourage businesses to invest. Doubling the payroll tax, they say, would be throwing cold water on these incentives. They believe that the added tax burden (expected to yield over 2 billion kronor annually) will hurt most of those enterprises not able to pass on the hike to consumers through higher prices - either because of price control or competition.

Across-the-Channel Challenge: French finance minister Valéry Giscard d'Estaing has reaffirmed his country's open attitude toward foreign investment as long as it helps France's balance of payments, provides new jobs, or introduces new technologies and know-how. But any projects provoking unemployment or leading to the breakup of viable French companies or groups would not be permitted, the minister warned. Giscard d'Estaing's statement, made at a Franco-British business conference in Paris, was regarded as an unofficial answer to recent British criticism that the French authorities have been vetoing British takeovers of French companies without valid reason. Without referring to these charges directly, the minister maintained that all countries have been taking certain protective measures to ward off foreign investment that might be damaging to domestic industry.
Comparing the strong points of British and French industry, Giscard d'Estaing gave the U.K. the edge in transport equipment and food processing, and France in automobiles, rubber, and synthetic fibers. Both countries are about even in the sectors of steel, glass, electrical and electronic equipment, and mechanical engineering, he said.

Among the aims of the Paris conference was to apprise the French of the British entrepreneurial mentality and to explain how France can acquire British financial know-how and benefit from the facilities of the London Stock Exchange. So far only two French companies are quoted in London - the Banque de Suez and the Banque de Paris & des Pays-Bas - although six others are known to be actively interested in such a quotation. The big problem here is the need to adopt British accounting methods and standards of financial disclosure. Publication of consolidated turnover figures, for instance, is not yet general French practice.

Company Shares for Employees: Next year the French government plans to extend the system of employee stock participation to seven other state-run organizations - three banks, three insurance companies, and one aerospace company (SNIAS). In 1970 state-owned auto maker Régie Renault was first to set up free distribution of 1% of its capital to 45,000 employees with five years' service, the shares being held in trust for the first five years. This example was followed by the public credit organization Crédit Foncier de France. Next year's measure would benefit more than 135,000 employees.

In originally setting up the scheme, Renault had to create a special fund to regulate the market value of its shares, since the company is not quoted on the stock exchange (Crédit Foncier, on the other hand, is quoted). Pending details of the proposed bill, there is speculation whether the seven nationalized companies will be introduced on the bourse. In any case, the government bill will extend to share-holding employees the right to representation on the company board - a provision that was not included in the pilot program at Renault.

Also being processed is a bill which would provide a legal base for free distribution of shares to employees in the private sector. Most likely such a program would be optional and would apply only to corporations (*sociétés anonymes*) with minimum capital requirements of FF 100,000. But yet another measure would extend profit-sharing, now compulsory only for companies with more than 100 employees, to smaller companies.

The over-all aim of the foregoing package is twofold: a) it carries President Pompidou's policy of improving labor management relations one step further, and b) it would give the undernourished French stock market a shot in the arm by boosting the number of private shareholders. Strangely, labor union reaction remains hostile, largely because the government proposals run counter to the unions' anti-capitalist philosophy, which has no room for a concept of financial participation. The unions' main goal for the moment is to win a raise of the guaranteed hourly minimum wage from the present FF 4.10 ($0.82) to FF 5.12. Between 500,000 and 600,000 French workers would benefit from such an increase.

Whitehall Refuses Act Amendment: The U.K. government has declined to consider any amendment to the Industrial Relations Act following recent disputed judgments between the National Industrial Relations Court and the Appeal Court regarding interpretation of the act. The government had assumed that the act would discourage forms of industrial action which it declares illegal, such as wildcat strikes and working to rule. Although it is generally conceded that the government has been "defeated" in the cases of the railway men and the dock ship stewards, ministers insist that more evidence from a large number of test cases is required before they are prepared to reconsider the act and its efficacy.

Insider Speculation Attacked: A study released by "Justice," the British section of the International Commission of Jurists, has called for strict penalties in the case of dealing in stocks and shares by insiders using confidential information. Speculation by insiders, says the study, should be banned completely and made a criminal offense. (Insider trading can be defined as dealings in corporate securities in which one party has exclusive access to confidential information bearing on the value of the securities involved.) Anyone with inside knowledge of a takeover situation is forbidden from dealing in the shares involved according to the rules of the City Takeover Code. The Takeover Panel does not have legal sanctions which can be enforced against outsiders, however, and the prohibition thus effectively applies only to takeover situations and to stockbrokers. The study has received widespread attention in the U.K. and London sources believe that, in the light of the proliferating takeover bids in the U.K., legislative reaction to the study cannot be ruled out.

EURO COMPANY SCENE

The managing board of the Österreichische Industrie-Verwaltungs AG (ÖIAG), a holding company for Austria's nationalized steel industry, has decided to merge two of its entities, the Vereinigte Österreichische Eisen- und Stahlwerke AG (VÖESt) and the Alpine Montangesellschaft. In addition, Böhler and Schöller-Bleckmann, producers of high-grade steel, will join the new combine as subsidiaries. The merger, still requiring approval by ÖIAG'S supervisory board, will become effective next January 1 and will place the new entity among Europe's 10 major steel companies. It will have an annual output of 4 million tons, $1.2 billion in sales, and will employ 75,000. The merger solution, finally chosen after protracted discussions, is considered the best by most experts, since it secures jobs, preserves the workers' accumulated fringe benefits, and provides for an efficient management structure. But perhaps most important: once the trade agreement with the EEC is signed, Austria's steel industry will be facing stronger competition; however, it also will have the opportunity of selling its products on a market of 300 million.

Italy's Montecatini Edison has announced it will build two chemical plants in the USSR at a total cost of about 25 billion lire ($43 million). According to its agreement with Techmashimport trade agency, Montedison will supply the Soviets with facilities for the production of triacetate cellulose (42,000 tons per annum) and polypropylene and copolymer (30,000 tons) as well as know-how and technical assistance.

Midland-Ross Corp., of Cleveland, Ohio, is negotiating with Dutch authorities to build an ore processing plant at a new industrial center on the mouth of the Ems River in Groningen province. As an incentive, the economics ministry has promised low-cost delivery of 5 billion cubic meters of natural gas annually. Since the region is classified as "distressed," the U.S. company also would be eligible for investment premiums. Announcement of the Midland-Ross project followed news that Holland's Methanol Chemie Nederland plans to build 100 million-guilder ($31-million) production facilities for methanol and by-products at the Ems River site.

Enka Glanzstoff of the Netherlands (Akzo group), the world's leader in tire lining materials (cord ply) and Tokyo Rope, largest and oldest manufacturer of steel cable in Japan, will exchange know-how on steel tire cord production. Enka Glanzstoff includes steel cord in its present sales program. The Japanese company, which developed its own steel cord manufacturing process, has supplied steel tire cord since 1964. The cooperation is intended to accelerate technical development in the production and application of steel cord in radial ply and other types of tires.

Following the example of competitors Honda and Toyota, both now well established in West Germany, the Nissan Motor Co. of Tokyo has begun exporting its Datsun automobiles to the Federal Republic. Japan's second-largest car builder (almost 1.6 million vehicles yearly), with European headquarters in Brussels, already distributes to Scandinavia, Portugal, Switzerland, and Benelux. In Germany emphasis will be mainly on the smaller models.

Citroën of France plans to develop a car powered by the NSU/Wankel rotary engine, to be supplied by Comotor SA, the manufacturing subsidiary jointly founded by Citroën and Germany's Audi/NSU Auto Union AG (Volkswagen) in 1967. Although continuing to collaborate on Wankel research, Audi-NSU will not be involved in development of the Wankel-equipped vehicle. Comotor's new plant at Altforweiler/Saar will begin producing the rotary engines early next year.

Claims that the U.K.'s Dunlop plans to cease tire plant expansion in Asia, Australia, Africa, and New Zealand and turn the market over to the Sumitomo Rubber Co. (44% owned by Dunlop) have been dismissed by company spokesmen in London as "unfounded and completely incorrect." The allegations were made in a report prepared for the Dunlop-Pirelli Union Council meeting in Geneva. The union pointed out that Dunlop-Pirelli had, in Sumitomo, a partner which has access to almost unlimited capital, could claim the support of the Japanese government and had "unrestricted and unqualified political muscle." Failure on the part of the unions to anticipate and establish such an extension under a controllable framework, i.e., with the active participation of the Japanese unions, would cause serious harm to Dunlop-Pirelli employees, it was alleged.

Finland will deliver five complete automobile service stations to the Soviet Union according to an agreement between the USSR's V/O Avtopromimport and Finland's Oy Tecalemit Ab, an agent for the British Tecalemit Ltd., manufacturers of meters, pumps, and lubrication systems. Tecalemit will coordinate the project. The stations will include cafeterias and wash equipment and will be located along the Moscow-Minsk-Brest highway.

The French aerospace company Dassault-Breguet has denied reports that it has agreed to build a $50-million aircraft maintenance complex in Greece together with Lockheed Aircraft Service Co. and the Greek Olympic Airways. The new center at Tanagra, some 50 miles from Athens, would serve all airlines operating in the Mediterranean region as well as the Greek air force, according to an earlier Lockheed announcement. Dassault, manufacturer of the "Mirage" jet, is said to be annoyed about the recent Greek orders of U.S. Phantom aircraft and apparently is holding out on the Tanagra project to gain a Greek commitment for future Mirage orders. The earlier reports said that Dassault, Olympic, and Lockheed were founding Hellenic Aerospace Industries - Hai, with each of them to hold 20% and the Greek government, 40%.

Developers of the European Airbus A-330 B have announced a total of 31 orders and options so far for the wide-body passenger jet. The aircraft, assembled in Toulouse, is a joint project of French and German aerospace companies. The maiden flight of the Airbus is expected to take place before the end of the year.

The U.K.'s Guest, Keen & Nettlefolds, manufacturers of nuts, bolts, car parts, and a wide range of other steel and engineering products, has made an agreed £26-million bid for Firth Cleveland, the industrial and retail group. Seventy-eight percent of Firth shares are already committed and the bid is sure of success.

The coalition between French food companies Source Perrier and Fromageries Bel has come to an end with the dissolution of their common subsidiary, CIPAG, which held 53% of Genvrain, France's fourth-largest food group. In 1969 Perrier and Bel made a bid for Genvrain at a time when takeover battles were virtually unheard of in France. The authorities stepped in to make the peace by dividing Genvrain up between them (26.5% each), with the remainder in the hands of the public finance body Crédit Agricole. However, conflicting policy concepts prevented Perrier and Bel from making anything constructive out of their joint venture.
In the expected struggle for control of Genvrain, it is anticipated that Crédit Agricole will now side with Perrier rather than with Bel.

Another British offer being studied by the French finance ministry concerns a company of French retail butchers, Boucheries Bernard, with a turnover of FF 180 million ($36 million). The proposed purchaser is Matthews Holdings, which is interested in acquiring 65% of the French company. Matthews Holdings has 277 meat stores in the London area and interests in the hotel and restaurant sector, as well as other areas.

Great Universal Stores (GUS), Britain's second-largest retail group is to take a 75% holding in one of France's major menswear retailers, Les 100,000 Chemises. This makes GUS the third British clothing and textile group to complete a major takeover in France, after Selincourt and Burton. The value of the deal has been put at about £6 million.

Willy Bogner sportswear of Munich, Germany, will complete U.S. manufacturing facilities in Vermont by the end of the year. The venture is an attempt to regain equilibrium on the American market, where international currency revaluations over the past two years have driven up Bogner prices by nearly 30%. The company accounts for about 70% of all German sportswear exports to the United States. At first the new factory will produce only ski parkas, nylon slacks, and ski outfits, but later will manufacture stretch pants and Bogner's regular line of high-quality sports clothes as well. The plant, Bogner of America, will be operated by a U.S. partner, as yet unspecified.

British Petroleum, in which the U.K. government has a 50% stake, has negotiated the world's largest-ever private bank loan - a massive £360 million - to bring the Forties oil field in the North Sea into production. More important, however, is the fact that the loan has been negotiated on a "production payment" basis. Although this type of financing is common in the U.S., this is the first time it has been used in Britain. The financing has been arranged by an international consortium of some 30 banks headed by Lazard Brothers, the Morgan Guaranty Trust Co. of New York, and the U.K.'s National Westminster Bank.
The production payment system has been "adapted" inasmuch as the Forties Field is not yet in production and the North Sea remains a high-

risk area. In effect, the banks will lend up to £360 million to a company controlled by managers of the banking syndicate which will use the advances to buy from BP, on a forward basis, the oil produced from the field. BP will use the money to develop the field and the banks will be repaid from the proceeds of oil sales. Repayments are to spread over five years from the date of production. If the oil flow is interrupted, payments may be suspended, but they must be completed by 1982. Interest rates have not been disclosed but are believed to be high.

First National City Corp., parent of the First National City Bank, has announced plans to establish an international merchant bank in London, Citicorp. International Bank Ltd. The move is subject to approval by U.S. and British regulatory authorities. The new bank is to offer merchant banking services on a world-wide scale and also is expected to integrate and expand the Eurobond business currently handled by FNCB Eurosecurities SA in Brussels.

The U.K.'s Midland Bank group has opened a representative office in Brussels to promote trade and investment between the Continent and Britain. Midland already cooperates closely with Austria's Creditanstalt-Bankverein, Belgium's Société Générale de Banque, the French Société Générale, Germany's Deutsche Bank, and Amsterdam-Rotterdam Bank of the Netherlands.

The U.K.'s Charterhouse Group is the latest among British groups to set up a trust specializing in European stocks. The new unit, Charterhouse European Finance Unit Trust, will concentrate exclusively on European financial shares, based on the conviction that the experience of the U.K.'s financial sector has yet to be properly felt in Europe.

France's largest clearing bank, the state-owned Banque Nationale de Paris, has created a new U.S. subsidiary, the French Bank of California, with headquarters in San Francisco. BNP's existing branch offices in San Francisco and Los Angeles will continue on a reduced scale while the new subsidiary will offer a complete range of banking services. The West Coast bank also is expected to play an important role in the development of BNP's business in the Pacific, where the French bank already has branches in Singapore, South Vietnam, Australia, and Hong Kong. BNP has one other U.S. subsidiary, the French American Banking Corp., New York.

Correction: Schneider Corp. of America (SCA) was established in Hackensack, N.J., and not in New York as reported in the last issue of Euromarket News.

Common Market Reports
EUROMARKET NEWS

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EEC Merger Policy - a "Test of Fire": Since the founding of the Common Market European merger activities have sharply increased - both in the individual EEC member states and across the borders - but not at an even rate. Between 1958 and 1967, according to the latest report by the European Communities, the annual number of mergers and takeovers increased fourfold in Germany, doubled in Belgium, France, and Italy, and expanded two and one half-fold in Holland. Predictably, the industrial giants have played the dominant role. In France, for instance, the top 100 of the country's 500 largest companies were involved in mergers twice as often as the remaining 400. Virtually the same applies to Germany.

In separating national from international fusions, it is apparent that 90% of the mergers took place within the individual countries. Only within the last three years, the report notes, have across-the-border link-ups intensified, and only 35% of them were between EEC member countries, while 65% involved a third-country partner.

The relative insignificance of intra-Community concentration in relation to domestic and third-country mergers was already noted by the European Commission in its industrial policy memorandum two years ago. "Concentration," the current report reaffirms, "...is neither good nor bad. It depends on the individual case. In a competition-oriented economic system, concentration should be prohibited whenever it leads to an impediment, obstruction or even nullification of competition." In fact, the Commission says it regards the concentration issue as the "test of fire" of the free market system, and to meet this test it is calling for "adequate legal means" to effectively control merger developments in the national and supranational realm.

The Commission again makes special reference to the multinationals and their broad range of action, which it says often breaks through the "national frames of order." Admitting that there is no patent solution to dealing with this problem on a global level, the Commission acknowledges the inadequacy of the Common Market's three founding treaties to meet this challenge of the multinationals and says they

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should be adapted to the changed situation. Additional complications result from the need of some member countries to promote concentration as a means to become internationally competitive as opposed to others which need to control concentration in order to protect competition. Finding a policy synthesis that takes these different requirements into account should result in a "further alignment of the eco-political conceptions of the individual member states," the Commission notes.

Keeping Tabs on Mergers: Much to the disappointment of Germany's Federal Cartel Office, the Brandt Administration - despite its impressive record of 320 laws passed so far - has not been able to get Parliament to move faster on a bill providing for merger controls. At summer recess, the measure was mired in committees as the government coalition partners, the Socialists and Free Democrats, haggled over several issues. Merger controls seem necessary to the government, the Cartel Office, and most experts in the light of increased economic concentration and its implications and what has been happening so far this year.

In 1971 the Cartel Office was notified of 220 mergers, and of 130 in the first five months of 1972. If the pending bill with its merger rules were on the books, the Office could have intervened in 64 cases in 1971 and in 42 in 1972.
Recognizing that concentration of economic power may entail the potential for abuse, Bonn has encouraged the Cartel Office to curb some abusive elements by stricter application of Section 22 GWB (Law Against Restraint of Competition). The bill would enlarge the scope of Section 22, but the government wants the Cartel Office to invoke it more often and, if necessary, have the courts put it to the test. One area of intervention could be sales conditions imposed by market-dominating enterprises. On this count, several large corporations have been under scrutiny by the cartel authorities.
Last year, however, two courts significantly dulled the Cartel Office's statutory tools as provided in Section 1 GWB. The Supreme Civil Court ruled in the *Teerfarben* case that the prohibition pronounced in Section 1 does not apply to concerted practices. The Court of Appeals invalidated a Cartel Office order fining two executives of Mannesmann Röhrenwerke AG for allegedly participating in a cartel agreement with Japanese steel pipe manufacturers; it said that the Japanese offer had not been accepted by Mannesmann and consequently the agreement was not complete so as to come under the scope of Section 1, even if parts of the agreement were actually practiced. The Cartel Office's appeal is still pending before the Supreme Civil Court. Should that high court let the appellate ruling stand, the prohibition in Section 1 would lose considerable strength.

European Patent Office in Germany: Munich now has been confirmed as the future location of the European Patent Office by an international conference on a European patent statute in which 12 countries were represented. The vote for the Bavarian capital was unanimous after the Dutch application for the Hague was withdrawn on condition that the existing international patent institute in that city would become part of the European organization and that a branch office would be set up where patent applications may be filed. The conference also decided that the investigative branch of the German Patent Office located in West Berlin will be incorporated in the European Office, which means that Berlin for the first time will host a European institution.
Other, less-favored contenders for the EPO had been London and Luxembourg. Official ratification of a European patent treaty is scheduled for next year in Munich.

Switzerland Closes the Floodgates: Many questions remain unanswered over some of the practical consequences involved in the Swiss government's actions against speculative money beleaguering Switzerland as a result of the British pound crisis. Non-residents maintaining accounts in Swiss banks are charged 2% quarterly on each deposit made after June 30 (negative interest). Two government decrees bar foreigners from investing in Swiss securities and real estate but permit exceptions. No restrictions are placed on foreign capital used to establish new businesses or to expand existing ones. Also, foreigners may acquire shares and certificates of Swiss holding companies and investment funds if more than 80% of the assets are located abroad. The government is compiling a list of those companies and funds that qualify. A Berne spokesman also indicated additional rules to avoid hardships for those who have made substantial down payments on projects (condominiums, for example) that would otherwise falter or end in bankruptcy if the needed foreign capital were barred from entering the country.
The action came as a surprise to many, but actually the two decrees were prepared some months ago. The measures, drafted after Parliament passed emergency legislation in late 1971, were preceded by several actions of the central bank from August 1971 until May 1972, one of them increasing the minimum reserve requirements for banks. The government's measures may remain in force until Oct. 8, 1974, the date the statutory authorization expires. In the meantime the administration hopes to get approval for a constitutional amendment that would establish a permanent basis for intervention.

Eurobond Market Tightens Up: U.S. companies are likely to find it more difficult to raise long-term money in the international capital market, i.e., the Eurobond market. The latest round of currency jitters has made investors wary of buying dollar-denominated paper. Already, three convertible (equity-linked) Eurodollar bond offerings by American borrowers - J.C. Penney, Southland Corp., and Massmutual Mortgage and Realty Investors - have been postponed until later this month. International bankers speculate that American corporate borrowers may now turn to the medium-term sector, where funds can be raised for between three and 10 years, as opposed to the usual 15 years in the Eurobond market. And even when the flow of new dollar bonds resumes, borrowers are almost certainly going to have to pay more.

Clash Expected Over DISC: The discussion between the United States and the EEC countries on the controversial American DISC regulations is expected to be heated. President Nixon's proposals last August to rectify the U.S. balance of payments included provisions for "domestic international sales corporations." Then as now, EEC member countries and the U.K. declared their violent objection to the U.S. move, contending that large U.S. companies would be in a position to set up paper subsidiaries which profit from considerable (up to 50%) exemption from direct taxes. Such exemptions, they declared, were not compatible with commitments made by the U.S. under General Agreements (for example, Article 23 of GATT) and would lead to a distortion of international trade. The U.S. reaction to these charges has been to seek consultation with individual Common Market countries and Britain to examine EEC and U.K. practices in the United States which Washington considers to be similar in nature to DISC.

Steadfast on SMIC: As of July 1, the minimum guaranteed wage in France has been raised from FF 4.10 to 4.30 (86¢) an hour, which translates to about FF 839 ($168) per 44-hour week. In authorizing the relatively small increase, the government has stuck to its guns despite heavy pressure from the unions, which had called a national strike last month to win a monthly minimum of FF 1,000. The strike actually found little support among the workers, and this doubtlessly made it easier for the government to be adamant on this issue.

The increase in the minimum wage - generally referred to as SMIC - affects some 670,000 workers, of which 400,000 are employed in industry and commerce and the remainder in agriculture. About 44% of the total are under 24 years old, and two-thirds are women. The raise in the SMIC also is expected to lead to further pay boosts for two to three million workers presently earning more than the minimum but less than FF 1,000. There is disagreement over their number - 1.6 million according to the government, and 3.8 million according to the CFDT, the radical-socialist trade union.

Ignoring the protestation of the unions, which consider the latest SMIC increase totally inadequate, the government argues that the SMIC since early 1970 has risen 16% faster than the cost of living and faster than wages over-all. Furthermore, a Labor Ministry report says, the number of SMIC workers has dropped from 4.4 to 2.6% of the French working population since April 1969. The ministry expects the FF 1,000 demanded by the unions to be reached anyway by the end of 1973 if economic expansion permits the present rate of increase to continue.

It remains a fact, however, that the French worker's take-home pay is much less than that of his German, Belgian, or Dutch counterpart. The most current EEC statistics available (October 1971) put the average blue-collar wage in France at FF 6.61 ($1.32) per hour, whereas it is (on an equivalent basis) FF 11.50 in Germany, FF 9.50 in Holland, and FF 9.11 in Belgium. These differences improve only slightly when employer social contributions are taken into account.

While being forced to back down on the minimum-wage issue, the trade unions apparently have been more successful in their negotiations toward lowering the official retirement age from 65 to 60 years. As a first step, Parliament is certain to pass in the current session legislation allowing unemployed workers over the age of 60 to retire early at about 70% of their last gross wage.

Against Abuses in Pyramid Selling: A bill to regulate pyramid selling has been published in the U.K. House of Commons. Although, as a private member's bill, it is unlikely to join the statutes, the fact that such a bill has been introduced at all points to increased preoccupation in the U.K. with this particular form of selling. The bill's sponsor emphasizes that competition between the various forms of distribution would provide greater benefit for the consumer, but also stresses that publication of the bill could help to stimulate consideration of the issues involved and ensure that this new form of trading could be kept free of abuse.

AROUND THE MARKETPLACE

The Higher Cost of Living: The newest consumer price index issued by the Statistical Office of the European Communities shows that price increases continue to be a fact of life for the consumers of the six EEC countries, although to varying degrees. Over the past six years, prices have risen fastest in the Netherlands, while the Germans have enjoyed some measure of price stability. In only two instances, the statistics show, consumers actually paid less for products than they did in 1966: the price index for household goods in Luxembourg has

dropped to 93.9 points, and the Belgian index for fruit and vegetables has gone down to 88.3.
The following table lists the consumer price indices for key sectors in the six EEC countries as applicable in February 1972:

	Belgium	*Netherl.*	*Luxemb.*	*France*	*Germany*	*Italy*
Total index	125.6	135.9	120.9	131.7	119.9	122.5
Foods & beverages	119.0	125.7	122.7	130.5	110.0	118.3
Industrial products (retail prices)	115.7	132.6	116.4	123.6	116.6	120.3
Rents	--	139.0	--	153.1	141.0	119.1
Services	142.1	169.8	128.3	142.8	130.2	135.9
Restaurant meals	139.0	144.1	116.5	--	131.3	134.8

1966 = 100

Imports Hurt Cutlery Makers: The British town of Sheffield has long been synonymous with high-quality cutlery. Now Sheffield and other U.K. manufacturing centers find their existence threatened by imports of cheap tableware from the Far East and from Southern Europe. The U.K. Cutlery and Silverware Manufacturers' Association has released figures which indicate that almost 75% of the industry will be forced out of business within the next two, three years if import controls are not set up. The association has appealed for relief in a form which parallels the global quota in operation in the United States. Although the U.K. government's own statistical office has come up with figures pointing to a drop in sales and a sharp increase in imports over this period of two to three years, no official reaction has been registered as yet. To prevent the flood of low-cost products from such areas as Hong Kong, Taiwan, Korea, Italy, and Greece, the association is urging that restrictions be applied to all goods below a fixed value.
The group's only real success to date has been an association-to-association agreement with Japanese manufacturers to provide for "orderly marketing." But U.K. manufacturers acknowledge that, in the long run, it will be neither fair nor feasible to discriminate solely against one country or group of countries.
The crisis in the industry has not been exaggerated. Employment has dropped from 23,000 in 1959 to some 15,000 today. In Sheffield alone, the industry employs only 7,900 persons as opposed to some 12,000 in '59. The situation is such that, without restrictions, British imports will be on the order of 12 million pieces of cutlery for every five and one half million population. However, the crisis is not confined to Britain. Scandinavian countries, once the pioneers of modern cutlery design, have virtually stopped manufacture in the face of competition from the Far East. Both France and Italy have been forced to impose import restrictions. And in Germany - primarily in the cutlery town of Solingen - production and employment have suffered in spite of voluntary arrangements. The fact that the U.S. operates on a tariff system means that much of the goods exported from the Far East will be destined for the U.K. and other West European markets. This flood, warns the association, must be checked now.

EURO COMPANY SCENE

The exploratory move made by Burroughs Corp. of Detroit toward International Computers Ltd., the U.K.'s major general purpose computer

manufacturer, was predictably doomed to fail, since such a takeover would completely transform the U.K. computer industry. The British government is prepared to continue to make massive contributions to protect the domestic industry rather than cede control to a foreign company. Nevertheless, ICL is going through a difficult period. This year's interim report was delayed to allow for further negotiations between the company and the government to determine "the development of ICL's business over the next few years and the continuing support which would be available." At latest report, ICL is to receive £14.2 million in subsidies over an 18-month period and talks are being held to determine the "level of support" for the next five years.
ICL's previous attempts to link up with European computer companies have not been successful. Germany's Siemens and France's Compagnie Internationale pour l'Informatique have their own troubles in trying to merge interests. Talks with Nixdorf-Telefunken also have been fruitless and, even then, a link with such a minor company could be viewed only as an interim measure. As a result of contacts with U.S. and Japanese manufacturers, Univac has shown interest in a minority holding. U.K. government sources have indicated that there is no objection even to a major holding, provided that U.K. control of the company's policy can be guaranteed.

The board of Watney Mann has finally conceded defeat in the battle to stave off a takeover by Grand Metropolitan Hotels. Grand Met has now gained control by a 0.06% margin. Watney sources pointed out that the success of Grand Metropolitan's offer was due to acceptances not by individual shareholders in Watney but by powerful institutional groups. Before Grand Met representatives can join the Watney board, certain small technical procedures have to be observed, but a Grand Met spokesman pointed to the company's record of "being able to get the heat out of a big situation quickly." He added that it was Grand Metropolitan's intention to split off International Distillers and Vintners from the Watney group and make it a separate company once more together with Gilbert Reeves, the wine and spirits group of Truman, Grand Metropolitan's other brewing subsidiary.

The bid by Consolidated Foods Corp., Chicago, for the Dutch shoe polish-to-cosmetics concern, Erdal, has run into strong opposition from the minority shareholders of Erdal. This is because the Wolbers family, which owns 51% of Erdal equity, is to receive 334 guilders per 20-guilder nominal share, while the other shareholders will get only 290 guilders per share. Robeco, the Rotterdam-based investment fund which holds just under 5% of the Erdal capital, has publicly protested against this "open discrimination." A Dutch association for the protection of shareholders plans to sue the Erdal board. Amsterdam financial circles also believe that Consolidated Foods, by making this "two-tier" bid, is laying itself open to action by the U.S. Securities and Exchange Commission. Consolidated Foods was to declare its offer unconditional on receipt of acceptances for at least 90% of the Erdal capital before July 5.

The U.K.'s Burmah Oil Co. has announced a £50 million-a-year contract to carry Algerian gas for two American companies, Public Service Electric and Gas of Newark, N.J., and Algonquin Gas Transmission of Boston, Mass. The deal is the latest in a series of Algerian contracts negotiated by U.S. companies to bridge the growing U.S. energy gap. Under the terms of the 20-year contract Burmah's wholly owned subsidiary Burmah Oil Tankers Ltd. will charter three 60,000-ton sophisticated natural gas carriers to be built by General Dynamics in American yards. Burmah has estimated that the total deal will be worth £1 billion or, if two further carriers are added as planned, £1.5 billion. The capital is to be provided by an American financial corporation.

Italian observers predict that Fiat SpA soon will renew previous offers to cooperate with Germany's Volkswagenwerk AG, although Fiat has denied stock market rumors that its affiliated financial holding company, IFI (Istituto Finanzario Industriale), now controls 14% of VW capital. In any case, Fiat is said to view collaboration with the German automaker as a means to combat strong competition from the U.S. and Japan on world markets and stave off an expected lean period for the automotive industry.

Badische Anilin & Soda-Fabrik AG (BASF) plans to build a nuclear power plant on the Rhine, at its home base of Ludwigshafen. The German company cited evidence that world-wide electrical energy shortages may set in after 1980, pointing out that stockpiles of coal and petroleum are steadily shrinking, despite new oil and gas discoveries in the North Sea. Although additional safety precautions must be accounted for, such a nuclear energy plant would bring considerable cost savings, according to BASF.

International Paper Co., of New York, and Germany's Sieger group have agreed to terminate their joint ownership of the Heinrich Sieger GmbH, Cologne. IP has returned its share holding to partner Sieger, one of the country's leading manufacturers of paper, corrugated cardboard, and packing materials. The two announced they will continue to maintain friendly business ties, however. Competitive pressure in the paper sector reportedly underlies IP's disengagement from the German company.

Plans for a World Trade Center in Rotterdam have received a setback. The two financial backers, the pension funds of Philips and Royal Dutch, are now reconsidering their commitment to provide the 200 to 210 million guilders needed to build the center. Although the funds have not given a definite "No," it is unlikely they will reverse their latest decision. One of the reasons for the funds' withdrawal is a dispute with the City of Rotterdam over the function of the Center. However, a spokesman for the Rotterdam Town Council indicated that the Center will still be built.

The U.K.'s Slater Walker Securities has acquired for cash 56% of the French property group Compagnie Financière Haussmann SA. The deal, estimated at some £3.5 million, is subject to approval by French and British authorities. Haussmann manages construction projects and the sale and renting of completed buildings on behalf of investment clients and developers.

The fast-expanding U.K. chain Wrensons Stores has taken over (with financial backing from the large Slater Walker group) the family-owned U.K. store chain of David Greig. The £10-million deal now puts Wrensons high in the national league as retail store chains, with sales amounting to some £45 million annually. Wrensons spokesmen indicated that the next move would be into Continental Europe.

J.M. Voith AG, of St. Pölten, Austria, a member of Germany's Voith group, has signed an agreement with the Soviet trade agency Promashimport for construction of a complete cable paper plant. The facilities, with an annual capacity of 56,000 tons, will be located in Svetogorsk, near the Finnish border. The Austrian company won the $20-million contract over the bids of paper machine producers from throughout the world, particularly from Finland. It is one of the largest ever to be awarded Austria by the Soviet Union and the largest ever to be handled by Voith, which now has conducted over $100 million worth of business with the USSR.

Semperit AG, Austria's leading rubber company; Sava of Yugoslavia, and International Finance Corp., Washington, D.C., World Bank subsidiary, have established a joint Yugoslav venture, Sava-Semperit. The company will build a radial-ply tire factory in Kranj, not far from the Austrian border. Sava holds 66.6% of the new firm's $23.7-million basic capital, Semperit, 27.9%, and IFC, 5.5%. The plant, which will require investments worth almost $31 million, is to begin producing 625,000 tires annually by 1975. Start of manufacture of steel cord radial-ply truck tires is planned for late 1974. Semperit will supply technical know-how and licenses as well as world-wide distribution through its sales organization. Sava-Semperit is hoping for heavy turnover in the Comecon states.

Banque de Suez & l'Union Financière & Minière becomes the biggest non-nationalized French banking group following its acquisition from the Paternelle insurance group of controlling interest (53%) in France's third-largest merchant bank, Banque de l'Indochine. At the same time France's No. 2 insurance group, Assurance du Groupe de Paris (AGP) is disbanded, being broken down into its component parts of La Paternelle insurance subsidiaries on the one hand and Suez-owned Abeille and Paix insurance companies on the other.
All these moves are part of an untangling process of La Paternelle and Suez interests, following a month-long power struggle within AGP by the two groups. The Suez-La Paternelle rivalry reached a stalemate during the last few weeks when La Paternelle, defending its AGP interests, bought a controlling interest in the third AGP shareholder, Banque de l'Indochine. Suez, in retaliation, began buying a large share of La Paternelle itself, and of its AGP subsidiaries. The only way out of the deadlock was divorce for Suez and La Paternelle, which will involve the swapping of a variety of interests. In all, block holdings in 38 companies are to change hands in various directions between La Paternelle, Suez, and l'Indochine. The exchange has taken on such complicated proportions that the Commission des Opérations de Bourse, the watchdog of the French stock exchange, will supervise the transfer and take special measures to protect the interests of small shareholders in the companies involved.

A new French clearing bank group is to be created by the Banque de Paris & des Pays-Bas (Paribas) and merchant bank Worms that will merge the Banque de l'Union Parisienne (BUP) and the Crédit du Nord. Called the Union Bancaire, the new group will be No. 6 among France's clearing banks, with 700 branches and FF 10 billion ($2 billion) in deposits. Its creation is seen as a move by Paribas to have an effective rival operation to the Banque de Suez's Crédit Industriel & Commercial (CIC), with FF 23 million in deposits.

Euro-clear, Morgan Guaranty Trust Co.'s Brussels-based Eurobond clearing service, is now accepting for clearance and settlement international securities denominated in French francs. Cedel, the Luxembourg-based rival of Euro-clear, announced it has introduced a new service that will allow its participants overdraft facilities for a period of 24 hours.

Common Market Reports
EUROMARKET NEWS

Issue No: 183 *Report No. 191, July 19, 1972*

EEC Pursues Harmonization of Labor Law: The European Commission is urging harmonization of member state rules on dismissal of employees, and it also has described the minimum standards it feels should be the basis for discussions with the national governments. Although the Commission is satisfied with the extent of freedom of movement enjoyed by workers within the Community under the EEC rules based on Treaty Articles 48-49, it nevertheless believes that further economic growth of the Common Market and a higher living standard for its population will depend on the harmonization of rights and obligations of employer and employee throughout the Community as well as common employment, regional, and social policies.

There are great differences among the Six in formal rules to be observed in terminating employment, and there are also substantive differences (for example, in the rules against unwarranted dismissal). No form is required for giving notice under German and Dutch law, but in the four other countries notice must be given in writing. Minimum periods for giving notice are one week for Italian and Dutch workers, two weeks for Belgians and Germans, and four weeks for Luxembourgian workers. Aside from firing for cause (permissible in all countries), German, Dutch, Luxembourgian, and Italian labor law enumerates the grounds on which management may terminate employment. A Belgian or French employer may fire an employee without indicating the reasons.

Blue-collar and white-collar workers in all member states are treated differently when fired, with the latter group enjoying more protection. In all six countries the works council or similar employee-elected body must be heard prior to any dismissal. Works council members are protected against dismissal in all member states except the Netherlands.

The Commission would like to see the diverging national rules harmonized along these lines: management of any business in the Common Market would be required to give notice in writing, indicating the reasons for dismissal; after age 40, an employee would be entitled to three months' notice; works councils would be heard prior to mass layoffs, whereby the German rules would be the EEC standard (i.e., em-

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ployee representatives must be heard and the local state employment office notified when the layoff amounts to at least 10% of the work force).

More Power to the Consumer: Possibilities of strengthening consumer protection legislation throughout the Community are currently being investigated by the European Commission. The entry of the U.K. into the enlarged Community has precipitated such an inquiry, since U.K. consumer protection laws are more stringent than those which prevail in the EEC. The initial proposals provide for the establishment - or re-establishment - of a central liaison office representing the principal consumer group organizations in the Community; the provisions of adequate funds to aid consumer organizations in research programs, and an extension of the powers of the three-man office which now deals with consumer questions on the Commission's behalf.

France Stays On Course, Domestically: The forced resignation of French prime minister Jacques Chaban-Delmas is not regarded by French observers as a reflection on the quality of his achievements in three years of office. In fact, his successor - hard-line Gaullist Pierre Messmer - said he would "continue in a spirited dialogue and progress, the excellent policies" of his predecessor. Since finance minister Valérie Giscard d'Estaing is keeping his job, the only innovation which might herald significant changes in domestic policy is the creation of a new post of minister of state for social affairs (Edgar Faure).
In view of the short time left until next spring's general elections, the new administration is bound to concentrate on reforms already in the making rather than tackle whole new programs. There is no reason to do anything else, since past criticism was aimed not so much at the content of Chaban-Delmas' "Nouvelle Société" program but at the slowness of its implementation.
It has been noted that France, nevertheless, has made definite economic and social progress since 1969. Against the background of the international monetary crisis, the franc has gained in stability since its 11.11% devaluation three years ago. French exchange reserves - at only \$1.4 billion in 1969 - have risen to \$8 billion. Last year France achieved a \$2-billion balance of payments surplus, and the country has chalked up a three-year growth rate of 20% as against 17% in Germany, 11% in Italy, and 5.5% in the U.K. Unemployment has been kept at moderate levels, and there has been less labor unrest than in previous years.
The Chaban-Delmas administration also may take credit for the gradual relaxation of the price freeze, less government interference in the management of nationalized industries, the establishment of the IDI (a public finance organization promoting industrial reorganization), and for instigating the reform program for the French stock exchange.

On the social front, Chaban-Delmas won mixed reviews, in particular for the government's dealings with the trade unions. But several measures are worth noting: the introduction of monthly salaries for blue-collar workers; a diversified program of professional and technical training for workers and unemployed persons; a reform of tax and pension systems for retailers; the promotion of profit-sharing and stock option schemes for employees, and a concerted effort to bring the guaranteed minimum wage well above the cost-of-living increase.
If French domestic policy continues along established lines, things could be different as regards foreign policy. Newcomers to the latest administration include several old-style Gaullists who can be expected to adopt more nationalistic attitudes.

Uniform Industrial Wages in Italy: July 1 marked the date of complete wage parity for industrial workers in Italy. The removal of Italy's six wage zones was agreed to by industry and the unions in 1969, with the government applying considerable pressure on industry leaders. The object of the agreement was to level the considerable wage differential existing between the highly industrialized north (Milan, Turin, and Genoa) and the underdeveloped south. To this end the agreement provided for three wage increases to workers in the south, reducing the wage difference in April 1969 (50%), October 1971 (25%), and July 1972 (25%).

Figures released by Italy's national industrial association indicate that with this last step, wages of approximately 6 million workers in the south have gone up between 1.8 and 4%, depending on the particular wage zone. Per-unit production cost increased by about 1%. Industry leaders point out that while industry barely absorbed the 1969 and 1970 wage hikes, the last increase occurred during an economic recession and an imbalance between profits and costs. No one suggests that under these circumstances industry should attempt to escape its obligations, but its spokesmen merely want to point out the possible consequences of the measure for the business cycle and the ability of Italian industry to compete domestically as well as abroad.

Scots Feel Victimized: According to U.K. Parliament Opposition spokesmen, Scotland is being made to pay an unreasonable price as "Europe's peripheral area." An attack launched by the Labour spokesman on Scottish affairs pointed to the destruction of more than 7,000 jobs in the Scottish steel industry as the first installment of the price Scotland will have to pay to satisfy Prime Minister Heath's European ambitions. The Housing Finance (Scotland) Bill, he charged, would have a disastrous effect on local home building programs and the government was now heading for a confrontation with local authorities similar to what it had been experiencing with the trade unions. In addition, an absolute freeze on redundancies in the public sector must be called for, especially in areas where unemployment was more than 40% above the national average.

U.K. Companies Welcome...But: British firms intending to invest in France, EEC officials say, will have increased opportunities once the U.K. enters the Common Market, but certain restrictions will still apply. Permission to acquire an interest of more than 20% in a French company will not be granted automatically, especially in certain strategic sectors of French industry where there is already considerable foreign investment. The principal sectors involved are electronics, aerospace, vehicle manufacture, electrical engineering, and pharmaceuticals. A direct refusal on the part of the French would amount to a contravention of the Treaty of Rome, however, and it is now widely held that the French will resort to the simple expedient of "delaying" investment permission.

The Anglo-French investment picture at present reveals that British investment in France (£220 million at the end of 1970) is not matched by parallel French investment in the U.K. (£54 million). The U.K. Cavenham group's recent acquisition of the major French food concern Générale Alimentaire aroused French fears of foreign takeover pressures, and deals of this magnitude will not be frequent. Instead, it is felt that the French will be more willing to approve investments involving small to medium-size companies in non-priority sectors. *(see also EURO COMPANY SCENE - Tate & Lyle/Say)*

AROUND THE MARKETPLACE

No High Hopes Pinned on Trade Pact: While Soviet-German trade undoubtedly will be stimulated by the trade agreement and the rich steel pipe-for-

gas barter deal signed earlier this month, German industry tends to be realistic about future potentials. The trade pact, after all, merely provides a legal framework for the existing commercial relations between the two countries and puts Germany formally on the same footing as the USSR's other western trade partners.
Even without the agreement Germany has done more business with the Russians than any other country in the West. Yet volume has remained low due to the two main obstacles facing everyone who deals with the Soviets - the inconvertibility of the ruble and Moscow's insistence on barter deals prompted by a lack of foreign exchange. Thus only 1% of West Germany's exports go to the Soviet Union - last year a total of DM 1.6 billion ($500 million), with 74% of that in finished goods. The Soviets ship 3% of their exports to the Federal Republic, with raw materials and semifinished products accounting for 78% of the DM 1.2 billion total.
Moscow demands credit terms normally extended only to underdeveloped countries, and the western trade partners naturally are reluctant to put up such indirect subsidies. Financing therefore was a key part of the latest Soviet-German barter deal, the second of its type (the first was signed in 1970 and expires later this year). Under the contract, the Soviets will get 1.2 million tons of Mannesmann-Thyssen steel pipe and, in return, will deliver natural gas to Germany's Ruhrgas company. The steel deal is worth about DM 1 billion ($315 million), payable over 11 years, and a corresponding credit will be extended to the Soviet trade bank by a German banking consortium led by Deutsche Bank. The interest rate, though kept confidential, is believed to be around 6%.

Originally, Ruhrgas officials had hoped for contract terms that would have enabled them to exert some leverage in negotiating gas delivery contracts with Dutch suppliers. But the Russians have learned their lessons from the Dutch as well as the international oil corporations - an escalator clause ties their gas price to that of heavy heating fuel. So whenever heating fuel prices go up, the Germans will have to pay more for Soviet gas. However, once Ruhrgas takes delivery - which will not be before 1980 - the imports will not exceed 1.5% of Germany's overall energy supplies.

<u>BP, Sohio May Modify Merger Deal:</u> The two and one half-year-old merger of British Petroleum's U.S. interests and Standard Oil of Ohio (Sohio) was heralded as a "marvelous deal for Britain and one of the most complicated mergers in U.S. history." The original agreement provided for an immediate 25% BP stake in Sohio, moving up to 34% whenever 200,000 barrels a day were piped from the BP field at Prudhoe Bay in North Alaska and, finally, to 54%, provided that the flow increased to 600,000 barrels by Jan. 1, 1978. Upon completion of the agreement, in the face of strong U.S. protectionist pressure, it was assumed that oil would be flowing south in 1972. It has not. With luck, work could begin on the pipeline next year and will be completed within a further three. Sohio is now finding itself in the position of an oil company with no oil of its own to speak of.
It is desperately in need of supplies from Alaska - via a non-existent pipeline. It also is worried about the escalating costs of the pipeline project, which have gone from $900 million in 1969 to $3 billion today. Discussions are now in progress to resolve the difficulties and, although BP spokesmen have insisted that talk of a crisis is exaggerated, a revision of the merger terms seems likely. Sohio, having shouldered virtually all of the costs of BP interests in Alaska, obviously has been badly hit by the delay and the cost increases. It is assumed that the current discussions - BP spokesmen refuse to term them "negotiations" - will center on Sohio demands that BP assume a greater share of the cost burden.

One solution is the possibility of arranging a "production payments" scheme recently introduced by BP for the North Sea Forties Field development. In the views of Sohio's chairman, however, "the circumstances are now so different that it is essential to modify the merger agreement and soon."

EURO COMPANY SCENE

Two of the City of London's most talked-about tycoons have linked forces for the first time in a series of multi-million-pound deals. Jim Slater of Slater Walker Securities and James Goldsmith of Cavenham have announced plans which affect eight companies and involve three takeovers. Slater will receive upward of £5 million ($12.5 million) in cash and a large, as yet unspecified stake in Goldsmith's rapidly expanding Anglo-Continental Investment and Finance merchant bank. Argyle Securities, the Slater Walker-backed property group, acquires Renslade Investments for £2.2 million in shares and loan stock. Argyle also will purchase from the Cavenham group some £3.9 million worth of commercial properties. Argyle receives about £2.5 million from Slater Walker for Argyle's 30% share in Charles Spreckley, the London contractors. Ultimately, the major shareholders in Argyle will be Anglo-Continental and Cavenham (30%); Slater Walker subsidiaries, associates and investment clients (12.5%), and Renslade's Michael Rivkin (12.5%).

In separate deals, Anglo-Continental has made agreed bids for two Slater Walker associates - Thomas Steven (property) and Tanker Investment Trust. Shares of all the major companies involved rose on the stock market when the news was announced.

Following its acquisition of a majority stake in property holding group Compagnie Financière Haussmann SA, the U.K.'s Slater Walker Securities has turned its attention to the French construction sector. SWS subsidiary Crittall-Hope Engineering is buying 50% of Voyer & Cie, engineers, manufacturers, and contractors, for FF 38.99 million ($7.8 million) in cash and bills of exchange. The Crittall-Hope move reflects Slater Walker's aggressive expansionist policy, which is reported to include plans for operations in the United States by the end of the year.

A majority holding in family-owned Pompes Guinard, an important French industrial pump manufacturer, has been acquired by Leroy-Somer SA in what appears to be the end of a two-year search for a "French solution" to Guinard's problems. The company had been subject to a takeover bid by International Telephone & Telegraph which was repulsed by the government. ITT already owns Pompes Salmson, the second-largest pump producer.

Having taken over 55% of the 65% interest held by the Guinard family, Leroy-Somer is reportedly negotiating with the other two shareholders, Creusot-Loire and St. Gobain-Pont-à-Mousson, for their 35% holding. Leroy-Somer is a major supplier of electric motors for industry.

Any possibility of U.K. sugar company Tate & Lyle's acquiring controlling interest in France's second-largest sugar producer, Raffineries & Sucreries Say, has now been effectively blocked by Say's decision to merge with third-ranking Sucrerie Béghin, as of Jan. 1, 1973. The new company will have a turnover of nearly FF 2 billion ($400 million) and combined production of about 800,000 tons. With 27% of the French and 10% of the EEC market, Say-Béghin will move ahead of present French leader La Générale Sucrière at home and join Italy's Eridania behind top European producer Tate & Lyle.

The French sugar industry feels particularly threatened by British takeover ambitions because of problems anticipated when the U.K. is to renew its Commonwealth Sugar Agreement next year. A major British-EEC clash could be mitigated if U.K. groups hold strong Continental interests. Paris Bourse-watchers accordingly are keeping an eye on share movements of Générale Sucrière subsidiaries Raffineries de Sucre de St. Louis and Sucreries Bouchon & Pajot.

Italy's Montecatini Edison SpA has announced the closing of three chemical plants in Merano, Apuania, and Vado Ligure and another two factories in La Spezia. The facilities are among 40 money-losing operations that drained off some $137.5 million last year, nearly half of Montedison's total deficit for 1971. More than 1,500 employees will be affected by the shutdowns.

Kali-Chemie AG (Solvay group), Hannover, and Miles Laboratories Inc., of Elkhart, Ind., have announced their establishment of a joint German subsidiary (50:50), Miles Kali-Chemie Biochemische Werke GmbH & Co. KG, to develop new activiiies and markets, particularly in Europe. The two companies, along with Miles' German subsidiary, Miles GmbH of Frankfurt, will combine know-how in the field of enzyme and fermentation chemistry.

In reaction to the Greek government decision not to buy its Mirage F-1 fighter aircraft, France's Dassault-Breguet now has confirmed its withdrawal from a project to construct an aircraft assembly and maintenance plant in Greece, which also involves Lockheed and Greece's Olympic Airways. Originally, Dassault had planned to participate with an investment of FF 95 million ($19 million)..

Germany's Dornier aircraft company and the German Defense Ministry have demonstrated a new reconnaissance system to representatives of the U.S. Army and Air Force in Washington, D.C. The Kiebitz tethered rotor-platform, developed in Germany and already tested by Dornier in experimental form, is said to have aroused considerable interest with Defense Dept. experts. The Kiebitz system is designed to lift payloads of up to 140 kilograms to an operating altitude of 300 meters. It is powered by the Allison 250 C-20 engine, already used in the Bell Jet Ranger and Hughes 500 light observation helicopters.

The Swedish government has approved the Fokker 28 "Fellowship" short-haul passenger plane for use by Linjeflyg, Sweden's domestic airline, which is purchasing three of the twin-jets from VFW-Fokker mbH of Germany at a cost of DM 50 million ($15.6 million). The F 28 is reportedly the only commercial jet of its class in service that conforms to U.S. anti-noise regulations. Brumma airport in Stockhom has been closed to jet aircraft until now.

E.I. Du Pont de Nemours & Co., Wilmington, Del., plans to found a new subsidiary in Luxembourg to build and operate a manufacturing plant for "Typar" spunbonded polypropylene. The synthetic is used primarily as backing for tufted carpeting, but also for upholstered furniture and packing material. The factory, to be completed in 1974, will cost approximately $40 million, including operating capital. It will employ a work force of about 175.

Howe Richardson Scale Co. Ltd., U.K. subsidiary of Canada's Robert Morse Corp. has acquired Chronos-Werk Reuther & Reisert, German manufacturer of weighing equipment and packaging machinery. The British-Canadian group is a leading producer of scales and weighing systems.

Univac, Sperry Rand Corp.'s computer division, is investigating the possibility of a link with the U.K.'s International Computers Ltd., following recent clarification of the British government's attitude toward ICL. Burroughs Corp.'s desire for a major holding in the U.K. company prompted the government to take an official line on any association between ICL and a foreign computer company. Broadly speaking, the government feels that a merger involving Britain's only major general computer manufacturer would be permissible only if control of research, development, and production policy remains in British hands. Burroughs made it clear that it was interested in a majority stake, while Univac reportedly has no such ambitions.

The U.K.'s Plessey group has signed a marketing agreement with Nixdorf Computer AG of Germany providing for the supply of advanced technology and hardware from Plessey in exchange for marketing effort and maintenance support from Nixdorf in the German-speaking part of Europe. As an opener, Nixdorf has placed an order for Plessey optical character readers (OCRs) used to transfer information from documents such as checks into computer input form. Nixdorf, in ordering a "very substantial quantity," pointed to the demand for such equipment in the German banking business and expressed confidence that other applications would be found in the insurance, trading, public utilities, and government administration sectors.

The U.K.'s decimalization program has been blamed for the plunging profits of National Cash Register, the British arm of the American NCR group. Sales and profits at NCR, whose Dundee/Scotland plant is the largest of the group outside the United States, are down sharply for the half year ending May 31 - turnover fell from £37.5 million to 21 million and pre-tax earnings profits slumped from £6.6 million to 867,000.

Mohawk Data Sciences Corp., of Herkimer, N.Y., has founded its ninth European subsidiary in Stockholm, Sweden, MDS Svenska AB. Data Saab, a dealer organization, will continue to handle sales of MDS equipment previously introduced on the Swedish EDP market. MDS maintains two manufacturing plants in Europe, one in England and one in Germany.

Procter & Gamble GmbH of Germany has awarded the contract for construction of its new Westphalian plant to Belgium's Coppée-Rust SA, subsidiary of Evence Coppée et Cie., Brussels, and Rust Engineering Co. (Litton) of the U.S. The factory, which will manufacture and distribute laundry and cleaning products, should be completed by 1974, pending conclusion of negotiations with German authorities.

Sales of Germany's Volkswagenwerk AG for the first six months of 1972 have declined compared with the same time period last year, largely because American sales were down 22% from the 1971 half-year total. Domestic sales also shrank by 14% Only European export sales showed a slight gain of 3%. Company spokesmen blamed last year's currency crisis and cost increases for the poor results. With an export volume of some DM 7 billion and D-mark revaluation averaging 10% on VW's foreign markets, monetary fluctuations are costing Volkswagen an estimated DM 700 million annually. Personnel costs per employee have risen by about 45% since 1969.
After-tax profits for January-May 1972 were reported at almost DM 50 million, a sizable improvement over the figure of DM 12 million for all of 1971, thanks to recent cost-cutting measures. Production will be curtailed by up to 200,000 units this year to about 2.15 million. Subsidiary Audi-NSU Auto Union - expected to break even this year for the

first time - plans to introduce a new model in September, the Audi 80. Heralded as the basis for Volkswagen's future new model line, the car will feature front-wheel drive and a water-cooled engine of 1.3 or 1.5-liter capacity.

Lazard Brothers, together with Lazard Freres & Co. of New York, has acquired 50% of Pacific Marine Corp., the Tokyo and Far East investment brokers. The Lazard investment is reported to be in the region of £500,000 ($1.25 million).

The Industrial Bank of Japan Ltd., Tokyo, and Germany's Deutsche Bank AG have decided to found a joint bank in Frankfurt, in which the Japanese partner will have a majority stake. The Industrial Bank of Japan (Germany) will be formed as a stock corporation with a starting capital of DM 40 million ($12.5 million). It will conduct all normal banking business. Deutsche Bank may possibly share its minority participation with European consortial associates Amsterdam-Rotterdam Bank, Creditanstalt-Bankverein of Austria, the U.K.'s Midland Bank, Société Générale in Paris, and Belgium's Société Générale de Banque, Brussels.

Dai-Ichi Kangyo Bank, of Tokyo, and five Japanese shipbuilding companies - Ishikawajima Harima Heavy Industries, Kawasaki Heavy Industries, Mitsui Shipbuilding & Engineering, Sasebo Heavy Industries, and Nippon Kokan - are considering formation of a European bank to help finance purchase of Japanese vessels by foreign shipowners. The group probably will extend offers to the U.K.'s Hambros Bank and William Brandt's Bank, both backers of European shipbuilding ventures, to take part in the project.

Publicis Conseil has overtaken Havas Conseil as France's largest advertising agency after acquiring the Dutch interests of the Franco-Dutch Intermarco-Elvinger group, which has billings of some FF 380 million ($76 million) and offices in 10 European countries. As a next step, Publicis reportedly intends to expand its limited activities in the U.K. and the United States. With a consolidated turnover of FF 949 million, Publicis already derives 45% of its French accounts from U.S.-owned client companies.

R.H. Donnelley Corp. of New York, a subsidiary of Dun & Bradstreet, has acquired outright ownership of Werner Velbinger GmbH, German direct mailing and sales promotion company. Donnelley previously had held a 75% stake in Velbinger.

Common Market Reports

EUROMARKET NEWS

Issue No. 184 *July 25, 1972*

Common Market and EFTA Countries Sign Trade Pact: Fifteen West European countries have agreed to establish a free-trade zone over a five-year period. Member States of the Common Market and the European Free Trade Association, comprising 300 million people and a foreign trade volume three times that of the United States, will reduce their tariffs by 20 percent a year from 1973 to 1977 for most industrial goods.

Third-Country Companies Must Play by EEC Rules: In a ground-breaking series of judgments rejecting the appeals of nine dyestuff manufacturers from Germany, France, Italy, Switzerland, and the U.K. against fines imposed by the European Commission in July 1969, the European Court of Justice has ruled that enterprises domiciled outside the EEC must comply with Common Market competition rules with respect to business transacted within the market. The companies involved - Imperial Chemical Industries of the U.K.; Bayer, BASF, Farbwerke Hoechst, and Cassella of Germany; Francolor of France; Ciba-Geigy and Sandoz of Switzerland, and ACNA of Italy - will have to pay fines ranging from $44-55,000, although ACNA may pay slightly less.

The Court's decision involved the interpretation of the term "concerted practices," as used in Article 85 (1) of the Treaty of Rome. The tribunal for the first time clarified what constitutes a concerted practice and what sort of behavior may be adduced as proof in proceedings against parties engaging in such practices. The definition applied by the European Commission had led to numerous arguments before the Court of Justice. Attorneys of the companies suing for invalidation of the Commission's ruling maintained that the price increases were simply an outgrowth of parallel conduct (not prohibited by EEC law). The Commission had established, however, that successive linear price increases in 1964, 1965, and 1967 and the conditions under which they were made could not be explained simply by the market's "oligopolistic structure" (the companies supply some 80% of dyestuffs in the EEC) but were the result of concerted practices. The Court of Justice, too, thought it highly improbable that these steps could have been taken independently and spontaneously. It said that the companies' behavior was designed to eliminate the risks of competition and to remove uncertainties about competitors' reactions - in effect, to cooperate in a manner that constituted a concerted practice, outlawed by Article 85 (1). (It was essentially this informal type of cooperation that stymied the German Federal Cartel Office's efforts against these companies).

ICI, Ciba-Geigy, and Sandoz had contended that the Commission had no jurisdiction to fine companies established outside the EEC for actions committed outside EEC territory. The Court said it had, because these

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measures affected trade within the Common Market. The Commission had argued all along that the EEC competition rules apply to all restraints of competition occurring within the Community's territory regardless of whether the enterprises initiating these restraints have their head offices within or outside the Community. These three companies had refused to accept fine notices delivered to their headquarters in Basel and Manchester, but the papers were served at their subsidiaries in various EEC countries. The Commission claimed that the particular subsidiary must be held responsible and not the parent, but the Court said that the parent's effective control over its subsidiary requires that the parent be held responsible in spite of the subsidiary's independent legal status.

Speculative Fever Still Rampant in Germany: Federal Bank President Karl Klasen was considerably off the monetary beam when he promised Germans (and indirectly the world) that all would remain "quiet on the currency front until the elections" (in the United States). He had just gotten the Brandt cabinet to agree in favor of his mild form of exchange controls and against the floating plan of former Economics Minister Karl Schiller. So far, however, the barriers have not worked because of numerous loopholes that allow vagabond dollars to slip through. Speculators are counting on a renewed devaluation of the dollar.

In the last few weeks the dollar influx reached such proportions that the Bundesbank had to support the dollar several times by buying dollars in exchange for D-marks, increasing domestic liquidity accordingly. Here President Klasen made good on his promise that the Federal Bank would skim off any additional liquidity caused by a dollar flood. In fact, all of the Bundesbank's recent measures (increasing minimum reserve requirements for foreign as well as domestic liabilities) have pretty much removed inflationary D-marks from the capital market. In addition, Klasen has been working on a gentlemen's agreement with commercial banks to restrain them from transactions contrary to Federal Bank efforts to curb liquidity (for example, the sale to nonresidents of DM-denominated bonds held by German banks).

Last week Common Market finance ministers and the four EEC candidates discussed ways and means of obtaining more unity within the EEC regarding long-term reform of the international monetary system, a topic to be taken up at the IMF's annual meeting in September. Although they expressed their determination to continue to defend the dollar, more and more experts (and not just in Germany) are realizing that the stopgap measures of most European central banks cannot go on forever. They suggest that the U.S. take steps at home to stabilize the dollar. Several proposals have been made, and German Finance and Economics Minister Karl Schmidt, just returned from his North American tour, has been exploring Washington's attitude to this approach.

Nuclear Fuel Plans Pushed: The European Commission's firm assertion that the Community should move ahead to develop uranium enrichment facilities of its own rather than rely on the United States or the Soviet Union as sources of supply has not come as a surprise to most experts. Although Washington has indicated its willingness to share U.S. know-how in joint ventures in this sector, there are fears among its western partners that the price may be too high. Only last year the U.S. Atomic Energy Commission raised its prices for enriched uranium and insisted on tougher delivery terms. Similarly, most recent negotiations with the European goal of winning improved commercial terms and an allotment above the maximum 215 tons of U-235 previously set for the 1968-73 period also have been unsatisfactory.

In view of the American monopoly position, so the argument goes in

Brussels, depending entirely on the U.S. good will could invite grave problems in meeting the Community's long-range energy needs. The Commission has therefore told the member states and the four candidate countries that plans for the construction of a European uranium enrichment facility must be finalized by 1974 if the Community's energy requirements expected for 1980 are to be met. The Commission wants the Council to "approve a joint undertaking which in the Commission's view would provide the legal framework necessary for combined effort and the integration of initiative at the Community level." This joint undertaking in a first stage would secure consultation among the interested parties and provide for joint studies; possibly at a later stage it would undertake the construction and management of the necessary isotope separation installations. Set up under the Euratom Treaty, the joint organization would begin its work by assessing the market for enriched uranium, determining Europe's long-term needs, and evaluating the various technologies together with industry and interested institutions.

Independent of these plans, comparative study projects on uranium enrichment already are being carried out under the aegis of France's Commissariat for Atomic Energy (CEA) and other organizations from Germany, Belgium, Italy, the Netherlands, and the U.K. While the French favor the gas diffusion method of enrichment, based on their own technological know-how, the German government leans toward the centrifuge process, which it finds potentially more economical for the European market. Bonn and German industry thus are parties to a British-Dutch-German centrifuge project, and in addition Germany is underwriting further R&D of the centrifuge method at its nuclear research center in Karlsruhe.

Finance Bill Still Worries British Industry: Endorsement by the U.K.'s Minister for Industrial Development of an amendment to the controversial finance bill has done much to allay Confederation of British Industry fears that the government would acquire unprecedented powers of financial intervention in industry. The CBI has called repeatedly for a reduction of the Secretary for Trade and Industry's powers to aid lame duck companies. The amendment, which will put the proposed Industrial Development Board on a statutory basis and will provide for a statement in the Commons should the Secretary challenge its aid recommendations, will reduce these powers.

The CBI, however, is still unhappy with the bill in its present form and is pressing for further changes. These include the delineation of criteria for Dept. of Trade and Industry intervention; a clause which would impose a time limit on equity holdings the government may take in any company before making an actual investment, and full public accountability in all cases of state intervention, including yearly Industrial Development Board reports in the form required of public companies.

Discipline to Mark French Economic Policy: If France can maintain her competitive position in Europe by slowing the inflationary spiral, according to Finance Minister Valéry Giscard d'Estaing, 1973 will be a good year for economic growth and employment. Outlining four main objectives for the period up to next spring's general elections, Giscard d'Estaing said the government hopes to achieve a high growth rate (up to 6%), reduction in the rate of increase in prices and incomes (present annual rates are 6% and 11% respectively, with French prices increasing an average of 0.5% faster than in neighboring countries), lower government spending, and a neutral, though not restrictive monetary policy.

The maintenance of present fixed fluctuation bands for EEC currencies

will be very important for the competitive strength of French industry. When the EEC is enlarged next year, 70% of French exports will go to Community countries, as against 50% at present. France plans to maintain her two-tier exchange control system.
Regarding government expenditure, Giscard d'Estaing said there is unlikely to be an increase (or decrease) in the level of taxation. Public spending will be reorganized, however, and restrained.
Although the French National Credit Council recently found that too much money was circulating in the country, the government does not intend to limit bank credit facilities. Pointing out that in the EEC only Germany has lower liquidity levels than France, Giscard d'Estaing said he was unwilling to take action which would restrict industrial development.

Pollution Control in Switzerland: Switzerland has taken a big step toward protecting its rivers and lakes against further pollution and has instituted measures for their cleanup where pollution has already gone beyond acceptable limits. A comprehensive federal law enacted on July 1 prohibits anyone from discharging solid, liquid, or gaseous pollutants into creeks, rivers, channels, and lakes. It also prohibits the deposit of substances that might eventually contaminate water nearby. Any polluter - individual or business - is subject to unlimited civil liability for the damage he has caused and also may incur jail terms as well as fines of up to SF 20,000.
The cantonal governments (which are entrusted with enforcement of the act, while the federal government establishes standards and supervises) have 10 years to eliminate existing pollution. Businesses discharging untreated or insufficiently treated effluents into rivers and lakes have one year to notify cantonal authorities about the type and quantity of discharged matter.
Local governments may grant building permits only if the project's linkup with a sewage system is guaranteed. The federal government will give grants for the construction of sewage systems and sewage treatment plants in addition to other projects designed to process substances with high water-contaminating potential, such as used oil obtained from vehicular oil changes.
The federal government has statutory powers to establish standards for effluents that may be discharged and to issue rules for the control of public and private sewage treatment facilities. It also may set norms governing the disposal of water-hazardous substances. Using the authorization granted under the act, the federal government has issued its first regulation, dealing with the location, construction, composition and technical requirements of facilities designed for storing, conducting, loading, unloading and processing water-hazardous substances (tank farms, for example). A second regulation stipulates that all detergents and cleaning products produced in or imported into Switzerland must be biodegradable - in sewage treatment plants or in open waters.

Training Schemes Fail to Excite French: Patronat Français, the employers' federation in France, claims that recent legislation providing for advanced training for both labor and management has proven relatively uninteresting for workers and many employers, despite its extremely progressive tone. The federation had concluded employee training agreements with the French trade unions in 1970 and '71 to improve the general professional and technical level and to cope with the problem of retraining the growing number of jobless. Early this year, the government enacted laws giving 2% of blue-collar workers and 3% of executives with two years' service (in companies having more than 10 employees) the right to take time off to teach or enroll in professional

training of their own choice, financed by state or employer. Each employer must contribute 0.8% of his payroll (increasing to 2% by 1976) toward the national training effort.
Since then, the federation has been zealously promoting the idea of advanced education in industry and commerce, directing its efforts primarily at medium and small companies and employees themselves, since many of the larger companies have had their own training schemes for some time. The response has been disappointing, although about two-thirds of French employees (both blue and white-collar) are now serviced by specially created public training commissions sponsored by the various industrial sectors. The commissions, which advise on training plans and accredit schools where employees can study on full pay, have established lists of approved courses covering the metallurgical, chemical, textile, glass, artificial fiber, and building and public works industries, so far. The federation hopes to boost interest in the programs with a new promotional campaign in the fall.

Safeguard Privacy in U.K.? A major report on privacy has made more than 40 recommendations to the U.K. government that, if implemented, would guarantee increased protection of privacy in such sectors as press and broadcasting, banks, credit agencies, employment agencies, medicine, technical surveillance devices, and EDP. The report, resulting from a two-year study by the Younger Committee on Privacy, also recommends that the unauthorized use of "bugging devices" should be made a criminal offense. On the other hand, the committee does not propose a new law providing for a general legal right to privacy, since this would be detrimental to freedom of speech and communication - "at least as important" as privacy. The committee did, however, make two concrete proposals for a strengthening of the law that would reduce the threat of intrusion and, at the same time, not jeopardize freedom of communication. Stressing that action for breach of confidence can afford the individual much greater protection than is generally recognized, the committee calls on the Law Commission to clarify and state in legislative form the law on breach of confidence. Secondly, it suggests that legal action should be possible in civil courts, where a person can prove damage as the result of information disclosed by a person who knew (or ought to have known) that the information was obtained illegally.
Two other recommendations are of interest. First, that there should be a legally enforceable right of access to information compiled by credit rating agencies. Second, that computer users should adopt a set of voluntary principles for the handling of personal information.

AROUND THE MARKETPLACE

U.K. May Block Japanese Ball Bearing Imports: Announcement of the decision by Japanese ball bearing manufacturers to hike prices in the U.K. market by 5% as of Aug. 1 has been greeted by major U.K. manufacturers with great chagrin. The British companies claim that their Japanese counterparts have been selling in the U.K. at prices of between 25 and 40% below "comparable" British levels. Japanese ball bearing sales in the U.K. have risen by upwards of 500% since 1967, and Japanese competition has resulted so far in the layoff of some 800 workers, with a further 900 jobs threatened. A 5% increase, claim the U.K. manufacturers, will do nothing to solve these problems. The Japanese, on the other hand, maintain that the increase will be the third this year and that prices have actually been hiked by some 15% since January. In the face of mounting pressure, the U.K. may now have to invoke safeguard clauses written into the Anglo-Japanese trade agreement.

EURO COMPANY SCENE

Both Beecham and Boots have been ordered, as a result of the U.K. Monopolies Commission findings, to drop their bids for rival British drug group Glaxo. The commission found, in effect, that such a merger would operate against the public interest. The success of the U.K.'s pharmaceutical industry, it felt, depended on its innovative ability, and the central issue in the proposed mergers was the likely effect on research and development. The commission believed that all three companies were big enough to engage effectively in costly and risky R&D programs and that a Beecham/Glaxo or Boots/Glaxo combine would remove incentive and also "an important independent research center " (Glaxo). These disadvantages outweighed the advantages offered by a merger, namely, increased size and marketing potential.
The commission's verdict came as a surprise both abroad and in the U.K., where the news had a certain piquancy: the Association of the British Pharmaceutical Industry had just delivered a hard-hitting reply to the British opposition party's policy statement proposing state control of the pharmaceutical sector, pointing out that nationalization would cripple the industry. By a strange twist, the association's arguments echoed the commission findings on the Beecham/Glaxo/Boots mergers, whereas a successful takeover by either Beecham or Boots would no doubt have facilitated Labour Party nationalization plans if and when it comes to power.

Despite considerable opposition, Consolidated Foods Corp. has succeeded in its bid to acquire the Dutch concern Erdal. The hostility had arisen because the U.S. company offered 15% more to the majority shareholders than to the minority participants. However, legal action is pending against Consolidated Foods, which intends to use Erdal as a bridgehead for its expansion throughout Europe.

The Anglo-French banking, food-processing, mining and property group Génerale Occidentale has made a public bid for France's second largest producer of industrial ice, Société des Glacières de Paris.
GO already has a 27.42% interest and is offering FF 200 each for a minimum 64,146 more shares (nominal value FF 75) out of a total of 272,000. If the operation succeeds, it will add a whole range of refrigeration activities (industrial ice, deep-freeze storage and frozen foods distribution) to the already important food manufacturing and distribution operations which Génerale Occidentale has through its British subsidiary, the Cavenham group. Earlier this year, Génerale Occidentale and Cavenham assumed control of another leading French food group, Génerale Alimentaire.

The Printemps-Prisunic group, France's biggest retail distributors, and supermarket specialists Euromarché will set up a new French retail group specializing in "hypermarkets" (supermarkets of over 26,000 sq. ft. floor area). The Printemps chain handles textiles and hard and soft goods, while Euromarché has concentrated on foods. The new group's initial plans are to increase the number of "hypermarkets" they operate in France from 20 to 30 by 1975. They may also expand to foreign markets. Euromarché recently announced the creation of a "hypermarket" operation in the U.K., to be established in conjunction with the British Pricerite retail group.

France's state-controlled Industrial Development Institute plans to take a stake in the country's third-largest brewing group, Pelforth, to help bolster its current acquisition program. The company recently gained a majority in Brasserie de Brasme and is now considering buying into Choteau of Lille, which is presently engaged in merger negotiations with its 33% minority stockholder Brasserie Centrale du Nord de la France. A Pelforth-Choteau tie-up would probably make the group the French leader in its sector.

Daimler-Benz and Volkswagenwerk of Germany have combined their Spanish subsidiary operations Cispalsa and Imosa into the new Compania Hispano Alemana de Productos Mercedes-Benz y Volkswagen SA, in which each parent holds a little over 25% of the share capital, with the Spanish State Industrial Institute and private stockholders taking the rest. The merger paves the way for coordination of production between the former Daimler-Benz plant in Barcelona and VW's facilities at Vitoria. The new company also will handle import and sales for the German car manufacturers in Spain. Although cost-cutting was undoubtedly a chief motive for the fusion, the long-term goal is better penetration of the Spanish auto market, especially in anticipation of an eventual EEC link-up.

Zanussi of Italy, Europe's leading producer of electrical household appliances, reports losses amounting to almost $31.5 million for 1972, unrelieved by any tax write-offs. The group, with 30,000 employees and turnover of some $476 million, was hard hit by strikes and work stoppages last year, operating to only 85% of capacity. In addition, above-average wage increases helped bring labor and production costs to 30% above those of Zanussi's international competitors, according to company spokesmen. Prospects of equalizing costs and earnings seem dim in view of consistent union resistance to economy measures, which might well include cutbacks in production.
Despite continuing deficits, Zanussi hopes to remain independent and is counting on profitable results from its cooperation with Germany's AEG. The companies plan to found a joint subsidiary for the manufacture of washing machines, dishwashers, and refrigerators. Last year AEG skimmed off 17% of Zanussi production, selling it under its own trademark.

Germany's Bayer AG and Montecatini Edison SpA of Italy will cooperate in the development of a new class of synthetic rubber, obtained through the polymerization of cyclopentane. The process is based on discoveries made by Montedison some years ago. Bayer, which itself has contributed toward mass production and industrial application of the new rubber type, will receive a license for the Montedison patent. The Italian company will get rights to Bayer patents and technological developments.

Perusyhtymä Oy, a leading Finnish construction contractor, has begun work on the Pääjärvi project in Soviet Karelia near the Finnish border, noteworthy because it is one of a new series of industrial and economic ventures inside the USSR being jointly undertaken by the Soviets and private Finnish firms. Finnish industry will provide roads, housing, schools, hospitals, shopping centers, and municipal technical services, including a waste water purification plant. Eventually the new town will be the center of an area from which the Soviets expect to harvest 700,000 cubic meters of timber yearly.
Two other Finnish-Soviet ventures inside Russia have attracted attention. At Svetogorsk, Finnish companies have contracted to rebuild and re-equip pulp and paper mills for an estimated $300 million. At Kostamus, with international financial backing, the Finns are developing a large new iron-mining area.

Economic relations between western companies and the East bloc have gotten a major boost in several new developments on the Polish market. Clark Equipment, leading U.S. manufacturer of fork-lift trucks, has signed a 10-year technical aid agreement with Bumar, Poland's foreign trade agency, for production of heavy-duty cast housing drive and steer planetary reduction axles. The parts will be manufactured by Poland's Huto Stalowa Wola, producers of heavy equipment, and sold both in Eastern Europe by Bumar and elsewhere by Clark International Marketing SA. The Coca-Cola Co. has licensed its first Polish bottling plant (50 million bottles annually) in Warsaw, with plans for two more in Danzig and Zabrze, and Italy's SNAM Progetti, subsidiary of the state's ENI group, has been awarded a $100-million contract by Polimex oil company for construction of a complete oil refinery at Gdansk. The facilities will have a yearly capacity of three million tons. An additional $30 million in orders for Italian building and engineering firms is expected to result from the deal.

Eleven North American companies in the oil and gas sector are to finance a £1-million coal gas enrichment plant at Westfield, Scotland. If the Westfield project is successful, an immense market - above all in the U.S. - will be opened for the production of "synthetic natural gas" from coal. U.S. utility companies have been worried by the shortage of their own natural gas and oil, and increasing interest is being shown in tapping coal gas resources. The Continental Oil "methanation process," based on original U.K. technology, will form the basis of the Westfield pilot scheme.

The Swedish Grangesberg mining group; Cofremi, French subsidiary of Sweden's Patino Mining, and Pechiney-Ugine-Kuhlmann of France are establishing a joint venture for nickel extraction in French New Caledonia, in which Cofremi will hold 72%, PUK 38%, and Grangesberg the remainder.

The Bank of England has announced the appointment of three new money brokers, i.e., brokers who may take money on deposit and borrow and lend stock - James Capel, Hoare and Co., Govett and Rowe and Pitman. The announcement swells the ranks of the U.K.'s money brokers from three to six, the original three being Cazenove, Laurie Milbank, and Sheppards and Chase. Both Hoare and Rowe and Pitman indicated that they did not expect an immediate surge of business but that some attempt should be made to provide an expanded service for the anticipated growth in the London stock market after British EEC entry, particularly in the sector of European securities. Eighteen firms applied to the bank for acceptance as money brokers.

Teledyne International NV, of Curacao, a financing subsidiary of the U.S. Teledyne group, has borrowed 60 million guilders ($18.9 million) from an issuing syndicate headed by Algemene Bank Nederland. Proceeds of the loan must be used outside the Netherlands, while subscriptions to the notes could only be made by nonresidents. The Euroguilder market, which is strictly controlled by the Dutch Central Bank, is one of the few remaining sectors of the international capital market still open to borrowers.

Lewis and Peat, the well-known U.K. commodity brokers and merchants, has entered the sector of currency broking with the purchase of a 55% stake in Daniel E. Noonan, the New York foreign exchange and dollar deposit brokers. Noonan is the largest of the New York foreign exchange brokers, with before-tax profits running at over $1 million annually. The Lewis and Peat investment highlights the tendency of U.S. brokers to build up foreign currencies for international trade to replace the dollar. Sources in London predict further link-ups of this kind and expect that New York will soon establish a lead over Zurich as No. 2 to London.

Common Market Reports

EUROMARKET NEWS

Issue No. 185 *Report No. 192, August 1, 1972*

Toward a Market of 290 Million: The trade agreements between the European Communities and the remaining EFTA countries (Austria, Finland, Iceland, Portugal, Sweden, and Switzerland), which will go into effect on Jan. 1, 1973, together with the accession treaties of the U.K., Denmark, Ireland, and Norway, set the legal stage for a free trade zone comprising 16 countries with a population of 290 million. The agreements also end the rift between Western Europe's two trading blocs and at the same time seek to avoid new tariff barriers once the four EEC candidates have joined the European Communities. This is important because the six EFTA countries remaining outside the Common Market are of greater significance to the Community in terms of trade than the four joining it.

Tariffs on industrial goods will be gradually removed by July 1, 1977 (a special interim EEC-Austrian agreement provides for a 30% tariff cut as of Oct. 1, 1972). There are several significant exceptions to this five-year transitional period. For certain non-ferrous metals, special steels, certain chemicals, lumber, and paper, the transitional periods run up to 11 years. These extensions and other clauses represent compromises, because the EEC (occasionally spurred on by the new candidates) was reluctant to remove tariffs on so-called sensitive products such as lumber and paper (important to Sweden and Finland), steels (Sweden and Austria), and certain chemicals (Sweden and Switzerland). Iceland's economic structure and Portugal's development called for special rules, and the agreements with both are the only ones containing tariff concessions for agricultural and fishery products (agricultural products are otherwise dealt with in separate arrangements).

The contracting parties agreed to remove other obstacles to trade as well, again with certain exceptions as to time and scope. Import quotas must be eliminated as of Jan. 1, 1973, and all similar measures by the end of 1974. Customs duties of a fiscal nature and export rebates also are slated for repeal. Border taxes having the same effect as customs duties must be reduced by 60% by 1974 and then gradually until July 1, 1977.

The rules of origin played an important role in drafting the agreements. The question: should an EEC semifinished or an EFTA base product that undergoes processing in an EFTA country lose its privilege under the

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agreements if a third-country component is added? Or to what extent may a third-country base product constitute the final product without prejudicing the rule of origin? The compromise now reached is that certain textiles imported from EFTA countries would still qualify under the rules of origin if they contained 15% third-country material; for chemicals the percentage may be 20% of the value. A third-country base product must not contribute to more than 50% of the end value of a chemical product, for example.

All agreements have several safeguard clauses designed to overcome legal or economic disparities between the trading partners or to cope with emergencies. For instance, all restraints of competition are declared incompatible with the proper functioning of the trade agreements, and so the EEC (where cartels are outlawed) has the right to invoke that clause unilaterally, confronting cartels wishing to export from an EFTA state to the EEC with the alternative of reforming or facing reintroduction of customs duties. Other clauses (anti-dumping and balance of payments difficulties) are patterned after provisions contained in GATT.

All but two agreements contain so-called evolution clauses. If the parties so desire they may embark on closer relations through further negotiations. Since the EEC's trading partners retain their sovereignty to negotiate external tariffs with third countries and since the Community also agreed to have the contracts reviewed in any future GATT round, the objections originally raised by the United States have lost their weight.

Sour News for EEC Sugar Cartel: Only a few days after its victory in the dye manufacturers case the European Commission has launched another legal drive against a group of Belgian, Dutch, French, and Italian sugar producers and two German sugar distributors. A total of 22 companies are charged with engaging in concerted practices and abuse of their market-dominating positions - two types of restrictive practice prohibited by Treaty Articles 85 and 86. The firms have been given two months to respond to the objections raised in the Commission's complaints.

Commission member Albert Borschette indicated that EEC officials have had solid evidence for quite some time that the sugar industry was dissatisfied with the protection afforded by the price intervention system introduced in 1968 following the establishment of the Community's sugar market. He said that the companies in addition used several devices that either prevented or restricted competition or that some abused their dominant positions. Specifically, the Belgian sugar manufacturer (which accounted for 85% of the country's production) and six French producers (controlling 90% of France's total output) refused to sell to dealers and processors in other member states or asked for prices higher than those demanded from domestic dealers or processors. Table sugar was sold under conditions differing from those applied to sales of industrial sugar. All sugar manufacturers are said to have submitted joint bids for sugar exports to third countries.

Officials of the Commission's agricultural section apparently knew of these practices all along but considered them more or less self-regulative for a market often disturbed by speculation and so took no action. But officials of the competition section charged with maintaining freedom of competition did not know until a couple of years ago, when intra-Community trade failed to pick up accordingly following the establishment of the Community sugar market. Belgium and France produced sugar surpluses; Germany and Italy not enough. Suspicion grew, and the Commission now says that these Community-wide practices are to blame.

Germany's Cartel Office, in close cooperation with the European Commission, has also started investigating business practices of German and foreign enterprises within Germany.

U.K. Denies Aid Conflict with EEC Rules: Although the U.K. Minister for Industrial Development has dismissed suggestions that the U.K. government's regional policies conflict with those of the European Community and might need revision, anti-Marketeers - especially among the British opposition party - have once again put forward the argument that EEC entry will "take final decision-making powers" out of the hands of Westminster. The submission that Britain's regional policy package - in the Industry Bill and the Finance Bill - might not be compatible with the Treaty of Rome came from West Germany in a recent Note to the European Commission. The West Germans pointed to certain provisions in the package such as full depreciation within the first year for machinery, building, and equipment in special development areas: these, said Germany, "must not take on a dimension that is contrary to the common interest." Neither would it be in Britain's interest to introduce aids which would have to be changed after Jan. 1, 1973, the U.K. accession date. Article 92 of the Rome Treaty prohibits state aid to industry that threatens to distort competition, except where the standard of living is abnormally low, where serious underemployment exists, or if the aid is intended to remedy "a serious disturbance of the economy of a member state."

The present Commission is, of course, officially unaware of the British initiative and has no right to ask for information until Britain actually joins the EEC next year. By that time, a new Commission will be in office. It is, however, standard practice within the EEC for one country to request - or even demand - information about another country's intentions, and the U.K. will have to accept this and the Commission's jurisdiction when Britain is a full-fledged member. An opposition-front venture nevertheless rejected government assurances that the West German assertions were unjustified and claimed that Commission objections to British regional policy would be "wholly unacceptable" and "would not bind future Parliaments." Although the West Germans are likely to drop the matter for the present, it is clear that regional aid programs such as the British one and the controversial Belgian one will remain a bone of EEC contention.

Tightening German Drug Law: Officials in Bonn's Health Ministry have been working for years on an amendment to the Drug Act (*Arzneimittelgesetz*). But their labors are only proportionate to the difficulties involved. The new bill would make registration and thus marketing of a drug depend on proof that it is indeed effective, a first for Germany, where present law merely requires that a manufacturer's drug be sufficiently and carefully tested according to the latest scientific instruments and testing methods. One major problem confronting officials is whether every drug should be subjected to the effectiveness requirement. The government is inclined to exempt a few drugs from this rule and to relax regulations for other, as yet unspecified categories. Small and medium-sized producers of pharmaceuticals are pressuring the government for legislative leniency for their products. To the drug giants the rule would mean little, since they have been testing their drugs for effectiveness all along.

Another problem involves practical enforcement rather than elucidation of new legal aims. Years back the World Health Organization adopted guidelines for the manufacture of pharmaceuticals and plant supervision. In line with these recommendations and EEC directives as well, the German Health Ministry also issued voluntary guidelines. A regulation based on the Drug Act would make compliance compulsory but would also require hiring of more personnel to do the checking in plants.

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Health officials in Bonn do not deny that shortage of qualified personnel is the primary reason for the length of time it takes from the filing of a sample drug with the Federal Health Office until its official registration (usually 18 months). Processing of applications is governed by postmark, although applications involving important new drugs are given priority over those entailing mainly formal changes.
Meanwhile, the national association of drug manufacturers has issued guidelines calling on its members to contract only doctors that are independent and qualified enough to test their new pharmaceuticals. These guidelines represent a further step in industry's self-policing efforts and are a response to last year's trial of executives of a company that manufactured thalidomide sleeping pills.

U.K. Industry Holding Price Line: The Confederation of British Industry has approved, in general terms, a final three-month extension of the present prices restraint policy until Oct. 25. The CBI thus will request Britain's 200 largest companies to keep price increases down to a maximum of 5% over their entire range of services and products. In addition, any price increase should come at least 12 months after the previous one or, if circumstances make this impossible, at least eight months distant and at a maximum rate proportional to an annual rate of 5%. The 200 companies have indicated their willingness to support the CBI policy but have made it clear that the end of October will also mark the end of the current policy of unilateral collective restraints.
After then any further agreement will be attendant on two factors: a show of willingness on the part of labor to support an initiative limiting the level of pay increases and the ability of the nationalized industries to match the restraint shown by private industry. Several nationalized industries have already sought compensation from the government for their adherence to the policy pursued under the CBI initiative.
The CBI's agreement to an extension of restraint comes at an opportune moment, since it provides a friendlier atmosphere for tripartite (government-union-CBI) talks. The extension of the 5% restraint policy does not mean, however, that prices in certain categories are not to increase by upwards of 5%; individual price hikes of above 5% are possible, provided that a company does not exceed this figure over its entire product range. Without this shift of emphasis, it is unlikely that the CBI would have agreed to any extension of the initiative.

OECD Forecasts on French Economy: In a report on the French economy prepared before President Georges Pompidou recently reshuffled his government, the Organization for Economic Cooperation and Development noted that the improvement of the business climate in France following last December's Smithsonian Agreement and a series of moderately stimulative measures suggested that real gross domestic product would increase in 1972 by around 5% - the same as in 1971.
The annual OECD Economic Outlook's section on France commented that "a stronger acceleration of GDP growth" seemed nonetheless necessary to bring about a significant decline in unemployment and to catch up on the shortfalls in production in relation to the Sixth Plan targets (5.9% annual growth of GDP for the period 1971-75). Unemployment in France is presently hovering around 500,000.
Inflationary tensions continue to be high in France, and it is uncertain that there will be any noteworthy deceleration of price increases during the rest of this year.

Swiss Consumers to Have More Protection: Swiss consumers are likely to get a lot of what they have been requesting for many years: more information on foodstuffs sold in groceries and supermarkets. A bill amending the Food Act would compel manufacturers to itemize on food labels the ingredients of particular items as well as any additives. Ingredients must be declared in the order of quantity. The bill will include a list of permissible additives according to kind and quantity. Industry also would be required to include on labels or packaging any quantity of phosphates added to retard spoilage. But vegetable oils and starches must be specified only by category.

Although considered progressive by Swiss standards, the bill has not drawn only praise. The federal commission on consumer protection, a government advisory body, recommended several changes designed to increase consumer protection. It feels, for example, that food labels should not merely indicate the category but also the names and quantities of vegetable oils and starches added to the particular item. The print on labels should be easy to read and not below a certain size. Above all, the commission regrets that the bill lacks a provision requiring producers and bottlers to put an expiration date on solid and liquid food items that spoil easily.

Passage of the bill (drafted by the Federal Health Office on behalf of the Administration) still is far off, and nobody in Berne dares to predict when it might be because of the traditionally slow legislative process and any other eventualities that might delay enactment.

AROUND THE MARKETPLACE

Rise in U.K.-East Bloc Trade: Provisional figures from the East European Trade Council indicate that Britain's two-way trade with COMECON countries has increased rapidly over the first six months of this year. The figures show a 10% improvement over 1971 with imports up to £175 million (162) and exports up to £137 million (118.6). Imports from the USSR alone stood at £93 million for the first six months of 1972 as compared with U.K. exports to Russia of £48 million. An earlier decline in Soviet-British trade was blamed on deterioration of political relations and, more specifically, on the high (7%) export interest rate, which has now dropped to 6%.

The signing of a £200-million credit agreement between the U.K. and the Soviet Union two weeks ago supports the view that trade between the two countries will continue to accelerate. The agreement, which will run for two years and provide medium-term credit at a 6% interest, is seen as a major commercial and diplomatic breakthrough. Under its terms, the USSR will purchase an extensive range of capital goods, notably machine tools, textile machinery, chemicals and plastics plant, and steel mill equipment. Financing will be supported to 80% by the U.K. Export Credit Guarantee Dept. and lengths of credit will vary from five to eight and one-half years. The Russians have not called for a reciprocal increase in exports to Britain.

French Boost for U.S. Shipbuilding: Gazocean, a French shipyard which is a leading world builder of tankers for liquefied natural gas (LNG), has announced it is assigning its construction process license in the United States to Newport News Shipbuilding and Dry Dock Co., a unit of Tenneco, the Houston-based conglomerate. The deal comes as American shipyards are trying to win contracts to build LNG tankers to inject new life into an industry which for decades has thrived primarily on Navy orders or repair work. Federal maritime officials believe that LNG offers American yards a chance to get back into the world shipbuilding big leagues, currently dominated by the Japanese.

The engineering subsidiary of the Gazocean group, Technigaz, earlier this year signed a similar licensing agreement with Japan's Sumitomo Shipbuilding & Machinery Co. More recently, Technigaz signed with

Fritz W. Glitsch & Sons Inc., a U.S. manufacturer of stainless steel and alloy materials, an agreement to manufacture and sell in the United States the Gazocean-Technigaz membrane developed for the construction of integrated tank LNG tankers. Since last January, Newport News has been a licensee of this integrated tank technique.
Of the 14 LNG carriers in service, only one so far has been built in the United States and it is a converted freighter. The rest were built in France and Norway. The belief that the time is ripe for American yards to capitalize on a lucrative new market - an LNG tanker sells for as much as $90 million - is enhanced by the fact that the French and Norwegian yards are today largely booked up with orders for the next five years for 30 more carriers. U.S. government and industry experts estimate that the total number built will reach 100 by 1980 - worth approximately $8 billion.

EURO COMPANY SCENE

Rolls Royce Motors, the car and diesel-engine arm of the erstwhile Rolls Royce group, was scheduled to go public this autumn; it is now evident that the offer for sale will not be made this year. The reason for the delay is disagreement between the U.K.'s Inland Revenue department and the Rolls Royce receiver, who maintains that Rolls Royce Motors should benefit from some of the massive tax losses of the unsuccessful Rolls group. If the receiver's appeal to Inland Revenue is allowed, Rolls Royce Motor's share could amount to £5 million of the estimated £50 million total losses of the defunct RR aeroengine group.

Britain's state airlines have been radically reorganized to improve efficiency and profitability. The British Airways Board has announced that charter operations previously run by British European Airlines, Air Tours, and British Overseas Airways Charters are being grouped into a single division on the Air Tours operation. Domestic services now are the responsibility of a single division and inter-Britain services will become increasingly standardized, both in terms of schedules and aircraft types employed. Top management also is being reshuffled, with BEA and BOAC chairmen taking top positions on the Airways Board and their deputies being assigned posts as individual airline chairmen. The changes are forerunners of further sweeping plans to restructure cargo and reservations systems. Unconfirmed reports also have hinted at a possible merger between BEA and BOAC.

A final decision on whether to mass produce Germany's first commercial passenger jet, the VFW 614, will probably be made before the end of 1972, according to spokesmen for the Zentralgesellschaft VFW-Fokker mbH, Düsseldorf. Difficulties between VFW and Rolls Royce, which is supplying the engines, still have to be ironed out, since the debt-ridden British company apparently is pressing for heavier subsidization from the German government. The project - not counting the engines - has already cost DM 350 million ($111 million) more than anticipated because of the crash of the first prototype in February, with the federal government footing 80% of the bill. Two other models should be ready for flight testing shortly. If VFW goes into its planned production of 24 planes per year by late 1974, at today's selling price of DM 9.3 million/unit, experts figure it will take about 10 years for the 614 to reach the profit column.

North American Rockwell has bought U.S. manufacturing rights to the antimissile system Crotale developed by France's Thomson CSF and Matra. The U.S. Army will decide whether to adopt Crotale after testing next year. The system already has been ordered by the French and South African armies.

Nukem GmbH of Germany and Gulf Energy & Environmental Systems (Gulf Oil Corp.), San Diego, Calif., have agreed to cooperate in manufacturing fuel elements for high-temperature reactors through their newly founded Hobeg Hochtemperaturreaktor-Brennelement GmbH. The joint venture share capital of DM 3.06 million (almost $1 million) is now fully held by Nukem, but Gulf has a 49% option which it plans to exercise as soon as production begins. Hobeg will carry out design, development, production, and testing of fuel elements for gas-cooled high temperature reactors under license from both Gulf and Nukem. A collaboration between Hobeg and Hochtemperatur-Reaktorbau GmbH, German affiliate of Switzerland's Brown, Boveri & Cie., is also in the offing, since BBC and Gulf plan to cooperate in constructing the reactors. Gulf is conducting parallel negotiations with the French Atomic Energy Commission for the possible use of the high-temperature reactors in France.

The world-wide Waterman pen trademark henceforth belongs to a French manufacturer, Jif-Waterman, following the latter's recent takeover of Waterman-Canada. Through the purchase of 64% of the shares of the Canadian firm, Jif-Waterman concluded a series of operations aimed at controlling all markets previously acquired by American, British, and Canadian Waterman manufacturers.
Company spokesmen say Waterman plans to use the assembly plant in Canada, at St. Lambert near Montreal, as a spearhead for attacking the U.S. market. Production will be concentrated in France at the St. Herbain factory. After having stagnated during the 1960s, the French firm's turnover recovered, exceeding FF 60 million ($12 million) in 1971. Jif-Waterman controls 70% of the fountain pen market in France.

Crown Zellerbach International of San Francisco, wholly owned subsidiary of Crown Zellerbach, U.S. paper and cellulose producer, and Germany's Farbwerke Hoechst AG have signed an agreement for the manufacture and sales of synthetic pulp for the European paper industry, specifically in the enlarged EEC and Finland. Before the partners establish a joint subsidiary for this purpose, they plan to test market a synthetic paper pulp developed by Mitsui Zellerbach of Japan, offshoot of Crown Zellerbach and Mitsui Petrochem. Ind. Ltd.

Concern over the increasing stringency of U.S. anti-pollution requirements has led to formal agreement between the Pierburg group and Robert Bosch GmbH, both of Germany, to cooperate in the area of automobile exhaust purification. Bosch, a major producer of fuel injection pumps and automotive electrical systems, is taking a 20% interest in the DM 20-million ($6.35 million) share capital of Pierburg holding Deutsche Vergaser Verwaltungs GmbH. The Pierburg group, with its three production companies, accounts for 70-80% of the German carburetor market. Although Bosch and Pierburg plan to exchange technical information, they will continue independent R&D in their respective manufacturing sectors and will not set up any joint ventures. They already are associated, however, in the two-year-old Pierburg Luftfahrtgeräte Union GmbH, in which Pierburg holds 51%, Bosch 15%, and the U.K.'s Lucas International 34%.

Patino Mines of Canada (not Sweden, as incorrectly reported last week) is parent of France's Cofremi, which will have a 42% stake in the joint New Caledonian venture, Ste. Métallurgique du Nickel Patino-Pechiney-Granges (Sommeni), being set up together with Pechiney-Ugine-Kuhlmann (38%) and Sweden's Grangesberg mining group (20%). The new company is expected to attain an annual nickel output of 36,000 tons by 1975.

Deutsche Erdölversorgungsgesellschaft mbH (Deminex), in which eight German companies are associated for the purpose of foreign oil exploration and exploitation, has announced it is no longer interested in participating in British Petroleum Co.'s Abu Dhabi Marine Areas project on the Persian Gulf. BP holds two-thirds of ADMA and France's Cie. Française des Pétroles, the remainder. Deminex had agreed to buy into the project to the tune of DM 800-900 million, depending on a subsidy from the German government, whose hesitancy apparently quashed the deal.

Barclays Bank International has acquired, for £7.2 million, a 21% stake in Tozer Kemsley and Milbourn (Holdings) Ltd., the international financing house. BI spokesmen indicated that the move would involve the company in more foreign trade financing. TKM spokesmen said the cash from Barclays would broaden the company's base and provide capital for expansion into other sectors of finance.

The purchase of an interest in Germany's Bankenunion, Frankfurt, by Cassa di Risparmio di Genova e Imperia of Italy marks the first participation of an Italian savings institution in a foreign bank. A cooperation in international consortial trading also is planned. The link with the Genoan savings bank, one of Italy's largest with a balance volume of some $1.3 billion, is Bankenunion's first venture across national boundaries.

France's state-owned Banque Nationale de Paris (BNP) has announced it will acquire a 50% stake in Banque Commerciale SA of Luxembourg, presently controlled by Luxembourg's Banque Internationale. Share capital of Banque Commerciale will be doubled to LF 180 million ($4.0 million) for this purpose. BNP thus continues efforts to consolidate its European position. The leading French deposit bank maintains branches in the U.K., Belgium, Germany, Switzerland, and Greece, with representations in Italy, Spain, and Portugal.

Crédit Lyonnais of France and Banco di Roma of Italy are considering direct participation in International Commercial Bank (ICB) of London, which specializes in medium-term credits on the Euromarket. They already have an indirect interest in ICB through the 25% share held partly in trust for them by consortial partner Commerzbank. The French and Italian banks plan to increase their stakes as soon as state banking authorities permit.

A loan of $100 million has been arranged by a syndicate which includes the U.K.'s Hambros Bank to help finance the Norwegian Rafinor company's oil refinery project at Mongstad, north of Bergen. The loan is the largest ever borrowed by a Norwegian company.
In another loan issue, Red Nacional de los Ferrocarriles Espanoles has acquired $50 million to finance modernization projects in the Spanish state railroad network. The credit was arranged by the U.K.'s Hill Samuel in conjunction with Banco Urquijo of Spain.

A scheme to simplify and speed up company financing in Europe has been introduced by the European Banks' International group (EBIC). The program, known as Ebicredit, will be operated by the Amsterdam-Rotterdam Bank, Austria's Creditanstalt-Bankverein, Deutsche Bank, Belgium's Société Génèrale de Banque, France's Société Génèrale, and the U.K.'s Clydesdale Bank. A company banking with any of these can now raise money in the appropriate currency for a branch or subsidiary in the other countries without specific sanction of the lending bank concerned. That is, instead of having to make financial arrangements in the country where the branch or subsidiary will operate, the parent simply applies to its own bank. Loans from Ebicredit will be for periods ranging from one month to one year at optimal local interest rates.

Common Market Reports

EUROMARKET NEWS

Issue No. 186 August 8, 1972

Weigh Changes in U.K. Union Law: The calamitous British dock strike has prompted speculation that in spite of protests that it has no intention of repealing or suspending the Industrial Relations Act, the U.K. government will consider certain amendments to it in an effort to promote better labor relations. The Employment Secretary has hinted at four possible adjustments:

- Workers starting on a new job should be obliged, subject to the employer's consent, to join a union. The present act makes a closed shop illegal or, at best, restricted to special categories.
- Registration rules may be changed in order to prevent a number of "doubtful" organizations from registering as unions. In addition, a change in the registration procedure could be made so that the provision that only registered unions may benefit from immunity against actions for damages resulting from strikes will be altered. The five dockers who were arrested and whose imprisonment triggered the dock strike were liable to action because their union was not registered.
- The rules on unfair dismissal could be revised so that the burden of proof does not rest, as at present, almost entirely with the dismissed person. To accomplish this, a new termination of employment act would probably be required.
- Finally, the administration of the act could be reorganized by setting up an independent investigation and conciliation body along lines similar to the Race Relations Board. Further, cases of contempt could be removed from the Industrial Relations Court.

There can be no doubt that these steps would mark concessions by the government. On the other hand, the Labour opposition's statement that it would repeal the act if reelected has imbued the unions with the feeling that nothing short of a repeal of the act will satisfy them.

Reforming EEC Farm Subsidies: Four well-known European agricultural experts have recommended a complete revamping of the EEC's agricultural price support system that in the end could lead to some sort of restoration of free world trade in farm products. They suggest as a first set of measures gradual price reductions for surplus commodities (i.e., milk, butter) and new subsidies (though fewer and lower than at present) to enable farmers to switch to production in shortage sectors (beef, for example). Price reductions of up to 30% as well as other measures are outlined in a study prepared for the European Commission.

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The experts were to evaluate the Common Market's competitiveness in all fields, including agriculture.
The study notes a number of inconsistencies in the Community's elaborate price support and intervention systems for farm products, in addition to their being a tremendous burden for taxpayers. Most of the EEC's measures are actually designed to support prices for grain, beets, and butter and do not show enough concern for the consumer, the authors believe. Producers of these commodities are thus assured of a high income. But this comforting picture is marred by the fact that farmers who must buy high-priced grain to feed hens or to raise pigs and chickens are not necessarily better off. Even if breeders could pass increased costs on to buyers, demand would be affected and earnings reduced.
The experts could not ignore the generally recognized need to improve the income of small farmers. In order to reconcile this objective with that of getting farmers to switch to shortage products, however, they would like subsidies that are granted to compensate for price reductions to be based on the average yield rather than on some of the present criteria (for example, 2,500 liters of milk per cow per year). This way small farmers with low yields and low income would benefit directly while big farmers with above-average yield and income would not receive full compensation for losses incurred through the price reductions. The study justifies this by pointing out that high incomes are not based on market-oriented production but result from a price system kept artificially high and maintained only at the cost of surpluses and at the taxpayer's expense.
The experts believe their recommendations would be fairer to both farmers and consumers. They predict that the introduction of the compensatory subsidies would enable the Community to forego the price support system in perhaps 15 to 20 years and avoid making the payments contemplated by the Mansholt plan.

Belgium Skims Off Excess Liquidity: Following similar steps taken by other West European countries, Belgium has initiated measures to slow the influx of foreign capital precipitated by the Sterling crisis and its detrimental effects on other currencies as well. An agreement between the country's central bank and the commercial banks calls for the temporary freeze of a total of BF 10 billion. A special account has been established with the central bank, and the commercial banks have deposited the first installment - a total of BF 4 billion, with three additional deposits of BF 2 billion each to be made during the month of August. Compared with amounts frozen by other countries, the Belgian figure is considered rather high, and there has been concern that the measure might disturb the balance between short-term credits extended to the private sector of the economy and those given to all levels of government. There was also the danger that the Treasury might not be able to borrow as usual from a private credit market lacking sufficient liquidity. But the Treasury was fortunately able to utilize some of the revenue derived from prepaid taxes. Many Belgian taxpayers took advantage of the unique statutory discount of 15% and made advance payments on taxes due in 1973.

Stemming Land Speculation in Germany: Property-conscious Germans have been shaken from their vacation dreams by a plan designed to tax the ever-increasing value of real estate in the overpopulated Federal Republic. A special commission of the governing Social Democrats has proposed that the tax rates should comprise between 20 and 60% of the value a particular piece of unimproved real estate increases over one year's time. Since this tax would be payable regardless of whether the owner sold his property or not, the plan's drafters feel that real

estate owners who retain their property in the hope of higher profits might be coaxed to sell. More land would thus become available for needed private housing, and communities could open up new areas for construction, particularly in densely populated regions. The plan also aims to hold down soaring real estate prices and curb speculation.
The tax base would be the annual increase in real estate value. Five percent of the annual increase would be exempt and taxpayers also could claim deductions -- DM 5,000 for single taxpayers, DM 10,000 for married couples, and DM 2,500 for each child.
It is not surprising that real estate owners' associations have criticized the plan heavily, as have many private individuals who expressed their dismay in a wave of letters to national and local newspapers. But other than this there has been no well-grounded objection to the tax in principle. However, tax experts (including the government's tax advisers) maintain that the idea of taxing increases in value is contrary to the German tax rule that permits taxation of profits only. This is one difficulty tax legislators will face should the plan enter the parliamentary scene, which is expected if the Social Democrats are returned to power in the December elections. Before that the party convention in November will take up this issue, and observers do not expect much opposition, except from militants of the party's youth organization who have been arguing for outright expropriation if real estate owners refuse to sell their property.

More Aid for Ulster: The U.K. government has announced that it will provide a further boost for the economy of Northern Ireland in the form of £30 million over the next two years. The money is to help produce a lower rate of unemployment, combat the effects of the troubles in the province, help existing firms weather the crisis, and attract new manufacturing industry. The package proposed by the government will provide relief for downtown merchants in Belfast, Londonderry, and Newry, and grants will be made towards the cost of employing security personnel. Compensation payments will be made to businesses which have been affected by the violence. In the manufacturing sector, capital grants for plant and buildings will be at a flat rate of 30%, with additional subsidies for new industry offering additional employment.

Helping Sweden's Troubled Industries: The Swedish government has taken concrete steps to help small and medium-sized businesses in the textile, footwear, and furniture industries overcome their structural difficulties. A newly established bank (a subsidiary of the government-owned investment bank), funded with 40 million kronor ($8.3 million), will guarantee credits taken up by businesses from commercial banks or other credit institutions. Most of the guaranty volume is expected to be used by small textile and furniture manufacturers that need the money to rationalize production. But the government also openly encourages mergers, because it feels this is another way to solve structural problems within an industry.
Experts point out, however, that past studies have revealed that despite increasing mergers in the textile and furniture sectors the structural problems have remained essentially the same. Medium-sized enterprises make up the bulk of these industries, where wages have risen so rapidly as a result of heavy union pressure that profit margins have shrunk drastically, leaving little capital to rationalize production. In fact, it has been the openly declared policy of the national unions to force smaller enterprises into mergers to maintain the wage level established by big companies. But now union leaders are becoming increasingly aware that this policy could backfire.

Finland Strongest in Foreign Trade: The Finnish finance ministry is confident that the free trade agreement with the EEC will provide an added stimulus to the upward trend in the country's export industries (signing of the agreement was postponed until after the current government crisis is resolved).
According to the state of the economy report, traditionally made by the outgoing Finnish government, over-all industrial production in the first half of 1972 was 12% above that of the previous year. Export industries did very well in the same period, but domestically oriented industries did not, largely because of a slump in investments despite relaxed credit conditions. Exports in the first six months of 1972 have risen by 22% (a total of 5.7 billion finnmarks); imports increased by 18% (6.2 billion finnmarks), cutting last year's trade deficit over the same period in half (850 million as against 500 million). The report notes that export industries had made substantial investments in past years and are now utilizing their increased capacity. No significant change is expected in the investment trend of industries concentrating on the domestic market.
The uneven development in these major industrial sectors is to blame for discrepancies on the employment market - a 3% over-all unemployment but with higher percentages in some industries and a shortage of qualified labor in others. Still, the outgoing government believes that increased foreign trade will eventually have its positive effects on home market industries, particularly now since gains in productivity are expected to exceed costs incurred by higher wages. It also hopes to keep price increases for consumer goods at around 6%.

Wage Escalator for British Construction Workers: The first "threshold" clause to be conceded in an important U.K. industry has been written into a wage agreement for one million building industry workers. The settlement, which is subject to ratification by the industry's joint negotiating body, will come into effect in May 1973. A review scheduled for October 1973 will insure that workers receive an added 20p weekly for each 0.75% rise in the retail price index beyond 8.5% for the period August 1972 - August 1973. This represents the biggest breakthrough for the unions since they started their campaign for safeguards against unusual price movements over two years ago.

AROUND THE MARKETPLACE

Computer Use in Europe: A report released by International Data Corp.'s EDP Industry Corporate Planning Service reveals that the U.K. is the most highly computerized country in Europe, using as a measure the total value of computer equipment installed per 1971 GNP dollar. In pure dollars of computers installed, however, Germany is in first place, followed by the U.K. and France. Independent peripheral suppliers, the report continues, have had most success in Germany, since German customers are more willing to use independent equipment than are their opposite numbers in the U.K., France, and Italy. Current recessionary trends in Germany are liable to increase this willingness.
The greatest source of untapped potential remains the USSR and other East bloc countries. Noting that Russian technology in this sector is as much as five years behind IBM, the report puts Russia's utilization rate, in terms of computer value installed relative to GNP, at 10% that of the United States. The U.K., on the other hand, has a utilization rate of 70%.

New Hope for Concorde: Air France has exercised four of the eight options it placed on Concorde, bringing to 11 the number of confirmed orders for the Anglo-French supersonic airliner. So far, 17 airlines from all over the world have either ordered (BOAC alone five) or taken out options on the luxury passenger aircraft. Half of the Concorde options are held by U.S. carriers, which also hold the key to the financial success of the program. Officials of American airlines, including TWA and Pan Am, have not only expressed reservations about the price ($34 million, or twice as much as the Boeing 747 Jumbo jet) and rising maintenance costs, but also pointed out the various detrimental effects the supersonic plane may produce on the environment. However, the Anglo-French builders are confident that the orders expected from Japan later this summer and other recent successes in China and Iran will help overcome the reluctance of American carriers.

Keeping Tabs on U.K. Prospectors: The Council of the London Stock Exchange has announced stricter regulations for mineral exploration companies. Such firms seeking a London listing must now establish that they have adequate and authenticated reserves of natural resources, must provide an estimate of the capital cost involved in bringing the company to production, and must also give a detailed estimate of the time and capital needed to begin producing revenue.

EURO COMPANY SCENE

Five European aircraft manufacturers involved in production of the Europa III booster rocket for contractor Eldo (European Space Vehicle Launcher Development Organization) plan to establish a joint venture to coordinate execution of the project. SA Etudes Techniques et Constructions Aerospatiales (ETCA) of Belgium; Société Européenne de Propulsion (SEP) and Société Nationale Industrielle Aerospatiale (SNIAS) of France, and Messerschmitt-Bölkow-Blohm GmbH (MBB) and Zentralgesellschaft VFW-Fokker GmbH of Germany each will hold 20% in the new company, to have its legal base either in France or in Germany. A decision about further development of the Europa III, with its current payload capacity of 750 kilograms, is expected to be made at the European space travel conference in Brussels in September. Meanwhile, an MBB survey has predicted that at least 20 European satellites will require launching between 1980 and 1990. The next Europa III test launch has been set for summer 1973.

The Steel Co. of Canada (Stelco) has awarded a DM 20-million ($6.3-million) contract to Maschinenfabrik Deutschland AG, member of Germany's Hoesch group, for construction of what will be the world's largest spiral pipe manufacturing plant at Welland, Ont. The facilities, to be completed by the end of 1973, will have an annual capacity of 350,000 tons. Hoesch and Stelco collaborated in developing a rationalized high-speed production method for use in the new plant.

The British Steel Corp. incurred a £68-million loss in the fiscal year 1971-72. This was within the limit urged on BSC by the U.K. government, but the situation is still critical for the state-owned steel manufacturers. In spite of some opposition, the CBI initiative on price restraint is likely to be continued for a further three months until the end of October. If so, it is likely that BSC will hike prices immediately after expiration of the restraint period in November and, most probably, directly after Britain's EEC entry in January 1973, when the corporation becomes subject to jurisdiction of the European Coal and Steel Community. The company has unofficially estimated that British steel prices will be some 15% below comparable European prices at the start of next year and an over-all, two-stage price hike of this magnitude cannot be ruled out. It is also possible, however, that the government will attempt to keep the increase below 15% to insure British competitiveness within Europe. Spokesmen for BSC claimed that the company's "success" in limiting its deficit to Ƀ68 million last year was due to "cost reduction and rationalization measures."

A vogue for mini-steel factories appears to be catching on in France as it did in Italy a few years ago. Following the association of the French firm Française des Ferrailles with the Belgian group Saint-Eloi to build a steel plant in the Paris region with an output of 100,000 tons a year, one of France's leading producers, Usinor, and scrap metal wholesaler Otto Lazard announced plans to build a 200,000-tons per year unit in the Yvelines region. It will manufacture concrete reinforcing bars, as will the recently projected 150,000-tons per year unit of the Normandy metalworks, Métallurgique de Normandie, in partnership with the West German Korf group. Meanwhile, Usinor is completing expansion of its major steel complex at Dunkirk, while the Wendel-Sidelor group has begun construction of a $2-billion complex at Fos-sur-Mer on the Mediterranean coast which is expected to produce 3.5 million tons by 1974 and 7 million by 1980.

Middle East Fluor, wholly owned subsidiary of Fluor Corp., Los Angeles, and Germany's Thyssen Stahlunion Export have won a contract to design, procure, and construct a second 100,000 barrels-per-day refinery for the National Iranian Oil Co. The new plant will be located adjacent to to the original refinery, completed by a Fluor-Thyssen joint venture in 1968. Output of the 200,000 B/D integrated complex will include gasoline, kerosene, jet fuel, diesel oil, liquefied petroleum gas, fuel oils, asphalts, solvents, and sulfur.

Sociedad Espanola de Construcciones Babcock and Wilcox CA of Spain and the M.W. Kellogg Co. division of Pullman Inc., of Williamsport, Pa., have founded a joint Spanish venture in Bilbao, Babcock-Kellogg SA, to design, manufacture, and install piping systems for the power generating and process industries. Babcock and Wilcox CA, which holds 75% of the new company, has long been active in Spain supplying equipment for the power, oil, chemical, petrochemical and steel industries. Kellogg International Corp. operates a pipe fabrication facility in Wigan, England.

The U.K.'s major machine-tool manufacturer, Ƀ9.6-million Alfred Herbert group, has continued to suffer heavy losses of a further Ƀ2.8 million to April 30. The results do not take into account those of Herbert-Ingersoll, the Anglo-American machine tool venture put into receivership in June. The firm now needs a substantial increase in orders to survive the present crisis. Some improvement is expected towards year-end, since Herbert shares in the U.K. government's aid to the machine-tool industry of Ƀ16 million in public purchasing contracts.

Switzerland's Oerlikon-Bührle group has taken a minority interest (reportedly just under 50%) in one of Germany's leading lathe manufacturers, Gebr. Boehringer GmbH. The two companies also will coordinate their research, development, construction, and sales of machine tools. Last year Boehringer, which employs 2,200, attained a turnover of DM 104 million ($33.0 million), a 20% gain over the previous year. Sales of the Oerlikon-Bührle group average over SF 1 billion ($263 million), with about 25% generated by munitions and weapons and the rest by textiles, welding equipment, manufacturing machinery, electronic and transport equipment.

The U.K.'s Burmah Oil Co. has made a Ƀ57-million bid for Quinton Hazell, the automotive spare parts manufacturer and wholesaler. Hazell is currently concluding a £10.7 million takeover of Standard Tyre. Burmah's plans to conquer the growing motorists' market began with successful acquisitions of Halfords, the U.K. retail chain with some 400 automobile accessory shops, and of Castrol Oil. The Hazell board has recommended acceptance of the offer.

The U.K. tobacco group Carreras, 50% owned by South Africa's Dr. Anthony Rupert, forms the basis of what has been heralded as the first British based Euro-company born of the Common Market age: a £200-million tobacco giant. Carreras has disclosed plans to spend £147 million on acquiring Rupert's EEC, Australian, and New Zealand interests. The multinational merger will bring in Germany's Martin Brinkmann, 60% of Tabacofina of Belgium, the Dutch Turmac group, Rothmans of Pall Mall Export, 50% of Rothmans of Pall Mall (Australia), and 25% of Rothmans Industries of New Zealand. The new group, renamed Rothmans International, will thus replace U.S.-controlled Gallaher as the U.K.'s No. 3 tobacco combine behind the giants, Imperial Tobacco and British-American Tobacco. Profits for the new group have been forecast at over £36 million.
Carreras recently extended its 50% stake in the Netherlands' Schimmelpenninck Sigarenfabrieken NV to complete ownership. The Dutch cigar producer will be integrated into Carreras' world-wide marketing organization.

P. Lorillard Co., New York, U.S. cigarette manufacturer, is planning a $2.3-million expansion of its plant at Ettelbruck, Luxembourg, to take advantage of the enlarged Common Market and to introduce new brands in Europe. The factory now manufactures "Kent," "Newport," and "Old Gold" cigarettes, primarily for the Benelux countries.

AEG-Telefunken says it will take legal action against Sony of Japan for introducing trinitron color television sets onto the German market this month without a license. Sony's subsidiary in Germany claims the equipment was developed independent of the AEG-Telefunken PAL patents and represents a completely different color technology. Sony added it was originally prepared to buy PAL licenses from the German company, but that the suggested contract terms would have violated both German and Japanese antitrust regulations.
In related news, Italy is expected to announce shortly its choice of color television broadcasting system, Germany's PAL or France's Secam. French president Pompidou's recent visit to Italy reportedly brought considerable pressure on the Rome government for a pro-French decision. A compromise solution, allowing for introduction of both systems and the use of adapters, though costly, is still a possibility. Italy's public television networks already have invested some $9.5 million in experimental broadcasting according to the PAL system.

Japan's Eiko Business Machines has concluded an agreement with Doddwell & Co. and Kaufhof AG for assembly of its desk-top electronic calculators in West Germany, at a rate of some 5,000 units monthly. The deal is intended to bypass voluntary Japanese restrictions on calculator exports to Europe.

Both German and Italian spokesmen have denied rumors of a participation by Kaufhof AG in Italy's La Rinacente department store group. La Rinacente suffered a recent management crisis after Fustio Bros. quit the organization, taking a number of top executives with it. Fustio and U.S. partners are currently setting up a new retail chain in Milan.
The Agnelli family, which controls 14.2% of La Rinacente capital, reportedly has been considering cooperation with Kaufhof as a means to revitalize the business.

Jacques Borel International, the prosperous 63%-owned subsidiary of W.R. Grace Overseas Development, is seeking foreign participation, notably Italian, British, German, and Spanish, in order to reach its target of 100 hotels in Europe by 1980. For this purpose it intends to form a new group, in which it will take a 35% stake. A Jacques Borel hotel opened recently on the Paris-Southern France autoroute near Macon. A second soon will be opened near Avignon, and a third is planned near Chambery, at Apremont. Jacques Borel also operates several quick-service restaurants on French motorways.
The French hotel and catering market, one of the least developed in Western Europe, has attracted the attention of two world leaders in the field, British Trust Houses - Forte and Holiday Inns, the U.S. chain, which not long ago opened its first motel in France outside Lille.

Hotel France International, subsidiary of Air France, has opened the largest French hotel to date, the 1,023-room Meridien in Paris. Loew's of the U.S. holds a 20% stake in the company formed to operate the FF 180-million ($36-million) luxury hotel and is serving as co-manager. Hotel France International, with participations in other French hotels, maintains Meridien establishments in Dakar and Tunis and is adding new links to the chain in Cairo, Rio de Janeiro, Guadeloupe, and Martinique. The company plans its heaviest concentration in the Mediterranean area, but reportedly will take over a hotel in Frankfurt, Germany, soon as well.

Following the failure of its £7.5-million takeover bid for Relyon, the bed and mattress manufacturers, the U.K.'s Bowater Corp. has made an £11.5-million offer for Beautility, the furniture manufacturers. The bid is virtually guaranteed success, since it has been accepted by holders of more than 50% of Beautility's capital. Bowater's Limelight Furniture subsidiary, together with Beautility, will form one of the biggest U.K. furniture and furnishings groups.

Menko-Scholten NV, textiles, German holding of Koninklijke Nederlandse Textiel-Unie (KNTU), of the Netherlands, has entered bankruptcy proceedings. Menko-Scholten's losses over the past few years have been a chief contributor to its parent's current fiscal difficulties, which culminated in the grant of a temporary financial moratorium to KNTU by a Dutch court in June. British textile manufacturers Coutaulds and English Calico and Germany's Van Delden group and Nino GmbH are said to be interested in taking over at least part of the insolvent subsidiary.

AEG-Telefunken and Badische Anilin- & Soda-Fabrik AG (BASF) of Germany have concluded new cooperative pacts with the Soviet Union's State Committee for Science and Technology. In the case of AEG-Telefunken, the agreement includes the exchange of scientific and technical information, consultations and mutual technical assistance, and the basis for license and know-how exchanges, particularly for energy technology, communications and EDP, transport, and technical supply. The agreement with BASF covers know-how exchanges and cooperation in the areas of synthetics, dyestuffs, fuels, and petroleum additives. The USSR has already contracted for similar research projects with Siemens, Henkel, and Hoechst.

The 210-year-old firm of Berger Jensen Nicholson, the third largest manufacturer of decorative products in the U.K., is to supply technology worth some £6 million for the USSR's first coated steel strip plant. Berger was the object of a successful £28-million takeover bid by Germany's Farbwerke Hoechst over two years ago, but Hoechst has kept very much in the background and most Britons still believe that Berger is a British concern, although the firm's founder himself was German.

Common Market Reports

EUROMARKET NEWS

Issue No. 187 *Report No. 193, August 15, 1972*

EEC Charges Procurement Discrimination: Public authorities of EEC member states are not meeting their obligations under the Rome treaty inasmuch as they still discriminate against other member states in their purchases, a report by the European Commission alleges. The Commission says that only a few of the goods needed by public authorities are traded in any significant quantity and claims further that - in such sectors as telecommunications, data processing, energy generation, and railroad equipment - trade has been "unsatisfactory."

In the various member states public purchase of goods and services ranges between 5 and 9%, and the Commission insists that this market should be open to suppliers throughout the Community. Only 8% of the steel needed for railroads had been bought from other countries in 1970, compared with 34% of the heavy steel and 21% of the regular steel purchases between member countries in the private sector. There are certain technical difficulties involved in such across-the-border purchases (such as norms and differing safety regulations), but the Commission maintains that protective attitudes toward national industries and employment levels, coupled with a general sense of national prestige, have resulted in quantitative restrictions on imports and in market protection for domestic suppliers. In the long run, it is felt in Brussels, this attitude cannot guarantee the necessary development or even only the maintenance of production in conditions which satisfy the public in general, the workers employed, or the customers. The Commission has not offered specific remedies but it proposes that the large public purchasing agencies should coordinate their future policies and technical requirements and jointly define future needs.

Rome Joins the Big Spenders: Unprecedented deficit spending is the cure the new Italian government has prescribed in its 1973 budget for an economy shaken by high strike fever and economic stagnation. Prime Minister Andreotti's new government plans to spend $8 billion more than it figures it will get in revenue in 1973. This is 51% more than for 1972, and the deficit is to be made up by borrowing on the liquid domestic capital market. Total expenditures for 1973 are expected to top the $34-billion mark, an increase of 18.5% over 1972. This figure does not even include the recent concessions granted to the railroad workers following their nationwide one-day strike.

Italy's government faced the prospect of either reconciling expenditures and the development of revenue with present economic resources and abilities or of running the risk of more inflation through substantially in-

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creased expenditures. It chose the second path in hopes of stimulating private consumption and making business invest to meet the increased demand. Tax cuts to stimulate investment have been ruled out.
Three areas of increased government spending will involve doubled subsidies to the Cassa per il Mezzogiorno (a government fund for underdeveloped regions), extended free hospital care for government employees, and raised war pensions. Few will deny that under the circumstances the government is doing the right thing to revive the economy, but it is also clear that deficit spending, no matter how high, cannot do the job alone. Until a climate of responsibility between labor and management is restored, most experts agree, all government efforts will be in vain.

Threshold Concept Gaining in the U.K.: The recent threshold agreement clause for one million workers in the U.K.'s construction industry can be interpreted as a sign that such clauses have become respectable. The tripartite talks between the Treasury, industry, and the unions also included discussion of the role threshold clauses could play in allaying fears of inflation and, by extension, moderating cost-increasing wage claims. The concept now will be examined by joint working parties of the three sides and will be coordinated by the National Economic Development Office. In spite of this, however, observers consider it unlikely that any single agreement will be reached to cover the whole of industry. The joint working groups will proceed from the assumption that - even if such clauses are to represent a central point in future wage and price policy - care must be taken to provide for wage increases which are justified on other grounds such as labor-saving improvements in productivity, rationalization, or mechanization. It is expected that, in industries where productivity is rising rapidly as a result of planned layoffs, high basic settlements and small threshold settlements will be the order of the day. In cases where productivity is hard to increase and wages are low, such as in the public sector, high-threshold settlements and relatively high cost-of-living adjustments would appear more effective. The Office will report on the working parties' findings in September.

Brainstorming for a Company Law Reform: The U.K. government is to be advised on company law reform by a powerful new group drawn from the City and industry. The new Companies Consultative Group will submit advice and ideas and will comment on the proposals for company reform which have already been drafted by the Dept. of Trade and Industry. The new group will thus be in a position to influence the content of the new law. The Conservatives pledged to reform company law prior to the last election, and proposals on various controversial areas have already been made by the DTI. The principal sectors which will be subject to new legislation are disclosure, the effects of company law on private companies, the protection of minorities, and the possibility of no-par value shares. In addition, the independent role of non-executive directors in the affairs of medium and large companies (an issue raised recently in the since unsuccessful Companies Bill introduced by a Private Member) also will be considered. It is not known when the new legislation will be introduced, although political considerations would suggest that its introduction will depend on the timing of the next general election.

Ireland - EEC Gateway for Japan: Hardly a country in the Western hemisphere has not felt the pinch emanating from low-priced Japanese products. EEC member states and membership candidates are trying hard to find means to ward off the import flood, and the European Commission has been negotiating with Japan to come to an arrangement that is acceptable to both sides. But in the meantime the Japanese are apparently applying the same old technique successfully used by American enterprises facing

the high tariff walls set up by the EEC at its creation: if you can't beat them, join them by establishing production facilities in their own backyard.
It looks as if Japanese business has chosen Ireland as a bridgehead to the EEC. Toyota is to put up an auto assembly plant in Dublin. Nissan-Datsun plans to do the same. The Mitsui conglomerate has decided to invest $25 million in several ventures, including one for the production of manganate dioxide.
Ireland is in a peculiar position. As a candidate for EEC membership it is expected to show some solidarity with its future partners, but on the other hand the government feels compelled to lure foreign investments to bring the country toward industrial par with other European countries. Thus officials of the Industrial Development Authority (IDA), which runs the country's investment program, are aware of the delicate situation but have no other choice than to welcome the Japanese, though without much fanfare in these days of EEC apprenticeship. That is why the opening of IDA's second office in Tokyo was intentionally played low-key.

<u>Dutch Check Capital Import:</u> Following the lead of other European countries, Holland has imposed restrictions designed to stem the inflow of unwanted funds. According to a directive by the Nederlandsche Bank (Central Bank), residents will no longer be licensed by the Central Bank to take up financial credits abroad. Secondly, residents will not be allowed to accept prepayments for exports unless such payments are customary in the business sector concerned. Thirdly, credits for goods imported by residents must be authorized by the Central Bank if the items are longer-lived than is usual in the particular industry. As can be seen, the measures are directed more against trade than foreign exchange transactions. Meanwhile, the Central Bank has agreed to end its restrictive credit policy, which has been suspended since last March.

<u>Clampdown on Sea Pollution:</u> The Dutch government has imposed a ban on the discharge or dumping of polluting materials from the Netherlands into most of the North Sea and the English Channel. From now on, a license to dump or discharge will have to be obtained from the Ministry of Transport and Waterways.

<u>Bonn to Stimulate Third-World Investments:</u> West German businesses investing in underdeveloped countries can be certain to continue receiving the essential tax benefits extended by law - at least for another year. Coalition and opposition have agreed on a common march route in Parliament this fall and to extend the law's validity until the end of 1973; it was scheduled to expire at the end of this year.
<u>Corporate investors are entitled to a special 15% write-off of the cost of depreciable capital goods and, in addition, may claim tax exemption of reserves up to 50% of the purchase or manufacturing costs.</u> The tax benefits amount to subsidies because third-world investments usually run a high economic and political risk. Of course, the federal government does its share too to reduce the risks for businesses by granting guarantees and by entering into bilateral agreements with individual countries in order to promote and secure investments (and to provide for compensation if owners are expropriated).
In the nine years the law has been on the books it has become evident that it does not differentiate as it should, from the viewpoint of the aided country. Critics say it does not make sense to use plant and machinery investments as a criterion for the granting of tax benefits while ignoring the number of jobs created by the investment. To deal with this latter factor would not be easy, so the bill will not touch it now, but will confront other points of criticism. Investments in

colonies (Angola or Mozambique, for example) will be excluded from tax benefits and so will be generally investments in dependent territories included in last year's U.N. resolution. Capital outlays for tourism and airlines will qualify only if approved by the Bonn government beforehand. Even more important: only existing enterprises making investments would qualify and firms set up especially for this purpose (so-called "write-off companies" would not. This new rule would put a stop to practices that have drawn heavy criticism in recent years. In 1971 alone, tax write-offs reduced government revenue by about DM 145 million.

AROUND THE MARKETPLACE

British Plastics Makers Aim to Catch Up: A report just issued by the U.K.'s National Economic Development Council predicts that plastics production and consumption will grow by at least 10% annually until 1980, assuming a rise of 3% in the GNP. Still, the industry is not keeping pace with its international competitors - the U.K. has slipped from second place in 1950 (behind the United States) to sixth in 1970. The report places much of the blame on insufficient development of new industrial and consumer applications. Europe's front runner, Germany, will consume 105 kilograms of plastics per capita in 1975, at least twice as much as the U.K. figure. The Council concedes that postwar shortages of metal and material stimulated plastics production in Germany, but it also points to the unparalleled degree of cooperation between German chemical companies, plastics processors, customers, machinery manufacturers, and toolmakers. Also, about 3,000 U.K. companies produced a combined turnover of about £650 million ($1.69 billion) in 1970 as opposed to 2,300 German producers whose sales reached the equivalent of £1.4 billion that year.
The answer, according to the report, is to "plan for growth to optimum size," i.e., to alter the present U.K. imbalance of too many small firms and too few large ones. The Council recommends establishing a coordinating body where companies and others interested in mergers and joint ventures can come for advice.
One immediate result of the report will be a growing interest in joint ventures on the part of smaller U.K. companies in order to promote research and development. The major U.K. chemical companies, which traditionally have financed research, have withdrawn much of their support and it is rumored that some of them will begin to charge plastics processors for R&D done on their behalf. A second, longer-term implication is that the British government may be called upon to cooperate with industry in financing and running a plastics research institute along the lines of the highly successful German Plastics Machinery Institute at Aachen.

Austria's Healthy State Conglomerate: There are not many government-owned enterprises that can look back on a prosperous past and toward a silver-lined future. Austria's Österreichische Industrieverwaltungs-AG (ÖIAG), a holding company for the country's nationalized industries, is an exception. With its 104,000 employees, ÖIAG accounts for one-fifth of the country's industrial potential. Over-all sales of the 17 enterprises under its umbrella grew in 1971 to 47.9 billion schillings ($2.1 billion), an increase of 13% over 1970. Steel sales made up almost half of the total. Exports accounted for AS 15.6 billion, an increase of 7.6%. While in many countries the taxpayer must help nationalized industries stay afloat, ÖIAG's sole shareholder, the Republic of Austria, received AS 442 million in dividends. Much of this capital is to be plowed back into enterprises in the form of new investments. In fact,

ÖIAG's ambitious investment program for the 1972-76 period provides for outlays totaling AS 28.6 billion.
Experts cite many reasons for ÖIAG's impressive performance: a smooth labor-management climate (Austria is near the top of the list of countries having the fewest days lost by strikes); an advanced social security system along with considerable fringe benefits; a portfolio combining an almost ideal mixture of growth industries (chemicals, oil, machinery) and containing few that have been stagnating; a good balance between capital resources and outside credits, and a wage level 60 and 67% below that of Austria's industrialized neighbors.

EURO COMPANY SCENE

The North Sea oil exploration partnership Shell-Esso has confirmed a "major" strike off the Shetland Islands, with reserves of 1 billion barrels and a potential of some 300,000 barrels per day. Shell announced that production will start in late 1975 or early 1976. This discovery belongs in the "giant" field category: together with BP's Forties Field off Aberdeen (with a reserve of some 1.8 billion barrels) and Phillips' Ekofisk discovery off Norway (1 billion) the field will supply, according to conservative estimates, some 40% of the U.K.'s oil needs by the late 1970s. The discovery may, however, be more difficult to exploit than the pioneer Forties development due to water depth (475 feet) and more unstable weather characteristics.
It is by no means certain, however, that Britain will be able to acquire natural gas from the Phillips Ekofisk oil complex: Germany's Ruhrgas AG is confident that it will sign a contract for supplies from the field, thus having outbid the British Gas Council. Unofficial sources say the West Germans have bid 2.5p a therm, far above the Gas Council's top bid of 1.5p. Ruhrgas - which is owned by four German companies and is in a consortium with Gas Unie of Holland, Gaz de France, and Distrigaz of Belgium - has announced it will take 6.5-7.8 billion cubic yards of Ekofisk gas annually. The remainder of Ekofisk supplies would be channeled to France, Belgium, and the Netherlands. This contract, if signed, could deal a severe blow to the U.K. Gas Council's plans. If nothing else, the terms of the contracted purchase clearly indicate that the Council will have to pay much higher prices in a free market where prices are rocketing due to shortages in the United States and in Japan.

Europemballage Corp., Continental Can's European holding company in Belgium, reports a 6.8% decline in pre-tax profits to $21.8 million for 1971. Net turnover totaled $327.4 million, up $28.5 million from the previous year's sales. The company, involved in antitrust proceedings with the European Commission, controls 97.5% of Germany's Schmalbach-Lubeca-Werke AG and 91.3% of Thomassen en Drijver-Verblifa of the Netherlands. Europemballage spokesman say they expect some improvement in business this year, despite rising costs and an unstable market.

Interfuel, a joint venture for the manufacture of fission fuel elements, has been established in Holland by Shell Nederland (30%), Dutch machine tool manufacturers and shipbuilders Rijn-Schelde-Verolme (30%), Comprimo engineering (10%), the 11 Dutch provincial electric utilities (25%), and Reaktorzentrum Nederland (5%). Interfuel will expand operations at test facilities in Petten to an output of over two tons of enriched uranium annually. After two or three years of the trial program, management will decide whether to go ahead with full-scale commercial production at a new plant.

The British Airways Board has placed an initial order for six first-generation Lockheed Tristars and has taken an option on a further six from the first or second generation. The Tristars, to be flown by BEA, will cost about £10 million each. A further £20 million will be required for the expansion of engineering facilities, ground equipment, training simulators, and buildings. Deliveries will commence in October 1974, and the aircraft will be in service as of summer 1975. Both the original order and the option are dependent on Lockheed's developing the extended-range Tristar ("Dash 2"). The U.K. government has accepted proposals from state-owned Rolls Royce (1971) Ltd. to develop the RB 211 engine from 42,000 to 45,000-pound thrust for the Tristar, and continued development of the program will depend on a final decision by Lockheed to go ahead with the "Dash 2" and come to a satisfactory agreement with Rolls Royce. The BEA order is crucial to Tristar sales.

The Franco-German European Airbus A-300 B has successfully completed preliminary ground tests in Toulouse. The two-engine medium-range jet now is expected to make its maiden flight in October, a month ahead of schedule.

French truck manufacturer Berliet (Citroën) and Pol-Mot, the Polish state automotive group, have negotiated a FF 300-million ($60-million) agreement for license production of coaches and buses in Poland in the biggest trade deal ever concluded between Paris and Warsaw. Under the contract terms Polish output will be boosted to about 5,000 buses annually by 1980, with Berliet supplying machine tools, parts, and technical assistance for manufacturing facilities in Poland near Breslau. The French company in turn will buy parts from Poland for its own production. The Polish government had negotiated with British Leyland (with which it already has license agreements), Fiat, Daimler-Benz, Klöckner-Humboldt-Deutz, and Hino of Japan for five years before settling on Berliet.

The USSR's largest trade agency in the machine tool sector, Stankoimport, and Italy's Famo (Factory for Mechanical and Oil-Hydraulic Equipment) have established the first company ever to be created with Italian-Soviet capital. The joint subsidiary, Stanco Italiana, will promote the sales of Soviet machinery in Italy, utilizing Famo's repair and maintenance plant as a service base. Famo controls 16% of Stanco Italiana's 320 million-lire ($550,000) capital and anticipates a turnover of over 1 billion lire this year.

The U.K.'s Ricardo and Co. has established that the 1975 diesel engine anti-pollution requirements in the United States can be met by means of indirect fuel injection (i.e., where the fuel first passes into a separate chamber). This system was in use before World War II, but manufacturers switched to direct injection to increase efficiency. Indirect injection is comparably efficient on fuel consumption, however, especially when direct fuel injection engines have to be modified for nitrogen oxide emission control. The U.S. pollution restrictions are particularly concerned with nitrogen oxide emissions, and U.S. manufacturers would obviously prefer modifying existing engines in heavy vehicles. Above all, American companies will be obliged to make a decision by the end of this year to be in time for 1975, and the immediate commercial significance of such a switch is now being studied in all its ramifications.

Heineken's, the Dutch brewery group, has made a formal bid to acquire all shares of France's La Brasserie de l'Espérance, which holds a 50.4% stake in Sté. Alsacienne de Brasserie, third largest French brewers. The offer, for a minimum of 49,226 shares (out of a total 98,450) at FF 600 ($120) each, is valid until Sept. 25 and has been approved by the French finance ministry. The board of Brasserie de l'Espérance says it will not oppose the bid. If the takeover goes through, the new Franco-Dutch brewing group will be the EEC's biggest and could compete with British leaders such as Bass Charrington, Allied Breweries, Watney Mann, and Whitbread in the enlarged Market.

American companies continue to raise long-term money on the Eurobond market. Dart Industries, formerly Rexall Drug and Chemical, is floating a $20-million, 15-year loan, which carries the option to convert into the shares of 3M. The issue is expected to have a coupon of 4.75%. Alaska Interstate International Finance Corp., a financing subsidiary of Alaska Interstate which is a holding company engaged in the natural gas industry in Alaska, has borrowed $12 million for 15 years. This issue, which also carries the right to convert into the shares of the parent, bears an interest rate of 6%. Finally, Monsanto has raised SF 80 million for 15 years on a coupon of 5.5%.

International bankers involved in the long-term capital (Eurobond) market are following with interest the development of the market's two clearing systems - Euro-clear, of Brussels, and Cedel, of Luxembourg. Morgan Guaranty Trust, the sole owner of Euro-clear up to now, is in the process of selling to outside shareholders part of the system. The move is believed to reflect pressure from Euro-clear participants, who number over 360, and also the strong competition from Cedel, which is owned by over 80 banks. A majority of the Eurobond market would like to see a merger of the two systems, but in view of the apparent rivalry between the organizations such a move seems unlikely in the near future.

The U.K.'s Barclays Bank subsidiary, Barclays Bank of New York, is engaged in preliminary negotiations concerning the eventual purchase of the Long Island Trust Co. Such a move would make Barclays the largest British commercial bank in the United States. The Long Island Trust Co. has been viewed as potential takeover material by the large commercial banks in New York, but such a move would imply antitrust problems because of the Trust's size. Barclays' other major interest in the U.S. is in California, where it has 26 branches with assets approaching $200 million.

U.S. banks have played a major role in the raising of $650 million for the Italian state organization Istituto Mobiliare Italiano. Morgan Guaranty Trust led a syndicate of New York banks that advanced IMI $250 million for three years. A similar amount for the same period was raised by a larger group of international banks headed by the London merchant banking arm of Manufacturers Hanover Trust. Finally, the Orion banking group, in which Chase Manhattan is a shareholder, is lending IMI $150 million, also for three years. The Italians are expected to use the funds in support of the lira on the foreign exchange markets.

International Standard Electric Corp., an offshoot of ITT, is raising LF 800 million on the international capital market. Terms include a life of 15 years, coupon of 6.5%, and an issue price of under par. The loan is being underwritten by an international syndicate headed by Kredietbank of Luxembourg.

Texaco has canceled its proposed $80-million, two-tier Eurodollar bond offering. In announcing the decision, Morgan and Cie. International, the syndicate leader, refused to provide an explanation for the surprise move. The issue, consisting of $40 million of 15-year bonds and $40 million of five-year notes, was originally scheduled for June, but a deterioration on market conditions forced a postponement. Many international bankers regarded the Texaco issue, because of its size and credit rating, as a litmus test for the straight debt of the Eurodollar bond market.

The American Export-Import Bank has provided a loan of $7,488,865 to Holland's Martin Air Charter to help finance the purchase of a DC-10-30 jetliner. Martin Air will obtain the additional finance from other sources.

Germany's Westdeutsche Landesbank Girozentrale, Düsseldorf/Münster, will open a branch in London during the first half of 1973 to take advantage of the U.K. financial market and British entry in the EEC.

The Texas Commerce Bank has received approval to open a branch in London. As one of the leading bankers to the American oil industry, the bank will concentrate activities on providing financial services to companies participating in North Sea oil developments.

First National City Bank has decided to close its office in The Hague from the beginning of next month. The move is hardly unexpected in view of the already announced decision by the New York bank to terminate its commercial banking activities in the Netherlands; the Hague office primarily handled commercial accounts. FNCB will concentrate its Dutch operations in the corporate finance sector through its branches in Amsterdam and Rotterdam.

Management consultants Black & Taylor of the U.S., the Eastman-Fulghum group of Brussels, Munich, Zurich, Paris, and London, and Taylor-Adela SA of Mexico and Latin America, have combined forces in the newly founded Consulting Partners, Inc., headquartered in New York, and its European sister company, Consulting Partners SA, in Brussels. Wall Street investment bank Loeb, Rhoades & Co. holds 12% of the share capital; the South American development bank Adela, about 10%, and the active partners, the rest.

Diebold Europe SA, Brussels-based subsidiary of The Diebold Group, Inc., New York, has founded Diebold-U.K. in London. The EDP and management consultant organization also maintains operations in France, Germany, and Spain.

The international public relations firm of Hill and Knowlton, Inc., New York, has announced it will add a branch in the Netherlands to its current Benelux operations in Brussels. The new offices, located either in Amsterdam or The Hague, will open this fall.

European Arab Holding of Luxembourg has founded two wholly owned financial subsidiaries in Frankfurt and Brussels, Europäisch-Arabische Bank GmbH, with a starting capital of DM 20 million ($6.3 million), and European-Arab Bank, with paid-in capital of BF 150 million ($3.4 million). The Luxembourg holding company is held jointly by the European Banks' International Co. (EBIC) consortium (50%) and 12 Arab credit institutions from Abu Dhabi, Algeria, Egypt, Kuwait, Lebanon, Morocco, Saudi Arabia, and Syria as well as Frab-Bank International in Paris and Egyptian International Bank for Foreign Trade and Development. Europäisch-Arabische Bank will devote itself mainly to commercial activities, while its Belgian sister will concentrate on Euromarket transactions.

Philips, the Dutch electrical giant, has signed a standardization contract with the 3M Co. concerning the video cassette recording (VCR) system developed by Philips. Under the agreement, 3M will sell VCR equipment in European and other countries and will also market the high-energy videotape developed by 3M.

Common Market Reports
EUROMARKET NEWS

Issue No. 188 *August 22, 1972*

Eurocracy and the New Budget: Europe's bureaucratic apparatus is not nearly as expensive as its broad and ever-deepening influence on its constituent countries may seem to suggest. The operational and administrative costs amount to only 5% of the European Community's 1973 budget of $5,065,519,000 (i.e., units of account), according to a report of the German Liaison Office in Bonn. As in the past, the quest for a "Green Europe" makes for the costliest part of the Community budget, devouring fully 81% of total expenditures (though somewhat less than the 90% of 1972). Some $260 million will go for the Social Fund, $85.5 million for scientific research, and more than $20 million for industrial policy programs. Environmental control has become a budget item for the first time, to the tune of $1 million.

The European Commission again will spend the lion's share of the total budget - $5.003 billion, or 21% more than during the current business year - mainly because the huge Agricultural Fund comes under its jurisdiction. The budget of the Council of Ministers has been set at $32.2 million (29.6% more than for 1972), that of the European Parliament at $23.98 million (plus 50%), and that of the European Court of Justice at $6.3 million (plus 60%).

In accordance with the statutes governing the financial autonomy of the Community, more than half of the over-all budget will be financed from the Community's share of the revenues derived from agricultural levies and the common customs tariffs (beginning in 1975, all EEC customs revenues will flow into the Community treasury). Thus the 1973 budget will eat up only 0.59% of the GNP of the ten member nations. A considerable part of the enlarged budget is due, of course, to the enlargement of the Community itself. Brussels estimates are putting these added costs at $465 million, of which the Agricultural Fund alone takes up $345 million.

Personnel Carousel Starts Turning: At the moment, however, and for several months to come, budget considerations definitely take a back seat to personnel matters in Brussels. Many Eurocrats will be forced to play a game of musical chairs, or even odd man out, as the newly acceded countries put their representatives and staff-

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ers on the EEC payroll. The Commission faces the grim task of finding the right slots for some 800 officials and staffers coming in from Great Britain, Ireland, Denmark, and Norway. According to a previously agreed-upon scheme, personnel strength will be apportioned as follows: Germany, France, Italy, and the U.K., 18% each; the Benelux countries, together 18%, and Ireland, Denmark, and Norway, together 10%. The Commission currently employs about 5,800 people.

The problem is complicated by the fact that the outgoing Sicco Mansholt administration has to confine itself to organizational preparations. The actual task of retiring or firing one quarter to one third of the higher-ranked EEC officials (about 200 in number) will fall upon the new Commission and must be completed by July 1, 1973. In doing so, three basic approaches are possible: regular retirement, early retirement, or outright dismissal, though with compensation. Little trouble is expected with the relatively few top Euro-managers affected ("directors general" and "directors"), who can be relieved if need be. But some nasty quarrels may loom in the shifting of department heads and other officials in the A (top) and B (intermediate) salary ranges who are protected by their career status in the European civil service. Some of these cases might well wind up on the dockets of the European Court of Justice.

A few eyebrows have been raised, incidentally, by the British demand to boost the already comfortable salaries of the directors general and directors in order to better persuade qualified U.K. officials to take up residence in Brussels. London also is campaigning for an education allowance, since many of Britain's top Eurocrats prefer to keep their children in U.K. schools rather than expose them to the educational uncertainties of the international schools in Belgium.

More amusing should be the imminent culture shock to the Community's francophiles when English challenges the entrenched position of French as the first diplomatic language. Despite heroic efforts on the part of the French - even extending to a personal stand taken by Premier Pompidou in talks with Prime Minister Heath - few doubt that the advance of "Euro-English" can be stopped.

German Taxes Likely to Increase: No matter who wins the special national elections in Germany (now planned for Dec. 3), German voters will end up the losers, as taxpayers anyway. That taxes will be increased in a year or so seems virtually certain now. The new Finance and Economics Minister Helmut Schmidt has openly said so, and Chancellor Willy Brandt has confirmed this, provided his party is returned to power. Opposition leaders too have given up hope for a tax reform of their own that would streamline the tax system and merely redistribute the tax burden (from lower to medium and high incomes) rather than place new burdens on taxpayers' shoulders. Furthermore, the government's advisory council on economics and taxes has urged an increase in taxes - and Germans tend to be strong believers in what professors have to say. The common denominator: all levels of government need more revenue to meet increased expenditures for more and improved services and investments (education, hospitals, roads) demanded by the public.

The question discussed these days in Bonn and throughout the country is when will taxes be raised, and which ones? Figuring the time it usually takes for any bill, and certainly a tax bill, to go through the legislative process, the individual income tax could be increased by the beginning of 1974. But income tax is not the only source of additional revenue: the government could also propose in addition (instead, some advocate) a hike in the value-added tax. A mere 1% increase in the tax rate would produce some DM 4 billion and would be simpler in terms of legislative drafting than rewriting the vast body of income tax laws and regulations. However, any increase in the value-added sales tax carries strong social implications because it hurts the low-income groups most. Whether this tax will be increased is as uncertain at this time as who is going to win the election.

Denmark's Special Import Duty Lowered: The special 10% import duty introduced by Denmark in October 1971 at the height of the international monetary crisis has been lowered to 7%. A further reduction by 4% is scheduled for Jan. 1, 1973, and the remaining 3% rate is to go as of April 1, 1973.
Introduction of the special duty threatened to precipitate a chain reaction of protective measures in international trade. It came in the midst of negotiations between the EEC and the EFTA countries applying for Common Market membership, including Denmark, with the object of eventually removing all obstacles to trade between contracting parties. But the Danish government, under heavy pressure from other governments and GATT, relented during the legislative process and extended the scope of products exempt from the duty. In the negotiations with the EEC it agreed to repeal the duty for good by April 1973.

Joint Arbitration Service in the U.K.: The Confederation of British Industry and the Trades Union Congress have formally endorsed the creation of a joint conciliation and arbitration service designed to avoid recourse to the Industrial Relations Act. The service will become operative as of Sept. 1 and will be financed jointly by the CBI and TUC. It will be used for disputes in both the public and private sector but only with the consent of both parties in a dispute.

Stock Options Lure British Executives: A survey published by a U.K. executive and management recruitment service indicates that the number of British companies offering equity participation schemes for management personnel is growing. The survey polled companies quoted on the London Stock Exchange and others, and established that some 25% of these had introduced some form of share scheme. Of these, the plans applied to directors and senior management (50+%), directors only (27%), senior staff (10%), and all employees (10%). The method of participation was in most cases in the form of partly-paid share schemes or, again, share purchase at 5% of the market value and loan schemes for share purchase. The most interesting fact to emerge, however, was that, although directors and others claimed that the prevalent equity participation scheme had not been essential to join the firm in the first place (80%), 75% of those polled did feel that equity participation in some form or other would be an "important" consideration if they were to change positions. Company reward schemes in the U.K., the study concludes, will become more common as Britain's involvement with the EEC increases and British managers are enticed abroad by countries where a higher level of remuneration and a more favorable tax structure prevail.

Lisbon Promotes Industrial Expansion: The Portuguese government is determined to make the 1970s the decade of the Great Leap Forward for the country's industry and is planning on considerable investments toward that goal. A major project under way is the industrial complex at Sines, in the south, which will include a refinery with a capacity of six million tons by 1976 and 10 million tons by 1980. A joint effort of Sonap and Uñiao Fabril, the refinery is laid out to meet about 60% of domestic demand beginning in 1975. The public share of the required investment will be in the area of 10 billion escudos ($370 million), according to Lisbon reports. A parallel Sines development is a petrochemical plant (with a minimum output of six million tons) and a chemical plant. To serve these industries, the port of Sines is to be vastly improved to accommodate large tankers as well as ore ships. Also on the drawing board is an expansion of the existing new Sacor refinery at Oporto, in the north, which will require an investment of approximately 1 billion escudos.

But Portugal's hottest industrial ambitions involve its shipbuilding industry. Following completion of the Lisnave shipyards, work is proceeding on the Setenave yards and docks at Setubal. Having contracted for the technological support of the Dutch, Swedish, and Norwegian shipbuilding industries, Portugal eventually will be able to build ships of up to 700,000 dtw and will have Europe's most extensive shipyards, second only to those of Japan. The Setenave complex - which is to employ 8,000 upon completion - will require up to 1.4 billion escudos in investments by 1974.

To see these ventures through, more electric power is needed than currently available. The government thus reportedly has authorized the construction of a 250-megawatt plant south of the Tagus River by the United Portuguese Power Works (the company formed as the result of last year's merger of several utilities). The new plant is to supplement the three existing thermal plants north of the river.

At the same time, expansion of the national steel works is proceeding in its third phase for which 7 billion escudos have been allocated and which aims at an output of 850,000 tons of raw steel and 1 million tons of rolling steel. In addition, the iron ore deposits at Moncorvo are to be exploited.

Other major projects include the construction of Lisbon's new airport near Setubal which is to take up operations in 1978 and will swallow 5 billion escudos in the first stage and up to 30 million eventually. Finally, the Brisa consortium has submitted the winning bid for the construction of 385 kilometers of freeway; however, final government approval is still pending.

Streamlining Can Standards: The International Standardization Committee in Geneva has decided to bring some order to the chaos of can sizes, shapes, and materials used all over the world. As a first step the committee recommended that the number of round can sizes on the market be reduced to 13, the diameters of which would vary from 51 to 230 millimeters.

The committee is a body set up by the International Organization for Standardization (ISO), founded in 1946 as a successor to the Federation of National Standardizing Associations (ISA), established in 1926. All countries establishing standards are members of this organization. The committee feels that the great variety of shapes, sizes, and metals used makes it difficult for manufacturers, wholesalers, and retailers to compare prices, but it is particularly trying for consumers. Committee members figure that it will take at least 10 years until nonstandardized cans vanish from grocery shelves.

AROUND THE MARKETPLACE

Color TV Bonanza in Germany: The advent of the Olympic Games in Munich has German manufacturers panting happily to keep up with the unprecedented demand for color television sets. At best, stocks generally last only two weeks, and for certain models, customers have to accept waiting periods. But, with most plants shut down during the August vacation month, production quotas cannot be raised before mid-September (and after the Olympics) and by then they will have to be geared up for another peak, the Christmas season. Imports will hardly make a dent - AEG-Telefunken's licensing policy for its PAL system protects the do-

mestic market and leaves the Japanese at the doorstep. Still, the industry figures that Germans will buy 1.4-1.5 million sets this year - if manufacturers strain hard enough.
Unfortunately, from the industry's viewpoint, the color TV boom happens to coincide with a year of model changes due to advanced technology. Shortly after manufacturers raised prices by about 5% in the spring they had to bring them down again when aggressive Grundig introduced a highly sophisticated model (fully transistorized, modular construction, sensor controls, and short picture tube). Still, there is enough business for everyone, particularly since sales of black-and-whites are about on par with those of 1971.

Will U.K. Automakers Counterattack? Britain's automobile industry has long been jealous of the rapidly expanding markets in the EEC countries and has called on the government to stimulate demand at home. The government did react, with the result that demand is now 50% above last year's level, a boom market by any standards. Yet the domestic market share of U.K. manufacturers is dropping, and their excuse is that the current explosive demand has caught them "unawares" and that only those with massive idle capacity can hope to supply their full sales potential. This is certainly true in the case of British Leyland, whose record sales in June could not stop its market share from slipping to 28.7% as compared to 33.5% two years ago. Chrysler, on the other hand, maintains that its loss for the first six months of 1972 is solely to blame on inflation and labor disputes. The company is now perilously near (10.4%) the market share which most experts consider the minimum needed for economic survival. Vauxhall (GM) also shows a six-month trading loss, but its problems seem to rest on dwindling appeal. Only Ford can claim some measure of success, having built more cars in Britain over the half-year period than ever before. Still, its market share sank to 24.6% (June 1972) from 28.4% (June 1970).
Meanwhile, the foreign imports have made considerable inroads, boosting their market share to a record 26.4% in June. That month, Renault and Fiat alone sold 7,000 and 5,000 units, respectively, despite serious capacity (Renault) and labor problems (Fiat) at home. Although embarrassed by the situation, British manufacturers are convinced that the floating of Sterling will force importers to raise their prices and will slow the flow of imports. Now that one of every four cars in the U.K. is foreign-made, however, observers feel that the U.K. industry will have to do more than stem the tide: it will be obliged to counterattack.

EURO COMPANY SCENE

An independent study commissioned by the Italian government from the state economic planning institute ISPE recommends the takeover by Ente Nazionale Idrocarburi (ENI) of half or even all of Montecatini Edison's primary chemical sector as a solution to Montedison's financial woes. One proposal is for state-owned ENI, Montedison's main shareholder, to acquire the company's refineries at Priolo and Brindisi, with their combined annual capacities of 17.5 million tons, as well as 50% of Montedison's steam-cracking and aromatic facilities. An alternative likewise suggests ENI ownership of the refineries plus takeover of all Montedison steam-cracking and aromatic plants. Montedison would obtain considerable short-term capital from such a sale, while ENI would gain new refinery capacity and technical know-how. On the other hand, the state would have to foot the bill for the transaction, Montedison would lose its independence in marketing and supply, and ENI would end up controlling over 75% of Italy's entire basic chemical industry, a development hardly to be welcomed by Montedison managers and private chemical producers such as the SIR group of Milan. Meanwhile, time is running out for Montedison, which reportedly has been losing the equivalent of some $625,000 daily.

A takeover worth more than £130 million for the Bovis building, civil engineering, and property group was announced last week by Peninsular & Oriental Steam Navigation (P&O), one of the world's largest passenger shipping lines. The proposed tie-up between the two is reminiscent of last year's purchase of Cunard by Trafalgar House Investments. Both sides maintain that the link-up is a merger rather than a takeover, and P&O's finance director explained the logic behind the move, namely that it was natural for a company like P&O, "rich in assets and low in profits, to seek a company rich in profits and low in assets." P&O's profit record has not been spectacular, but its potential is considerable, especially in the light of its property assets in London and throughout the world, which are valued at £78 million. Bovis has virtually trebled its profits in the past four years to £4.5 million. Total combined assets of the two companies would be between £300-350 million. Rumors persist in the City that a third-party bid for P&O is imminent, as a move to forestall the proposed takeover of Bovis.

Ford Motor Co., Detroit, has signed an agreement with Philips of the Netherlands and its New York subsidiary, Philips Corp., for rights to the Stirling external combustion heat engine. Ford now has an exclusive world-wide license for automobile, truck, tractor, bus, military vehicle, industrial, and marine Stirling engines and a non-exclusive license for all other Stirling types. The new contract does not affect any agreements previously concluded between Philips and various European manufacturers. Within the framework of a seven-year plan, the two companies have already embarked on a joint three-year development program, according to which Philips is designing and building experimental Stirling engines for Ford to test. The U.S. company may quit the program whenever it should prove technically unsatisfactory. The Stirling engine is said to have particularly low levels of emission and noise.

Deutsche Fruehauf GmbH & Co. KG, German subsidiary of Fruehauf International, Detroit, has taken a "substantial" stake - estimated at 75-80% - in Ackermann Fahrzeugbau, manufacturers of truck, tractor, and special-purpose trailers. According to spokesmen, the participation will enable the companies to coordinate their largely compatible product lines for an optimal assault on the market. Know-how exchanges and cooperation with Fruehauf subsidiaries in France, England, and Holland are also planned. Together, Fruehauf and Ackermann employ about 1,200 in five German production plants. Their combined annual turnover amounts to some DM 100 million ($31.3 million).

Germany's AEG-Telefunken has filed suit against Sony of Japan in an attempt to enjoin it from selling Trinitron color television sets on the German market. AEG-Telefunken claims a violation of its PAL patent rights *(s. also AROUND THE MARKETPLACE)*.
The German company is said to be negotiating with another Japanese firm, Hitachi Ltd. of Tokyo, for establishment of joint ventures in developing countries for the manufacture of electrical home appliances. A detailed plan will be released by the end of the year, Hitachi announced. After a long period of informal cooperation, the two companies concluded an agreement for the exchange of know-how and technical information last year.

Standard Elektrik Lorenz AG of Germany, member of the ITT group, has signed agreements with several French electronics manufacturers for production and sales cooperation within the "Alpha Jet" aircraft program. Developed by Dassault/Breguet of France and Germany's Dornier, the plane will be offered in a French version as a light training jet and in a German one as a ground combat support craft.

French Shell has placed an order for the world's biggest oil tankers with the French shipbuilder Chantiers de l'Atlantique of St. Nazaire. Two ships of 540,000 tons, each with steam turbines totaling 65,000 h.p., will be handed over to Shell in 1976. The largest oil tanker presently in service is a Japanese 370,000 tonner. A Japanese shipyard is also expected to deliver a 477,000 tonner to a British shipping line within the next year.

France's CGE Alsthom (Compagnie Générale d'Electricité group) has won a contract worth FF 68 million ($13.6 million) from the Singapore Public Utilities Board for the installation of four 150,000-kVA electrical transformers for the island's new 230,000-volt electricity network.

The huge gas turbine being developed by British Leyland for British Rail's 155-mph advanced passenger train (APT) of the 1980s has failed to give required performance, and British Rail is contemplating replacing these prototypes with German, American, or French engines. Failure to win this contract will be a big blow to British Leyland, both in terms of financial return and loss of prestige. Leyland has now set up a development program alongside British Rail in an effort to meet the latter's new requirements. If Leyland should fail, the APT will be entirely foreign-powered when it comes into service in 1978, since Sweden's ASEA has already won the contract to power the electric prototype next year.

The U.K.'s Imperial Tobacco has made an agreed offer valued at £280 million for the Courage brewery group. The offer, which comes only five weeks after Grand Metropolitan Hotel's £400-million struggle for control of brewers Watney Mann, would create a combine capitalized at £900 million. Imperial's move makes it plain that negotiations with British-American Tobacco with regard to cooperation and possible merger have broken down. Courage has eight breweries and 6,870 pubs, hotels, and off-licenses in England and Wales. The company acquired John Smith of Tadcaster for £40 million and, last year, Plymouth Breweries for £7 million. Courage also has a 25% stake in the Harp Lager consortium together with Scottish & Newcastle Breweries and Guinness. Courage's pretax profits last year increased from £12.8 million to £14.8 million on sales of £171 million. An official statement from Courage considered it unlikely that there would be any rival bid.

The U.K.'s House of Fraser department stores group has acquired the Danish department store of Illum of Copenhagen, reputed to be the most up-to-date department store in Scandinavia. The price, which has not been officially announced, is said to be about £100 million. Fraser maintains that the deal will provide "a springboard for further expansion but not until we have digested this one first." Fraser also is looking for possible department store acquisitions in France. The asset value of the Illum store is about £10 million.

The German "supermarket king" Theo Albrecht of Essen has defied legal challenges in successfully acquiring the Dutch Combi supermarket chain in a deal worth 4.7 million guilders (about $1.5 million). An Utrecht court has ruled the transaction to be in order. In taking over Combi and its subsidiaries, Albrecht has temporarily assumed control of two important food organizations - E.O.Kroon, with a few hundred self-service stores, and Superunie, an association of 35 independent grocers with more than 100 stores and an annual turnover of about 300 million guilders. In addition, Combi itself operates 10 large supermarkets in Holland, and it is essentially this part of the deal Albrecht is interested in.

The U.K.'s Imperial Tobacco subsidiary Ross Poultry, reputed to be Britain's largest poultry producer, is to form, in conjunction with Arbor Acres Farm, Inc., what will almost certainly be the world's largest poultry group. Arbor Acres is a wholly-owned subsidiary of the International Basic Economy Corp., controlled by the Rockefeller family. The new 50:50 owned company would be the vehicle for Ross' entry into the U.S. poultry market. Imperial Tobacco acquired the Ross group for £45 million in 1969.

Fisher Price Toys, East Aurora, Ill., of the Quaker Oats group, has taken over Steinmeyer & Co. NV of the Netherlands, also toy manufacturers. The companies have cooperated in the sales of Simplex puzzle games in the United States for the past two years. The Dutch firm has been renamed Simplex Toys.

The public relations division of state-owned French publicity group Havas Conseil, Havas Conseil Relations Publiques, will be taken over by the private management consultant holding company Groupe Bossard. The separation of the advertising and PR interests of France's biggest advertising group follows Havas' involvement in a recent television advertising scandal which resulted in the dismissal of top TV executives and a tightening of government control over the French TV network. Bossard's marketing division is itself partly held by Sigma Needham, member of the international consortium International Needham-Univas, which is in turn controlled by Havas Conseil and Needham Harper Steers of the United States.

Italy's Generali Assicurazioni insurance has signed a cooperation agreement with Mitsui Mutual Life of Tokyo, a leading Japanese life insurance company. Generali has concluded similar pacts with other international firms, among them Aetna Life and Casualty of Hartford, Conn.

Chase Manhattan Bank is setting up a new department in Vienna to cultivate trade relations with the Soviet Union and other East bloc countries. The unit will provide information for Chase clients and banking partners and East European governments interested in establishing commercial ties with U.S. business.

Common Market Reports

EUROMARKET NEWS

Issue No. 189 *Report No. 194, August 29, 1972*

Treaty to Ease Enforcement of Judgments: The Convention on Jurisdiction of Courts and Enforcement of Judgments in Civil and Commercial Matters is one step closer to becoming effective - signed in 1968, it has now been ratified by the national legislatures of all six member states. Since the Convention takes effect on the first day of the third month after deposit of the last instrument of ratification, Commission officials in Brussels hope for an effective date of Jan. 1, 1973, at the latest.

Negotiated under EEC Treaty Article 220, the Convention essentially introduces what has been dubbed "freedom of movement of (final) civil and commercial judgments." Thus, enforcement of judgments would no longer be hampered by national rules on jurisdiction or other provisions securing a member state's territory against judicial intervention from abroad. A decision, order, or decree (including public documents such as an order to pay) rendered in one state would be recognized automatically in the other without additional proceedings and without a review as to the legality of the decision. Accordingly, a French creditor who has obtained a judgment from a French court against a Belgian debtor merely needs a writ of execution from the court of appeals in the debtor's domicile and he may proceed with execution of his writ.

Cutting judicial red tape by simplifying recognition and enforcement does not mean, however, that the parties concerned are afforded less protection. On the contrary, in the future any national judge would decide for himself (in this case, the French judge) whether he has jurisdiction under the Convention and whether the defendant's rights have been preserved. The Belgian debtor, confronted with the writ of execution of his French creditor, still could challenge the writ before a court of appeals.

In one respect the Convention falls short of the objectives laid down in Treaty Article 220 since it does not include arbitration awards. But a more important aspect goes far beyond what the drafters of that Article had in mind because it contains a set of jurisdictional rules that would, for example, speed up adjudication and avoid multiplicity of suits and conflicting decisions. For instance, if a suit is pending before a court of one state and a second suit involving the same parties and the same issue is filed in a court of another state, the latter court must declare that it lacks jurisdiction.

The four EEC candidates (U.K., Ireland, Denmark, and Norway) have

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agreed in their respective accession treaties to adhere to the Convention, but certain adaptations will still have to be negotiated for some of the candidates. Only when all four national parliaments have ratified and their instruments of ratification are deposited will the Convention apply to the enlarged Community of Ten.

Girding for the Fall Season: A better investment climate for industry is among the major requests of the Patronat Français, the French employers' federation, in its discussions this month with the new Prime Minister, Pierre Messmer. Although already assured by Finance Minister Giscard d'Estaing that there would be no credit restrictions and no price freeze in the fall, the employers are urging more positive measures to strengthen industry's investment ability. They seek, for instance, a decrease in long-term interest rates for corporate investment credits, currently being offered at 8.5%, or between 0.75 and 1% over those of neighboring EEC countries. Maintaining that inflation can be fought only with continued industrial expansion, the Patronat also considers too steep the present 10.5% annual growth rate in hourly wages and the 4.5% increase in purchasing power. Both, it charges, are "more than the economy can take in the medium term."
The trade unions also have informed Messmer of their objectives. They will campaign for a minimum monthly wage of FF 1,000 ($200) as against the present FF 838 (for a 44-hour week), a reduction of the official retirement age from 65 to 60 years, higher pensions, and more protection of employees against dismissal. The sudden fall of former Prime Minister Chaban-Delmas in July - after a parliamentary session in which compromise was achieved on the first two of these demands - naturally renewed union hopes that the debate would be reopened and led to the assumption that the new administration would modify existing policy in some respect. Meanwhile, some cold water has been thrown on these hopes - Messmer has not hidden his admiration for many of his predecessor's policies. In fact, he reportedly aims to carry them out faster, without spending any more money. Until the summer recess is over, however, nothing concrete will be forthcoming about his actual objectives.

French Taxpayers and the "System": Frenchmen have been getting some home-grown criticism reflecting on their tax morals. The Tax Council, a nine-man group of judicial and fiscal officials entrusted with the difficult diagnosis of what's wrong with France's tax structure, has found fault both with the system and the taxpayers themselves.
The council has determined that for all practical purposes only 300,000 of the 1.5 million French farmers file income tax returns, and most of these are assessed on a lump-sum basis. And it estimates that the income of French farmers is 4.3 times higher than that reported to the government. Industrial enterprises allegedly turn 2.3 times more profit than they declare in their annual returns. Insufficient data and also little chance for verification by the tax authorities are blamed for this discrepancy.
French newspapers have described as scandalous the findings that capital gains derived from the sale of real estate were not taxed at all prior to 1963 and even now are treated rather generously, thus encouraging tax evasion considered high in the first place. The liberal professions are treated more favorably than those in dependent work. For example, over the past 12 years the tax rate for a married worker dropped only from 24.4 to 24.3% while that of a self-employed person went down to 37.6% from the original 44.7%. But the tax doctors had something good to say about one particular group of taxpayers: wage earners and salaried workers have few chances to evade the bite; although employers do not take out withholding (employees file annual returns), they still must report their payrolls to the fiscal authorities.
Many inequities and the extent of tax evasion the council discovered un-

doubtedly amount to substantial losses of revenue. But apparently both still are within manageable limits, since the government derives 60% of its total revenue from indirect and only 29% from direct taxes. Thus, employed Frenchmen are hit twice - through income taxation they cannot escape or evade and through excise taxes, which hit them more than the well-off. There is some hope for a change, though: the council recommends not only elimination of the obvious inequities but also suggests that France should shift emphasis from indirect to direct taxes for the sake of tax harmonization envisioned by the EEC.

More Zip for French Mails: A new numerical system of French postal codes will permit the electronic sorting of letters. The existing system of two-digit numbering corresponding to France's 99 regional *départements* is now incorporated into a five-digit formula. Paris has 21 codes ranging from 75001 to 75020 and corresponding to the city's 20 districts - the big 16th *arrondissement* has been divided in two (75016 and 75116) for postal purposes.

Lower Broker Commissions in the U.K.? London's Stock Exchange Council has intimated that it is planning to reduce considerably commissions charged by stockbrokers on large deals. These are understood to involve transactions of above £50,000 in equity shares and above £250,000 in gilt-edged bonds. Several large institutions had expressed concern over the cost of dealing through the Exchange. The Council takes the view that these reductions will help keep the SE competitive on both domestic and international markets, i.e., will cut down on the number of deals done outside the market and will make the rates acceptable to prospective European companies participating in the market following Britain's entry to the EEC. The cuts, which are subject to confirmation, foresee a commission rate of 0.1% (from 0.14%) in the case of "long-dated, gilt-edged bonds," cuts of up to 28% for deals in debentures and bonds, cuts of up to 47% in equity transactions, and a rate of 0.125% (from 0.5%) for the excess above £1.75 million on equity and preference share deals.

In related news: Following a relaxation of London Stock Exchange rules, London jobbers may now deal in convertible Eurobond securities with non-members of the Exchange. To date, jobbers have been allowed to deal with non-members only if the latter were acknowledged Eurobond market makers. Moreover, this concession only applied to fixed-interest straight bonds. The Stock Exchange Council indicated that it would not allow the relaxed rules to extend to equity shares resulting from Eurobond conversions. In spite of this, the extension of the rules will make the Eurobond market more accessible for U.K. residents.

Male Office Staff Salaries Lagging: The U.K.'s Institute of Administrative Management has published a survey which reveals that male office staff in the U.K. earn substantially less than manual workers, whose median income of £30.93 per week is some £6 above the wages of experienced clerks. Noting that office staff as a rule work shorter hours, the survey points out that, even when manual workers' wages are adjusted to a 37-hour equivalent week, the male office worker still earns less. In spite of this, however, the salaries of U.K. office workers have increased over the last two years by between 23 and 45%, i.e., at a faster rate than the increase in the cost of living, where a 17% increase was recorded between March 1970 and March 1972.
The same survey also reveals that the avowed aim of the Equal Pay Act 1970, to achieve equality in pay in every grade of clerical employment for males and females by Dec. 29, 1975, has been largely disregarded by the private sector. Subject to parliamentary approval, the Secretary of Employment may order women's pay to be 90% of men's by Dec. 31, 1973. To

date, it is clear that employers in the private sector have not been increasing the pay of their female staff in the clerical sector at a rate which will meet the requirements of the Act and a "significant acceleration" will be needed in the next three years. Pay rates for typists and secretaries have not risen quite as much as for clerical staff in general.

"Chunnel" Given the Green Light: The rail tunnel project to link Britain and France under the English Channel seems assured following agreement by the transport ministers of the two countries to proceed with final studies prior to the start of construction next year. A convention to this effect is to be signed shortly.
The tunnel, which would be 33 miles long and should be completed by 1980, would reduce London-Paris rail travel time to two hours, 40 minutes. Requiring an estimated $1.2 billion in investments, the project is in the hands of two general contractors, British Channel Tunnel Co., Ltd., and Société Française du Tunnel sous la Manche, comprising 21 shareholders, mainly banks. Among them are the First Boston Corp.; White, Weld & Co., and Morgan Stanley & Co., Inc.
The "Chunnel," first envisaged by Napoleon, stands to greatly benefit northern France, since it should provide the Calais region with a lot of British commercial and industrial ventures which might otherwise set up European operations in Belgium and Holland.

AROUND THE MARKETPLACE

Textiles - "a Special Case": Recent U.K. reports have pinpointed the textile sector as one which will give rise to severe problems when the EEC is expanded to become the Ten. The enlarged Community will import almost as much textiles and clothing as the United States, and the Community's future textiles policy will obviously affect the lives and the livelihood of textile and clothing workers in virtually every country in the world. As was pointed out, textiles are something of a special case: whereas in most areas of international industry trade is controlled by tariffs alone, trade in textiles is also subject to quota or quantitative restrictions. Alignment of U.K. tariffs with those prevailing in the EEC is relatively simple but any alteration of quota restrictions is highly complex, all the more so since most of the applicable quotas are currently being reviewed. The U.K.'s Dept. of Trade and Industry has now called for free circulation of textiles within the enlarged Community and a complete reappraisal of the present quota system. The U.K. is particularly worried about the lack of a cotton-yarn quota system in the six-member EEC: if Britain has to accept such a set-up as of January 1973, the future of the U.K.'s cotton yarn industry, especially in ailing Lancashire, will be endangered. Above all, observers note, the expanded EEC will have to take steps to counteract the expedient application of Article 115 of the Rome Treaty, which allows for restrictions in trade between member countries under special circumstances.

DATEBOOK EUROPE

"The Competition for Savings" is the theme of the fourth annual Trans-World Investment Seminar to be held Oct. 30-Nov. 1 at Amsterdam (Grand-Hotel Krasnapolsky). Sponsored by the Investment Dealers' Digest, New York, in cooperation with Investment & Properties Studies, Ltd., London, the international conference will explore such topics as the impact of the currency crisis on security markets, standards for regulation of international funds, the role of financial advertising, etc. For a detailed schedule of the program and a list of speakers contact the Conference Director at the IDD, 150 Broadway, New York, N.Y. 10038.

"Management's Commitment in Building the World of Tomorrow" has been chosen as the main topic of the 16th World Congress of the International Council for Scientific Management (CIOS) to be held Oct. 23-26 at Munich (Sheraton). The four-day event, under the patronage of the President of the Federal Republic, will be attended by business and political leaders from all over the world. Further information from the CIOS Congress Secretariat, RKW, 6 Frankfurt am Main 8, P.O. Box 11 91 93, Germany.

EURO COMPANY SCENE

Hawker Siddeley Aviation of the U.K. and the German-Dutch Vereinigte Flugtechnische Werke-Fokker GmbH, collaborators in the A-300 B European Airbus program, have joined Dornier AG of Germany in a study project to explore possibilities for development of a quiet airliner for the late 1970s and early '80s. The companies first plan to determine the market for such an aircraft and then establish the necessary technical and financial criteria. Eventually they may set up a design team. Similar quiet airliner projects are being carried out by the Europlane group, a joint undertaking of British Aircraft Corp., Germany's Messerschmitt-Bölkow-Blohm GmbH, and Saab-Scania of Sweden, and Boeing-Aeritalia.

This year Deutsche Lufthansa reportedly will order at least four European Airbus aircraft for delivery in early 1975. The German company's Condor subsidiary also is said to be interested in the wide-body passenger jet and will probably order two for a start. Most of the current 13 orders and 18 options for the Airbus are held by Air France, Iberia, and Sterling Airways. Alitalia is expected to sign up soon, too. Airbus producers hope to sell some 420 aircraft by 1985, not counting possible orders from U.S. carriers.

Court Line, the U.K. independent air carrier, has signed a contract with the U.S.'s Lockheed for two TriStar airbuses and has taken an option on three more. The deal, covering purchase plus spares and service equipment, has been described as the biggest financial package yet arranged by a U.K. independent airline and is valued at £20 billion ($48 billion). The TriStars are being purchased on Court's behalf by Airlease International, a partnership of 11 U.K. banks and financial institutions, and will be leased to Court on a long-term basis. Part of the finance for the deal has been supplied via a loan from the U.S. Export-Import Bank. The two aircraft will be delivered in February 1973 and will be in service as of April.

Atlantic Container Lines and American Airlines are to provide a new "integrated" air-sea freight service between the U.K., Continental Europe, and the United States. ACL is the biggest North Atlantic carrier, with 10 roll-on container ships serving eight ports in Europe and four in America. Rates and schedules will fall between those for all-air freight on the one hand and sea and surface transport on the other, and substantial interest has already been expressed in the new service. Typical comparisons for a one-ton piece of machinery from, say, Liverpool to Los Angeles: by air, delivery two days, cost $1,250; conventional sea and truck, 20 days minimum delivery, cost $550, and air-sea by the new "Sea Jet One" service, nine days delivery, cost $770. An additional attraction of the new service is that shippers receive a single document to cover the entire transit operation.

With the announcement that executive chairman Hans Werner Kolb will quit Germany's Phoenix Gummiwerke AG by the end of the year, speculation about a possible fusion in the European tire industry has gained new momentum. Kolb is said to have been among those who stalled earlier plans for a merger between Phoenix and Continental Gummi-Werke AG. Rumors from France indicate that a Phoenix-Conti link-up may take place as part of a larger alliance with Kléber-Colombes and possibly Michelin. On the other hand, Conti's chairman of the board announced only last month that the company, which has suffered a 9.5% setback in turnover for the first half of 1972, is seeking to become "stronger, not bigger," and is postponing any fusion plans because of the cost factor and an unpredictable market.

Representatives of Iran and oil companies from the United States, Britain, France, and the Netherlands are said to have reached a "preliminary" agreement on plans to double present Iranian oil production to eight million barrels a day. Secret talks had involved a proposal for the Western consortium and the National Iranian Oil Co. to form a joint venture for construction of a $500-million oil refinery in the Persian Gulf and a natural petroleum gas plant as well as new tanker docking facilities.

In separate negotiations, NIOC and Germany's Veba-Chemie, subsidiary of partly state-owned Veba AG, have been discussing a joint project to build a six million-ton crude oil refinery in northern Germany within the next five years. Such a cooperation would enable the German firm to receive its oil directly from Iran without having to deal with the international oil companies. NIOC has been pressing to obtain a share of German retail trade in gasoline and heating fuels as well, but Veba wants to limit Iranian participation to the refinery project. Another round of talks is scheduled for the near future.

Poland has placed orders worth some £500,000 ($1.2 million) with the U.K.'s Metal Box Co. for high-performance machinery to manufacture cans and seals. The Polish packaging industry and the British company have an agreement providing Poland with know-how on can production and packaging developments over the next 10 years. Metal Box is a member of Comeca Packaging Techniques SA, a consortium which was established to sell technical know-how to the socialist countries of Central and Eastern Europe and includes two other leading manufacturers in the sector, Continental Can of the U.S. and J.J. Carnaud of France.

Estel, the joint holding company in which the Dutch Hoogovens and the German Hoesch steel concerns merged their interests earlier this year, has got off to a poor start. For the first six months of 1972, the consolidated net profit totaled just 36 million guilders on sales of 3.046 billion guilders ($970 million). In fact, the profit was wholly attributable to the Dutch unit, since the German operation had an unspecified loss. However, the second half should be better in view of the upturn in demand for steel, management said.

American companies continue to tap the offshore dollar market for long-term funds. Borden plans to raise $30 million for 20 years through an international syndicate headed by Morgan and Cie. International. The expected interest on this convertible (equity-linked) bond issue is 5%. Beatrice Foods also is borrowing money by way of a convertible Eurodollar bond loan. A banking group led by Kidder Peabody is offering $25 million of 20-year bonds on an indicated coupon of 4.75%.

Sydvaranger A/S of Norway has awarded a contract for construction of a second iron ore pelletization plant at Kirkenes, some 250 miles north of the Arctic Circle, to Germany's Fried. Krupp GmbH, Krupp Industrie- und Stahlbau. The new facilities will add 1.5 million tons per annum to the 1.2 million-ton capacity of the first plant, built by Krupp in 1969. Investments for the project total the equivalent of about $15.6 million.

Chemicals producer Akzo NV of the Netherlands has signed a contract for scientific and technical cooperation with the Soviet Union's Committee for Science and Technology, above all in the fields of synthetic fibers and yarns, chemicals, and pharmaceuticals. The parties will exchange licenses and know-how.

Carbonisation Entreprise et Céramique (CEC) of France has acquired NV Gouda Vuurvaast of the Netherlands, manufacturer of fireproof materials, from NV Gebr. Nagtegal. The Gouda Vuurvaast division of chemical engineering will operate as a separate firm, however.

SKF-Compagnie d'Applications Mécaniques (SKF/CAM), French member of Sweden's SKF group, and Nadella SA, France's leading producer of needle roller bearings, have founded a joint (50:50) subsidiary, Nacam, with a share capital of FF 12 million ($2.4 million). The new company is to begin producing universal joints according to Nadella patents by the end of 1973. The plant to be built for this purpose at Vendôme will have an annual production of 2.6 million units.

Germany's Metalluplast GmbH, Safet-Embamet Lethias of France, and Europtap SA of Spain have set up a joint German venture, Metalpack GmbH. The parent companies, which specialize in tin-plate packaging, will use their new subsidiary to exchange know-how and cooperate in developing and improving products and manufacturing processes.

Wild Heerbrugg of Switzerland, precision optics, will take a 25% holding in Germany's Ernst Leitz GmbH as part of a newly signed agreement for the development, manufacture, and sales of microscopes and other optical instruments. For this purpose Leitz share capital will be raised from DM 30 to 40 million ($12.5 million). Up to now the German company has been under family control, with a 10% interest held by E. Leitz, Inc., of Rockleigh, N.J.

France's Groupement Français d'Informatique (consolidated turnover: FF 42 million - $8.4 million) and West German ADV-Orga (turnover: $4.2 million), both computer software companies with strong regional networks, have signed a cooperation agreement with a view to international expansion.

Schering AG of Germany and the U.K.'s Fisons Ltd., agrochemical division, have established a joint subsidiary in Denmark to develop and sell their agrochemical products. The two million-kroner ($290,000) share capital of Fisons-Schering Agrokemikalier A/S is divided equally between them. According to Schering, the new venture is an outgrowth of the division of crop protection chemicals of its former Danish representative in Copenhagen, Josef Fuchs A/S, and follows two years of cooperation between the British and German companies.

F.W. Woolworth is moving into the mail-order business with the introduction of a U.K. "Woolworth by Post" scheme on Sept. 2. The company has introduced a number of new lines recently, notably in the luxury-class stereo-equipment sector, and has opened a £3-million computer processing center at Swindon. Woolworth was in the news earlier this year when credit trading facilities were introduced at 66 of the store chain's 1,100 outlets in the U.K.

A group of French agricultural cooperatives and a private food-processing company have initiated a link-up of a type new to the French food industry though familiar in the United States. The cooperatives, specializing in the poultry and animal feed sectors, are to take a 34% blocking interest in Lesieur-Sodéva, part of France's third biggest food group, Lesieur. The combination of Lesieur's marketing know-how and the cooperatives' financial strength should improve the competitiveness particularly of the French poultry industry as Britain and Denmark, both strong in this field, come into the EEC. Traditionally there has been little cooperation between producer cooperatives and food processing companies in France, but already other companies in the notoriously ill-structured meat sector, among them GS-Nord, are reported to be following Lesieur's example.

The Canada Dry Corp. has plans to open a plant at Athy, County Kildare, Ireland, which is to become operational early in 1973 and will service the U.K., Continental European, African, and Middle East markets.

Unigate, the U.K.'s largest milk distributor and butter and cheese manufacturer, is reported to be building up its cash resources prior to going into Europe. At present, Unigate has practically no link-up with any European country, but, when Canadian, New Zealand, and Australian dairy produce is forced out after Britain's EEC entry, such links will be vital to the company. Because of Unigate's commanding position in the U.K. market, the alternative - to expand via mergers or takeovers in the U.K. market itself - would no doubt be frowned upon by the Monopolies Commission. Unigate sales during 1971-72 rose from £340 to 399 million (about $958 million).

German fruit juice and liqueur producer Eckes has acquired the capital of Italy's Pizzinini fruit juices, now renamed Eckes Italia. The German group had shared ownership with Pizzinini's founding family. The Italian firm employs 100 and has annual sales of about $2.5 million.

Debenhams, the U.K. department stores group which resisted a takeover bid from United Drapery Stores three months ago, has made an agreed bid worth some £7 million for Cater Brothers (Provisions), the private food, wine, and spirits retailers. Cater operates some 14 supermarkets in the U.K. in addition to a large chain of smaller stores and has a turnover in the region of £25 million ($60 million).

Change Wares of the U.K. has purchased a 51% stake in Germany's Peter Ruppel KG, manufacturer of store furnishings and equipment, for some $800,000. The companies will cooperate in production and sales. Ruppel's management has not been affected by the takeover.

Germany's Hessische Landesbank-Girozentrale, central bank for savings institutions in the State of Hesse, has taken a minority interest in the Swiss Banque de Crédit International, Geneva.

Common Market Reports

EUROMARKET NEWS

Issue No. 190 *September 6, 1972*

EEC Social Expenditures 1962-1970: Although far from being a "welfare state," Germany is spending more on social benefits and services than any of its EEC neighbors - DM 2,200 ($687) per capita in 1970. Until 1969 France had held the top spot for a few years, largely because of the generous child allowances it affords its citizens. These details are contained in a survey of the Statistical Office of the European Communities, offering comparisons of the social expenditures of the Six over the 1962-1970 period. The main conclusion of the EEC statisticians: These expenditures have grown more and more similar over the years. And they will become even more compatible as the various social and welfare systems are harmonized step by step in the future.

For the sake of a common denominator, the Statistical Office converted into Belgian francs each country's social expenditures per capita. On that basis, Germany spent the equivalent of BF 30,100 in 1970 as compared to only 13,900 in 1962; France, 26,600 (12,900); Italy, 16,100 (6,100); Holland, 24,700 (7,900), and Belgium 22,900 (10,900). In Luxembourg, these costs rose from BF 12,600 in 1962 to 23,300 in 1969 (figures for 1970 were not yet available).

The survey showed that, over the report period, all six countries spent increasing amounts on sickness and disability benefits, while trying to keep up with the mounting costs of such services. Health care thus ate up an increasing portion of over-all social costs, going up from 26.8% to 30.1% in Germany, from 20.5 to 25.6% in France, from 19.1 to 25.2% in Italy, from 25.5 to 31% in the Netherlands, and from 13.3 to 22.2% in Belgium over the nine-year period. On a per-capita basis, Germany again leads with BF 8,550 spent in 1970, followed by France (6,420), Belgium (4,810), Italy (3,680), and the Netherlands (7,390). These figures exclude maternity costs.

When it comes to old-age pensions and death and survivors' benefits, retired people are best off in Germany and the Netherlands, while Italy provides considerably less for them, the report indicates. Again on the basis of Belgian francs, these are the per-capita comparisons for 1970 and 1962: Germany, 99,100 (50,900); France, 75,000 (33,700); Italy, 50,000 (19,500); Holland, 96,800 (36,700), and Belgium, 62,600 (33,400).

The report records the most noticeable variations for child allowances, a sector in which France is an undisputed front runner. In 1970, allowances for every child up to the age of 15 amounted to

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the equivalent of BF 21,600 while Germany spent less than half of that, namely BF 9,400. The Statistical Office said it was unable to include the other four countries in this particular sector because national systems and policies were too divergent to permit comparison.

In all six countries, employers' contributions account for the largest share in financing social expenditures. From 1962 to 1970, these contributions rose from 49 to 50% in Germany, from 40 to 43% in Holland, and from 45 to 49% in Belgium. In France they remained steady at 61%, while going down from 62 to 55% in Italy, and from 44 to 37% in Luxembourg. The remainder is made up by the insured themselves (although their shares vary greatly from country to country) and by government contributions from tax revenues.

Doubts About the Price Freeze: Italians returning from their annual August vacations have long ceased to be amazed by the curious fact that most prices seem to go up during their absence. This blatant, though time-honored practice may have been blunted somewhat this year by the regional and selective price freeze decreed by the authorities. But, as always with controls of this type, the big question is whether the freeze will be effective in the long run.

By contrast, observers have expressed far more confidence in a series of measures adopted by the Andreotti cabinet prior to the holiday recess. Two of them would amount to a financial shot in the arm for ailing small and medium-size businesses in particular. One sets the stage for legislation providing an additional 300 billion lire ($517 million) for the national authority for medium-term credits, thus enabling this organization to liberalize its credit policy. A second cabinet decision widened from 56 to 96 billion lire the capital base of state-owned GEPI, which is charged with the task of helping restructure industrial enterprises.

Furthermore, the administration approved 250 billion lire for ENEL - the state-owned utility that holds a monopoly in the electric power sector - to meet increased labor costs and to permit investments in new power plants. This step should end ENEL's problem of having to borrow on the capital market, often at unfavorable conditions, because of the price stop on electric power. And the last of the cabinet measures affects both industry and private citizens - telephone rates are going up by at least 8%, in larger cities by 10%.

Unemployment Insurance in Germany: In a rare display of unity, German unions and management have banded together to fight a plan to increase unemployment insurance contributions to 2%. The present rate is 1.7% of an employee's gross wages or salary, with employee and employer each paying half.

The *Bundesanstalt für Arbeit*, the federal labor agency with a nationwide network of employment offices, says it needs more money to finance a great variety of programs, expanded through recent legislation. One of them, for example, grants subsidies to construction firms to offset additional costs incurred by continuing work during inclement weather and is financed through special levies imposed on all firms in the construction industry. But most programs, such as promoting employment (particularly along the East-West border), vocational training and retraining, are financed from unemployment insurance contributions, although the federal government does contribute substantially to the agency's budget.

Union leaders argue that the costs of vocational training and job counseling for school graduates as well as for the 136,000 unemployed (mostly older, more difficult to place workers, despite more than half a million openings in August) should be borne by taxpayers. Spokesmen for the national employers' association point to the agency's still-comfortable financial pillow of DM 4 billion and demand cutbacks in the various vocational programs. They also complain that contributions were raised from 1.3% to the present level at the beginning of 1972. The proposed increase also has met with opposition from within the agency itself. Although the largely self-governing bodies of the Bundesanstalt could raise contribution rates without legislative action, they have refused so far, mainly because of the recent boost.

Where Have the 50 Pfennigs Gone? The West Germans have just got official word of what they have really known for some time: each D-mark they spend, save, or receive in their social security checks is worth only half as much as 20 years ago, according to the Federal Statistical Office. And what bothers the burghers most (particularly the older generation, victimized at least twice by inflation) is that there is little hope for a remedy against the chronic erosion of purchasing power. July's cost-of-living index stood at 5.6% above that of July 1971, although earlier this year government leaders had hoped for a figure slightly below 5%. In fact, Economics and Finance Minister Helmut Schmidt now feels that the climax is still to come, and, worse, he has no solution to offer.

Despite this ominous trend and the fact that inflation rates consistently outpace short-term interest rates, Germans continue to put their money into savings accounts. More and more of them, however, are turning to long-term investments offering interest rates which barely creep ahead of the cost-price spiral. These increased savings, which partially reflect higher incomes and pensions, come to a large extent from low and medium income providers determined to put enough away for their retirement years. This attitude puts the Brandt Administration in a bad spot - in the fashion of any Socialist government it had once vowed to do more than previous administrations about promoting capital ownership among the low and medium income groups.

Long-Term Finance Demand to Perk Up: According to market sources in the U.K., straight Eurodollar bond price levels have been maintained in spite of the renewed upward trend of U.S. short-term interest rates. Reasons given are the relatively strong recent performance of the dollar on foreign exchanges, the dearth of new Eurobond straight issues, and the difficulty facing investors wishing to participate in alternative bond markets. It is less than likely, however, that the surprising absence of new issues in such a strong secondary market will continue for much longer since short-term interest rates are rising and a credit shortage is anticipated in the near future. These two factors alone will create a growing demand for long-term finance, market observers feel.

Wage Dispute May Set Trend: The U.K. government is facing the threat of increased pressure for large-scale pay increases in key public sector industries, notably construction and mining. The current building industry wage dispute has dragged on for some ten weeks in spite of a 14% package offered by the employers. The resolution of this conflict is seen as a trend-setter in the traditional annual round of wage negotiations. Earlier this year, Britain's miners obtained a 20% wage increase and the railwaymen settled for 13.5%. It is considered unlikely that public sector manual workers will settle for a boost of less than 20%.

Changes for the "Société Civile": The French Council of Ministers has approved a bill bringing important modifications to the establishment and function of the civil company, or *société civile*. Theoretically a company with no commercial activities and hence not a *société commer-*

ciale, the civil company is used primarily for holding real estate or for professional partnerships (for example, law firms or medical cooperatives). Traditionally, this corporate form - which is of little interest to nonresident companies doing business in France - has been relatively free of legal restrictions. This is bound to change, since the bill aims to impose a more organized structure, somewhat in line with that of the commercial company, offering greater protection to associates and third parties.
Among other requirements, the bill provides that the creation of a civil company must be announced in the official gazette before the firm can begin operations. It also requires a specific management structure. These provisions will apply to existing civil companies five months after enactment of the bill, which has been sent to the parliament.

New Rules for French Professionals: A new professional code has been instituted for France's legal and tax professions. The essence of the new regulations is that no one may call himself *conseil juridique* or *conseil fiscal* unless registered on an official list. However, most of the new eligibility requirements do not affect individuals or companies who practiced their business before July 1, 1971. Here are some of the stipulations facing newcomers to the professions, whether native or foreign:
- University qualifications plus three years of professional practice are compulsory.
- No "commercial" activity may be engaged in by a conseil juridique or conseil fiscal (after a transitional period this rule will also apply to practitioners now in business).
- Candidates for the official roster may not be employees of commercial companies, only of other legal or tax advisors.
- If legal or tax advisors operate as a group, they must set up a civil company for this purpose. However, law and tax firms in business before July 1971 and operating under commercial instead of civil company status are not obliged to change.
- All legal and tax advisors must be insured against professional errors and negligence.

Amsterdam Wants Tourist Tax: The Amsterdam City Council plans to slap a 4% "tourist tax" on all hotel rooms costing more than 7.50 guilders per night in Holland's capital. The City Council claims that the levy is necessary because of the heavy outlay - about 100 million guilders annually on tourist services. In a full year, the tax is expected to yield about 4 million guilders. Not surprisingly, local hoteliers are protesting strongly against the tax, maintaining that it will deter tourists from visiting Amsterdam.

AROUND THE MARKETPLACE

IBM Encounters Buy-British Policy: The U.K.'s Dept. of Trade and Industry, in an effort to channel public sector buying to International Computers Ltd. (ICL) and thereby help the company boost sales and prevent redundancies, has blocked Glasgow (Scotland) University's decision to purchase the IBM computers recommended by the Dept. of Education and Science's Computer Board. The decision came as a shock, both to the Board and to IBM. In the last 18 months, four U.K. universities have had purchases of U.S. computers approved (two IBM /370 systems and two CDC 7600s), and both Glasgow University and the Board felt that the IBM equipment was best suited to the university's needs.

<u>Japan's Traders Welcome European Business:</u> Growing Japanese interest in moving into the European market both as exporters and importers was felt to be reflected in recent statements by a Japanese executive in Amsterdam who said that more Dutch businessmen should visit Japan to sell their products. These remarks were made in an interview by S. Atobe, general manager of the Amsterdam branch of Mitsui (Benelux). Mitsui is the leading Japanese trading house in international markets. Lack of knowledge of the Japanese market, Atobe said, need not be a handicap, since Mitsui stands ready to assist exporters to Japan.

In related news: the Japan Industry Floating Fair Association is sending its new floating fair ship, the Shin Sakura Maru, on its maiden voyage to ten European countries, starting in Amsterdam and going on to Copenhagen, Helsinki, Stockholm, Gdynia (Poland), Oslo, Hamburg, Antwerp, London, and Le Havre. One of the aims of the trip is to encourage two-way trade between Europe and Japan.

<u>Swedish Wheat for Russia:</u> Sweden's central association of farmers has announced the sale of half a million tons of wheat to the Soviet Union. The deliveries will begin in September and continue through next summer. Total sales from this year's crop is expected to bring Sweden over 200 million kronor ($43 million) in hard currency, especially from West Germany, which has purchased over 400,000 tons. The agricultural sector, nevertheless, shows a deficit because of food imports and because world price of wheat is considerably lower than the Swedish domestic price.

<u>How to Open a Moscow Office:</u> For a firm foothold on the East Bloc markets, an officially accredited representation in Moscow is now becoming the "in" thing for western companies. The Soviet authorities still show reluctance to liberalize admission policy - so far only 35 international companies have been able to open trade offices in the Soviet capital, with the Japanese in the forefront. The waiting list is long and includes some of the top names among the multinationals. The fact that they have been the Kremlin's most important western trading partner for some time has done little to help the Germans, for instance. Only Farbwerke Hoechst and Siemens were granted Moscow bureaus until just recently, when they were joined by Mannesmann steel and BASF. Nine other German firms have applications pending.
Permission to open a trade office normally comes only after years of almost intimate contacts with the USSR's foreign trade organizations. Experts agree that companies delivering machines and equipment to the Soviets have a better chance than consumer goods exporters, since machinery generally requires intensive service and maintenance. Companies dealing with Soviet-exported goods abroad also are favored.

Permission for a representative office is always limited to one year and can be revoked by the Soviets prior to expiration; an extension for another year must be requested well in advance. Issuance of a permit enables the company to apply for office space, apartments, telephone and telex hookups, office and housekeeping staff at the agency serving the international diplomatic corps in Moscow. Accredited representatives have the right to make their purchases in the foreign-currency stores barred to Soviet citizens.

EURO COMPANY SCENE

The U.K.'s <u>British Steel Corp.</u>, together with <u>August Thyssen-Hütte</u> and <u>Klöckner-Werke</u> of West Germany, is negotiating with South Africa's <u>Iron and Steel Corp.</u> (Iscor) on plans to build a steelworks near Cape Town. The plants would make semi-processed steel products for export.

General Motors' German subsidiary, Adam Opel AG, is currently developing and building prototypes of a GM "world model" for the international markets. According to Alexander A. Cunningham, Opel's general manager, it is planned to build the car in several countries. However, Opel did not detail specifications nor did the company say when the model would be introduced. The German subsidiary is GM's most successful foreign company - while accounting for only a quarter of overseas sales, it contributes three-fourths of the overseas profits. This year Opel sales managed to outstrip Volkswagen in Germany, Switzerland, and Austria for the first time.

Occidental Petroleum Corp.'s U.K. subsidiary Oxy Metal Finishing (Great Britain), already a major subcontractor to the Russian automobile industry, will be involved in a deal worth $120 million, thanks to a contract negotiated between Occidental and the Soviet Union. The contract calls for supply of products and services to the Kama River truck plant and to others. Occidental will receive payment in $120 million worth of nickel and chromium.

Germany's A. Rohé GmbH, automobile service subsidiary of Allen Electric & Equipment Co., Kalamazoo, Mich., plans to take over the Osmond Beissbarth company in Munich early next year, according to a joint "declaration of intent" agreed upon by the two firms. Beissbarth is one of Europe's leading manufacturers of balancing and aligning devices for automotive wheels and axles.

Koch Industries, Inc., Wichita, Kans., which ranks itself among the leading independent mineral oil companies in the United States, has established a German subsidiary in Düsseldorf, Koch Oil GmbH. The new company is engaged in the wholesale marketing of petroleum fuels and finished products in Germany. Other Koch affiliates are located in Rotterdam, London, and Milan. The company's German business was previously handled by Atlas Continental GmbH in Hamburg.

Borg-Warner Corp., Chicago, Ill., has merged three European air conditioning and refrigeration subsidiaries into York-Europe, Brussels, to handle sales of York equipment in the U.K., France, and Germany. A Geneva office will manage distribution to other European countries. York production plants at Basildon, England, and Nantes, France, now will supply the entire European market in addition to domestic needs.

Texaco Oil Aktiebolag, Swedish subsidiary of Texaco Inc., has acquired 19.9% of the outstanding shares of Skandinaviska Raffinaderi Aktiebolaget (Scanraff), a Swedish company formed to build and operate a petroleum refinery in Lysekil on Sweden's west coast. Initial processing capacity of the plant will be at least seven million tons of crude yearly. The new facilities, to be completed by 1974, will be designed specifically for the production of low-lead gasoline and low-sulphur heating fuels. Texaco will be entitled to use up to 50% of refinery capacity and is expected to sell its share of output on the Swedish, Danish, and Norwegian energy markets. The U.S. company's partner in Scanraff is Sweden's Oljekonsumenternas Förbund, Ekonomisk Förening ("OK"), which markets petroleum products at home.

Total Raffinaderij Nederland, the Dutch unit of the French CFP petroleum group, has obtained official permission to construct a refinery near Flushing. With a planned initial capacity of 6.5 million tons annually, the refinery is scheduled to come on stream in early 1974. Total outlays are estimated at around 400 million guilders (about $123 million).

Following announcements that the U.S. Navy plans to take bids on development of vertical take-off planes for its new "Sea Control" mini-carriers, Grumman Aerospace Corp. has entered joint projects with two European manufacturers specializing in the VTOL sector. The Dutch-German VFW-Fokker and Grumman have signed an agreement to develop a tactical VTOL fighter jet, while Dornier AG of Germany and the U.S. company have similarly agreed to collaborate on a VTOL supply transporter, for which Dornier's Do 31, the only such aircraft currently available in the large-plane class, is to form the basis. Grumman and Dornier reportedly plan further development of the Do 31 concept for use in civil aviation as well.

The Italian government, apparently alarmed by layoffs resulting from Montecatini Edison's recent shutdown of several money-losing plants, has formally asked the company to hold off on any further closures, at least temporarily. Last month Montedison sold off its Galileo optical works in La Spezia to Genoan business interests and - in a surprise move during the usually tranquil vacation period - announced the shutdown of two textile plants, a spinning mill, and a dye works, including the former Chatillon plant near Milan and the Vallesusa facilities near Turin. Over 900 employees have been affected by the measures. Montedison has long planned reorganization and rationalization of its synthetic fiber interests, particularly after merging its Rhodiatoce, Polymer, and Chatillon holdings into Montedison Fibre SpA and acquiring control of Snia Viscosa early this year. The group has said it cannot cancel or put off the necessary shutdowns at this point.

Hercules Europe SA, Brussels, European subsidiary of Hercules, Inc., Wilmington, Del., has improved its position in the sector of water purification and sewage treatment. Erpac SA of France, in which Hercules holds a 50% stake, has taken over Belgium's Interindustrie SA, a well known supplier of industrial water treatment systems. In order to strengthen its position on the Belgian market, Interindustrie has been integrated into Hercules Europe's Water Management Division. Other companies belonging to this division are Adka-Matic GmbH of Germany, Water Management Ltd. of the U.K., and AB Purac of Sweden.

Italy's Weber Carburatori SpA, member of the Fiat group, has acquired complete ownership of Holley Europea, Turin, buying out the minority interest held by Holley Carburetor of the United States. A Fiat subsidiary had held the rest of the company's one billion-lire ($1.7-million) share capital. Weber supplies all national Italian auto makers as well as such foreign manufacturers as Citroën, Renault, and Simca (Chrysler).

IMC International Machinery Corp. NV of Belgium, a subsidiary of FMC Corp., San José, Calif., and Germany's Brüser Maschinen-KG have signed a cooperation agreement giving IMC exclusive European sales rights to a wide range of Brüser's equipment for sterilizing, cleaning, and handling glass and metal containers. Brüser will continue to have responsibility for the German market, however.

Recently announced French government plans for a national nickel stockpile have culminated in an agreement by Société Le Nickel (SLN) to sell 10,000 tons of nickel to the GIRM import group below market prices. SLN will shoulder the cost of the loan necessary for GIRM to make the purchase and will then buy the nickel back after five years, at the same price. This apparently complicated move achieves several objectives. It means that SLN has no need to slow down its New Caledonian production (80,000 tons annually by the beginning of 1973) - consequently avoiding an economic crisis on the island. It also means no rise in the price of nickel and hence stainless steel for the French consumer, since the cost of the stockpiling operation is being assumed by SLN instead of the taxpayer.

J.C. Penney Europe Inc., member of the New York-based J.C. Penney group, has sold a 50% interest in its Spanish subsidiary, Sarma Iberica, to Galerias Preciados, leading Spanish department store concern. GP plans eventually to acquire majority control and expand the Sarma Iberica chain, currently operating five low-price stores in Madrid, to include other Spanish cities, where GP is now investing some $28.8 million in construction of five new department stores with floorspace totaling 75,000 square meters.

Worried that Frenchmen might think it serves only Americans, the American Express Co. has opened a second bureau in Paris specifically to handle travel arrangements and travelers check transactions for French businessmen and tourists. The existing office receives 10,000 general delivery letters daily for U.S. citizens visiting France.

Executive search consultants Boyden International are to open a Paris office. The company has been testing the French market from its European base at Geneva for some time.

Common Market Reports

EUROMARKET NEWS

Issue No. 191 *Report No. 195, September 12, 1972*

EEC Economies Run Steady Course: The economic climate in the six EEC member countries generally became more stable by midsummer, a Communities report has noted. While the growth of industrial production, which had accelerated during the earliest months of the year, did not sustain its momentum, demand has shown invigorated tendencies in most member states except Italy. EEC exports to third countries also grew appreciably. The most apparent gain was reported for private consumption, particularly in France (where reduced savings coincide with rapidly rising wages and salaries) and in Germany. Investment activity by public authorities and in the construction sector continued at a high rate, and private corporate investment has remained on an even level (in France, in fact, it has been on the upswing). Over-all economic expansion has been helped by industry's willingness to fatten its stocks of raw materials and semifinished products.
The report is less encouraging in its details about the cost of living: during the first half-year period consumer prices rose by 4.4% in the Netherlands, 3.2% in Germany, 2.8% in Italy, and 2.7% in France, Belgium, and Luxembourg. Compared to the end of June 1971, prices went up by 7.8% in the Netherlands, 5.6% in France, 5.5% in Belgium, 5.4% in Germany, 5% in Italy, and 4.9% in Luxembourg.

New Dismissal Rules in France? Although the new French administration has yet to announce details of its social policy for the fall, the minister of social affairs, Edgar Faure, has already indicated that a bill proposing updated dismissal rules will be submitted to Parliament. Such legislation lately has been listed among the major objectives of the trade unions, which also are pushing for recognition of union activity within companies. The unions regard these matters as a test of the government's good will, since realization of these measures should not burden the national budget.
In both those areas - union activity on company premises and dismissal and termination procedures - France is still lagging far behind other

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European countries, union leaders maintain. Under the present French system, no employer is obliged to tolerate union activities - for instance, the existence of a union representative office - on company premises. As regards the dismissal issue: French labor law does afford employees with some protection against unfair dismissals (particularly when such cases affect employee delegates or union representatives) but otherwise holds that employers and employees have equal rights in terminating a work contract. Neither party needs to justify such termination, unless it involves a group layoff for economic reasons, in which case the employer must seek the approval of the government labor inspector.
The trade unions are demanding the following modifications of the dismissal rules:
- the employer must offer a pertinent reason for dismissal,
- the matter must be discussed with the employee representatives prior to dismissal,
- the employer must furnish proof of the justification of dismissal, and
- in case such proof is not forthcoming, the dismissal action must be nullified and the employee given the choice of whether to return to his job or to claim just compensation.

These proposals have immediately run into the opposition of the French employers' federation, the *Patronat*. Its rejection is based mainly on two reasons: first, it considers them a serious encroachment on free enterprise and, secondly, it argues that proof of the necessity of an act of dismissal is by nature too subjective to be acceptable to the opposing interests.
In their rebuttals, the unions have pointed out that the International Labor Organization as early as 1963 adopted a recommendation that dismissals should be backed by justifiable cause. Though the French then voted in favor of this proposal, it was never ratified or applied in principle in France.

The Battle to Contain Inflation: The French government's latest anti-inflationary measures are winning mixed reviews at home: the employers' federation (*Patronat*) and the trade unions consider them inadequate or simply too late, the banks have reacted with caution, and the farmers have shown active hostility. Confronted with an inflation rate in the cost of living of 0.8% for the month of June alone, Finance Minister Giscard d'Estaing had announced a package of essentially neutral proportions, which include:
- an increase of 4 to 6% in the banks' compulsory loan reserves (which should add around 0.4% to the cost of credits),
- more stringent applications of the government's price contracts program with industry,
- a freeze on public service charges over the next seven months, and
- a request to the European community to suspend the external tariff on third-country beef in order to bring down French wholesale prices.

As observers are pointing out, these actions may be of more psychological than actual economic impact. The plan to freeze all public service charges, for instance, will mostly affect the Paris transport authorities and their plans for fare increases - the gas and electric power utilities as well as the national railways had raised their rates just recently. Likewise, it has commented, the decision to raise the credit reserves should have only a limited effect on spending patterns. Yet it has been agreed that direct credit restrictions, the most effective form of restraint, would have been unpopular and thus politically hazardous as the administration approaches next spring's general elections. Virtually the same is held to apply to the price contracts *programme*, for which many expected a straight price freeze - the "stringent approach" will essentially limit manufacturers' price boosts to 3% per annum for those industries which had chosen to enter into such contracts with the government. Of course, the industries that did not opt for this contractual system will now find it much harder to win official permission to raise prices. The Patronat, in any case, was quick to point out that higher manufacturers' prices were not the main cause of the inflationary crisis.

The most novel and potentially far-reaching aspect of the government's package should be the quest to win a suspension of external beef tariffs. After butchers' prices for beef went up by more than 15% during the last 12 months, French consumers are now paying 20% more than the recommended EEC price. At the same time, the EEC is running an annual beef deficit of 600,000 tons, expected to rise to at least 800,000 by 1975. The French government does intend to find ways to stimulate domestic beef production, although such previous efforts to persuade farmers to raise more beef cattle were undermined by the alluringly high wheat prices guaranteed by the EEC Common Agricultural Policy.

Similar Woes Across the Channel: The U.K. rate of inflation will rise sharply, according to a forecast just released by Britain's National Institute of Social and Economic Research. Retail price increases of between 7-8% are forecast for the current year, to rise to 9% and more in 1973. The U.K. gross domestic product's growth rate target of 5% set for the period from end 1971 to the end of the first half of 1973 thus will not be met. The report includes a strong recommendation that further reflationary measures will be needed, notably more restraint on prices than on income. The institute does not see any radical change in the unemployment picture, where it predicts a winter peak of around 900,000 (unadjusted). A small balance-of-payments surplus is "likely" but the floating of sterling to arrive at a 7% devaluation will not be sufficient "to counter more than part of the rapid loss of export price competitiveness over the last 18 months."

In the institute's view the U.K. will lose much of its share of world trade both in 1972 and '73. And on one point the institute is particularly adamant: control of inflation by policy of voluntary restraint will have little chance of success, since history is "not encouraging as to the effectiveness of voluntary agreements and statements of intent by the leaders of both sides of industry."

The rate of inflation in the U.K. will be put under increased pressure by such diverse factors as EEC entry (food prices) and the compulsory introduction of equal pay for women.

Austrian Tax Reform in High Gear: Among the most demanding tasks facing the members of Austria's Parliament as they return to the political stage will be the reform of the individual income tax. A total of four bills must be considered. The individual income tax bill, the core of the reform, is taking its final editorial shape. Its primary goal is lower tax rates (30 to 55%) for all income brackets, but taxpayers with annual incomes of up to 150,000 schillings (about $6,500) would benefit most. Three additional bills, still in preliminary form, will provide for amendments to the net-worth tax, corporate income tax, and business tax acts. Some of these amendments are simply in line with the general objective pursued by the individual income tax bill. Accordingly, instead of the present AS 80,000 a taxpayer may claim for himself, spouse, and each child in computing his net worth, he could deduct AS 100,000 for the first time in his 1974 return. Taxpayers over 60 or unable to accept gainful employment because of invalidism could also claim a AS 100,000 exemption instead of the 80,000 provided under current legislation.

Businesses subject to the trade tax would benefit from raising the present exemption of AS 30,000 to 40,000. The individual income tax reform necessitates changes also in the corporate income tax law. This applies particularly to the rates which, in contrast to the present system, would incorporate the surtax and would be lowered for all brackets of corporate income, but even more so for the lower brackets. And finally, the bill would put present administrative treatment of inter-company dividends on solid legislative footing.

But prior to the tax debate, the annual highlight of Austria's fall season in national politics is the budget debate. Government leaders are expected to reveal what they plan to do to calm price waves in areas not included in price controls, which are partially in force and to be broadened with the introduction of the value-added tax in 1973. Chancellor Kreisky has indicated that his government, as the nation's No. 1 builder, wants to do its share to reduce inflation by showing restraint in awarding construction contracts. The trade agreement with the EEC, too, is on Parliament's program.

Better Housing for Aliens in Germany: Stirred by a series of scandals over subhuman housing conditions for aliens working in Germany, the Bonn government now has asked Parliament to enact legislation establishing minimum standards for company housing. The bill (*Entwurf eines Gesetzes über die Mindestanforderungen an Unterkünfte für Arbeitnehmer*) submitted by the Labor Ministry would benefit both citizens and aliens. But the reasons attached to it clearly indicate the primary purpose: to better the living conditions of those of the 2.4 million *Gastarbeiter* (foreign workers) living in housing provided by employers or rented to them by private owners on behalf of employers. A second bill would come from the Ministry for City Planning and Housing; it would apply to housing leased to aliens by private individuals or businesses.

Aside from the construction sector, there are no rules setting forth standards for company housing. The Labor Minister's guidelines for aliens working in Germany are not binding nor are they applicable to foreigners not hired by German liaison officials in their respective countries, the numbers of whom have been increasing, partially as a result of the freedom of movement introduced by the EEC Treaty.

Generally, the proposed law would obligate employers to see to it that housing for workers is equipped and used in a manner not detrimental to employees' physical and mental well-being. An employer would be deemed to have failed in his obligations if the particular quarters are too small, poorly located or if they lack sufficient light, ventilation, heating, electricity, sanitary facilities, etc.

The Minister of Labor would have the statutory power to establish standards and to declare what an employer would be required to do to fulfill the duties imposed on him by the law. Government inspectors would have the right to inspect company housing to verify compliance.

Belgium Controls Water Pollution: On the basis of the 1971 Water Protection Act, the Belgian government has issued the first set of administrative rules implementing some of the basic provisions set forth in the act. Three regional corporate entities are to supervise and enforce the rules designed to reduce pollution of rivers, lakes, and waterways. Another task is to construct and operate sewage treatment plants, to be financed through government grants and fees payable by industrial polluters. A just-completed government survey puts the number of businesses that discharge effluents into the country's surface waters or public sewage systems at 35,000. These businesses will be required to pay fees corresponding to the extent of pollution they cause.

Publication of these implementing rules was held up by political squabbles. Flemish nationalists had demanded that the jurisdiction of the three corporate entities be apportioned according to the areas of the two national languages, French and Flemish. But the government succeeded in vesting the entities with powers along hydrographic considerations. Thus, one entity's jurisdiction comprises the area of the Shelde River; the second (the largest), the regions of the Yser River, and the third, the areas of the Maas, Seine, and Rhine rivers.

AROUND THE MARKETPLACE

A Wary Eye on Japan's TV Exports: U.K. television manufacturers, currently enjoying a boom market, have reason to be wary of developments over the next few years. Experience shows that such boom periods come in cycles - in this case the boom is even greater than expected. Color set sales have accelerated rapidly so that by year-end 1972 over 1.5 million sets will have been sold. In addition, monochrome sets sold in the first six months of 1972 also showed a 26% increase. British manufacturers are not able to cope with the boom on their own, and thus the shortage in color sets particularly has resulted in extensive imports of TV equipment from such sources as West Germany, Sweden, Austria, Finland, Switzerland, Belgium, and the Netherlands. These imports have not given cause for concern, since they represent little more than a temporary reaction to unusually high consumer demand. As usual, it is the imports from Japan that are alarming the industry. Japanese small-screen sets are cornering an important share of the market and a share, moreover, that many U.K. manufacturers feel will represent a permanent threat.

U.K. manufacturers admit that the Japanese are not guilty of price cutting, at least not for the time being, and Japanese sets are decidedly not the cheapest available in the U.K. at the moment. It is feared, however, that once the boom subsides, the Japanese may attempt to hold their market share by utilizing large dealer discount and long-term credit strategies. Given their international market penetration, the Japanese could well afford to do this. The U.K. makers on the other hand are in a quandary - they are unwilling to invest in new production capacity for a market they feel must soon level off. But, by not investing, they run the risk of leaving too much of the market to Japanese competitors.

Current talks between Britain and Japan relating to Japanese electronics exports have resulted, for the moment, in agreements that measures to curb such exports to the U.K. are "unnecessary." But the situation is being reviewed almost daily.

French Encouraged by U.S. Sales Promotion Test: More than 300 small and medium-size French companies have benefited from an 18-month export promotion program carried on in the United States and Canada by the French Foreign Trade Center (CFCE). As part of the test project, the CFCE has provided exporters with financial and other aids for sales promotion visits to North America. Despite the unfavorable economic conditions prevailing at the time, a provisional report has now shown that participants reacted positively - 129 out of 180 companies questioned on their American experience said it had been a success. A third of the companies were already major exporters (selling more than 25% of their products abroad) but few had ever done business in the U.S. Sectors most interested in the promotion scheme proved to be textiles and apparel, foods, electrical and electronic equipment, and heavy engineering and foundry equipment. Consumer goods manufacturers in particular were surprised over achieving fast and widespread results. Among the products ringing up the best sales were textiles, umbrellas, knitwear, pants, blankets, sweets, and wine.

Although the promotional program has been terminated without immediate

plans for a revival, trade authorities hope that its results have demonstrated to French exporters that the North American market is theirs for the asking. In the past, French companies have had great apprehension about tackling that huge market and have generally neglected market research to the extent of ignoring even the free market services offered by the French consular commercial bureaus in the United States and Canada.
Last year, France exported goods valued at FF 6.1 billion ($1.25 billion) to the United States, which was about 5% of the country's total exports and a 15% improvement over 1970. U.S. exports to France over the same period fell by 5.2% to FF 9.9 billion.

EURO COMPANY SCENE

The Dutch unions are pressing Enka-Glanzstoff (Akzo group) for "fairer," "more balanced" cutbacks planned for the company's unprofitable synthetic fiber operations in the Netherlands, Germany, Switzerland, and Belgium. Labor has not been happy about the shutdowns, first announced last April, which were to affect about 5,700 employees, 3,000 of them in Germany and 2,000 in Holland. Following the presentation of some alternative suggestions by an independent Dutch-German panel recently, the company's works council in Holland has made some proposals of its own. It recommends that Enka-Glanzstoff management approach the European Commission in an effort to involve other man-made fiber producers and the unions in the search for an international solution to the problem of overcapacities in this sector. At home, it says, the company should join with government and union representatives in working out a new, more equitable plan for plant closures. The works council also suggests that any further steps toward rationalization in the remaining plants be undertaken only with the consent of the various works councils concerned. The Dutch council said it had the impression that the Enka-Glanzstoff group was facilitating the closure of money-losing operations in one country by simultaneously sacrificing profitable ones in another for the sake of appearances.

The European Commission has instituted antitrust proceedings against Citroën of France. The Commission declared that the automobile manufacturer's export embargos violate Article 85 of the EEC Treaty. In order to maintain higher price levels for Citroën cars abroad, the company has prevented third-party exports of its automobiles produced for the French market, where they sell at lower prices.

International Telephone & Telegraph Corp. (ITT), New York, one of the most active U.S. traders on the European scene, has taken over another German company, Loewe Pumpenfabrik GmbH, Lüneburg. The pump manufacturer, family-owned until now, employs 1,100 and had a turnover of about DM 88 million ($27.5 million) last year. A leading European manufacturer in its sector, Loewe maintains sales subsidiaries in the Netherlands, Belgium, and Austria. ITT has five other pump manufacturing holdings in the United States, France, England, and Sweden.

Switzerland's Georg Fischer AG has bolstered its U.S. market base by acquiring Sutter Products Co. of Holly, Mich., manufacturer of foundry machinery.

Japan's international trading group Mitsui has founded a second German sales organization in Düsseldorf, Mitsui Maschinen GmbH, to handle distribution and service for forklifts, construction machinery, and "Yamaha" motorcycles. The new company has a basic capital of DM 1 million ($312,500). Mitsui's other subsidiary in Germany is Mitsui & Co. GmbH.

The U.S. aero-engine manufacturer Teledyne CAE has signed a license agreement to manufacture French Turbomeca-SNECMA's 1.5 ton-thrust Larzec engine for business, training, and teleguided aircraft. SNECMA already has extensive cooperative ventures in the United States. The company is owned 11% by Pratt & Whitney, for which it services many international airlines. It has worked with Teledyne since the early 1950s - the J 69 manufactured by the latter is in fact the SNECMA Marbore jet engine - and is collaborating with GE on the new 10-ton thrust CFM 56 engine.

Flachglas AG Delog-Detag has been given the green light from the German city of Gladbeck for construction of new float glass facilities on a 390,000-square meter site there. The company originally planned to build in Gelsenkirchen; however, local residents successfully took legal action to block the DM 150-million project, although some 22 million had already been spent. In its agreement with Gladbeck, Flachglas promised to hold down the sulphur dioxide output of its plant and to operate it only with low-sulphur fuels, switching to natural gas as soon as possible. The firm is to complete a first float glass plant within two years, adding a second within a six-year period and creating some 1,800 new jobs by the final stage. Principal shareholders in Flachglas AG are Germany's Dahlbusch Verwaltungs-AG (51.6%), Compagnie Internationale pour la Fabrication Mécanique du Verre of Belgium (14%), and Boussois-Souchon-Neuvesel SA of France (6.4%).

BP Benzin und Petroleum AG, Hamburg, subsidiary of The British Petroleum Co. Ltd., plans to invest DM 200 million ($62.5 million) in expansion of its Ruhr refinery near Dinslaken from an annual throughput of five to a maximal 11 million tons, making it one of the largest European refining facilities. Some 10-15% of the investment will go for environmental control equipment. Despite the poor outlook in the mineral oil market at present, BP reportedly has decided to go ahead with its project in the conviction that energy consumption will continue to grow and create a favorable sales picture in the long run.

The Scottish firm of Christian Salvesen has signed via its subsidiary, Salvesen Offshore Drilling, a £4.6-million contract with the Tampa Shiprepair and Drydock Co. of Florida. The contract relates to the conversion of American ships to an oil-drilling rig, the first of its kind in U.K. ownership.

The Pan American World Airways office in Helsinki has announced it is awaiting permission by the U.S. civil aviation authorities to discontinue flights to Finland from mid-October to mid-May because of the slow winter business and because of other economic considerations. Meanwhile, it has been reported that Finnair is planning to open a route to Canada and to extend its present North Atlantic route to Chicago.

Germany's Hapag-Lloyd AG shipping line plans to extend its regular container express service between Europe and the U.S. East Coast to include the Canadian port of Halifax. The new direct service from Bremerhaven will begin Oct. 14.

Air Commerz has become the fourth German charter airline to enter liquidation proceedings within the past 16 months. Flight and operations crews walked out recently because the company allegedly had delayed salary payments on numerous occasions and could not afford adequate measures for the technical safety of its two Boeing 707s and two turboprop Viscount 808s. Air Commerz business first took a down-turn last fall, when Paninternational, another charter carrier, collapsed after the crash of one of its jets. Other German supplemental airlines to shut down were Travelair in May 1971 and Calair last March.

The Pirelli group has sold its shares in Carboloy SpA to its American associate General Electric Co. The company was formed in 1966 as a joint venture of GE and Pirelli. This ends a successful collaboration of six years which allowed Carboloy to make a rapid penetration into European markets. The company now has offices in Great Britain, France, Germany and representatives in Belgium, Holland, Sweden, Spain, and Switzerland.

Mohasco Industries of Amsterdam, N.Y., manufacturers of carpets and furnishings, has taken over a French manufacturer of kitchen furniture, Ranger SA (turnover FF 50 million - $10 million).

Mardon Packaging International Ltd., Europe's leading manufacturer of carton packaging, has acquired a majority holding in three French packaging companies, Imprimeries Debar of Rheims, printers of labels; Giraudet Cartonnages of Nantes, manufacturer of cardboard packaging for the food and pharmaceutical industries, and Giropor SA of Nantes, manufacturer of extended polystyrene for liquid packaging. The latter two are to be merged to form Giraudet-Cartonnages, with an expected turnover of FF 50 million ($8 million). Mardon is owned 50:50 by British-American Tobacco and Imperial Tobacco.

The Norwegian electronics firm A/S NERA has been contracted by the Bulgarian government to supply a microwave radio link system to be used in the relay of telephone calls and television programs. NERA outbid U.S. and Japanese manufacturers for the million-dollar contract, which would be considered small by international standards but is important to NERA's expanding export market.

The East Asiatic Co. of Denmark, an old China trade broker, will ship 1.5 million tons of Canadian wheat to mainland China this year. The contract is expected to net Canada over $100 million.

A Japanese company, unnamed, has acquired ownership of one of the largest department stores in Northern Ireland, Sinclairs of Royal Avenue. This transaction is the first in which foreign interests have been involved in the property situation in the center of Belfast, which has been severely hit by the terrorist campaign in the troubled province. Sinclairs, with 31 separate claims lodged for total compensation valued at some £300,000, was sold at a figure approximately £60,000 below the valuation figure put on the property in 1969.

France's Groupement Atomique Alsacienne Atlantique, joint subsidiary of Compagnie Générale d'Electricité and Babcock-Atlantique, has won a contract from the Indian Atomic Energy Dept. to provide technical assistance in the construction of a sodium-cooled rapid-neutron reactor near Madras and for subsequent reactors built by the Indian government.

Common Market Reports
EUROMARKET NEWS

Issue No. 192 *September 19, 1972*

Norway Moving Down to the Wire: Political life in Norway these days is dominated by the pros and contras of accession to the European Communities. Sept. 24-25 has been designated for the popular referendum, and although the outcome has no legal bearing on Parliament's decision, it may well influence the vote on the treaty of accession. The Norwegian constitution requires a three-fourth majority for a law ratifying any international treaty. Although the Socialist minority government controls only 74 of the Storting's 150 seats, in the past it could count on enough votes from conservative legislators who feel that joining the Common Market is the proper direction their country should take for the future. At the last test vote in June, however, 113 of the 150 lawmakers voted for Norway's accession - a precise three-quarter majority. One vote less and the government would have lacked the required majority.

A main issue of the heated public debate is the loss of sovereignty Norway, like the other EEC candidates, would have to accept. Government leaders deny neither this nor the fact that the solution found in the Brussels negotiations on fishing rights is unsatisfactory (the EEC agreed to respect Norway's coastal waters until 1982). Fishermen account for only 3% of the country's work force but in the northern regions they represent more than half of the working population, and fishing is usually a small, family-type operation. It is in these regions that the anti-EEC sentiment is rising high. Even so, fishing in these regions has been on the decline since many young people move south for better jobs in a milder climate. In spite of incentives, the government's efforts to settle new industries in the north are not as successful as had been hoped.

The proponents of accession (still in the minority, according to the latest poll) argue that Norway's entry into the EEC would strengthen industry and guarantee full employment because of the increased marketing opportunities offered by the Common Market. They point out that the loss of sovereignty entailed - for example, in nondiscrimination of foreign capital - would actually benefit the country in the long run. Still, Prime Minister Bratteli and members of

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his cabinet are touring the country to sway enough countrymen to their side, hoping to win an impressive popular base for the Storting's crucial decision.

Danish Referendum to Follow Shortly: On Oct. 2, one week after the Norwegians go to the polls, it will be in the power of the Danish voters actually to decide in a referendum whether "to join or not to join." The Folketing, Denmark's parliament, on Sept. 8 had approved the bill of accession by a 141:34 margin (with two MPs abstaining and two absent). Thus the bill did not receive the five-sixth majority necessary for an amendment to the constitution. (The accession treaty, with its limitations on Denmark's sovereignty in many areas, would necessitate such a constitutional amendment.) In this case, however, the Danes themselves, not their elected representatives, are going to have the last word. Denmark's entry into the EEC could be rejected by a majority of valid votes, provided it represents at least 30% of the eligible voters.
Unlike his Norwegian colleague, Danish Prime Minister Jens Otto Krag does not have to worry about any particular industry that might be prejudiced by Denmark's EEC entry. Recent polls give the pro-EEC factions a slight margin but also reveal a substantial number of Danes still undecided. The 2% reduction of direct taxes suddenly submitted by the finance minister just prior to Parliament's vote on the accession treaty may very well have been designed to gain a comfortable margin of "yes" votes.

German Tax Reform Stalled After All: The official word is out and it confirms earlier speculations in Bonn - the tax reform has no chance to take effect in 1974. A more realistic target is now Jan. 1, 1975. Postponement was a virtual certainty even prior to the events (budget debate, defections to the opposition) that are forcing the Brandt Administration to try for a working majority in the Bundestag by scheduling special elections before the end of the year. Actually, parts of the reform are well under way: the emigré tax law has just been published, and the fiscal code is in committee as are amendments to the net worth, estate and real estate tax laws. Furthermore, the main pillar of the new reform structure, the individual and corporate income tax laws, also has taken final shape. But even if these bills were to be sent to Parliament prior to the special elections, the need for thorough legislative processing would not leave enough time to meet the original deadline.

There are additional reasons why the Brandt cabinet may not want to commit itself by submitting the third and final part of the tax bill. Finance Minister Helmut Schmidt believes that a 1% increase in the value-added sales tax is inevitable for next year. And another 1% boost is contained in the proposed bill to finance the children's allowance system (which primarily benefits large families). Thus, the prospect of raising the present VAT rate from 11 to 13% would add more controversy to the upcoming election campaign
The tax scandal in France - where the credit system is applied, in contrast to Germany's present split rate system of taxing corporate income - has forced changes in Bonn's original concept. It is now going to be a combination of both. The Brandt government's minority partners, the Free Democrats, originally had advocated a pure credit system and have not brought themselves to agree to this new plan. At any rate, the future system would burden retained corporate profits with 56% and paid dividends with 36%, while the present system provides a 51% rate for retained profits and a 15% rate for profits distributed to shareholders at the company level (not counting the 3% surcharge). But domestic shareholders would get full credit for the 36% rate when filing their annual returns.

Social Budget With Popular Appeal: The French government's social welfare program for the coming season has been greeted with relief by the employer groups and with no more than moderate disappointment by the trade unions, which term the announced measures "interesting but fragmentary." Backed by official projections that France this year should achieve a 5.5% growth of the gross domestic product despite inflation, Prime Minister Pierre Messmer was able to announce a program aimed at reducing social inequities without uncomfortably increasing tax and social contributions.
Measures to be immediately enacted include a boost of the minimum old-age pension from FF 3,650 to 4,500 annually; higher pensions for the handicapped and disabled; extension of complementary pension schemes for all employee categories; a lower pension eligibility age for widows (from 65 to 55 years), and increases in family allowances ranging from 1 to 4%, which will affect 80% of all households after present regional differentials are abolished. Also, the system of calculating old-age pensions is to be revamped, giving a better deal to blue-collar workers.

The whole package, to be implemented by the end of this year, will cost the government an extra FF 2 billion ($400 million). But the only increase in public contribution will come next year when the annual automobile tax *(vignette)* will be raised. Business and industry thus have reason to be satisfied - their earlier fears of stiffer corporate taxes did not materialize.
The government did not commit itself too precisely in the matter of a higher minimum wage *(SMIC)* and on new dismissal rules. The unions had threatened with strike action this fall unless both issues would receive some attention in Messmer's package. Both the prime minister and Edgar Faure, the minister of social affairs, have said that the SMIC certainly would be raised faster than the average wage rate over the coming months. Yet at the same time they pacified employers by promising that it would be implemented in such a way as to have the softest possible impact on wages over-all. As regards new dismissal rules: a bill modifying existing legislation has been submitted but is unlikely to become law before 1973.
Observers have lauded the government's social package as cleverly constructed and carefully weighted for a pre-electoral period. They point out that it contains no flat refusals, no impossible promises, but is of general popular appeal while appeasing both unions and employers.

U.K. Unions Clamor for Detailed Information: Under Section 56 of the U.K.'s Industrial Relations Act employers are obliged as a general duty to disclose such information to unions as the latter require in order to engage unhampered in wage negotiations. Once the Commission on Industrial Relations has agreed on rules for disclosure and written these into the government's Code of Industrial Relations Practice, this section will come into effect. Two of the U.K.'s principal white-collar unions (APEX, the clerical workers union, and ASTMS, in which computer, insurance and finance house employees are joined) have now indicated that, if the proposals as drafted by the CIR are not to their satisfaction, it is conceivable that information would be leaked to the press. APEX indicated that it was considering such action if "a company is uncooperative." ASTMS has made even more drastic threats, claiming that its members have information which would send the City "into a cold sweat."

Britain's Trades Union Congress has called for an extensive range of company information, including detailed statements on pricing, sales and production costs. Moreover, it has called for details of employers' investment and trading plans. The CIR has taken the position that such information "other than in the general and aggregate terms customary in a shareholders' report" can harm a business in certain circumstances if made available to the public at large. It is not known how far APEX and ASTMS will go, but action of this sort should most certainly affect company accountants' and City finance houses' operations.

Lira Devaluation Termed 'Inevitable': Although government members, economists and other factions continue to deny the need for a devaluation of the Italian lira, it is felt in other quarters that this step will be quite inevitable. Among the many reasons cited, the main one holds that Italian products have lost their competitiveness on many foreign markets due to increasing costs at home. According to the most recent figures, Italy's 500 leading companies - with capital and reserves of $11.6 billion - last year showed an indebtedness of about $35 billion in the form of short, medium and long-term loans. The interest paid amounted to $1.627 billion, equal to 4.6% of their turnover volume.

Turkey Charts Course Toward EEC: During the coming session the Turkish parliament will be asked to approve the country's new Five-Year Plan. In December 1970, Turkey had signed an additional protocol to the 1963 Treaty of Association in which it opted in principle for full membership in the European Economic Community. The new five-year plan, the third of its kind, is seen as the first decisive step of a 22-year transitional period at the end of which Turkey would become a full-fledged EEC member.

As mapped out by the state planning authorities and already approved by the Turkish council of ministers, the 1973-77 program projects a 7.9% annual growth rate of the social product. It allocates investments of TL291 billion (about $20.7 billion) - some 11% more than for the two previous five-year plans combined. Industry, 60% of which is nationalized, will absorb 45% of these investments and is expected to provide 1.6 million new jobs by 1977. Exports are to rise by 50% to $1.175 billion by that year. However, should this goal be met, Turkey would show a larger trade deficit than today (1971 = $500 million) because imports are scheduled to rise still faster. The resultant gap is to be bridged by money transfer from Turkish workers abroad and by tourism revenues. Foreign aid would continue to be a factor, but to a lesser extent.

Vigorous industrial expansion, of course, will be the key to Turkey's development beyond the five-year period and up to the day of full EEC membership. By that time, the Turks expect to have caught up to an economic level comparable to that of Italy's today. To meet that challenge, an annual growth rate of 8-9% is needed. By 1995, planners would like to see 22% of the working population employed in industry as against 11% today. The percentage of people working in agriculture is to be reduced from 66% to only 20%. Demands on industry thus will be far-reaching: it will be required to achieve and maintain an annual growth rate of 12% in order to raise its share of the social product from presently 23% to 40%. Emphasis will be on energy supply and on the raw materials and capital goods industries, with steel production to be raised from 2 to 20 million tons, cement production from 8 to 40 million tons, and electric power output from 10 to 125 billion kWh.

In addition, the government intends to build up the defense industries - in June it allocated TL16 billion toward the modernization of nation's armed forces over a 10-year span.

AROUND THE MARKETPLACE

East Germany's 'Trade Breaks' Under Fire: At the recently concluded Leipzig Trade Fair, managers from some COMECON countries such as Poland bitterly complained about the fact that the East Germans are de facto associate members of the EEC and thus receive all the benefits extended to the former members of France's colonial empire. These claims have some substance. The Protocol Concerning Internal German Trade and Connected Problems (an integral part of the Treaty of Rome and a condition for Bonn's signature) does give East Germany a kind of associate membership status. Accordingly, trade between the two Germanys is considered internal: products imported from the East to the West are not subject to the EEC's common customs tariff or to agricultural levies imposed on third-country imports. They get the certificate of free circulation and thus may be sold freely to other EEC countries. Besides, such imports enjoy reduced turnover tax rates. But East German products imported by another EEC country are subject to the EEC tariff system applied to trade with third countries.
Critics from other EEC member states, too, point out that "internal" German trade has become a mere fiction because it increasingly takes on the features of normal foreign trade. So far, Bonn has been adamant on this issue and for good reason: East Berlin would be ready to forego the benefits of duty-free intra-German trade only in exchange for full diplomatic recognition. And this is one crucial point still unsettled in the negotiations toward a *Grundvertrag*, a basic treaty governing relations between the two Germanys. Its acceptance might render the Protocol on Internal German Trade obsolete, with all the consequences West Germany wants to avoid.

Japan Refuses to Pressure Its Exporters: In spite of the friendly atmosphere which allegedly prevailed at the talks between Japan and the U.K. earlier this month, the Japanese have indicated unequivocally that they will not exercise powers of administrative guidance to oblige Japanese industries to curb imports to the British market. The U.K. has asked Japan to consider the critical situation in a number of British industries, notably ballbearing manufacture, color TV receivers and polyester fibers, as a result of Japanese penetration of the U.K. market. The sole concession offered by the Japanese was the promise to send a purchasing mission to the U.K. early next year to correct trade imbalances "to some extent." British requests that Japan cut tariffs on chocolates, biscuits and confectionary as well as whiskey were rejected.

Shoe Producers Seek Cheaper Leather: The associations of Italian footwear manufacturers have appealed to Rome to petition the European Commission to remove or substantially lower the duties on third-country leather imports. Owing to a world-wide leather shortage, they say, their shoe prices will be marked up by 15% and exports thus will be curtailed.

EURO COMPANY SCENE

Construcciones Aeronauticas SA (Casa) of Madrid has been announced as a new partner of Europlane Ltd., the European aircraft manufacturing group established with the aim to develop and build a short takeoff and landing, low-noise passenger plane to complement the European Airbus. Europlane's original founders are British Aircraft Corp., Germany's Messerschmitt-Bölkow-Blohm, Sweden's Saab-Scania, and Boeing-Aeritalia. The new partner is Spain's leading aerospace company, with plants in Sevilla and Cadiz and a total of 6,500 employees.

A company designed to help international airlines take out long leases on Concorde airliners has been set up in the U.K. European Supersonic Aviation aims to present a package deal to Wm. Brandts Sons & Co., the London merchant bank wholly-owned by National and Grindley's Bank, in turn part of a powerful group in which Lloyd's Bank and the First National City Bank of New York are major shareholders. The merchant bank is prepared to put up purchase cash - at the rate of some £23 million ($55.2 million) per unit - provided that some reasonable return can be anticipated. Repayment on the lease will, in some cases, run for a period of 15 years, virtually the predicted working life of the Concorde, with lease payments (including insurance) running at around £2 million per year. There will be no financial assistance from the British government for the project. A spokesman for Wm. Brandts (Leasing) pointed out that Brandts would not necessarily provide the finance for such leasing activities and that, in the long run, First National could end up owning the Concordes.

Germany's Siemens AG and the Combustion Engineering, Inc. (CE) of Windsor, Conn., have signed a cooperative agreement involving reactor technology. Both partners are hoping for improved rationalization in reactor research and development and are planning an exchange of technological know-how and patents.

The U.S. conglomerate Kora Corp. is negotiating the acquisition of a majority holding in the French clothing manufacturer Big Chief & Peroche. The French company, with a turnover of FF 61 million ($12 million), principally produces rainwear and sportswear. Early this year, Kora also took over the Sociêté Fra-For, manufacturer of baby clothing. In addition, several European companies have taken out licenses for a Kora textile pressing process called "Koratron."

Sun Chemical Corp., New York, reportedly has acquired 80% of the share capital of Italy's second-largest manufacturer of printing inks, Baglini SpA in Florence, with annual sales of about $10.94 million. Baglini maintains four plants. At the same time, Sun Chemical raised its participation in the joint subsidiary Baglini & Sun from 50 to 80%.

Italy's Gruppo Industrie Elettromeccaniche has won an order from mainland China for a 125,000 Kw thermo-electric power plant. It is the first Chinese order of any importance placed in Italy since the two countries established diplomatic relations about two years ago. No mention was made as to the mode of payment; the transaction might be on a barter basis in view of an announcement that a leading Italian supermarket chain will import canned fruit and frozen fish and game from China.

Magneti Marelli, a leader in the Italian radio and electronics field, with a majority of its shares held by Fiat, is reported to be negotiating with a leading German group interested in taking over the Marelli Radio Division.

Three manufacturers of audio-visual equipment, International Video Corp. of the U.S., French Thomson-CSF and British Rank Organisation, have decided to pool their R & D efforts in the field of professional magnetoscopes with a view to competing more effectively against the American market leaders, RCA and Ampex. The partners hope to introduce a new, less expensive type of magnetoscope for the television industry by the end of next year.

The German subsidiary of Rex International, Inc. (Rex Chainbelt, Milwaukee/Wis.) has broadened its base with the takeover of Ruberg & Renner GmbH, family-owned manufacturer of chains and plastics products. The German group, with a total basic capital of DM 7 million, employs 700 and reported a turnover of DM 40 million ($12.5 million) for 1971.

GKN Machinery of Wolverhampton, British manufacturers of precision-engineered steel plants, has signed a licensing agreement with Germany's Maschinenfabrik Sack whereby GKN will acquire exclusive manufacturing rights on all Sack equipment for the U.K.

The U.K.'s Dept. of Trade and Industry has announced that the £286-million takeover bid by the Imperial Tobacco group for Brewers Courage will not be referred to the Monopolies Commission for investigation. The announcement has been taken to confirm that the government is not particularly alarmed at the size of individual mergers but rather at the possibility that competition in individual sectors may be reduced.

Oil from the Ekofisk complex in the North Sea, which will be produced at the level of 15 million tons a year by 1975, may now be piped to Germany instead of to the ICI-Phillips refinery in the U.K.'s Teesside region. This is the view of Norske Hydro's president, who indicated last week that "political problems" made it reasonable to open negotiations with other countries. The principal stumbling block to an agreement on delivery of Ekofisk oil to the Teesside refinery is over taxation rights claimed by the Norwegian government at installations in Britain handling the crude oil. Talks between the two governments are still in progress, however, and Phillips has already announced plans for installations worth some £100 million ($240 million) at Teesside to handle the crude.

The European Investment Bank has granted a loan of 7.1 million units of account, equal to DM 25 million, to Germany's Stahlwerke Röchling-Burbach GmbH to finance the construction of a four-line drawing mill. The loan, for a period of nine years, will bear an interest rate of 7.5%. The new drawing mill - laid out for an ultimate annual output of 720,000 metric tons and scheduled to be started up in early 1973 - is the main project of an extensive modernization program involving the company's steel plants in Burbach and Völklingen.

Sumitomo Bank Ltd., Osaka, one of the most important Japanese banks (with a balance sheet total of $17.6 billion), has acquired a 12.5% interest in Société Financière Euroéenne, a Luxembourg bank holding, raising the number of SFE's partner to eight. As part of the transaction SFE's capital was increased from 140 to 160 million Swiss francs. The Luxembourg institution was established in 1967 as the first multinational bank in Europe.

Germany's Dresdner Bank, currently celebrating its 100th anniversary, will be the first western banking institution to open a representative office in Moscow, either on its own or in conjunction with its Abecor partner group. Although official Soviet approval is still pending, the opening of such an office is virtually certain in view of the fact that the Soviets now have established a bank in Frankfurt. The East Bloc business has a share of 10-15% of Dresdner's foreign volume.

National Westminster Bank Ltd., the U.K.'s second largest bank, intends to offer its shares for quotation and trade on the Düsseldorf and

Frankfurt stock exchanges in Germany. It will be the first time the British bank has introduced its shares on an exchange outside the U.K. A German consortium led by the Westdeutsche Landesbank Girozentrale is to handle the transaction. The capital involved consists of 194.9 million ordinary shares nominally valued at £1 each ($2.40). The shares will be issued in the form of global bearer certificates issued by the Deutscher Auslandskassenverein, the institution formed by German banks to facilitate participation in international securities trading.

Westdeutsche Landesbank Girozentrale also heads an international consortium which is negotiating a DM 100-million ($31.25 million) loan for the City of Montreal. The group includes A.E. Ames & Co. Ltd., Berliner Handels-Gesellschaft - Frankfurter Bank, and Deutsche Bank. The credit is expected to carry an annual coupon of 6% for a maximum of 20 years.

The U.K. property concern of Trafalgar House is rumored to be planning to raise DM 100 million on the West German capital market through a consortium headed by the Dresdner Bank.

Two German mortgage banks, Deutsche Hypothekenbank and Sächsische Bodencreditanstalt, are planning to merge by means of a share exchange, with five Sächsische shares (nominally valued at DM 50 each) convertible into eight shares of Deutsche Hypothekenbank (also DM 50 each). Dresdner Bank holds a principal stake (over 75%) in both institutions. After the fusion, the new bank will have a combined balance sheet total of over DM 4 billion ($1.25 billion).

A proposed merger of Spain's Banco Central and the Banco Hispano Americano, which had to be aborted two years ago, may now be concluded after all, following the reform of pertinent sections of Spanish corporate tax statutes. Other, smaller banks already have taken advantage of the changed situation. The next merger will involve Banco Atlantico (associated with Opus Dei) and Banco de Malaga, with a combined balance sheet total of $35.3 million and deposits of nearly $400 million. The group would have a network of 39 branches; seven more are to be opened in the near future.

Nikko Securities Co., Ltd., Tokyo, one of Japan's four largest stock brokers and underwriters, has opened a representative office in Frankfurt. Previously, Nikko managed its German business from London and Zurich, where the company has been represented for several years. Paris is another Continental base. The Frankfurt office will not operate as a broker for German clients, but will seek to get Japanese shares quoted on the German stock exchanges.

The Banca Commerciale Italiana is the first Italian bank to have opened a branch in Tokyo. As one of Italy's major banks, virtually its entire share capital is in the hands of the state holding group IRI.

Common Market Reports

EUROMARKET NEWS

Issue No. 193 *Report No. 196, September 26, 1972*

EEC Bill Passed in Britain: With the Third Reading in the House of Lords, the European Communities Bill has completed its stormy passage through the U.K. parliament. It will be given royal assent on Oct. 17 when the House of Commons returns from its summer recess. The government is soon to announce the names of the U.K.'s two members of the enlarged European Commission in Brussels. There are widely held rumors in London that the two chosen will be Sir Christopher Soames, British ambassador to France, and George Thompson, who was the Labour government's negotiator in Brussels.

English Becomes an "Official" Language: As of early October, reportedly beginning next week, the European Communities will start publishing official English-language versions of Communities legislation, directives, proposals, and other information. The early date was mainly chosen to ensure that there will be no backlog of untranslated EEC legislation when Britain and Ireland are to enter the Common Market on Jan. 1. Translations also will be made available in Norwegian and Danish, the other official languages of the enlarged Community, provided, of course, these two countries will in fact become members.

Ireland Adopts VAT: Both houses of the Irish parliament have approved the government-sponsored bill introducing the value-added tax (VAT) and repealing the existing retail and wholesale turnover tax. The new tax is to become effective Nov. 1. Adoption of the new system was an obligation each of the four EEC candidate countries assumed in the respective treaties of accession.
The Nov. 1 date, however, may not leave business enough time to adapt to the new system. Although VAT's three tax rates of 5.26%, 16.37% and 30.26% (export sales would be exempt) are close to those imposed at the present time, the difficulties in applying VAT lie primarily in the additional bookkeeping necessitated by its main feature: deduction of previously paid VAT. For example, an Irish manufacturer who bills a domestic buyer for a machine valued at £1,000 also would be required to list separately on his bill the particular VAT amount, in this case

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£52.60, because the tax rate applying to machine sales is 5.26%. But the manufacturer would not need to pay the tax office the entire £52.60. Assuming that he paid £250 for the raw materials plus £13.15 VAT, he may deduct £13.15 from the £52.60 In other words, he would owe the government only £39.45.
The lowest rate (5.26%) would apply to foodstuffs, drugs, agricultural commodities, machines, and machine parts. Sales of autos, motorcycles, radios, and television sets would be subject to the highest rate (30.26%). Sales of all other products would be subject to the 16.37% rate. Ireland, like the other EEC candidates and members, eventually will have to make some changes in VAT rates when the EEC's process of turnover tax rate harmonization gets under way.

'Green Paper' on Taxes, Social Security: A revolutionary new tax and social security scheme, which is to bring together in one single operation both the taxes paid by the citizen to the state and the social security benefits in cash paid out by the state to the citizen, is soon to be published as a Green Paper by the U.K. government. It will come as a major contribution to the present series of tripartite discussions on incomes policy between the government, the unions, and industry.
The new system would replace the entire pay-as-you-earn (PAYE) coding structure and such cash benefits as family allowances and family income supplements. Everybody would be assigned a credit related to all his family and personal circumstances. For taxpayers, this credit would replace the present income tax allowances for single and married people, for children, etc. Tax would be payable at a single rate believed to be some 30% on all income above the credit. Where the credit is greater than the tax due, the difference would be paid out to the individual in cash. Thus, if an individual has a tax credit of £500 and is due to pay only £250 in tax, he would receive the balance of £250 in cash distributed over the taxable period in his weekly pay packet. Employers, who at present collect tax for the state under the PAYE system, would be responsible for adding the credit to the pay packets of those entitled to receive it. Pensioners also would be covered, and credits would be payable direct to people who were sick or out of work.

The scheme is relevant to one of the major topics in the U.K. at the moment, the infamous "poverty trap." At present, when a low earner - typically a family man making less than £20 ($48) a week - earns an extra pound of wages, he loses other means-tested benefits such as family income supplements. Again, if his new income brings him inside the income tax net, the over-all result may be that he is even worse off than before. This dilemma has had a major impact on wage demands in the U.K., since workers often feel they require a considerable increase to gain any genuine after-tax benefits at all. The new tax credit system would do much to alleviate this problem.

Berne Moves to Raise Taxes: A 10% increase of Switzerland's individual and corporate income taxes as well as the turnover tax seems a sure thing for 1974. The government feels this to be the only alternative after cuts in the 1973 budget proposal failed to close the gap between revenue expected and expenditures scheduled for next year. A recomputation of the figures had convinced experts that, instead of with a SF 500-million deficit planned for the draft budget, the government would wind up twice as deep in the red. The upcoming tax increases would yield about half a billion francs.
No real obstacles are expected because present law authorizes tax increases of up to 10% and thus precludes the need to put legislative implementation to the test by a popular referendum. Other recent government measures, however, are facing a rougher road in Parliament's

current three-week fall session. One issue is the trade agreement with the EEC, on which a popular referendum is scheduled for Dec. 3. The other is the tax treaty with Germany which is running into growing resistance in the lower house. The upper house *(Ständerat)* had approved it, but only over strong opposition. In fact, a commission made up of members of the lower house has called on the other legislators to join them in demanding that the government resume negotiations with Bonn. The commission wants real estate located in Switzerland and owned by Swiss nationals residing in Germany to continue to be exempt from German income and net worth taxes. This exemption would no longer apply under the new treaty.

<u>Dutch to Discontinue "Wobble" Tax</u>: As of Jan. 1, 1973, Holland will abolish its regulator, or "wobble" tax. Last July it had been reduced from 5 to 3%. Designed to help regulate the economy, it will be done away with because the government does not expect any need to brake private and corporate expenditure after this year. However, the tax could be reintroduced if warranted by the state of the economy.

<u>The Fourth Balanced Budget for France</u>: The French Cabinet has approved a 1973 budget based on "strong economic growth, a high level of industrial activity, and a foreign trade surplus." In line with Gaullist orthodoxy, the budget will be balanced - the fourth such feat after the traumatic blow to the nation of the 1968 student riots and nationwide month-long strike. The $39.2-billion budget will see government spending rise 11.2% over-all and is designed to "serve the priority objectives of economic development and social justice," as Finance Minister Giscard d'Estaing put it. In the public expenditure sector, increases of 20% are planned for freeways and other roads, 27% for telecommunications, 37% for public transport, and 32% for hospitals and other medical services. "Social justice" is reflected in previously announced increases in pensions and in basic wages and social security benefits for low earners.

There will be increases in the price of gasoline (up four centimes a liter for the top grade) and in taxes on cars and motorcycles. However, personal income taxes will be somewhat reduced in 1973, a year of general elections, with tax brackets moved up slightly, certain "super taxes" abolished, and self-employed persons to be taxed on the same basis as employees, i.e. to their advantage.

<u>Works Council Elections in Austria</u>: Some 600,000 Austrian employees are eligible to vote in this year's works council elections, which are carried out under a 1971 amendment to the Labor-Management Relations Act. Radical candidates are given little chance in what is considered, by Continental standards, an untroubled labor-management climate sustained by progressive legislation.

The 1971 amendment broadened the rights of works councils. For instance, management now is required to inform the council on all personnel matters and must discuss with its members the principles of business policy at least once every three months. Council members are entitled to two weeks' time off during their three-year term in order to attend educational courses benefiting their functions.

Works council elections may be held in enterprises with more than 20 employees. Eligible to vote are all employees over 18, regardless of nationality. However, only Austrian citizens (21 years or older) may run for office, and thus the 200,000 aliens constituting 8% of Austria's total work force are barred from works council membership. This may not mean much to those employed in small, family-run businesses such as hotels and restaurants which are not covered by the Labor-Management Relations Act, anyway. But there have been complaints charging discrimination by spokesmen of those aliens employed by large companies, notably construction firms and government-owned enterprises where foreigners often make up one-third of the work force.

Bonn Wants Truth in Lending: German banks and other credit institutions must soon come up with an agreement volunteering to reveal to customers the effective annual costs for installment plans and mortgages and to inform them on fees for securities transactions. If they don't, the government is going to force them to comply by an amendment to the Price Labeling Regulation *(Preisauszeichnungsverordnung)*, which up to now has applied only to retail establishments.
The banks are not opposed in principle to the government's plan; in fact, they presented detailed plans of their own earlier this year. They proposed to display schedules showing how much the monthly interest would be (including any other charges) on a particular amount borrowed on the installment plan to buy a car or household items. The government, however, wants the annual interest (plus any other charges) listed on the schedules. Bankers argue that display of the monthly rates offers the customer a far better yardstick of comparison. And they use similar arguments in their opposition to informing customers about annual mortgage interest rates (again by openly displayed schedules). They feel that the conditions vary according to the location and size of the particular property and also depend on the borrower's needs and resources. Government officials, nevertheless, feel that for the borrower's sake the lending institutions should and could provide this information, at least in a categorized form.
The public discussion over banks' charges for checking accounts and other credit services has strengthened the position of those in Bonn who have been demanding more information from banking institutions not only for their clients but also to intensify competition. It is felt, therefore, that the government also will succeed in compelling banks to reveal charges for securities transactions.

More Consumer Protection in Britain: The U.K.'s Dept. of Trade and Industry, currently engaged in a wide-ranging evaluation of consumer-based reforms, is expected to announce new measures designed to afford consumers greater protection and to provide machinery to answer their grievances.
Three main areas will be subject to alterations:
- Competition policy, involving the merger of the Monopolies Commission and the Restrictive Trade Practices Court. A special unit will be established to supervise trade practice and to look out for monopolies or other abuses;
- the broad area of consumer protection, where loopholes in present legislation will be plugged. This relates to such issues as door-to-door selling and pyramid selling. And,
- a new money lenders' act is predicted along with the appointment of a watchdog credit commissioner.

Full details of these consumer protection reforms are expected at the Conservative party congress in October.

Shifting Away From the Dollar: A significant shift in the make-up of the long-term international capital (Eurobond) market has taken place in recent months. Both borrowers and investors, banking sources note, are turning away from the U.S. dollar as a currency in which to denominate a loan. Instead, currencies like the German mark, the Dutch guilder, and the French and Luxembourg francs are increasingly favored. For borrowers, these units offer lower interest rates, while investors want to reduce their currency exposure. If the trend continues, bankers believe, then it might be possible for the total of non-dollar loans to exceed the dollar volume - for the first time since the Eurobond market got under way in 1963. However, the dollar's position as the most popular currency does not seem to be endangered yet.

American companies, meanwhile, do continue to tap the dollar sector. Clark Equipment plans to raise $35 million for 15 years by way of a convertible offering which is expected to carry a 4.5% coupon, while Halliburton is borrowing $30 million on similar terms. And Textron is raising $25 million for 15 years via a straight-debt loan likely to bear an interest rate of 7.75%.

In related news: International bankers feel that short-term Eurodollar interest rates are likely to decline in coming weeks. They are citing U.S. Federal Reserve plans to alter certain regulations affecting Eurodollar borrowings by U.S. banks. The effect should be to encourage these banks - such as Chase Manhattan or First National City - to repay their Eurodollar debts. At the moment, total Eurodollar liabilities of U.S. banks to their foreign (mainly London) branches stand at just over $1 billion. Meanwhile, however, the German government has proposed that the EEC central banks should withdraw their deposits - estimated at around $3 billion - from the Eurodollar market. If implemented, this measure should produce upward pressure on Eurodollar rates.

AROUND THE MARKETPLACE

Competing for Swiss Aircraft Orders: The British aircraft industry has reason to be pleased at the Swiss decision not to place orders for the American Corsair fighter or the French Dassault. Although the Swiss defense minister and his staff had expressly recommended purchase of the Corsair, the Federal Council felt that a full purchase program was not practicable at the moment due to "the growing budgetary gap in the federal accounts." The Swiss are now reconsidering an offer for 24 reconditioned Hawker Siddeley Hunter aircraft at the cost of some SF 3 million each. Thirty Hunters already have been placed on order, and Hawker Siddeley feels that further orders are a strong possibility even though Swiss air force chief Eugen Studer publicly stated his opposition to turning the Swiss air force into an "antique shop." The main chance for the British aircraft industry will come, however, when the Swiss government finally establishes its long-term re-equipment program. Then, it is felt, the Hawker Siddeley group will be in an excellent position to present its VTOL Harrier fighters which earlier were also considered by the Swiss as a possible alternative to the Corsair and the Dassault.

The Italians, too, are encouraged in their efforts to induce the Swiss to order the Fiat G-91 Y fighter as used by the NATO forces. Such an order of up to 100 aircraft would give the newly formed Aeritalia (owned 50:50 by Fiat and IRI) the needed start with the Italian aircraft industry and subcontractors. According to Italian sources, a special prototype designed to meet Swiss specification had won preliminary Swiss approval some time ago.

EURO COMPANY SCENE

Bendix Corp. and DBA, a French company in which both Bendix and the British Lucas group have holdings, have formed a joint company in Italy, Benditalia, to produce brakes for the Italian automotive industry. As a first step, Benditalia has reached an agreement to purchase D.Bonaldi, the Italian company holding the license for Bendix brake systems.

Sun Chemical Corp. of New York has bought an 80% interest in Société France Couleurs SA, French manufacturer of offset printing inks, for an undisclosed sum. It is Sun Chemical's third acquisition in Europe this year after buying printing ink companies in Britain and Italy.

An £8-million oil rig for use in the U.K.'s North Sea waters will fly the Liberian flag, enabling it to move about under its own power and allowing it to be classified as a ship. The move taking advantage of certain tax "concessions" under Liberian law, was disclosed by Offshore Company of Houston and Amoco International Oil, a Standard Oil of Indiana subsidiary. The rig will be owned by Amoshore Drilling, a Liberian concern jointly owned by Offshore and Indiana Standard.

The French Elf and Antar oil companies are studying the possibility of building a joint refinery at Le Havre, one of France's major oil ports. The plant would be the fifth refinery in the area. Improvements to the port will enable it to handle 500,000-ton supertankers by 1975-76.

Chicago Bridge, Ltd., specialists in the construction of storage tank equipment, has applied for planning permission to develop a 36-acre site in the Scottish county of Caithness, a strategic point opposite North Sea oil explorations west of the Shetland Islands. Chicago Bridge released no details of the planned development but is believed to be contemplating use of the site not only for storage tank equipment but also for the manufacture of oil rig jackets or platforms.

The Piaggio industrial group of Genoa has decided to dispose of its controlling interest in Mira Lanza, a leading chemical company known to be highly profitable. Possible buyers include the merchant bank La Centrale, acting for the Banco Ambrosiano. Other reports mention Dutch Unilever and Germany's Henkel as being interested parties; however, the major shareholder, Andrea Mario Piaggio, has said that the company will not be sold to a foreign group.

Sunbeam's Italian subsidiary, Sunbeam SpA, manufacturer of electric razors, toasters, etc., will close its Naples plant after five years of sustaining heavy losses. Dismissal notices have been given to the remaining 220 employees. The company said shrinking demand led to the decision to end the Naples production. Sunbeam rejected trade union charges that it wants to sell the plant site in order to profit from its tremendous increase in value since the property was purchased.

The intense rivalry between two of Europe's leading engineering companies has come to an end with Germany's MIAG Mühlenbau und Industrie GmbH being taken over by the German subsidiary of Switzerland's Gebr. Bühler AG. MIAG's total shares are valued at DM 12 million. Both companies are specialists for the design and construction of "custom-tailored" plants, and transport and conveyor systems for the food, chemical and cement industries. MIAG's is the typical case of a German family-owned company which is in the pink of health, but wants to sell out to a potent bidder. It maintains a world-wide network of subsidiaries, branches and representations, which should serve to expand Bühler's far smaller foreign network.

The German Ruberg & Renner group, which manufactures chains and plastic products and which also includes a rolling mill, has been acquired by the German subsidiary of Rex International (Rex Chainbelt, Inc., Milwaukee/Wis.). With a basic capital of DM 7 million, the family-owned group last year reported a turnover of DM 40 million ($12.5 million). It employs 700.

France's CIT-ALCATEL, a subsidiary of Compagnie Générale d'Electricité, has signed a $6-million contract with M.C.I.Communications Corp. to supply equipment for an 18,600-mile telecommunications network M.C.I. plans in the United States. The network will be of the specialized carrier type. The French equipment will include 1,800 channel multiplex units developed for the French Post Office. The contract was negotiated by CIT-ALCATEL's U.S. subsidiary, Citcom System, Inc.

Compagnie Financiere Lesieur, France's third-largest food company, has taken steps to guard against a possible takeover. Best known for its cooking oils which have nearly half of the French market, Lesieur has shown mediocre results for the past five years, and rumors of takeover bids have been current in recent months. At the invitation of the company, Banexi (a subsidiary of the state-owned Banque Nationale de Paris) is taking up a minority holding which - together with the holdings of the Lesieur family - will provide control of more than half of the parent company's capital. Lesieur also reorganized its stake in the major operating subsidiary, Lesieur-Cotelle de Associes, by exchanging shares with an associated company, Cotelle et Foucher.

Allgemeine Deutsche Philips GmbH (Hamburg), subsidiary of Dutch Philips, and the three French perfume and cosmetics producers Dior, Lancome and Rochas have been named in complaints by the European Commission charging infringement of EEC competition rules. In separate complaints, all four companies are being accused of having imposed lateral sales and re-import conditions which hamper free competition and help to maintain artificially high prices. In the case of the French companies, the Commission in particular is attacking exclusive dealership arrangements.

Dutch Philips has developed a new type of photographic plate for use in the production of integrated circuits. According to the company, its plate is based on the physical development process and enables integrated circuits to be made with much greater precision than has been possible with the best photographic plates currently available.

Barclays Bank has sold its 28.33% equity in United Dominions Trust, the U.K.'s largest installment credit finance group, to two major insurance groups - Prudential Assurance and Eagle Star. The sale produced a surplus of £27.4 million over the original cost of purchasing the stake and is part of Barclays' policy of divesting itself of its investment commitments to the hire purchase industry. There are now rumors that the group is interested in selling off its 17.6% interest in Mercantile Credit.
The Barclays/Prudential/Eagle Star deal is reminiscent of National Westminster's sale of its minority stake in Mercantile to another insurance company, Commercial Union, earlier this year. Both deals reflect the new climate in hire purchase and banking in the U.K. - in Barclays' case, especially, the sale was prompted by the fact that UDT has acquired full banking status and has in effect become one of Barclays' competitors in retail banking. Mercantile also acquired full banking status this year, and it is highly likely that Barclays will sell its $15-million holding in Mercantile in the near future.

Fuji Bank, Ltd., Tokyo, will acquire a "substantial" minority holding in the Dow Banking Corp., Zurich, according to a joint announcement of the Japanese bank and Dow Chemical Co. Dow has been the sole owner so far. The transaction will still require approval of the Japanese and Swiss regulative authorities. Dow Banking's balance sheet total last year rose by 20% to reach a volume of SF 1.13 billion, with the major part of the credit business transacted in Western Europe.

The European Investment Bank has completed arrangements to borrow DM 100 million on the German capital market. The 15-year bonds bear an interest rate of 6% and were issued to investors at a price of 100.5%. A German consortium, headed by Deutsche Bank, underwrote the offering which is the EIB's 10th public bond issue in Germany. The proceeds will be used for ordinary lending purposes.

Hessische Landesbank- Girozentrale of Frankfurt will acquire 75% of the shares of the New York investment bank Overseas Investors, Inc. The arrangements leading to the transaction were made through the Banque Continentale du Luxembourg SA, in which both partners hold an interest. As part of the deal, Hessische also will increase its holding in Banque Continentale to two-thirds.

Mitsubishi Corp. of Japan is to open European headquarters in Brussels to control the activities of its French, German and Italian subsidiaries, and offices in London and 12 other cities.

Distillers Co., which leads the U.K. gin trade (Gordon's, Booth's, High & Dry), has announced price increases to result in a net effect of a 10-pence rise per bottle. Trade sources believe that this will be passed on to the customer and that wine and spirits merchants may take this opportunity to announce increases of up to 15 pence per bottle. Distillers also took the lead with whiskey price hikes last April. It is estimated that the company could earn an extra £2.5 million from these increases, important at a time when competition overseas is becoming stiffer. The British gin market is put at about 34 million bottles a year (compared to some 100 million for whiskey), and Distillers is known to have about 70% of this market.

Arthur Guinness, the Irish brewers, have announced purchase of a controlling interest in a chain of hotels and pubs in Northern Ireland. Croft Inns, the largest beverage company in the Northern Ireland province of Ulster, has acquired Chimney Corner Inn, and Guinness is to have a 60% stake in the venture. Although the sum involved is not large - approximately £1 million - the move is important inasmuch as it marks Guinness' first pub ownership outside Eire.

Germany's largest and Europe's second-largest shopping center - a $47-million project built on the site of an abandoned coal mine at the fringe of the two Ruhr cities of Essen and Mülheim - is nearing completion. The concrete structure, with a sales area totaling nearly 500,000 square feet, is being put up by a group of investors including the Veba concern and the three retail companies C.&A. Brenninkmeyer, Karstadt, and Otto. Almost as large as the Velizy 2 center in Paris, the "Rhein-Ruhr-Zentrum" is expected to bring sales of DM 200 million in its first year of operations (1973).

Common Market Reports

EUROMARKET NEWS

Issue No. 194 *October 3, 1972*

In Bonn, a Time for Second-Guessers: One year short of a full four-year term, Chancellor Brandt's administration has been forced to toss in the towel. Parliament has been dissolved, and new elections are scheduled for Nov. 19. Few holds will be barred during the upcoming campaign as both government and opposition parties are taking stock - one side by touting its real or alleged accomplishments, the other by adding up the administration's real or alleged failures. As foremost among his achievements Brandt undoubtedly will rank his celebrated *Ostpolitik*, which led to the Berlin Agreement, reconciliation with Poland, and rapprochement with East Germany. The government's purely "domestic" slate also features such impressive accomplishments as a pioneer environmental program, the incisive Works Council Act, and the Hospital Financing Act, just to mention a few.

Still, much of the reform legislation promised by Brandt in his 1969 inauguration has been left stranded. In some cases, the planned reforms were too ambitious in the first place, or too controversial even for the coalition partners. In others, too much was attempted in too short a time. Thus, such major goals as the tax reform, broader capital ownership for low and medium income groups, or more co-determination for employees could not be attained. The social security amendments, the last measure to be passed by the Bundestag, bear the stamp of the opposition rather than that of the government.

But above all, there is one factor which may prevent the Brandt government from regaining the electorate's vote of confidence - Germany's lingering bout with inflation. The opposition Christian Democrats will be quick to capitalize on the fact that under all previous administrations the inflation rate never rose above 3%. Now, during Brandt's term, it has shot up to nearly 6%. Administration officials are finding it hard to put all the blame on the dollar crisis or on inflationary pressures from abroad. And they get little support from the Bundesbank, the central bank, which quite frankly has described domestic inflation as "home-made." It reasons that in 1969-70 government leaders openly supported the high wage demands of the unions, and that they emphasized growth and increased public spending without finding the

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courage to ask for higher taxes to finance the expensive package. Skimming off excessive purchasing power, the Bundesbank said, would have taken some steam out of private-sector inflation.
At this juncture, the men around Brandt may well have second thoughts about some of their past efforts. But now it will be the voters who have to pass judgment on the relative weight of successful Ostpolitik or inflationary *Wirtschaftspolitik.*

U.K. Makes Its Point on Accretion Tax: British objections to EEC plans to harmonize capital growth taxes have been taken seriously - Brussels sources indicate that the European Commission is now considering amending its proposals for accretion tax. If the proposals are adopted by the EEC ministers and by Britain, mergers completed through the stock exchange would be subject to a 0.5% accretion tax instead of the full 1% originally proposed. The U.K. and the EEC have been at loggerheads for some time on this subject, the U.K. having consistently put forward the argument that the harmonization of such taxes (levied when a company is set up or when its capital is increased by share issues or a merger) would result in British companies incurring considerably higher expenses than at present under U.K. law. In effect, such accretion tax could be up to seven times higher than the current U.K. stamp duties it is designed to replace. The U.K. consequently asked for a standard rate lower than 1% and has suggested that mergers be completely excluded from the system. The Commission, in proposing a cut to 0.5%, has thus met U.K. demands in part, but further negotiations will be necessary if all the British proposals are to be accepted in Brussels.

U.S. Law Firms in London Threatened? The secretary-general of the U.K.'s Law Society has been quoted as saying that proposals for liberalization by EEC lawyers' associations might mean that U.S. law firms established in London would have to pull up stakes. In his view, resolutions adopted by the Advisory Committee of the European Bar Associations and the International Union of Advocates revealed a distinct protectionist bias. The former imposes very considerable restrictions on the foreign lawyer by subjecting him to the codes of conduct of both his home and his host country. The second organization, taking the view that a multilateral, international solution is "very far off," recommends that problems should be solved by bilateral agreements.
Both of these resolutions could complicate matters for the London-based U.S. law firm. There are at present two schools of thought regarding American law firms in the U.K.: those who feel that they should be disallowed until the same or very similar opportunities are open to U.K. lawyers in the United States and, conversely, those who feel that U.S. lawyers, by bringing new business to Britain, are helping to make London the legal center of Europe.

Irish Company Law vs. EEC Rules: The Confederation of Irish Industry (CII) has predicted serious problems for Ireland when the country becomes a full member of the EEC and thus subject to Common Market legislation relating to both public and private companies. The CII is particularly worried about the draft Second and Third Directives. The former requires that the authorized share capital of public companies must be at least £10,000 and that of private companies £1,700, with the paid-up portion being not less than 25%. The third directive deals with company mergers within member states: in the CII's view, this directive would call for "significant departures" from the present forms of Irish company law. The CII is now making representations to the EEC Commission about the proposed draft company legislation, partly in the hope that the U.K.'s and Ireland's accession may delay the implementation of these directives and allow some of the provisions to be altered.

Holland to Impose Stiffer Taxes: Wrestling with the highest inflation rate in Western Europe, the Dutch government is proposing wide-ranging tax increases for its 1973 budget in a bid to offset the sharp boost in expenditures. Direct tax measures are to include a rise in the corporate tax from 46 to 48%, a 1% increase of the income tax, and a 0.1% markup of the net worth tax. In the area of indirect taxation, the most important proposals concern a projected 2% rise in the value-added (turnover) tax and a 1% increase of the reduced VAT rate applied to goods which are considered consumer staples.
Nevertheless, the government - which faces general elections on Nov. 29 - still expects an over-all budgetary deficit of nearly 3 billion guilders ($937.5 million). Yet, despite galloping inflation, rising unemployment and growing industrial unrest, the Dutch economy appears ready to enter a period of at least modest recovery during 1973. The extent of this expected upturn will largely depend on how successful the government will be in curbing the rise in prices and wages.

Free Share Distribution in France: In an effort to put life into its profit-sharing schemes, the French government has submitted a draft law obliging the state-owned banks and insurance companies to distribute 25% of their shares free to their employees. This would not include the central Banque of France, however. The boards of the institutions affected will be reshuffled to include representatives of the government, the unions, and employees. The shares distributed will be negotiable after a period and in a manner still to be determined. A limited group of companies, including mutual funds, will be authorized to buy the shares.

More Co-Determination for Austrian Employees: Business and industry in Austria have been surprised by the government's sudden legislative initiative that would give employees direct representation on the supervisory boards of domestic corporations. The government action has come while discussions between the Labor Ministry, the unions and industry were still going on. The bill provides that employees would elect one-third of the supervisory board's members, giving them an important voice in corporate affairs. The government said that its proposal has been rushed by such diverse factors as union pressures, the draft statute on the European Stock Corporation as prepared by the EEC Commission, and West German practice. But business circles claim that Chancellor Kreisky was forced into this position by a promise made in the early summer to employees of the state-owned Alpine Montangesellschaft. At that time, the workers' concern over the merger of their company with the VÖEST steel group could be silenced only by the prospect of gaining a one-third representation on the merged entity's supervisory board. This would be enough to block any reorganization moves that might not be in their favor.
Though the government's reference to German practice is well taken, there would be two important differences. Outside union representatives, for instance, would be barred as candidates, but employees of other companies directly or indirectly controlled could be delegated to the supervisory board. Also, employee representatives would not receive the same compensation as board members appointed by shareholders but would merely be entitled to reimbursement of costs actually incurred in their function as board members.

'Cheap' Japanese Dollars Spoil Market: American and European bankers are increasingly concerned about the growing involvement of Japanese banks in the Euromarkets. Flush with dollars, the Bank of Japan has been reducing its external reserves by lending around $4 billion to commercial banks. These banks, in turn, have been advancing the money to borrowers ranging from IBM to Bulgaria. Western bankers allege that the Japanese banks are able to undercut them in the interest rate sector because of the "cheap" dollars they obtain from the Bank of Japan. However, the growing criticism by Western bankers has led the Japanese finance ministry to caution Japanese banks about disrupting the Euromarkets by their aggressive lending policies. Japanese banks active in the Euromarkets are concentrated in London, where they rank after American banks in the foreign banking community.

Belgium to Join the Eurobond Market: Trying hard but having never quite succeeded in becoming the financial capital of the Common Market, Brussels is about to enter the Eurobond market in the wake of Luxembourg, Holland, France, and Germany. Finance Minister André Vlerick has indicated that internationally syndicated Belgian franc loans would be raised by companies and organizations based outside Luxembourg and Belgium. Residents of the two countries would not be allowed to subscribe to them, and proceeds from the loans would be used for investments outside Belgium and Luxembourg. Most international bankers are welcoming this introduction of "Euro" Belgian franc issues, although they expect the market to be small.

U.K. May Outlaw Insider Dealing: The chairman of the U.K.'s Panel on Takeovers and Mergers, Lord Shawcross, feels that the use of confidential information to buy shares before a rise in price, i.e. insider dealing, should be made a criminal offense. Such transactions are now being investigated by the companies consultive group set up by the U.K.'s Dept. of Trade and Industry to advise on company law reform. Shawcross pointed out that the City Code deals with the subject only in the strictly limited context of takeover bids and establishes broadly that those who are privy to preliminary discussions shall not deal in the shares of a company before any public announcement of an offer. As yet, however, not everyone had agreed on what sort of dealing is unethical. In spite of this, to make insider dealing a criminal offense would "create the right climate of opinion," Lord Shawcross said.

In related news: The City institutions which make up the membership of the Takeover Panel are now to pay half the cost of running it. The Bank of England, which instigated establishment of the Panel five years ago and has since borne the cost, will pay the other half. The subscribing members are the Accepting Houses Committee, the Issuing Houses Assn., the British Insurance Assn., the National Assn. of Pension Funds, the Assn. of Investment Trust Companies, the Assn. of Unit Trust Managers, the Stock Exchange, the Committee of London Clearing Bankers, and the Confederation of British Industry. None of these was prepared to indicate what amounts were involved but it is generally accepted that the operation costs some £250,000 annually.

'The German Connection': While the probable realization of the Channel tunnel project is stirring excitement elsewhere, the Germans are attaching similar economic importance to the "Europa Canal" which is to link the Rhine-Main river system with that of the Danube. Upon completion of the waterway (though not before 1981, at the earliest), it will be possible for ships to travel from the Black Sea across Central Europe to the North Sea - a distance of some 2,300 miles. An important milestone was marked on Sept. 23 when the newest canal segment was inaugurated at Nürnberg, along with a port. It will now take another 62 miles of digging (and an estimated $450 million) before the Europa Canal joins the Danube at Kelheim.
Its commercial feasibility, however, is already being questioned. Because of the numerous locks that have to be negotiated along the way, transport experts predict that the canal's capacity will be low and

that amortization of the invested capital is unlikely. Others counter with the argument that the canal will further economic development and industrialization of a traditionally underprivileged region.

The concept of a Rhine-Main-Danube waterway goes back to Charlemagne, who was the first to commission topographical studies. In 1825, Ludwig I of Bavaria ordered designs and cost projections, and nine years later a bond issue (managed by the Rothschilds of Frankfurt) was authorized. And in 1846 finally - after investment of the then-fantastic sum of 17.4 million marks - a narrow canal of about 105 miles connected Bamberg/Main with Kelheim/Danube. However, the advent of the railroad soon spelled commercial death to the canal and its horse-drawn barges. Plans for a wider, more sophisticated version were revived in the 1920s, and since then the developers in charge, the Rhein-Main-Donau AG, have sunk DM 2.35 billion ($734 million at current rates) into the project. The new Europa Canal, generally tracing the course of the old one, was started in 1959.

In related news: Eastern France has been linked to the Central European autobahn and expressway system with the recent opening of a 36-mile toll road from Metz to Saarbrücken, Germany. The Metz-Paris leg is to be completed by 1976.

Trade Center for Les Halles Site: Permission at last has been granted for the building of an international trade center in Paris, on a site in the now-demolished central markets - Les Halles. The City Building Commission approved the plan after rejecting a similar proposal only last July. In addition to office facilities, the complex will provide an international communications center and up-to-the-minute data services on world stock and commodity markets.

AROUND THE MARKETPLACE

Cracking Down on Restrictive Practices: EEC investigators have solved a mystery that has long baffled European car buyers. How is it possible that prices charged by German and Italian automobile makers for the same models are lower abroad than at home, not counting excise taxes? And why can French car producers do exactly the opposite even though some of their German and French dealerships may be located just a few miles apart on either side of the border? The major blame for these disparities, European Commission sleuths found, must be put on the manufacturers' contractual networks. Sole distributorship agreements between domestic car makers and distributors abroad contain clauses prohibiting the distributor in one state from re-exporting to another. This system affords absolute territorial protection against parallel imports and so prevents the sort of interchange that normally can be expected between national markets. It puts manufacturers in the position of setting different prices without having to worry that these prices could be undermined through underbidding from abroad.

The Commission has told several European car makers, including BMW, Peugeot and Citroën, that their practices are violating freedom of competition and the principle of free inter-state trade, two cornerstones of the Common Market's foundation. Agreements or practices of this type would be permissible only if they help improve production or distribution and at the same time grant consumers a fair share of the resulting profit (Treaty Article 85). The Commission says that consumers have suffered only disadvantages from these practices.

Brussels now has achieved its first success in the crackdown: The BMW management has agreed to rescind by 1973 the re-export prohibition clauses contained in its current contracts with distributors in all

other member states. The negotiations with Peugeot officials, too, seem to favor the Commission, according to Brussels sources. Only Citroën has balked so far, but the Commission is determined to fight it all the way and is expected to render soon its decision based on Treaty Article 85 and Regulation No. 17.
If the Commission succeeds in its efforts (and legal observers in Brussels have no doubt that it will), the Community's automobile industry would be the third major industrial sector forced to forego this type of restrictive practice, following the chemical and the home electronics industries.

Singing the Olympic Blues: Contrary to all expectations, the Olympic Games in Munich have turned out to be a monumental flop for many businesses which had speculated on fat profits. The loudest complaints have come from restaurant proprietors, who say that it was merely "business as usual" in the Bavarian capital and its environs. Elsewhere in Germany, restaurants actually reported turnover slumps of up to 20% - largely because most burghers stayed glued to their TV sets during the two-week event and were less inclined to eat out. Car rental agencies, which had braced themselves for a heavy onslaught of foreign clients, in many cases fared poorer than during normal summer seasons because tourists were afraid to get into traffic snarls (which, in fact, rarely materialized). And DER, the travel agency chain which managed domestic ticket sales for the Games, has reported that this privilege produced a sizeable loss for the company.

EURO COMPANY SCENE

Akzo, the Holland-based international chemicals and fibers concern, has bowed to widespread workers' resistance in scrapping its controversial restructuring plan that would have involved closure of five plants in Holland, Belgium and Germany and the layoff of more than 5,000 employees. The move would have been necessary, Akzo claimed, because of the capacity surplus in the synthetic fibers industry. Cancellation of the plan will be extremely costly to the company, which already is suffering from a steady decline in profitability. After a cooling-off period, management and unions are to get together to work out a solution to the crisis.
In a related move, the Dutch government has asked the European Commission to investigate the problems of the synthetic fibers industry. Such a study, the Economics Ministry suggested, should be directed toward measures to avoid a situation in which there would be serious unemployment and the "destruction of capital" in the industry.

The merger of four Belgian holding groups into a single one worth some $350 million would create that country's second-largest company after Société Generale de Belgique. Partners to the merger are the Compagnie Lambert pour l'Industrie et la Finance, its associate Cofinter, the Société de Bruxelles pour la Finance et l'Industries (Brufina), and the Compagnie Financière et Industrielle (Cofinindus). The latter two are part of the Launoit group. The new company, Compagnie Bruxelles Lambert pour la Finance et l'Industrie SA, Brussels, would have 20% of its holdings in the banking and insurance sector. However, the Banque Lambert and the Bankque de Bruxelles, both associated with the merger partners, would not be affected by the fusion.
Under the merger arrangement, shareholders of Compagnie Lambert and Cofinter would receive for each of their shares one of the new company. Thirteen Brufina shares would be exchanged for seven new shares, and two shares of Cofinindus are worth three new Lambert shares, each estimated to be valued at more than BF 3,000. The fusion has run into last-

minute difficulties, however, with the news that another banking group has bought up large parcels of Cofinindus shares, thus causing their prices to rise from FF 3,440 to 5,900 within a day. The group, Cobepa, is headed by the French Banque de Paris et des Pays Bas.

Bowater Corp., the U.K. paper, packaging and furniture group, has made an agreed bid of some £80 million ($192 million) for international traders Ralli International, from the Slater Walker stable. Bowater's chairman indicated that his firm had been forced to make a complete change of direction because its diversification had been progressing too slowly. Bowater was a good traditional company, he said, but needed the entrepreneurial ability that Ralli could supply. A merger between the two groups is justified inasmuch as their overseas operations are to some extent complementary, notably in North America, Australasia, and Europe.

The European Commission has asked the Dutch government to act as a collector in its behalf in the case against Amsterdamse Chemie Farmacie (ACF) which still owes a $200,000 (units of account) fine. ACF was one of six corporate defendants in the "quinine" cartel case which in 1969 were fined a total of $500,000. The other five companies - two French and three German - have paid up.

Richardson-Merrell, Inc., New York, the pharmaceutical and chemical company, intends to transfer production of its Naples plant to Strasbourg, France, according to Italian reports. So far, Richardson-Merrell reportedly has invested about $1.5 million annually in the subsidiary, which it had taken over in 1964 from Cutuli Calosi.

On the theory that Pan American World Airways may be the "key" to sales of the Anglo-French Concorde airliner in the United States, Pan Am is now being offered the Concorde at a special price, namely the same preferential terms as Air France and BOAC, the two state-owned carriers which first placed orders for the supersonic plane. Concorde officials firmly believe that Pan Am's decision will be instrumental in guiding the policies of other leading U.S. airlines. No details were released about the price Pan Am has been asked to pay. BOAC Concordes at 1974 estimated prices (including spares and supporting equipment) were calculated at £23 million ($55.2 million). Air France will pay a unit price, without spares and ancillary equipment, of £14 million. So far there are only 12 firm orders for Concordes, with production authorized for a further 22. Belgium's national airline, Sabena, shelved plans for buying Concordes after announcing that its losses for the current year were expected to top BF 1.15 million (about $261,000). Concorde talks also are in progress with Japan Airlines but, according to French transport ministry sources, these are "not as far advanced" as negotiations with Pan Am.

Laker Airways has been given permission by the U.K.'s Civil Aviation Authority to operate a cheap-fare "Skytrain" air service between Britain and New York as of April 1, 1973. The Skytrain plans provide for a walk-on, no-frills service at a single fare of £37.50 (summer) and £32.50 (winter). Laker plans to commence the service with Boeings 707 once daily in each direction. It has ordered, however, two DC-10s for this service.
British Caledonian has indicated that the Skytrain service will cause "substantial financial damage" and has made it clear that it will challenge the CAA's ruling. BOAC also will appeal. The Laker application to the U.S. Civil Aviation Board will be vigorously opposed by U.S. airlines, and U.S. hearings may well delay the inauguration of the Skytrain service beyond April 1.

The Four-Power Berlin Agreement, while easing surface transport between West Berlin and West Germany, apparently has had a negative impact on air travel as more people are willing to travel through East Germany by car. The three airlines authorized to serve the domestic Berlin runs - Pan American World Airways and BEA/Air France - have reacted by scheduling fewer daily Berlin flights for the winter season than they did last year. In August, the three carriers handled 418,000 passengers on the Berlin flights as compared to 524,000 for the same month a year ago - a drop of 21%. In July, passenger volume had decreased by 14.9%.

The British merchant bank Guinness Mahon has obtained a ready-made European network with the purchase of 50% of the French financial group Finacor for £1.25 million ($3 million), payable partly with 250,000 shares in Guinness Mahon Holdings. Finacor operates in the international money market and as an underwriter of Eurobond issues.

Officials of 14 financial institutions in nine countries will serve as directors of Euroclear Clearance System Ltd., the new company formed to own the bond clearing system set up in 1968 by Morgan Guaranty Trust Co. Morgan also announced that the issue of 20,000 shares in the new company have been allocated among 118 financial institutions in 20 countries. Of the $4.5 million raised by the share offering, $1.75 million will be used to purchase the Euro-clear system from Morgan Guaranty. None of the new shareholders holds more than 3.25% of the total share capital. Transfer of ownership of the new company to its shareholders is scheduled for Dec. 1.

Two of the largest insurance brokers in the U.K., Sedgwick Collins and Price Forbes, have arranged a merger to create what could be the largest group in the industry. The market capitalization of the new group will be approximately £70 million ($168 million), of which Sedgwick would contribute 58% and Price about 42%.

The U.K.'s National Westminster Bank has bought a 31% stake in Banca Milanese di Credito from the Credito Italiano banking group, one of National's partners in the Orion group. Credito Italiano will retain a majority shareholding in Banca Milanese.

France's Jacques Borel restaurant chain, a 62% subsidiary of the American W.R. Grace and Co., has formed an international group to finance the development of 100 new hotels in Western Europe by 1980. Founder Jacques Borel said the new group would own 25 of the hotels and franchise the remainder. Four projects are already under way in France, located near major expressways or airports, or in urban centers. Members of the group are European banks, including Omnium de l'Union European; Britain's Hill Samuel; Saifin Luxembourg, a subsidiary of Fiat; Westdeutsche Landesbank Girozentrale; Union Industrial Bancaria of Madrid, and French banks.

The U.K.'s restaurant and catering group J. Lyons is in the process of tying up three overseas acquisitions, including a 60% stake in DCA Food Industries of New York which is valued at some £3 million ($7.2 million). The other two deals are said to involve French and Italian food companies. Lyons also is funding its recent purchase of the Dutch meat company Homburg by placing abroad £2.25 million of 7% convertible preference shares.

Common Market Reports
EUROMARKET NEWS

Issue No. 195 Report No. 197, October 11, 1972

Assessing the Scandinavian Split: At this stage, not all the implications of the split vote of Norway and Denmark in their respective EEC referendums can be evaluated. Norway's "no," deplored as a "defeat for Europe" on the Continent, is regarded as a Pyrrhic victory for that country's farmers and fishermen. The farmers produce mostly for the domestic market behind protective tariff walls which would have come down had Norway joined. The small fishing businesses would have been confronted by the modern trawler fleets from the U.K., Germany, and the Netherlands. Yet, whether Norway joins or not, both farming and fishing will have to submit to the same shrinking process already experienced by other countries.

Norwegian industry, stunned by the outcome of the referendum, realizes that future economic expansion will be severely curtailed and that new investment plans are in doubt. (Predictably, the stock market quotations of such major export industries as shipbuilding, aluminum and steel, and wood finishing plunged sharply after the news was out.) Only a few small businessmen of conservative, nationalistic persuasion professed satisfaction with the results of the vote.

Aside from the impact on domestic politics, Norway now may expect little sympathy from the European Community on the matter of an early trade agreement. The European Commission already has announced that there is no chance of negotiations before 1973, by which time the U.K. - one of Norway's most important trade partners - will have entered the Common Market. Even given such a pact, those who voted "no" apparently do not realize that it would bring considerably fewer benefits. The EEC Council has ample latitude in this area and is not bound by the institutional limits laid down in the Treaty of Rome. And all of Norway would lose should domestic industry make good its threat to relocate much of its production to EEC countries.

Despite the negative decision in Norway, Denmark's referendum stood under a more favorable star from the beginning, with far more economic reasons favoring entry than speaking against it. Danish

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farm produce exporters, already hurt by the EEC tariffs imposed on exports bound for Germany (their No. 2 client), would suffer even more following EEC membership by the U.K., Denmark's top trading partner. A Danish "no" also would have made devaluation of the krone an absolute necessity in order to keep Danish exporters competitive abroad.

Swedish and Finnish business circles have been relatively cautious in their reaction to the decisions of their Scandinavian neighbors. They do not rule out the possibility that Norway will revive negotiations for Nordek, the proposed Scandinavian economic union that has never gotten off the ground. The feeling is that such an economic bloc would be able to wrest better trade concessions from the EEC. However, most observers agree that a Nordek pact - unlikely as it seems - would not be able to repair the damage that Norway's rejection of the EEC has produced.

More Publicity About Going Public: The European Commission has prepared a draft directive that would require the member states to adopt essentially uniform publicity rules to be followed for the admission of securities to the various national stock exchanges throughout the Community. This would mean, for example, that Italy, with no rules at all in this area, would have to enact legislation and that Germany, which does have such rules, would have to extend them because of the stiffer requirements proposed in the directive.

The directive, which the Council of Ministers must approve, in essence would make the member states establish minimum requirements for the content, control, and publication of prospectuses. These requirements would differ, depending on the type of security. A stock prospectus, for instance, would have to give detailed information such as the balance sheet totals of the last two years; a bond prospectus, last year's balance sheet. But any stock or bond prospectus would have to list the company's net sales and production volume over the past five years. All of a company's production sectors contributing more than 15% to its total sales would have to be included. A prospectus also would have to inform potential investors about markets, assets, patents and licensing agreements, recent business developments, and financial prospects. Also significant would be the sort of cooperation the Commission eventually would seek from national authorities for simultaneous admission of a new issue to the stock exchanges in more than one member state.

National experts feel that once subsequent national legislation is adopted, prospective investors not only will have better and more information about a company's business and financial standing but also will have a far better way of comparing investment opportunities. Some of them had advocated a much broader concept and wanted to include rules on the issuance of securities. But Commission officials thought that this was asking too much at this point because of the even greater national legislative and administrative differences. Still, the directive as drafted represents a step toward sewing together the national capital markets.

Austrian-EEC Trade Agreement: The interim trade agreement between Austria and the EEC (a forerunner of the actual free trade agreement coming into force on Jan. 1) took effect on Oct. 1 and provides for a reciprocal 30% reduction of import duties. As a result, the Austrian economy and consumers will save 1.6 billion schillings ($68.7 million) in duties in 1973 alone, according to a report prepared by the National Chamber of Trade and Industry in Vienna. The agreement will give Austria's exporting industries better chances on the markets of the Six and of the EEC candidates and improved competitive standing for exports to Ireland. On the other hand, the gradual tariff reduction will stimulate Austrian sales of firms domiciled in the Six.

In line with its drive for controls to forestall price increases anticipated with the introduction of VAT as of Jan. 1, the government has appealed to importers to reduce prices charged for a great number of products imported from EEC countries on account of the lowered import duties. The percentages range from 2% for shoes, 3.5% for textiles, and up to 6% for electrical appliances. One important item, automobiles, is not included in the government's list, but then car dealers have already announced price cuts of up to 5% for German, French, and Italian models. It remains to be seen whether businesses will heed the government's non-binding appeal. Still, the government has the option of using some of the price-control instruments now and need not wait until 1973.

Anti-Inflation Package for U.K.: Prime Minister Edward Heath's announcement that his government was "firmly committed" to counter-inflationary measures has been followed by proposals for a ₤2-per-week limit on pay increases and a 5% freeze on retail price boosts over the next 12 months. The package was proposed at the tripartite talks involving government, unions, and industry late last month and will be discussed at the next meeting on Oct. 16. The main elements in the government's package are the following:
- a limit of a cash increase of ₤2 per week during the next 12 months for a normal working week;
- price increases of manufactured products to be contained within 4%, keeping the rise in retail prices within 5% for the next 12 months;
- government commitment to achieve a 5% rate of economic growth to cover the next two years;
- threshold agreements on contingency measures to accommodate retail price increases of more than 5% due to such individual and one-time causes as EEC entry, and
- the creation of a new body to assist traditionally low-pay industries to attain higher production and, by extension, higher wages.

The last point is bound to find favor with the great majority of union members in low-pay industries and conceivably will cause a rift between these and other, higher paid unions. In addition, union leaders will be loath to oppose a package seemingly weighted in favor of lower-paid workers.

To no one's surprise, militant trade unionists immediately rejected the Heath package. The TUC General Council indicated that the unions will draw up their anti-inflation program and seek a number of government concessions, principally the following:
- reduction of the threshold at which compensatory raises will be paid (the unions will argue for 5%, the limit on price rises and the proposed annual growth rate of the economy);
- tighter controls on remuneration of self-employed persons and shareholders as well as on managers' fringe benefits;
- an immediate increase of ₤2 per week in old-age pensions;
- abatement of the controversial Housing Finance Act (which will increase social housing rents considerably), and
- "amelioration" of the 10% value-added tax operative as of April 1973.

The TUC also will adhere to the resolution adopted at its congress in September rejecting any incomes policy which does not offer parallel restraint on dividends and profits and does not aim at redistribution of incomes. Union leaders also hinted that repeal of the Industrial Relations Act could well be a *sine qua non* of any wages deal. However, the government already has ruled out a repeal of the Act.

Heath's package does not seem overly generous at a time when pay claims are far in excess of £2. The U.K.'s farm workers currently want increases on the order of £4-8 per week, local authority workers are asking £4, electricity workers £5.5, mine workers and truck drivers £7, Ford assembly workers £10, etc. Furthermore, government industrial workers and atomic energy workers have flatly refused increases of £1.75 per week.

Comments Invited on Company Informatior Plan: The U.K.'s Employment Secretary will announce within two months details of revisions to the Code of Industrial Relations Practice in regard to disclosure of company information to union negotiators, informed London sources say. At present, the Code refers only briefly to such disclosures and confines its recommendations to suggesting that employers meet "reasonable" requests for information from unions. This far from satisfies the unions, which have been demanding highly detailed information, including particulars on company structure and ownership as well as advance information on company plans. The Commission on Industrial Relations has just published a report, "Disclosures of Information," reflecting the official view that such agreements should be voluntary. The unions, the Confederation of British Industry, the Stock Exchange, and the City Takeover Panel have been invited to comment. The TUC is unlikely to enter into the spirit of such consultations, bearing in mind its consistent opposition to the Industrial Relations Act. The CBI, on the other hand, has applauded the Commission's proposals. In fact, a voluntary disclosure agreement would be of some benefit to the unions: unregistered unions, which may not (under the terms of the Code) challenge an employer's refusal to disclose information at the National Industrial Relations Court, would have access to information under a voluntary agreement plan.
A further element which the Commission feels strongly about is the misconception that disclosure of information to trade unions is somehow precluded in the Companies Act and the Stock Exchange Rules. This is not the case, as the report points out: "The principle is not that companies should be secretive but that they should be impartial."

German Unions 'Eating Their Cake'? Public debate over co-determination in German industry has taken a curious twist with the controversy over the staffing of the supervisory board of one of Germany's major banking institutions, the union-owned Bank für Gemeinwirtschaft. The normally standard procedure of appointing a "neutral" chairman drew fire from various sides when the bank's major shareholder, the German Federation of Unions (DGB), chose its own secretary-general, Heinz O. Vetter, for the job. The irony of the move is that the DGB has made *paritätische Mitbestimmung* - i.e., equal employee representation - for all public-owned corporations its prime platform issue for Germany's upcoming general elections in November. (The concept of equal employee representation, already implemented in the nation's coal and steel industry, provides for an equal number of labor and shareholder representatives plus one neutral chairman for supervisory boards. The Bank für Gemeinwirtschaft supposedly was to serve as a model for this concept.

The German employers federation BDA has cited the appointment as proof that the unions, in managing their own enterprises, are denying their employees the very representation they are demanding of other companies. With a touch of sarcasm, the BDA added that the DGB "thus obviously has recognized the necessity of a constitutional majority of the owner representatives on the supervisory boards." This critique was echoed even by other union leaders who pointed out that Vetter's appointment could only be damaging to the unions' cause and that "we cannot have our cake and eat it, too." The Union of Trade, Banking and Insurance Employees (HBV), for one, has demanded that the DGB find a solution in this case that is not in conflict with its own principles.

Wide French Acceptance of Nationalization: The French tend to be in favor of nationalization of major enterprises but are uncertain about their efficiency. A survey by the French Institute of Public Opinion (IFOP) showed that 42% believe that nationalized operations are "more in conformity with the general interest than private enterprises." Only 26% disagreed, but there were 32% of "don't knows." Asked if state-owned companies were more efficient, the sample polled split 33% each on "yes" and "no." Thirty-four percent were undecided. About 41% thought working conditions were better under state ownership, while 27% opted for private industry as the preferable employer.

First priority for those favoring more nationalization was directed at private and investment banks and financial houses, with second priority going to the automobile makers Peugeot, Chrysler-Simca, Citroën, and Berliet (Renault was nationalized at the end of World War II). Then followed the aerospace and aero-engine industry (Dassault and Matra) and the electrical and electronic industry as represented by Thomson-Houston, CGE, and the French branches of Honeywell-Bull and ITT.

The poll followed announcement of a joint electoral program by the French Communist and Socialist parties for the March 1973 general elections which includes a nationalization plank naming a long list of companies. The poll indicated, however, that a majority of voters would not make nationalization a key factor in determining their voting preferences.

Berne Remains Stern: Foreigners who have been nursing hopes that the Swiss government might ease the restrictions imposed by the June 27 decree on real estate purchases by non-Swiss investors are in for a disappointment - the Berne government is determined to enforce the decree and allow virtually no exceptions. In response to a question by a member of Parliament who had demanded exceptions for regions in need of development, the administration emphasized that these regions would hardly benefit from real estate purchases by foreigners "who merely spend part of their vacation there, pay no taxes, and substantially burden the infrastructure." The government said it does not see any reason to apply the hardship clause provided in the decree since it is felt that a person wanting to buy a second home for temporary residence is not suffering any hardships.

A high percentage of property in Swiss recreational areas already is in foreign hands, and in some resort areas up to 80% of all construction involves the building of vacation homes for foreigners. Aside from resulting in higher property prices and construction costs, this activity also has helped to spur inflation. Putting a damper on inflation had been the primary reason for the decree.

EURO COMPANY SCENE

Obstacles to the projected merger of four Belgian holding companies - Compagnie Lambert pour l'Industrie et la Finance, Cofinter, Brufina, and Cofinindus - have finally been cleared following the Belgian government's intervention to promote a settlement between Lambert (associated with the international Rothschild group) and the De Launoit family on one side and Cobepa, Belgian member of France's Paribas group, on the other. Cobepa reportedly will sell the 25% holding it recently built up in Cofinindus to the Lambert-De Launoit group, allowing the fusion to go through, in exchange for certain Cofinindus-Brufina holdings, particularly in the steel sector. The new combine - Compagnie Bruxelles Lambert pour la Finance et l'Industrie SA - would have assets of BF 15 billion ($335 million) and would control 10% of the Banque de Bruxelles, Belgium's No. 2 financial institution. Lambert's ulterior motive for the deal is thought to be the eventual merger of its own Banque Lambert with the Banque de Bruxelles, although both banks officially have no part in the present negotiations.

Meanwhile, Belgium's largest holding company, Société Générale de Belgique (assets: BF 25 billion) has announced that it plans soon to merge two of its interests, Cie. Financière du Katanga, which owns some 10% of Union Minière, and Cie. Européenne et d'Outremer.

Sweden's Volvo group and Daf, the Dutch automotive manufacturer, have reached an agreement on technical, financial, and commercial cooperation in the passenger car sector. Volvo is expected to take a 33% stake in van Doorne's Personenautofabrik DAF BV, a wholly owned subsidiary of van Doorne's Houdstermaatschappij DAF BV. Details are still being negotiated, but a final contract should probably take effect by Jan. 1, 1973. Volvo and Daf will not team up in the production of commercial vehicles as well, but will continue to cooperate within the pact concluded last year with Magirus-Deutz (KHD) of Germany and France's Saviem for development of a new line of light trucks (6-12 tons).
Daf now is embarking upon an ambitious expansion program at its Born plant. It aims to raise production by 1980 to 200,000 units compared with 100,000 expected during 1973. At the same time, the work force is likely to double from today's figure of 3,000. An immediate investment of 30 million guilders is necessary, though the final cost will be much higher.

The U.S. freight company Federal Express has ordered 23 cargo versions of the French Dassault Fanjet Falcon-20 to run an express air freight service throughout the United States. The aim is to move shipments between any two points within six hours. Powered by GE engines, the aircraft will be modified by Little Rock Airmotive of Arkansas with reinforced floors and a wide-loading door. The jets are sold by Falcon Jet Corp., a joint subsidiary of Dassault and Pan Am's Business Jet Division. Federal Express has won contracts from the U.S. Post Office for air mail delivery to support the service. A total of 194 Falcons have now been sold in the United States and 97 more in 10 other nations. Dassault expects to pass the 300 mark in sales within the next few months.

Despite personal appeals by President Pompidou to President Nixon, a Pentagon ruling has been enforced that will seriously disrupt a Franco-U.S. aero-engine project. The Pentagon said General Electric could not use the core engine or central unit of an engine being developed for the future supersonic B-1 bomber in a new 10 ton-thrust unit being developed jointly with France's state-owned SNECMA. First indications were that the ban would put an end to the project for an engine to power future civil airliners. But both companies have said they will go ahead and are examining other solutions to the design problem. The vetoed core engine was being developed with government funds, and other engine builders are said to have lobbied Washington intensively on the subject. Both companies see advantages in continued cooperation - SNECMA to get into the U.S. market and General Electric to have a strong partner in Europe.

France's Institut de Développement Industriel (IDI), a mixed state-private venture capital enterprise, is to give financial aid to Protex SARL, an advanced-technology chemical company, to help it move into the U.S. market through a stake in a similar U.S. company, which will not be named until negotiations are finalized. Protex specializes in organic chemicals used in industry and synthetic resins and exports 30% of its products. IDI also is granting financial aid to several small French companies in civil engineering, aeronautical hydraulics, and furniture manufacture, particularly to help them fight off takeover bids by foreign companies.

Montedison's president Eugenio Cefis has told an economic committee of the Rome Senate that the 10-year plan for Italy's chemical industry is bound to fall short by at least 25% of the 12,000 billion-lire turnover goal set for 1980. Cefis said Montedison alone is employing 24,000 people more than needed. To make the concern competitive again, he proposed two alternatives: either turn the company into a "social institution" with guaranteed jobs (and accept the losses) or activate Montedison's "entrepreneurial" potential. The latter apparently was in reference to attempts by Montedison's largest single shareholder, state-owned ENI, to gain an even greater influence on the company. ENI now has a direct holding of 15% and indirectly controls at least 25%.

Montedison has announced projected investments of 2,800 billion lire ($4.82 billion) for the next five years to 1977. Some 63% of this is to take the form of grants, low-interest loans, and other subsidies for projects in southern Italy. The group just sold its controlling stake in Acqua Pia Antica Marcia, a real estate company, to three Fiat subsidiaries for an unnamed price. Proceeds from such transactions as this will be channeled into the investment program. Montedison's policy is to gradually divest itself of all holdings unrelated to its main chemical, fiber, and pharmaceutical operations.

U.S.I. Clearing, Chicago, Ill., member of the U.S. Industries, Inc., group, has signed a license agreement with Germany's Rheinstahl AG Maschinenbau. Rheinstahl has been granted rights to manufacture the U.S. company's line of equipment - primarily mechanical and hydraulic presses - and sell it exclusively on West German and other important national markets.

American Metal Climax (AMAX) has received French government permission to build a new plant in the industrial zone of Andrezieux-Boutheon, near St. Etienne in south-central France. The plant, to be called Euramax, will produce aluminum sheet for caravans from stock either imported or obtained from Pechiney. It will be the marketing and distribution headquarters for southern France, Italy, Spain, and Portugal.

The share value of Turin-based Schiaparelli SpA, one of Italy's top pharmaceutical producers, has gone up from 6,000 to 10,800 lire on the Turin stock exchange following reports that Dow Chemical is negotiating a takeover deal. With paid-up capital of 450 million lire, Schiaparelli's sales volume reached 3.3 billion lire ($5.67 million) in 1971. Net profits came to 11 million lire; no dividends were paid. Dow Chemical already controls another leading Italian pharmaceutical company, Lepetit.

Continental Netherlands Oil Co. and Dow Chemical International have transferred part of their search license for natural gas and oil in the Dutch section of the North Sea to the Norwegian company, A/S Kongsberg Vapenfabrikk. In turn, Kongsberg will transfer the concession to the new state-owned oil company now being established in Norway.

Honeywell, Inc., Minneapolis, Minn., and Germany's Siemens AG have signed an agreement for joint development and sales of electronic traffic control systems in the United States and Canada. Siemens, which has been active in this sector for half a century, is granting licenses to Honeywell for distribution of its equipment in North America, while Honeywell intends to develop its own systems and will license the German company for their manufacture and sales outside U.S. and Canadian markets. The companies will exchange know-how; in this context Honeywell is planning to build a center for "environmental and urban control systems" in Minneapolis.

Finland's largest electronics firm, Nokia Oy, will deliver a so-called Autocook system, which controls the cooking of sulphate in woodworking plants, to Continental Can Co. by early 1973. The system was developed by Nokia, which so far has sold 49 units overseas. The company has decided to set up a sales office of its own in the United States.

Iso Industries Corp. of Miami has declared its intention to take over all the ordinary shares of Italian Iso Automotoveìcoli SpA, manufacturer of the ISO sports cars and snow vehicles. The deal apparently involves a family transaction being made by the heirs of the founder of the Italian company, which sells mainly on the U.S. market.

Rank Organisation, in the news earlier this year with a takeover bid for U.K. brewers Watney Mann, has made an agreed bid of £43.6 million ($104.6 million) for the U.K. leisure and holiday camp group Butlin's, which anticipates profits of £4.2 million for the current year. Rank Organisation shares fell in New York when the offer was announced. (A similar reaction was experienced during the Watney takeover move, although the sum involved was considerably greater.) New York sources felt that the reaction was psychological and that Rank shareholders would become acclimatized to the idea at an early date.

The U.K.'s Golden Egg snack bars and hotels group, which already has accepted an offer of approximately £10 million ($24 million) from Ralston Purina Co., St. Louis, Mo., is the object of a counter bid of some £11 million from EMI, the cinema, record, and leisure activities group. Golden Egg spokesmen indicated that nothing could be decided until Ralston had had time to reconsider its position. Either buyer would acquire control of Golden Egg's major quoted subsidiary, Angus Restaurants.

United Biscuits, U.K. leader in its field, has bought a 10% stake in France's Générale de Panification, that country's top zwieback producer, apparently in the hope to acquire a larger holding later on. As a first step, the two companies will sell each other's products on their home markets. The British company also is courting Lu, Brun & Associates, France's largest biscuit manufacturer with a turnover of FF 250 million ($50 million) and the last major wholly French-owned company in the field. United aims at a majority holding, and the lengthy negotiations reportedly now are showing some progress. The final decision, however, will rest with the French government.

London and Manchester Assurance Co. and the Association of Scientific, Technical and Managerial Staffs have signed what may well be the first agreement on flexible working hours in the City of London. The agreement gives London and Manchester's 450-person head office staff a four-day week. The new "flextime" principle provides for a "core time" when everyone must be at work; the remainder of the 35-hour week may be worked according to individual preferences. Core times are between 10 a.m. and noon and between 3 and 4 p.m. Employees also will be able to amass credit time by working more than 35 hours a week up to a maximum of 10 extra hours a month.
As of Oct. 1, Fiat also has introduced "staggered" working hours for about 4,800 administrative employees at its Mirafiori plant in Turin. They may report for work between 8 and 9 a.m. and may opt for a one-hour or two-hour lunch break. This means that there will be staggered hours at the end of the day. The system has been instituted on an experimental basis until the end of this year.

Common Market Reports
EUROMARKET NEWS

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Issue No. 196 *October 17, 1972*

Brussels Moves to Harmonize Corporate Rules: Stock corporations incorporated in any one of the Common Market's member states will have to make significant changes in their corporate structures if a directive the European Commission has submitted to the EEC Council becomes effective. Part of the Commission's program to implement the right of establishment laid down in the EEC Treaty, the directive seeks to harmonize member state rules governing stock corporations.

Here is a capsule rundown of the Commission proposal:

- Any stock corporation would have to have a supervisory board in addition to its managing board;
- in any stock corporation with a work force of more than 500, employees would elect one-third of the supervisory board's members (German model) or the supervisory board would be established so that shareholders and employees must come to an understanding about its composition or must accept the decision of a neutral arbitrator (Dutch model);
- no one could hold a seat on more than 10 supervisory boards, and
- banks or management exercising voting rights for shareholders must seek shareholders' instructions and abide by them.

Adoption of the directive would mean, for instance, that Italy and the EEC candidates (U.K., Ireland, and Denmark) would be required to enact legislation to this effect and give supervisory boards the powers they have particularly under German but also under Dutch law. (France has optional rules on the books, and mandatory rules have been proposed in Belgium and Luxembourg.) Thus, by reason of these powers management could not close down or relocate the enterprise or important plants without the supervisory board's approval. The same would be true for enlarging or restricting the scope of operations or making significant organizational changes. Initiating or terminating cooperation with other companies would require the supervisory board's consent, too.

Brussels observers predict rough going for the directive in the Council because adoption would mean significant and innovative legislative work for virtually all present and future member states

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except Germany. Moreover, co-determination of labor on the management level is an explosive issue that has held up any progress on the Commission's draft statute of the European Stock Corporation (which has been in the Council's files for more than two years). And an interesting aspect is that the unions in most countries (except Germany) are not really interested in seeing employees appear in board rooms and have a voice in corporate affairs. Nevertheless, these observers agree with the Commission that the development of truly European corporate rules and a functioning common market cannot bypass the issue, but they do not share the optimism shown by some of its members.

Bonn Tries to Rout Illegal Residents: A new amendment to Germany's Aliens Law (Section 24, para. 6a, *Ausländergesetz*) makes employers liable for the cost of returning alien workers to their home countries if these employees lack residence or work permits. The amendment, which went into effect on Oct. 11, provides that employers must not only pay for the fare but also for the days an illegal resident is kept in custody until boarded on a train or plane. Authorities also will demand reimbursement if it becomes necessary to accompany or guard a deportee.

It has been estimated that between 150,000 and 300,000 foreigners lacking proper papers are employed in Germany although this is (and always was) strictly against the law and could result in a stiff fine for employers. In the Ruhr state of North Rhine-Westphalia alone, some 70,000 aliens - mostly Turks and Yugoslavs - are believed to be working illegally. Most of them simply bypassed the bureaucratic channels set up between the German recruiting authorities and the respective home countries because it often takes years for jobseekers to move to the top of the waiting list. In Turkey, for instance, over one million persons have applied to join their 500,000 countrymen already working in Germany. Many of the more desperate emigrants thus willingly or unwillingly become victims of unscrupulous agents, risking deportation when found out. This situation would change, however, with the freedom of movement clause envisioned in the EEC-Turkey Treaty of Association for 1976-86.

Yet, despite the labor shortage, which is still acute, Germany has been following a cautious admission policy for aliens from such countries as Turkey, Yugoslavia, and Morocco because of their obvious impact on the domestic economy (inflation) and social situation (housing shortage). The tragic events at the Munich Olympics also have spurred the authorities in their drive against illegal residents, and it is hoped that the Aliens Law amendment will help to enforce this policy in the future.

What's in Store for German Business? As the governing Social Democrats (in liaison with the Free Democrats) and the opposition Christian Democrats are putting together their respective policy platforms for the Nov. 19 elections, German business and industry are speculating on what to expect from the next government.

One of the sensitive areas concerning business is that of competition. The Brandt Administration's concept - emphasizing merger controls and more cooperation between small and medium-size businesses - was laid down in a bill which never made it through Parliament because it lacked support from the Free Democrat coalition partners. In this area the Christian Democrats have a somewhat similar plan because they too favor preventive merger controls. However, a Christian Democratic government apparently is prepared to push for legislation that would provide for an important exception from the basic merger prohibition: a merger would pass if its advantages for the economy as a whole outweigh the resulting restraint of competition. German businesses can expect that the Federal Cartel Office would be given more powers to clamp down on abusive practices by market-dominating companies.

An important part of the Social Democrats' platform pertains to price maintenance and price recommendations. All price maintenance systems allowing retailers markups of more than 50% would be invalidated by the Cartel Office. Markups of this size are not the rule, but then they are not so seldom, either. Prices recommended by manufacturers to wholesalers and retailers (which, although not binding, lead to uniform consumer prices) would be subject to investigations and eventual invalidation.

Britain, EEC Agree on Staff, Budget: Agreement has been reached between the U.K. and the six EEC member states as regards staff recruitment to the Brussels Commission during 1973 and the U.K.'s contribution to the Community's budget. As far as administrative grade positions are concerned, Britain has insisted that the 18% share in the Commission's staff be taken up by the end of 1973. For the moment, however, a certain number of positions are being held in reserve. In the final analysis, over 300 administrative posts will be held by British nationals. A compromise also was reached on the U.K.'s liability to finance budgetary operations undertaken by the original Six but still relevant to the 1972 Budget: Britain will not be obliged to contribute to agricultural operations but will contribute to the Community's Social Fund and to existing Community commitments in the sectors of scientific research and development aid.

'Problems of Matching Qualifactions': The U.K.'s Chartered Insurance Institute is concerned over the fact that it has no precise counterpart in the EEC and that its status may not be properly recognized. The principal problem will be to convince the EEC that incorporation by Royal Charter is at least equivalent to incorporation by statute. The Treaty of Rome requires mutual recognition of diplomas, certificates, and other such qualifications relating to freedom of practice but, as the institute points out, "experience has shown that the problems of matching the various qualifications of professional bodies, universities, and technical colleges are almost insoluble."

Gloomy Expectations for Italy's Economy: Industry in Italy is overwhelmingly pessimistic about the short-term economic outlook. A poll by the Italian Institute of Economic Statistics has shown that 94% of the industry representatives questioned believe there will be continued stagnation or even a worsening of the situation. Most pessimistic are consumer goods manufacturers, less pessimistic are those producing capital goods.
The Italian government will present Parliament with a short-term economic plan designed to overcome these fears. The program foresees an increase in national revenue of 4% this year against a 1.5% decrease last year. Domestic demand and investment also are to be stimulated in ways yet to be announced. However, Rome did indicate that there will be efforts to see that a possible acceleration of price rises will not be accompanied by a reduction in purchasing power and over-all demand. Prices in the retail sector are to be subjected to government surveillance; details have not been made public, however.

Austria to Tighten Land Sales: Taking a cue from its Swiss neighbors, the Austrian government is considering ways of curbing foreign purchases of property and real estate. The finance ministry and province authorities are soon to hold talks on this subject. The Austrian pub-

lic is increasingly disturbed by the fact that such purchases have been driving real estate prices upward and that the rash of huge and ungainly apartment and condominium projects is leaving its marks on the landscape. The Kreisky Administration can count on the support of the opposition parties for its plans to stop domestic financing of such projects for foreigners and to bar non-Austrians from taking advantage of property tax (*Grundsteuer*) exemptions normally granted for new construction. Apparently in anticipation of these measures, some mortgage savings institutions (*Bausparkassen*) - which underwrite a major share of private home construction - already have stopped credit arrangements for foreign buyers. In Upper Austria alone, foreigners - mostly Germans - reportedly bought up nearly 2,000 acres of land in the first half of this year, twice as much as in all of 1971. Aside from its scenic beauty, recreational values, and the still-prevailing "quality of life," Austria's prime attraction is its proximity to Germany and real estate prices which are not quite as inflated as those across the border.
Aside from the projected real estate measures, the Vienna government also hopes to stem the inflow of foreign capital on the domestic stock and bond markets. However, this is expected to be accomplished via a gentlemen's agreement between the finance ministry, the central bank, and the commercial banks, thus avoiding any "drastic steps."

Global Supersonic Route Considered: The chairman of the British Airways Board has predicted a new supersonic airline service involving France, Britain, the Soviet Union and, possibly, Japan. Current talks between the U.K. and Russia are expected to end in agreement that the British Overseas Airways Corp. and Aeroflot, the Soviet-state carrier, will operate supersonic planes on a new London-Moscow-Tokyo route. A similar route, Paris-Moscow-Tokyo, would involve the participation of Air France. Japan has not been a party to the negotiations but is expected to join. A link-up of this kind would provide a pooled supersonic service spanning two-thirds of the globe. The chairman indicated that his vision of the service was "still speculative." One result of such an arrangement could be to force the United States to enter the supersonic race: the chairman's remarks also were widely interpreted as a thinly veiled invitation to the U.S. to buy supersonic - presumably Concordes.

Irish Veto on Refinery Project? The Irish prime minister has been asked to intervene personally to prevent construction of a £40-million ($96 million) oil refinery in the Dublin Bay area. News of the project leaked out when the Dublin Port and Docks Board asked the government for permission to reclaim some 200 acres of land on the south bank of the Liffey River. The identity of the companies involved was being kept secret until the outcome of the planned permit application, but it was said that no less than 50% of the equity would be held by Irish nationals and that an "important international oil company was involved." One interesting aspect is that the promoter will not be asking for a grant from the state-controlled Industrial Development Authority. This means, in effect, that Ireland would be richer by a £40-million project at no risk to the taxpayer. In spite of this, the move has been opposed on ecological grounds by the Dublin Bay Preservation Association.

The Eurodollar, Eurocurrency Picture: The dollar's renewed strength on the foreign exchange markets also has given it a boost on the long-term international capital market. Eurobond interest rates attached to dollar-denominated loans have been falling steadily so that the going rate for a first-class name is currently 7.75%, the size of the

coupon attached to the $50-million, 15-year offering by the European Investment Bank. At the same time, coupons attached to Euromark (German) and Eurofranc (French/Luxembourg) issues have been rising, consequently narrowing the yield differential between the dollar and non-dollar sectors. However, long-term interest rates in the dollar area are expected to resume their upward trend once the U.S. presidential election is out of the way.
The return to dollars by both Eurobond borrowers and investors has created problems for the secondary market. According to several leading traders, the sheer weight of dollar paper is putting dealers under considerable pressure. Although the volume of outstanding Eurodollar bonds has about doubled in the past three, four years, the number of traders has remained virtually unchanged. Some relief will be provided when Orion Bank, in which Chase Manhattan is a shareholder along with five other international banks, starts its own dealing operations, possibly by the end of this month.
Meanwhile, competition in the medium-term, syndicated Eurocurrency loan market remains as fierce as ever. During the third quarter of this year, a record $4 billion was issued in such loans ranging between three and 10 years. U.S. banks such as Bankers Trust, First National City and Manufacturers Hanover are among the most active lenders. However, as previously reported, strong competition is being offered by the major Japanese banks, which stand accused of "dollar dumping" at very low interest rates. According to Amsterdam sources, lenders thus have been forced to look farther and farther afield for borrowers in view of lacking demand from the traditional sources - corporations in the United States and Western Europe. Not only are the second-rank and third-rank borrowers able to obtain funds but they also get very favorable interest rates. Some bankers are now afraid of possible defaults by borrowers unable to repay their debts.

AROUND THE MARKETPLACE

Franchisers Establish European Link: A European Franchising Federation has been formed at a meeting of representatives of national franchising groups from Germany, Holland, Italy, Switzerland, Sweden, and France (with Belgium to join soon). One of the federation's principal objectives is to devise rules which will forestall government intervention. Efforts will be made to develop compatible franchising contracts for all the countries involved. This would be part of a wider scheme by which franchisers are to define the nature, principles, and practices of their profession before governments do it for them. Another objective is to broaden the scope of franchising to create a market similar to that of the United States.

VAT to Hurt British Tourism: Travel and tourism in the U.K. are likely to suffer as a result of price increases following the introduction of value-added tax next April. The British Hotels, Restaurants and Caterers Association has indicated that the new tax, together with the general inflationary trend in the U.K., is likely to result in hotel and restaurant bills rising by between 17 and 25%. These increases will come as a direct reaction to rising costs and will not be matched by any marked increase in service, the association says. The Prime Minister's call for voluntary limitation of price increases in respect of manufactured goods obviously does not apply to services. Nevertheless, the price monitoring plan proposed by Heath could apply, and hotel and restaurant prices could well be investigated. The British Tourist Authority already has indicated that foreign tourist arrivals are leveling off.

Joint Promotion in Yugoslavia: Once considered just another dubious tool of profiteering capitalists, sales promotion apparently is slowly becoming acceptable in Eastern Europe. One of the more imaginative campaigns is being reported from Yugoslavia, where two organizations are jointly promoting each other's products - the D.I.V. tobacco group, which manufactures the "Winston" brand under U.S. license, and Zagreb's INA oil company. The gimmick: any motorist who turns in three empty packs of "Winston" at an INA service station is entitled to one liter of gasoline free of charge.

EURO COMPANY SCENE

Michelin, the French tire giant and pioneer of the radial-ply design, reportedly is masterminding formation of a European combine which would control half of the Continental market compared to Dunlop-Pirelli's 30%. Paris reports say the new holding would group Austria's Semperit, Germany's Continental Gummi (and possibly Phoenix Gummi) plus France's Klêber-Colombes, of which Michelin already holds 42%, directly or indirectly. It would be the world's leading tire producer. Michelin's move is seen as a direct reaction to being shut out of production in the United States; its Canadian plant supplies 2% of the U.S. market through Sears Roebuck. Crédit Suisse (in which Michelin reputedly has a major interest), Germany's Deutsche Bank, and Austria's Creditanstalt-Bankverein are said to be negotiating the massive deal.
Bayer, the German chemical concern supplying much of the raw materials to the companies concerned, also is said to be playing an important role in the merger. In a surprise move, the company acquired 35% of the Munich rubber and tire manufacturer Metzeler AG for DM 105 million ($32.8 million). Metzeler, a family group, reported a turnover of DM 1.31 billion for 1971 and employs 24,000. The Bayer involvement must be seen against the background of attempts to create a powerful German tire group, which then might become part of a European tire concern. (Deutsche Bank and the insurance group Münchner Rück have deposited their 62% interest in Phoenix and 35% in Conti in a holding called "Corona," of which Bayer in turn owns a one-third share valued at DM 140 million.) Such a formation would, of course, represent a strong challenge to further U.S. expansion in the European tire industry.

Making good an option it has held for some time now, Germany's AEG group reportedly will take a 25.01% stake in a new Italian production company, Zanussi Elettrodomestici SpA, Pordenone. The Zanussi group, with 30,000 employees, is Europe's largest manufacturer of electrical household applicances. Elettrodomestici will have a share capital of 40 billion lire ($68.8 million).

The steel group of Germany's Willy Korf is conducting "promising" negotiations with the Soviet Union for the delivery and construction of a large steel complex utilizing the Midland-Ross direct-reduction process which Korf has applied with great success in his own plants. The Russian steel works, to be built near the Finnish border, would require investments in the area of "at least" $443 million and have an output of 8 million tons of raw steel, according to Moscow reports.

An Italian-led consortium has announced development proposals for a £160-million ($384 million) refinery and steel pipe project on Scotland's Ayrshire coast at Hunterston. The project has been proposed by a European technical consortium: Oil Refining Services International, a U.K. registered company headed by Mediterranea Raffineria Siciliana Petroli SpA of Milan, and their associate Euro Sider, Ltd.

The proposed refinery would have the largest capacity in Europe - 24 million metric tons a year - and would act as service facility for companies with no U.K. refining presence. Most of the crude oil would come from the Persian Gulf and Africa, but such a service would be of great interest to companies striking oil in the North Sea and having nowhere to process it.

Menck & Hambrock GmbH, the German production subsidiary of Koehring Co., Milwaukee, Wis., construction equipment manufacturers, in about a year will move from Hamburg to a completely new plant now being erected at Ellerau, about five miles north of Hamburg. Presently, production is carried on in five different plants in Hamburg. The new facility will enable the 100-year-old company to integrate the manufacture of such equipment as mechanical and hydraulic excavators, pile drivers, and heavy off-shore drills. Koehring acquired 70% of Menck & Hambrock's share capital in 1966, and the remainder two years later.

Slater Walker Securities, the fast-expanding U.K. group which already has established stock market footholds in Belgium and France, has now moved into the Netherlands. As a result of a complex deal, SW ends up in control of two companies and with a quotation on the Amsterdam Bourse. SW is taking a 23% interest in Hellingman Maatschappij voor Beleging in en Beheer van Onroerende Goederen and will make a cash offer for the remainder. Hellingman in turn will issue shares in another Dutch company, Maatschappij Exploitatie van Onroerende Goederen Prudentia, and will make a cash offer for the balance. Hellingman is a property company with about £5 million worth of residential and commercial property.

Abex International SA of Geneva, wholly-owned subsidiary of Illinois Central Industries, and the Paul Journée group of France have signed an agreement of association, provisional on French government approval. Journée is a major producer of windshield wipers and locking caps for gas tanks for the automotive industry.

Pullman Inc. Capital Corp. of New York has agreed to sell its 40% holding in Germany's Didier-Kellogg Industrieanlagenbau GmbH, Essen, to 60% shareholder Didier-Werke KG of Germany. The partners will continue their cooperation contractually, however, so that Didier-Kellogg may still offer Kellogg process engineering to its international clientele.

Hercules Inc., the U.S. chemical producer, has established a new European subsidiary, Hercules Belgium NV, through another Belgian holding, Radiant Color of California NV, Brussels. The new company will take over sales of Hercules products in Belgium from the present distributor, Produits Résineux et Industriels SA. Radiant Color of California, which manufactures and sells fluorescent pigments and products, will continue to function under its own name as an independent division of Hercules Belgium.

Gulf Energy and Environmental Systems Co., a subsidiary of Gulf Oil Corp., has granted its license for high-temperature nuclear power reactor systems to the French Atomic Energy Commissariat and the French consortium GHTR, which includes CEM, Creusot-Loire, Pechiney, and CERCA. The agreement foresees a joint company to produce fuels for the reactors, with other European firms possibly to be invited to participate.

Euromissile, subsidiary of France's state-owned Aerospatiale and Messerschmidt-Bölkow-Blohm of Germany, has signed an agreement with Hughes Aircraft Co. and Boeing for the future U.S. production of the French Roland ground-to-air missile system designed to defend against low-flying attackers. Before production starts, the system is to undergo exhaustive testing by the U.S. Army, Hughes, and Boeing.

Heineken of the Netherlands has succeeded in obtaining some 75% of the share capital of France's Alsatian brewery group La Brasserie de l'Espérance. Despite opposition from the City of Strasbourg, which had warned against cession of the company to foreign interests, most small shareholders (who make up the majority) took up Heineken's offer of FF 600 per share and sold out. Heineken is expected to boost the French brewery's annual output from 1.5 to 2.5 million hectoliters as quickly as possible, since corresponding production capacities already exist.

The way has been paved for the merger of Germany's two leading breweries, Dortmunder Union-Brauerei AG and Schultheiss-Brauerei AG, Berlin. The proposal will be presented to stockholders of both companies for their approval at extraordinary sessions next month. The new Dortmunder Union-Schultheiss Brauerei AG would have a share capital of DM 148.4 million ($46.4 million) and an initial output of some 11 million hectoliters annually, giving it a market share in Germany of about 12%. It will be the first West German brewing concern to equal the size of the U.K.'s sector leaders. Dresdner Bank and Bayerische Hypotheken- u. Wechsel-Bank, the major stockholders (over 60%) in both German companies, are reported to be seeking a foreign brewing partner as well.

Through a series of complicated legal maneuvers, West German industrialist Hannsheinz Porst has turned over ownership and control of his photo conglomerate to the group's 1,400 employees, giving them "total co-determination." As silent partners in the new organization, they will share in the company's capital, profits, and management, with Porst, 50, staying on as financier and co-manager. The group had reported earnings of over DM 3 million in 1970-71 and '71-72. Porst management optimistically forecasts profits of DM 4 million for 1973, rising to a predicted DM 17 million by 1977, at which time employee capital assets also are expected to increase to some DM 32.2 million. The group is planning heavy investments and expansion of its camera store network from 78 to 152 branches during the next five years.
The German unions have greeted Porst's move with skepticism, mainly because elimination of the need for a works council at the company removes organized labor from the scene as well. Variously described as a Marxist and "social utopian" embarrassed by his inherited wealth, Porst in 1969 was sentenced to a prison term of two years and nine months after being convicted of treasonous contacts with East Germany.

After two unsuccessful "marriages" with German advertising agencies Baumgardt and Gabler, New York-based Benton & Bowles, Inc., has formed a third alliance with Brose & Partner Hanns W. Brose GmbH & Co., Frankfurt, Germany's No. 11. The new agency, in which Benton & Bowles holds a 25% stake, will be known as Brose & Partner - Benton & Bowles. The Germans have listed their current gross earnings at DM 14.1 million ($4.41 million), primarily generated by food and beverage accounts.

The National Bank of Hungary is tapping the Eurobond market for the second time in just over a year. This time, the NBH - the only Communist borrower to have gained access to the long-term international capital market - plans to raise $50 million for a maximum of 15 years at 8.5%. Other Communist borrowers are expected to follow, such as the COMECON's International Investment Bank.

Common Market Reports

EUROMARKET NEWS

Issue No. 197 *Report No. 198, October 25, 1972*

U.K. Publishes Tax Credit Outline: The British government's revolutionary new tax credit plan has appeared in official Green Paper form and will now be considered by a special parliamentary committee. The system envisages the abolition of the main personal tax allowances, family allowances, and the family income supplement. These are to be replaced by a system of tax credit to be set against tax due up to a certain level of income and thereafter to be paid as tax benefits in cash. One of the main objectives of the new system is to improve the income position of the lower paid and of pensioners. Should the system be approved as outlined in the Green Paper or in an amended form, the over-all cost would come to an estimated £1.3 billion ($3.12 billion). In any case, it would not be operative until 1976 or 1977.

The plan applies to all employees normally earning £8 ($19.20) per week or more at current money values, to all the principal national insurance beneficiaries, including the sick, unemployed, widows, and invalids and to retirees on social security. It also applies to most other pensioners aged 60 or over. It does not apply to self-employed persons. Persons not within the system would receive personal tax allowances corresponding in value to rates of credit being established for single people, married couples, and children, excluding standard expenses deductions. Actual levels will be decided if and when the system comes into operation. Provisionally, however, they have been fixed at £4, £6, and £2 per week, respectively. These credits are paid through the employer, an unemployment exchange, or a social security officer. On paying wages or salaries, the payer deducts tax at the basic rate (as indicated on each person's "credit card"), setting against this the amount of credit to which the individual taxpayer is entitled. Where credit exceeded tax, the difference would be paid out to the taxpayer. Where tax exceeded credit, the difference would stand as a tax deduction. Employers will be responsible for paying credits to all employees for whom they hold a card. Violent opposition to the plan is anticipated, especially from Opposition ranks. The Labour Party's Shadow Chancellor, Harold Wilson, has alluded to the plan as a "giant confidence trick."

This issue is in two parts, consisting of 72 pages. This is Part I.

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Stock Quotation Rules in France: French Finance Minister Giscard d'Estaing has laid down the ground rules for admission of foreign stocks to the Paris Bourse, notably on publication of results, with the apparent hope it will encourage traditionally secretive French companies to follow suit. On general lines, the minister encourages the admission of foreign stocks as having a positive effect on the Bourse (which does not enjoy wide public support), especially if it is paralleled by greater foreign stockholding in major French firms. The first consideration will be the intrinsic quality of the stock. The company need not be in the top rank on its national market but must be solid and, most important, offer strong growth prospects. It would be "regrettable," Giscard said, to propose foreign stocks to French buyers when they are at their high point. Companies in new growth areas will be favored, particularly when these are not well represented in Paris. Quotation in Paris for prestige or publicity reasons will be discouraged. Corporate candidates must show a real interest in the French market and ensure that a satisfactory and durable market be created for their shares. They also will be asked to place a sufficient quantity of shares in France before quotation is authorized.

Furthermore, a company must provide public information comparable to that supplied on its home market and that given by French companies. Reports must be translated into French for public consumption, and the financial press must be supplied with detailed information on corporate activities and results. Results should be compared with the previous quarter or year, and include appropriate general commentaries, with emphasis on the field of operation of the company involved.

Investment Tax Bill for Holland: The Dutch government has sent to the Lower Chamber a bill introducing an investment tax with the primary aim of combating further commercial and industrial stagnation in the western hubs of the Netherlands and to maintain the "livability" of these regions. However, the proposed law could also be applied to other parts of the country. The tax would amount to 40% of the construction cost of buildings (plants) and to 5% of the total cost of a given installation. The first 250,000 guilders (about $80,000) of the construction costs and the first two million ($625,000) of the total investment would be exempt from the tax. The levy on office buildings, hotels, and agricultural installations in all probability would come to 20% of investment costs.

The government also is seeking authorization to determine whether the construction of buildings and plant facilities, or of certain parts of such projects, would require a special permit. Generally, the investment tax would be applicable to Western Holland, i.e., primarily to the regions of Amsterdam, The Hague, and Rotterdam. The special permit procedure would be limited initially to the Rhine delta district between Rotterdam and Hoek van Holland.

It has been noted that the government apparently does not expect the tax to result in a dramatic shift of new investment projects from the west to the north (South Limburg). On the contrary, it is foreseen that much potential investment will now be placed abroad instead. It is felt, however, that such a sacrifice is necessary in order to prevent serious damage that further industrial concentration in the west would entail. The Central Planning Office has estimated that demand for office and plant buildings in the west will shrink by 10-15% as a result of the investment tax.

Foreign Investment in Italy: About 22% of shares in Italian companies are held by foreigners, compared with 10% ten years ago, a study by the Bank of Italy has shown. Of the total volume, 45% is in the hands of Italian companies, 30% is held by Italian individuals, and 3% by financial intermediaries. Ten years ago individuals held 37% and companies, 51%. Reflecting on the poor state of the domestic stock market, the study reveals that, since 1961, stock investments resulted in an average annual loss of 6.82%. For the top 11 companies quoted on the Italian exchanges the average loss was even 9.43% annually. These figures, based on share prices at the end of 1961 and '71, take into account dividends paid as well as the erosion in purchasing power.

Austrian Antitrust Bill Bears EEC Stamp: The Vienna government has moved to fulfill yet another obligation it undertook in the agreements with the European Communities by amending Austria's 1959 Cartel Law to include concerted practices in the ban on restraints of competition and to provide for controls over market-dominating positions. The bill sent to the legislative bodies does exactly that and, for the benefit of businesses, enforcement agencies, and the courts, even a bit more. Abiding by the obligation would have meant yet another (the sixth) amendment since 1959, making it awkward to apply. So the government decided to introduce a comprehensive bill incorporating all previous amendments and at the same time including a few additional rules of its own.

One of the new provisions, concerning concerted practices, is largely patterned after Article 85 of the Treaty of Rome. There was no need to define what might constitute a concerted practice, since the European Court of Justice's recent lesson given in the rulings against nine dye manufacturers is still fresh in everyone's mind. Announcements of retail prices by a manufacturer would be considered a cartel-like practice, and treated accordingly, unless the manufacturer makes it expressly clear that the announced price is not meant to be binding.

The other key provision concerning abuse of a market-dominating position also adopts the Treaty's criteria and language (Article 86), but goes one step further. In contrast to Article 86, the bill attempts to keep tabs on the creation of market-dominating positions by requiring companies to notify the government whenever they decide to merge.

Austrian businesses in the past have asked for leniency toward agreements having minor market consequences. The government often felt these requests to be justified, and so the bill introduces the concept of bagatelle cartels, which would be exempt from the ban. Certain types of cooperation between enterprises also would be exempt, but it will be for the Justice Minister to determine in subsequent regulations what forms of cooperation should benefit from the exemption.

Another major aspect of the bill would levy higher penalties for violations under the present statute and new penalties for behavior deemed illegal under the proposed law.

The Touchy Mediterranean Issue: The European Community's policy toward the Mediterranean countries, one of the topics of the Paris Summit, always has been criticized as much from within as from the outside. As it stands, the European Commission's program ambitiously visualizes a free-trade area comprising the Mediterranean countries (including Portugal but not the Arab states) and the Common Market. This also would include industrial and technological cooperation at the corporate level. Malta and Cyprus would be linked to the EEC through a customs union. The door would be left open, however, for some sort of arrangement with the Arab countries, the Community's principal suppliers of crude oil.

The Commission's proposals for this Mediterranean arrangement include:

- a 40% cut in tariffs on industrial products beginning in 1974, with additional cuts of 20% each in the following two years, and complete abolishment by mid-1977, as well as

- substantial concessions by the EEC on 80% of the farm produce exports of the Mediterranean countries, which account for between 45 and 64% of the total exports of each individual country. (A major bone of contention in this sector is the citrus fruit exports of Israel and Cyprus, which constitute fully half of the export volume of both these states. The EEC's own citrus producers, France and Italy, feel that the proposed concessions will work against them as Israeli and Cyprian shipments would hit Community markets at a time of year when French and Italian growers cannot harvest, thus undercutting the price levels.)

The prospect of a European free-trade and cooperation area which some day might embrace the oil-producing countries of the Near East and North Africa has been of serious concern, of course, to the United States and numerous Latin American countries. This is why the Commission has tried hard to work out a formula that follows the rules of GATT. Its current proposals, however, still are not satisfactory to Washington, which continues to charge violation of the principle of the "most-favored nation" treatment. European observers feel it may take until the great GATT Round scheduled for 1973 before it will be known whether a compromise between the diverging concepts of free-trade and customs areas vs. the most-favored nation principle is possible. In the meantime, the Commission and member state governments will try to iron out their own differences. Great Britain, Ireland, and Denmark, the newcomers to the EEC, will have their say during the foreign ministers' conference to be held Nov. 6-7.

'Bank Rate Ritual' Dropped by Britain: The weekly announcement of the Bank Rate, for over 270 years a major event on the U.K.'s financial calendar, has been suspended. Instead, the Bank of England will announce each Friday a minimum lending rate based directly on the average rate of interest on Treasury bills. This rate, in effect, will be the average rate of discount for Treasury bills established at the most recent tender plus 0.5%, rounded off to the nearest quarter percent above.

The demotion of the Bank Rate is in line with the recent official U.K. policy of more flexible credit control. Since the new system was introduced last year, the Bank Rate has ceased to be a major factor in determining interest rates: lending base rates have been fixed by the clearing banks independently of the Bank of England and often have been at variance with the Bank Rate; in recent weeks in particular the Bank Rate has thus been deprived of its penal character. The new system reintroduces the punitive element, since the rate will be over the return that the discount market is earning on Treasury bill holdings. Should the Bank force the Market to borrow, therefore, a genuinely penal rate of interest can be charged.

The decision to abolish the ancient ritual was taken principally in order to end the drama and suspense which traditionally surrounds the weekly announcement. In the future, the Friday minimum lending rate will serve as a flexible guide to interest rates and need not be interpreted (as was the case with the Bank Rate) as an indication of a major shift in the U.K. government's monetary policy.

Retail Price Cooperation Seen Possible: U.K. retailers have given cautious consent to a one-year, 5% prices peg provided that the unions accept a parallel wage restraint. This has been the outcome of a meeting between the U.K.'s Retail Consortium and the secretary for trade and industry. In essence, the retailers said they would reflect any restraint the Confederation of British Industry and the Trades Union Congress may achieve by similarly containing retail prices over the next 12 months. They would keep percentage gross margins at current levels over that period and would participate in a system for monitoring the package together with the government, the CBI, and the TUC. Interestingly enough, it was largely due to the U.K. Opposition's criticism - namely that the CBI could not speak on behalf of retail trade in the U.K. - that prompted the government's initiative to secure a working agreement with the Consortium, a rather loose-knit alliance of British retailers.

The Consumer's Cause in Germany: Consumerism has become as much a catchword in Germany as elsewhere in the world and an issue increasingly dwelt upon by the public, industry, and government. Any real or alleged violation of the consumer's rights is certain to receive wide coverage, such as the revelations contained in a "Black Book on Used-Car Markets" recently published by a regional consumers' association. (The not-too-sensational report says that failure to read the small print on sales contracts or the inability to understand its "legalese" language often allows used-car dealers to trick their customers. Alien workers are frequent victims, the report says, notwithstanding the one who took his case, successfully, all the way to the German supreme court.)

Germany does not have a consumer advocate comparable to a Ralph Nader, and the government likes to point out that things are not so bad that one is needed. In fact, Bonn took up the consumer's cause earlier than most other countries. In 1964, for instance, the government ignored industry opposition in establishing the *Stiftung Warentest*, a federally funded but otherwise independent institute located in West Berlin. It was given the task of testing consumer products and services and of informing the public about the results. Last year the institute tested some 1,200 products turned out by about 450 manufacturers and publicized the findings in its own magazine. The neutrality and accuracy of the Stiftung's test program may be reflected in the fact that, in the eight years since the institute was founded, it has been subjected to only three legal suits brought by manufacturers. It won one case; the two others are still pending.

Still, government officials are convinced that more needs to be done in this field, particularly as concerns consumer education. This education, they feel, cannot begin early enough, and that is why the federal government is negotiating with the individual *Länder* to make consumer information part of elementary and high school curricula.

AROUND THE MARKETPLACE

France, Poland Sign Trade Pact: A 10-year French-Polish economic agreement, concluded during the recent visit of Polish party chief Edward Gierek in Paris, foresees the doubling of French exports to FF 900 million ($180 million) and makes provisions for the appropriate credit facilities. A special clause pertains to the financing of exports of capital goods worth FF 1.5 billion over the next three years. While welcoming the pact, Gierek expressed his disappointment that the deal had not reached proportions desired by his country. However, Poland will be the only East Bloc nation to be granted the full range of credit offered by France to the Soviet Union. Special attention was paid to cooperative ventures in the steel, metalworking, electrotechnical, chemical, food, and textile fields.

British Poultrymen Anticipate 'Chaos': Spokesmen for the U.K.'s £400 million-a-year poultry industry are predicting virtual chaos in the British market for poultry meat and eggs as a result of the subsidies to be paid to Continental producers under transitional arrangements for

EEC entry. These subsidies are part of a compensatory system conceived to equalize trading among Community members by balancing out variations in the cost of feed in the various countries. Cereal costs are higher in the Six than in the U.K., and poultry and egg producers thus will receive a subsidy on their shipments to Britain, whereas Britain will have to pay levies on exports to other EEC countries. Spokesmen maintain that cheap imports would offer some temporary advantage to the consumer but ultimately would spell out the decline of the U.K. poultry industry and would lead to higher prices. Britain also would be vulnerable to poultry imports from non-EEC countries, since the compensation paid would result in import prices below the present U.K. minimum.

EURO COMPANY SCENE

Italy's Industrie Pirelli SpA, Milan, reportedly plans to lay off some 1,400 employees and reduce the work week at its largest plant from 41 to 32 hours. The company, in which the Pirelli SpA holding has 51% and the U.K.'s Dunlop 49%, manages Italian production for the international Dunlop-Pirelli tire group. Last year its losses amounted to 14.9 billion lire ($25.6 million) and 1.6 million man-hours (through strikes). Italian unions have been opposing Pirelli's rationalization measures, which include moves to shut down unprofitable plants. At present the company's main factories are operating to only 70% of capacity.

Volkswagen has laid the cornerstone for a new automobile factory near Sarajevo, Yugoslavia. The plant is to begin production at the end of 1973, with output to rise from 10,000 to some 60,000 units a year by the late '70s. TAS, member of the Yugoslav Unis group, is handling construction of the factory. The initial investment, amounting to some DM 35 million ($10.9 million), is being shared by Unis (51%) and VW. Volkswagen recently concluded an agreement with the government of Nigeria for erection of a DM 40-million assembly plant there. To be completed by mid-1974, the factory will be financed by Volkswagen (40%), a German banking consortium (11%), the Nigerian government (35%), and Nigerian private capital (14%). Peugeot of France has also received the official go-ahead for construction of an assembly plant in Nigeria.

Spokesmen for Richardson-Merrell SpA, Naples, have denied Italian press reports of plans to shift production to Strasbourg, France, declaring that the U.S. company has "no intention whatsoever to transfer production or other operations out of Italy." Furthermore, they say that Richardson-Merrell's investment in Italy has grown by over $12 million in current and fixed assets since acquisition of its subsidiary there in 1964. The Italian offshoot is now carrying out a $6-million program for the construction of new biological production and research facilities.

American Machine & Foundry, Inc. (AMF), New York, has added Austria's Tyrolia and Gertsch of Switzerland, two manufacturers of ski bindings, to its European holdings in the sporting gear sector. AMF had previously taken over Pflüger skis and Koglach ski boots, both of Austria. The U.S. company probably will integrate the activities of its latest acquisitions with those of its own "Head" ski subsidiary.

According to Italian sources, the Milan-based Pierrel chemical and pharmaceutical company is about to be taken over by American Hospital Supply Corp. of Evanston, Ill.

Britain's Guest, Keen & Nettlefolds (GKN) industrial group is the latest entrant to the rotary engine field, announcing it was ready to produce any components for such engines and had filed several patents it claimed would "significantly affect" the cost of production. GKN has worked closely with British Leyland, although the latter has made no announcements on plans involving the Wankel engine. GKN said it could provide all components of rotary engines but would not be an assembler.

Financial woes have beset still another German charter airline, Atlantis AG. Short of operating funds, the company must raise its basic capital by some DM 8.75 million before mid-November, when large payments on its aircraft leases fall due. Several major clients - among them Neckermann and ITS (Kaufhof/Hertie) - have summarily cancelled their contracts, uncertain whether Atlantis will be flying next summer during the main tourist season. Meanwhile, the airline is frantically seeking backers. One of them reportedly could be Dutch KLM, which might convert the DM 4 million Atlantis owes it for maintenance services to share capital. The airline also has applied to the state of Hesse for a guarantee on an interim loan. Word on this and action by federal aviation authorities are pending the outcome of an official auditors' check.

Persistent indications are that U.K. shipyards and financial institutions may be poised to form a part of a world-wide chain of major ship repair yards in conjunction with the Portugal-based Lisnave concern. Lisnave, operating the world's leading ship repair yard, has announced plans for a second major yard and has indicated that U.K. interests were involved. As part of the huge expansion program, major yards are envisaged at strategic points throughout the world on or near routes employed by large crude oil tankers, of which more than 500 will be in service by 1975. The U.K. declined to participate in the original Lisnave venture in the mid-'60s and, instead, Dutch and Swedish yards joined with the Portuguese to establish what is now considered the outstanding ship repair operation. Lisnave has a three-month waiting list and firm commitments from a number of major customers up to 1980.

The Franco-U.S. group of Aquitaine Petroleum and Freeport Minerals Co. is expected to be granted the new major nickel concession on the Pacific island of New Caledonia over Canada's INCO, International Nickel Co. The French government favors the first group because Aquitaine has a 51% stake. One of the world's richest sources of nickel, New Caledonia had been the exclusive preserve of Le Nickel of France until recent years. Paris is making it known, however, that INCO will be able to apply for other concessions to be developed on the island. The Aquitaine-Freeport project calls for investments of FF 1.25 billion ($250 million), including construction of a processing plant with a minimum annual capacity of 22,500 tons.

The "copper war" between the Chilean government and Kennecot has opened a new front in the Paris courts. Kennecot obtained an injunction on payment of about $1.25 million for a shipment of Chilean copper due shortly in France. This is the first such action undertaken outside of Chile but, Kennecot has warned, a forerunner of similar moves in other nations receiving Chilean copper. Chile has appealed the order. Kennecot and Anaconda operations in that country have been nationalized, and the two sides are in dispute over compensation.

France's SCOA is moving into the tourist business in the Bahamas in cooperation with City Association Enterprises, Ltd. of Canada. A new company, Crystal Seas Bahamas (60% SCOA, 25% City Association, and 15% Bahaman) will open a Freeport shopping complex on Jan. 1 to promote French and other European goods.

Aral AG of Germany, Switzerland's Nestlé Alimentana AG, and France's Compagnie Internationale des Wagon-Lits et du Tourisme SA are planning to establish a chain of self-service restaurants in Europe under the "Snacky" trademark. Aral will contribute its service station properties and handle planning and construction, while the French and Swiss companies will supply operating know-how. Depending on the success of a test program in the Cologne area, the partners will establish a joint company to manage the restaurants and supervise expansion of the chain, which eventually is to extend into Holland, Belgium, and Austria.

INA Corp., which controls the Insurance Co. of North America, Pacific Employers Insurance Co., and Blyth and Co., a leading U.S. investment bank, has taken a 10% holding in France's Assurances Abeille et Paix insurance company. INA reportedly paid Compagnie Financière de Suez between $8 and 9 million in the deal. INA, which owns 10% of the capital of Suez, thus reinforces its links with the important French company and at the same time acquires a stake in the European insurance industry.

Cedar Holdings, the U.K. banking and second-mortgage company, has acquired a majority stake in the Chester National Bank of New York. The deal, which still requires the approval of authorities in both countries, provides for the purchase of 51% of Chester at $50 per share for a total price of $3.9 million.

The National Bank of Detroit, 16th largest U.S. banking institution, has opened its first German office in Frankfurt. With close ties to the American automobile industry, the bank aims to take advantage of Frankfurt's position as the "financial center of the European automobile industry," according to board chairman Robert M. Surdam. The Detroit bank maintains another European branch in London, where it also holds a stake in the Western American Bank.

The U.K.'s National Westminster Bank subsidiary Credit Factoring has signed up the Italian bank Credito Italiano as a partner to expand into Europe. Credito will assume 50% of the equity of Credit Factoring International's Italian company and will link into the central computer clearing system at Feltham in the U.K. Credit Factoring increased its volume of business from £4 to £22 million following its first full year of operation. The announcement coincided with the opening phase of a campaign to publicize and improve the image of factoring after a British Market Research Bureau survey revealed that a mere 1.7% of companies polled ever used factoring services and that only 19% of those polled had ever considered doing so.

Barclays Bank International of the U.K. has acquired an interest in Kol, the Amsterdam merchant banker, and will hold a majority interest in a new company, Barclays Kol & Co. NV.

Through its subsidiary United International Ltd., the U.K.'s United Dominions Trust has acquired a 25.6% interest in Deutsche Kredit- und Handelsbank KGaA, Berlin. The step was taken in agreement with the German bank's major stockholder, Landesbank Rheinland-Pfalz - Girozentrale. Both United Dominions Trust and DKH are particularly active in international finance.

CLOSING OFF

Penny-wise? Inflation has overtaken Germany's smallest coin, the Pfennig. The Federal Mint has reported that it now costs 2.6 pfennigs to produce a one-pfennig coin.

Common Market Reports
EUROMARKET NEWS

Issue No. 198 October 31, 1972

Europe's Post-Summit Schedule: In the wake of the Paris Summit, the nine-nation European Community faces a heavy work load if it wants to reach its professed goal of a "European Union" by 1980. In brief, here are some of the conference's agreements and proposals that will affect the economic course of the EEC and the Community's future relations with its partners:

Monetary Policy: The finance ministers are meeting this week in Luxembourg to discuss anti-inflationary measures to be taken jointly by the Nine. Some foundations also are to be laid for a new Monetary Cooperation Fund. To be started by April 1, 1973, and administered by the committee of governors of the central banks, the fund is to be used as an instrument of monetary adjustment within the Community. Details about its implementation, operation, and expansion are to be worked out by the end of next year. The EEC governments affirmed their support of "fixed but adjustable parities between their currencies" as essential to the achievement of the Union.

European Institutions: The EEC Commission is to submit a report on the reinforcement of these institutions, including the European Parliament, by May 1, 1973. The Council of Ministers has been asked to take "practical steps to improve its decision-making procedures and the coherence of Community action" by mid-1973.

Regional Policy: The Commission also has been instructed to provide a report analyzing the regional problems of the enlarged Community and to submit appropriate proposals for their solution. As part of the coordination of national regional policies, a Regional Development Fund is to be set up by the end of next year. It is to be financed from the Community's own resources and would be operative with the beginning of the second phase of the Economic and Monetary Union (to be launched on Jan. 1, 1974).

Social Policy: The EEC governments intend to draw up a "vigorous" action program by Jan. 1, 1974, providing for "concrete measures and the corresponding resources..." The program is to aim in particular at a coordinated policy for employment and vocational

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training, improved working conditions, and more employee participation in company affairs.
Foreign Trade and Economic Policy: An immediate goal is the successful conclusion of a trade agreement with Norway as well as a common policy toward the Mediterranean and developing nations. The same applies for a common trade policy as concerns the East Bloc. The Community wants to sustain "a constructive dialogue" with the United States, Japan, and its major industrial trade partners within the context of GATT. To this end, Community institutions are invited to define by mid-1973 "an over-all conception covering all aspects affecting trade," and the EEC governments have expressed their hope that these multilateral negotiations can be completed in 1975.
Industrial Policy: In an effort to establish "a single industrial base" throughout the Community, the governments have asked the EEC institutions to formulate an action program and a timetable by Jan. 1, 1974. Among the goals are elimination of technical trade obstacles and of barriers obstructing closer relations and mergers between companies, rapid adoption of a European company statute, the progressive opening up of procurement procedures in the public sector, and assistance to companies in high-technology fields.

VAT Ensured for Italy: With the adoption of several decrees the Italian government at last has guaranteed that the value-added tax will take effect on Jan. 1, 1973, thereby meeting a long overdue obligation it had assumed but for internal political reasons failed to carry out. Italy thus catches up with the other member states, some of which took this crucial step toward harmonization of the EEC's indirect taxes as early as 1969. Rome's move was greeted with relief in the national capitals and at Commission headquarters in Brussels, where no one voiced complaints about the fact that the Andreotti cabinet made several significant changes in the original decrees.
VAT, or *imposta sul valore aggiunto*, will be applied in three rates. The normal rate will be 12%. Drugs, utilities (electricity and gas), and non-staple foodstuffs will be subject to a 6% rate, as will restaurant service. An 18% rate will be imposed on luxury items such as jewelry, furs, liquor, and larger automobiles.
To avoid price increases in the consumer sector with the changeover, the government decreed substantially reduced rates for important daily-use items and food staples, which are exempt under the present turnover tax system. Here the impact of VAT will be softened by graduated increases over the next four years, with a starting rate of 1% during 1973 and 1974, 3% in 1975 and 1976, and 6% as of Jan. 1, 1977.
With construction activity in Italy very low, and because of the impact of the building sector on the entire economy, the government decreed a 3% rate on sales of low-cost housing. The textile industry, in a much more serious crisis than any other industrial branch, will benefit from a 6% rate during 1973 and 1974. Products destined for export and a great many social services (schools, hospitals, public transportation) will be exempt from VAT.
No one in Rome can really tell how much all levels of government are going to lose in revenue because, along with the present cumulative turnover tax, some 23 additional, mostly local taxes will go, too. Others will be cut in half, and a few will be replaced. Cautious estimates of 1973 revenue losses range from $100 to 300 million. Finance Minister Valsecchi hopes to reduce this by a new all-out drive against evasion of other taxes, primarily individual income tax.

Monitoring Prices, Wages in the U.K.: In the course of the current talks between the government, industry, and labor, the Confederation of British Industry has come up with a broad-based proposal to monitor price and wage movements and to establish an economic forum. The CBI proposals go much further than any monitoring yet proposed by the parties to the negotiations. In effect, the CBI has called for:

- unions, employers, and retailers to set up their own self-monitoring machinery on wages and prices subsequent to any deal. They would then collate data and pass this information on up the line to an independent body (see below), specifically indicating any potential trouble spots or breaches of agreement;
- a second-tier independent body comprising delegates from the government, labor, and management which would act as the principal policy instrument for any pay-and-prices agreements, investigate irregularities, and exploit "public opinion" to the full. The organization would be backed by a full-time secretariat from the Office of Manpower Economics, and
- at the third level, meetings considering policies and long-term implications as a permanent feature rather than as a response to a crisis situation.

Such an independent body would have one immediate priority assignment: the establishment of pay and price guidelines and rules covering "above the norm" price increases for products affected by higher costs of imported raw materials. Both the CBI and the unions have shown a certain irritation that the government has not offered a coherent set of proposals to provide a concrete basis for future negotiations. The CBI initiative is widely interpreted as an attempt to prod Prime Minister Heath and his Whitehall colleagues into action.

<u>Wales Steel Jobs Jeopardized:</u> The British Steel Corp.'s strategic plans for the years up to 1980 have yet to be announced. Nowhere is the announcement awaited with more trepidation than in Wales, an area of the U.K. which is twice as dependent on the steel industry as any other part of Britain. Unless there is immediate reassurance from the government and BSC, selective strike action is imminent in Shotton, where 8,000 jobs are in jeopardy, at Ebbw Vale (10,000), and at Cardiff's East Moor (5,000). These three plants are threatened if the BSC opts for a low national output target by 1980. The corporation is now having to decide on a steel capacity of between 28 and 36 million tons a year by 1980.

Steel employs 11% of all workers in Wales but, in certain areas such as Ebbw Vale and Shotton, this figure can be as high as 40%. Unfortunately for the Welch, the case for further development of the industry in Wales does not seem to be as strong as the case for development in other areas, notably on Teesside or in Scotland. Whatever the outcome of BSC investigations, a redundancy situation in Wales is probable. BSC has made a previous commitment to Ebbw Vale to maintain 8,000 jobs: iron and steelmaking were to be phased out and a new plan calling for specialized steel and rolling mills was to be introduced. This plan was scheduled for 1975 but has been inevitably delayed because of a slump in the steel industry world-wide.

<u>British Companies Going Dutch:</u> No less than 48 U.K. companies have taken over or acquired majority holdings in Dutch enterprises during the first three quarters of 1972, according to a report by the Dutch ministry of economics. This represents 21% of all mergers and acquisitions in the Netherlands during that time and reflects that country's current attraction to U.K. industry, particularly for medium-sized companies. Larger ones tend to concentrate their push into the Continent on Germany and France, other sources have noted. The present build-up of British activity in Holland contrasts with last year's tally, when only eight U.K. companies were involved in the total of 298 mergers and acquisitions registered. The British firms figuring in Dutch mergers and takeovers during the January-September 1972 period represented the following industries: metals and machinery, 9; foods and beverages,

8; wholesalers, 7; textiles, chemicals, tobacco, and banking, three each, and graphic industry, transport, investment, and miscellaneous, two each.

Of the 223 fusions reported during that three-quarter period by the economics ministry, 101 were purely Dutch affairs, 44 involved EEC partners, 16 American partners, and 14 companies from other countries.

Bonn Wants Lobbyists to Register: A German parliamentary decree requires all lobbyists and their associations to register with the Speaker of the Bundestag, regardless of whether they seek to influence the government's administrative or legislative branch, or both. However, the measure does not apply to those several hundred representatives of domestic and foreign companies seeking public contracts or otherwise exerting their influence in Bonn. The decree was passed concurrently with a Bundestag code of honor (*Ehrenkodex*) asking MPs to disclose consultant contracts with industry or any other benefits they might draw from their political office. Compliance is voluntary but expected. Both moves are a direct result of Chancellor Brandt's broad charges that corruption was involved in the defection of government coalition members to the Bundestag opposition parties. These accusations were never fully substantiated, but eventually it was revealed that even some of Brandt's associates have held lucrative "consultant" contracts with industry. All of these charges and counter-charges prompted Parliament to act.

The registration of lobbyists - a novelty in Germany - requires not only the listing of the name and seat of the particular association, composition of its governing bodies and specification of the area of influence but also its membership count and the address of its Bonn office. Failure to register would involve the loss of privileges such as testifying in hearings or the right to enter Bundestag premises.

Matchmaking, Brussels-Style: European companies looking for corporate brides across national frontiers within the EEC but too shy to ask soon will be able to enlist the help of the *Bureau de Mariage*, an arm of the European Commission. Starting in 1973, the Brussels bureau is to advise small and medium-sized companies on international mergers or cooperative ventures.

In setting up the office with a starting staff of eight, the Commission recognizes the obstacles smaller companies face when competing with the corporate giants. While the latter have been benefiting generously from the advantages of the larger common market, most small and medium-sized enterprises tend to capitulate to the chaos of divergent tax and administrative rules that must be observed in merger and cooperation agreements across national borders.

Corporate counseling will be limited, however, because the Commission does not want to enter an area normally the backyard of international management consultants and law firms, nor does it intend to compete with the member states' national chambers of commerce and industry (although most of them have welcomed the bureau). Moreover, officials will not answer questions involving EEC rules of competition because that would mean interfering with the Commission's own Directorate-General for Competition. But they will offer advice, for example, in cases where a possible merger depends solely on tax problems.

AROUND THE MARKETPLACE

EEC Study Explains Price Differences: Manufacturers' pricing and marketing strategies have been identified as the main cause for price differences, often "quite enormous," for the same products in the six

EEC countries. Variations in the level of profit margins and taxes play a lesser role, according to the findings of a study prepared for the EEC Commission. The investigation covered 35 selected and precisely defined brand products put on the market in 1968 by various leading manufacturers of foodstuffs, household appliances, radios and tape recorders, and photographic articles. The main aim of the study was to pin down "the influence of sales policies of entrepreneurs and the effects of trade structures" on consumer prices. The influence of the varying systems and rates of turnover, value-added and special excise taxes was taken into account.

The report notes that the variations in manufacturers' selling prices are - in individual cases - "substantially larger" than the differences in the retail prices. For example, 1968 differences in the manufacturers' prices for the cameras selected amounted to some 40% before taxes, while retail differences of only 24% were noted between the most expensive and most inexpensive country. With cognac (brandy), the differences amounted to 67% at producer-wholesaler level, 46% at retailer-consumer level. Similar variations were found for such products as coffee grinders or color reversal film. For washing machines, radios and tape recorders, on the other hand, a far greater divergence was recorded for consumer prices than for wholesale prices.

The study permits "the well-founded conclusion," the Commission notes, "that manufacturers pursue a specific price policy for each individual EEC nation, adapting their prices to the market and competitive conditions" prevailing there. That these policies are "often highly arbitrary" and not necessarily the consequences of economic conditions, the report claims, can be judged from the fact that prices in a given product's country of origin in many cases are not necessarily favorable, nor are they necessarily unfavorable abroad.

In comparing prices for certain products, the study merely confirms what much-traveled businessmen in Europe have known all along. Photographic products, radios, and tape recorders are most favorably priced in Germany and Holland and most expensive in Italy and France. Holland is the best country to buy foodstuffs, Italy the worst. Germany offers the best deal on appliances such as washing machines, while France again is most expensive in that sector.

These price differences, "sometimes astonishing and hard to understand," prevail although the EEC authorities have long tried to achieve identical production and marketing conditions throughout the Community via intensified competition policy, removal of technical obstacles to trade, assimilation of legislation, and through industrial and structural policies. And the Commission is cautioning consumers that these variations will persist "as long as the considerable structural differences in the (national) distribution systems and competitive conditions remain and as long as price levels are determined by manufacturers."

EURO COMPANY SCENE

The former Herbert Ingersoll machine tool plant at Daventry in the U.K., which was put in the hands of a receiver in June, has been sold to the Cummins Engine Co., the British offshoot of the U.S. diesel engine manufacturer. Initially the plant will machine high-tolerance parts for large diesel engines but later will be expanded to manufacture prototype and experimental machines. Cummins is said to have paid around £2 million for the plant, cheaper than investing in new machinery elsewhere and, according to company spokesmen, more logical than immediate new investment at the company's American plants.

Addressograph-Multigraph Corp. of Cleveland, Ohio, has acquired Germany's Math. Bäuerle GmbH, manufacturer of paper processing machinery, for an unnamed sum. Bäuerle, with capital of DM 2.5 million ($780,000), employs 400 and had sales of some DM 15 million last year. The German company's management cited similarities between production programs, A-M's extensive distribution network in Germany, and its repeated favorable purchase offers as reasons for the sale.

Gulf Oil Corp. is rumored to be considering the sale of its petroleum interests in Germany. The U.S. company recently announced plans to shut down or divest itself of 13 unprofitable operations at home and abroad - to the tune of a possible $250 million in write-offs - and insiders are including the company's German activities in the tally. Executives of Gulf Oil Europe and Erdölwerke Frisia AG, which Gulf acquired two years ago, have met with officials of the German state of Lower Saxony following conferences between company representatives and Bonn. Gulf is said to be ready to negotiate with any "seriously interested" buyers but reportedly is thinking in terms of long-range rather than immediate disengagement.

Gulf General Atomic Corp., a division of Gulf Oil, is expected to take a 45% stake in Hochtemperatur-Reaktorbau GmbH (HRB), a German producer of nuclear reactors. However, a contract between Gulf and the present owner, Brown, Boveri & Cie. AG (German member of the Swiss BBC group), probably will not be signed before the end of November, pending settlement of various technological questions. Original 50:50 partners in the German reactor company were BBC and Krupp, which pulled out a year ago to concentrate on supplying nuclear components. Germany's Federal Ministry of Science indicated Bonn would withhold subsidies from the joint venture should Gulf acquire more than 45% of the capital. HRB is scheduled to build the Schmehausen-Uentrop atomic energy plant in North Rhine-Westphalia for Hochtemperatur-Kernkraftwerk GmbH, a utilities-owned company.
Another Gulf subsidiary, Gulf Energy and Environmental Systems, and France's state Atomic Energy Commissariat (CEA) have just concluded a bilateral agreement for the exchange of R&D programs. The contract gives CEA rights to Gulf high-temperature reactors world-wide except for the United States and Japan. Gulf is expected to sign a similar pact with a French industrial group formed by Compagnie Electro-Mécanique (BBC), Creusot-Loire, Pechiney-Ugine Kuhlmann, and CERCA, atomic fuel specialists, for construction of the reactors. CEA, which does not build power plants itself, has already signed a separate cooperative agreement with the consortium.

Farbwerke Hoechst AG is to take a 51% stake in one of Germany's leading privately owned paint manufacturers, Dr. Kurt Herberts & Co., Lackfabriken, Chemische Werke. The firm will be converted into a limited liability company, with the Herberts family holding the remainder of the DM 40-million ($12.5 million) base capital. Specializing in synthetic coatings for the woodworking industry, Herberts had sales of DM 306 million last year and anticipates an increase of 6% for 1972. It employs 4,000. Hoechst now surpasses rival BASF in the paint sector, bolstered by such sizable foreign holdings as Berger, Jensen & Nicholson Ltd. of the U.K., Stollack AG in Vienna, and Wagemakers' Lackfabrieken NV of the Netherlands.

In a surprise move, Liggett & Myers, Inc., New York, has ended its cigarette production and sales in Germany. After some four years of activity that apparently failed to meet expectations, the smallest of the major U.S. tobacco firms decided to liquidate its Eilebrecht Cigarettenfabriken holding "practically overnight," as reported. L&M's main German brands probably will be taken over by Martin Brinkmann and Heintz van Landewyck.

Attempts by several multinational groups to take over Miralanza SpA, which supplies the chemical needs of 45% of Italy's soaps and cleanser production, have been definitively foiled. The company has been acquired by SpA Fabbriche Fiammi-Feri ed Affini (SAFFA), a major producer of matches and cigarette lighters. SAFFA is controlled by the Bonomi-Bonchini family of Milan.

Hawker Siddeley Aviation has been awarded a contract from Beech Aircraft Corp. of Wichita, Kans., for 45 HS-125 executive jet aircraft, with an option on a further five. Delivery will be over a three-year period, and the deal is valued at some £20 million. The contract represents a guarantee of continued employment at the Hawker factory and also contributes to an alleviation of the employment situation at the equipment and component suppliers' factories, including Rolls-Royce 1971.

Atlantis AG, Germany's second largest charter air carrier, is bankrupt and thus shares the fate of four others - Travelair, Paninternational, Calair, and Air Commerz - that have folded within the last year and a half. Financial irresponsibility, overcapacity, insufficient capital resources, and top-management blunders have been blamed in each case to varying degrees, but Atlantis' state of affairs is complicated by the fact that it owns only two older aircraft and its six other planes (all new DC-8s) are the property of three financing companies controlled by one holding company. The main shareholder of that holding company, Josef Schörghuber, a Munich building contractor, also owns a rival charter airline, Germanair. Last year Schörghuber allegedly blocked a DM 12.75-million capital increase Atlantis needed to pay its DM 27-million debt incurred through investments. The state of Hesse apparently dealt the final blow by declining to approve an interim credit guarantee.
Officials in Bonn do not rule out an investigation of the Atlantis affair, either by the administration or Parliament or both. A group of shareholders has vowed to bring Schörghuber to court, charging conflict of interests.
Meanwhile, Atlantis has entered liquidation proceedings, throwing some 670 employees - including 114 pilots and copilots - out of work. The unemployment rate for pilots in Germany, already high at 20%, is now expected to reach 35%. Nearly all of Atlantis' 220 stewardesses probably will be hired by Lufthansa, which had been planning a recruiting drive anyway.

The Finnish-Swedish company Datasaab-Valmet intends to start producing computer terminals next year in Tampere, Finland, if two of Finland's largest banks firm up their orders for a total of 3,000 units. The terminals would be installed at the banks' branch offices and connected with a central computer in Helsinki. Two purely Finnish companies, Nokia Oy and Strömberg, are also competing for the orders, but Datasaab-Valmet has the advantage of being backed by the resources of Sweden's Saab and Finland's large government-owned metals manufacturer Valmet. Datasaab-Valmet also is looking toward expanding its share of the continental computer market.

A $20-million contract has been signed between Finland's Rauma-Repola Oy and the USSR for delivery by 1976 of five plants for chipboard coating and of one plant for producing coating material. The contract is in addition to the 11 chipboard plants previously ordered by the Soviet Union.

International Telephone & Telegraph Corp. (ITT) has improved its position in the German foods sector by acquiring Conservenfabrik Eugen Lacroix GmbH, gourmet products. Lacroix, until now a family-owned enterprise, has a basic capital of DM 3 million (about $940,000) and is reported to be "financially sound," occupying a leading market position in the field. ITT's other food interests in Germany include Grönland GmbH, Arthur Baustert GmbH, and Groko Konservenfabrik GmbH.

The Northern Ireland Old Bushmills Distillery has been taken over from the U.K.'s Bass Charrington by the Canadian-based Seagram group, which owns Chivas Regal and 100 Pipers Scotch.

Rorer-Amchem Inc., Fort Washington, Pa., has taken over Arznei Müller Bielefeld, a medium-sized German pharmaceutical producer. Arznei Müller sales in 1971 totaled DM 11.5 million ($3.6 million) and are expected to reach DM 12 million this year. Rorer-Amchem reportedly plans to integrate its German sales subordinate, Rorer GmbH, into the new acquisition, which ultimately will be expanded into the company's European research and production headquarters.

Hill Rom, Inc., Batesville, Ind., a leading U.S. manufacturer of hospital beds, has established a German subsidiary. The new company will assemble Hill Rom equipment - primarily electrically controlled hospital beds - for sale in Germany and other West European countries.

The Anglo-American Warwick advertising group has taken a 20% stake in Germany's Baumgardt & Partner GmbH, Frankfurt. The agency, renamed Baumgardt, Warwick & Partner GmbH, becomes third party to the alliance between Warwick & Legler, Inc., New York, and Warwick Parsons Jackson Ltd., London. The group reportedly intends to add other European partners soon. Baumgardt listed its most recent annual turnover at DM 8 million ($2.5 million).

D'Arcy-MacManus International, Inc., New York, and the U.K.'s Masius, Wynne-Williams Ltd., London, have announced their merger through an exchange of shares to form the world's seventh largest advertising agency group. The new organization, Masius & D'Arcy MacManus, is expected to have a combined turnover of about $365 million for 1972. Masius has offices in 14 European cities, while D'Arcy-MacManus has an extensive branch network in North America.

Two of the best-known American investment banking groups have opened London offices. Salomon Brothers have announced the founding of a London subsidiary to serve the firm's clients in Europe and Africa. Lehman Brothers, Inc. also have established a branch, the chairman of which is George W. Ball, formerly Undersecretary of State in the Kennedy and Johnson administrations.

Germany's Dresdner Bank has converted its representative office in New York to a full-service branch with a staff of 35. The bank has similar plans for its London bureau next spring.

Shares of the Federal National Mortgage Association, Washington, D.C., soon may be offered on the Frankfurt stock exchange, according to German press reports. "Fanny Mae" president Allan O. Hunter met with German bankers and investment companies this month to discuss the plans.

IBM is regrouping all its European advanced training centers in a $20-million installation at La Hulpe, nine miles outside Brussels. The center will cover the activities of existing schools in Geneva, Belgium, Holland, France, and Britain in the fields of high-level technical and management training. To open in 1974, the center will be able to handle 7,000 students a year both from IBM and outside organizations.

Common Market Reports

EUROMARKET NEWS

Issue No. 199 *Report No. 199, November 7, 1972*

No Chances for a Fiber Cartel? The European Commission has not yet rendered a definite decision on the investment cartel proposed by the Common Market's synthetic fiber industry. But hopes for speedy clearance (essentially an exemption from the cartel ban under Treaty Article 85, paragraph 3) faded when the Commission informed the manufacturers that it would veto the proposed agreement unless they could prove that the over-capacity problems could not be solved according to the principles of unrestricted competition. Earlier, expectations of a favorable decision had been nourished by Willy Schlieder, head of the Commission's section on competition, who in a Cologne speech had hinted that the Commission might exempt an investment cartel even if the German cartel authorities were to disagree.

As things stand now, chances are considered nil for a genuine investment cartel under which the parties agree to curb new investments or to refrain from utilizing all existing production capacity. Brussels sources could not go beyond an exchange of information without any binding effect on the parties' market behavior. But a change of mind has not been ruled out entirely, either, because the issue is complicated by social aspects. Not too long ago some 6,000 workers staged a one-day warning strike at Enka Glanzstoff's Dutch and German fiber plants in Breda and Wuppertal. Management had planned to lay off 6,000 employees of a total of 27,000 but promised to reconsider in the light of the strike. In view of the situation, Dutch and German union spokesmen had favored the cartel proposals so as to preserve jobs. But Commission officials pointed out that in the long run a cartel restricting production would be contrary to labor's interests because such a restriction would not create new jobs and could even reduce productivity in the absence of competitive pressures.

German Price Controls No Longer Ruled Out: Although Economics and Finance Minister Helmut Schmidt repeatedly and vehemently denied contemplating any form of price controls for Germany, a working paper prepared in his ministry and evaluating the experiences of other countries in this area seems to indicate that price control considerations are no longer *verboten* in Bonn. The government's official 15-point

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program to regain price stability does not, of course, mention such controls because the Brandt Administration has no intention of alienating the unions and their strong voter support, which it is counting on for the upcoming general elections. High wage settlements in 1970-71, according to the Bundesbank, were the principal cause of soaring inflation in Germany.
Sources close to the government feel that in making the working paper available to the national trade union leadership as well as to the employers' organization, Schmidt wanted to keep the door open for some sort of price regulation in case the government's program to slow inflation should fail to work. Says a key phrase in this paper: "Price controls without simultaneous wage controls at most have delayed but not prevented price increases. Only countries that imposed certain forms of prices controls as measures supplemental to stability-oriented monetary and fiscal policies have reached some measure of stability."

At the latest *Konzertierte Aktion* meeting of business and union representatives, bankers, and government leaders, Bundesbank president Karl Klasen did not rule out wage and price controls, pointing to the relatively positive results in the United States. He emphasized that Washington has been able to keep the annual price increase down to 2.5% while most West European countries have experienced increases of between 5 and 7%.

<u>U.K. Talks Reach Critical Stage:</u> At the close of the eighth session of the protracted tripartite talks designed to achieve a wages and prices policy to counter inflation, U.K. government spokesmen still felt that there was a "reasonable" chance of agreement. Such agreement hinged, however, on the reaction of the General Council of the Trades Union Congress to two options presented by the government. The Prime Minister has gone on record as saying that he did not believe Parliament would accept a proposal of statutory powers in relation to prices but not to income. <u>The choice facing the Council, therefore, is between a totally voluntary policy on prices and income, on the one hand, and a voluntary plan policed by backup legislation covering both prices and income, on the other.</u> Militant members of the Council are opposed to the terms of the government alternative. Moderates argue that talks must be continued at all costs. For the Council the government choice was a choice between two evils. The third party to the talks, the Confederation of British Industry (whose self-imposed ceiling on price rises officially expired on Oct. 31), has, in the absence of completely voluntary arrangements, urged its members to agree to statutory powers provided that these powers apply to all parts of the arrangement.

Political considerations also are important in determining the TUC attitude. The militant faction argues that complete lack of cooperation with the government will force an early general election and the return of a Labour government. The more moderate members feel there is a danger in forcing the government to go to the country on this issue, with a defeat of the Labour party as a probable result.

Apart from this crucial issue, other only slightly less crucial matters have yet to be hammered out between the three sides. These include details about control of dividends, increase of pensions, a possible suspension of the Industrial Relations Act, a reappraisal of the Housing Finance Act, and reduction of the proposed level of value-added tax. On wages, the three sides have agreed in principle to a flat-rate increase all around next year, but the TUC has rejected the government's suggestion of £2 per week and has not come up with any alternative figure. On the question of threshold payments, the government has suggested 20 pence for every percentage point increase above 6% while the TUC wants 30 pence at 5%.

British to 'Study' EEC Anti-Inflation Plan: Although no serious problems are envisaged at the moment, the U.K. has made it clear that the three-point plan to counter inflation, approved in principle by the six EEC member countries on Oct. 30, will have to be studied in detail. The plan calls for 1) limiting price rises from the end of this year to the end of next year to 4%; 2) increasing monetary supply in member states over two years by a volume linked with the gross national product and normal price rises, and 3) a similar link between public spending and gross national product. The first official U.K. reaction was that this was a "hard target," but that Britain "certainly saw the case for joint action" with its prospective EEC partners. The nine finance ministers of the enlarged Common Market agreed that action had to be taken to meet the aims of the directive received from the Paris Summit meeting calling for a halt to rising prices. Britain has already agreed to make a 15% cut in tariffs from next January as one of the moves in the EEC counter-inflationary package, although consultations with Commonwealth partners would be necessary. Britain was not prepared for a suspension of EEC beef tariffs, however, since such action might result in beef being drawn away from the U.K. market to the Continent, a development unacceptable to the British. As far as money supply was concerned, Britain will probably opt for sticking to its own control mechanism.

Minimum Lending Rate Poses Problems: The U.K.'s decision to end the traditional announcement of the Bank Rate has been generally accepted as a reasonable one. Moreover, the switch to a more flexible instrument of official money control in the form of a minimum lending rate based on the average Treasury Bill rate plus 0.5% and rounded up to the next quarter percent appears to be a welcome alternative.
The new system, however, is already causing headaches for lawyers and financial institutions throughout the country, and Treasury legal experts are hard at work in an attempt to clarify the position. The most pressing problem arising from the switch is in the sector of loan contracts. Interest was charged for these at variable rates related to the prevalent bank rate. If the new minimum lending rate were to be taken as a direct substitute for the old bank rate, the cost of credit will rise virtually overnight and may in fact become unacceptable to new borrowers, bearing in mind the fact that the new rate is supposed to assume the punitive function which the bank rate exercised or was designed to exercise. In most cases, therefore, loan contracts will have to be revised and renegotiated. There are no hard and fast rules for such renegotiation since the contracts are couched in disparate terms, but it seems inevitable that a new base rate must be established somewhere along the line. Two possibilities exist: the major finance houses will adopt as a basis for new business the base rate established and published monthly by the Finance Houses Association or, alternately, the base lending rates of the large clearing banks (presently around 7%) will be taken as a yardstick. In the latter case, obviously, each contract would specify which individual bank's rate is to apply in determining interest, since each bank may not use the same base. Whatever is decided, lawyers and accountants are about to have a field day.

'Positive Thinking' in Denmark: New investments by Danish industry - having moved at a sluggish rate in 1971 and originally expected to slow even more this year - have taken a dramatic turnaround in the wake of the referendum that made Denmark's EEC entry official. Business and industry apparently are responding to the challenge of Common Market membership with some enthusiasm, and this also is being reflected by invigorated demands placed on the domestic labor market. The positive feeling has been boosted by the easing of credit restrictions, notably in the form of a lower discount rate (from 8 to 7%) and the National

Bank's release of an additional 1 billion kroner ($147 million) specifically in support of new investment. Industry's attitude for the near and medium-term future is expected to be somewhat influenced by the government's "savings program," to be released during the latter part of this month. This program is said to involve not so much the curtailment of public spending but primarily the containment of further expenditure expansion. It remains to be seen whether the government can come up with a plan which would satisfy both the demands posed by EEC membership and stability of the domestic economy. According to the calculations of the Industrial Council (which represents Denmark's industrial associations), new investments of up to 37 billion kroner are necessary until 1976 to meet the national growth targets established by the government. The problem will be how to achieve this goal without putting undue strain on the labor market and "overheating" the economy - developments that again could result in new credit restrictions and thus once more stifle new investment projects.

Agriculture, of course, has a somewhat different set of problems. As a country of less than five million capable of feeding 15 million, Denmark will now be straining to make up lost ground in EEC exports after seeing them shrink from year to year. A prime target is next-door neighbor Germany which, at one time, bought $234 million worth of Danish farm products annually but only $141 million worth last year. Starting Feb. 1, 1973, Denmark - like all the other new member states - must apply the EEC's market organizations covering individual agricultural products (Article 60 of the Accession Treaty). However, it has reassured its eight EEC partners that they will not have to brace for a flood of Danish farm products. Emphasis will not be on expansion of production capacities but on the development of specialty markets (sophisticated food processing). In any case, Denmark's total agricultural production could only satisfy 5% of the food requirements of the enlarged Community. At present, of the total Danish exports of about $4.7 billion, some 30% is taken up by farm products, of which half again is shipped to the six original EEC countries.

Sweden to Revamp Consumer Laws: Without announcing a definite time schedule, the Swedish government plans to introduce legislation that would strengthen and clarify existing laws covering consumers' rights in service industries. Virtually every form of service from travel agencies and laundries to dentists and lawyers (but not government services such as railroads and utilities) eventually will come under coverage. Norway and Denmark have expressed interest in similar legislation, and both countries have sent representatives to Stockholm to help with research and drafting of the new laws.

U.N. Conference on Container Trade: Government representatives from more than 50 nations are to meet in Geneva beginning Nov. 13 to discuss ways and means of facilitating international container shipping and transport. An ambitious object of the three-week conference - the first one of its kind and sponsored jointly by the United Nations and the Inter-Governmental Maritime Consultative Organization (IMCO) - is to draw up several conventions pertaining to container standards (size, materials used, and labeling), customs matters and insurance questions. IMCO, a body comprising some 60 nations, advises the U.N. on maritime law questions.

International container trade has grown tremendously in recent years, but there also have been an increasing number of problems. Trade is hampered by the lack of standard sizes. The risk of transportation is considered higher than normal because of the absence of rules setting forth standards for materials used in container manufacture. Government experts will attempt to draft rules that would require a signatory's

government to tell national container manufacturers how the materials must be used to avoid damage. Containers used in shipping foodstuffs would have to meet higher standards. Against these issues, labeling and marking of containers is considered a minor problem.
There have been increasing complaints about cumbersome and time-consuming checks by customs authorities. A working group will attempt to come up with a formula (also to be put into a draft convention) that would allow fast yet effective customs clearance. Another customs problem involves domestic transport of containers. None of the IMCO states' customs regulations allow, for example, for a container that has arrived in a seaport, is partially unloaded, filled up again with merchandise and sent on to a further destination inland. This area is virgin legal territory and a solution is not expected.
The third major issue on the agenda involves insurance matters. A draft convention could eventually find an answer to a question that frequently comes up in container shipping: who is liable for damage discovered at the place of destination of the merchandise? Here it is almost impossible to prove fault on the part of one particular land freight carrier or shipping line, particularly where long international freight routes are involved. So far the developing countries have refused to accept a pro-rata liability in these instances. Their argument that container use is still limited in their international trade is countered by that of the industrialized nations, which point out that improper handling of containers has often proved to cause damage to merchandise and that an international convention could not place the entire risk on one specific group of countries. It remains to be seen whether the developing countries, with Brazil in the forefront, will give in on that question.

AROUND THE MARKETPLACE

European Shipbuilders Fear Japanese Push: An appeal has been made to the U.K. Trade and Industry Secretary to check Japanese expansion in the shipbuilding industry, now seen as a major threat to employment and investment prospects throughout Europe. The protest by U.K. shipbuilders is part of a concerted campaign by 11 national shipbuilding associations (the Association of West European Shipbuilders) calling for joint action to thwart Japanese plans that could add to the industry's problems of over-capacity.
In the view of the Association, Tokyo's policy of offering financial support to the Japanese shipbuilders is the "basic reason for the present crisis in the West European shipbuilding industry." The Japanese recently made it clear that they are going ahead with massive expansion programs, and Association figures indicate that by 1975 Japanese capacity could be between 18 and 19.5 million tons - roughly 65% of world demand. This capacity would be extended to some 27 million tons by 1980. At a time when orders are depressed, a substantial over-capacity is expected by 1975, even ignoring current expansion programs in other countries such as the United States, Korea, and Portugal. The deal made recently by Japan's Sanko company, offering to charter to Western European owners 50 or more tankers at a rate estimated at some 30% below current world market levels, has provoked accusations of dumping. OECD regulations preclude competition among governments on ships built for export but Sanko, by building in Japan and then exporting on a charter basis, seems to have found a loophole. In all, Japanese manufacturers have cut prices by between 10 and 15% this year in order to encourage further orders and even the yen revaluation has not had adverse effects inasmuch as the government upped its financial support.

The pessimism of U.K. shipbuilders is justified by reference to the current order book: orders placed in the first six months of 1972 amounted to 269,000 tons. This compares with a capacity of some 1.4 million. Although interpreted as a ray of hope, the £25-million Norwegian order for Harlan and Wolff *(s. EURO COMPANY SCENE)* does not change a basically serious situation.

EURO COMPANY SCENE

Gulf Oil Corp. has confirmed its intention to sell Erdölwerke Frisia AG, its German petroleum subsidiary. Frisia operates a refinery with an annual throughput of 1.4 million tons and a chain of almost 800 service stations.

Lewston Developments Ltd., London, has paid £2 million ($4.8 million) for a 60% majority holding in the DM 6-million share capital of Germany's Lenz-Bau AG. Both companies are active in civil engineering, construction, and property investment. Lewston also reportedly intends acquiring a majority participation in a French construction firm, as yet unnamed. Counting Lenz-Bau sales and those of its future French partner, the Lewston group would have a consolidated turnover amounting to over $109 million.

Belgonucleaire of Belgium, Neratoom of the Netherlands, and Germany's Interatom have jointly formed the INB Internationale Natrium-Brutreaktorbau Gesellschaft, with Interatom taking 70% and the remaining partners, 15% each. The three firms, which signed a letter of intent last spring for the construction of a prototype fast breeder, sodium-cooled power plant on the Lower Rhine, now will cooperate within the framework of INB. An enlargement of the consortium to include companies from other European countries - the U.K., in particular - is foreseen.

The building materials division of the Swedish Match group has taken a majority stake in France's Ets. Victor Mescle SA, producer of doors, plywood, and chipboard. Mescle's daily output of 2,500 doors alone will boost the Swedish concern's annual total to 3 million doors annually, including production from its factories in Sweden, Germany, France, the Netherlands, and Portugal. The building materials division is reputedly Europe's leading manufacturer of building components such as doors, windows, kitchen cabinets, wardrobes, partition walls, and flooring material. Division sales for the first half of 1972 amounted to some $106 million. Last year Mescle had turnover of about $12 million.

Zahnräderfabrik Renk AG (Gutehoffnungshütte) and two Rumanian organizations - the foreign trade agency Industrial Import and Resita machine construction - will set up the first German-Rumanian joint venture. Based in Rumania, the new company is to manufacture Renk transmissions for marine engines and industrial machinery. The Rumanians will hold at least 51% of the basic capital, with a pledge to safeguard the interests of their German partners. The project has the backing of the Rumanian state bank.

Germany's Orenstein & Koppel AG has acquired a remaining 90% interest in Escalators Ltd. of the U.K. from Francis Industries Ltd., London. At the same time the German company concluded an agreement with another Francis subsidiary, United Lift Ltd., for sales and servicing of O&K escalators and moving sidewalks in Britain. O&K also has a license agreement with Armor Elevator Co., Inc., Milwaukee, Wis., for the United States and Canada.

Deutsche Bendix Ausrüstungs GmbH, German subsidiary of Bendix Corp., Southfield, Mich., and Ducellier Bendix Air Equipment, Paris (49% Bendix), has begun operations in its new DM 60-million ($18.75 million) factory and precision foundry in the Saarland. The facilities, initially employing 600, produce disk brakes and other brake parts for the European automobile industry.

The Belfast group of Harland and Wolff has received contracts worth upward of £25 million ($60 million) from Oslo-based Norwegian Bulk Carriers, a consortium of a half dozen Norwegian shipping companies. The U.K. government, which has a 47.6% stake in the Belfast yard, approved a £35-million expansion plan earlier this year. The contracts are for three bulk carriers of 117,850 dwt each, scheduled for delivery between 1974 and 1976.

The Anglo-Italian tire union between Dunlop and Pirelli has, after only 22 months, been placed in jeopardy by persistent heavy losses at Pirelli's Italian companies. Reports to June show losses of £9.8 million ($23.5 million) on top of last year's losses of £18.6 million. So far, since it was decided to deconsolidate Italian losses until they could be offset by profits, Dunlop earnings have been protected. Should cumulative Italian losses exceed the £46-million share of the capital of Industrie Pirelli (a "union company") held by the parent Pirelli, British shareholders will begin to be affected. As Dunlop spokesmen have said: "The losses in Italy have become a matter of increasing concern." There are only three courses of action open to the union if the crisis continues to grow. Part of the Italian operation could be closed down, although this would meet with bitter labor opposition; new capital could be injected (which Dunlop is reputedly reluctant to agree to), or the present structure of the union could be altered by withdrawing the Italian companies. Although the president of Industrie Pirelli has denied the existence of a crisis, the Italian situation has brought Dunlop's shares down.

The dispute between Braden Kennecott Corp. and the Chilean government over compensation for nationalization of copper mines is swiftly developing wide international implications. Following court suits in France and Holland to prevent Chilean copper shipments from being delivered, Kennecott is planning similar action in Sweden. Chile is fighting the actions through the courts, but also has called emergency talks with its partners in the Inter-Governmental Committee of Copper Exporting Countries, based in Paris, Peru, Zambia, and Zaire.

The U.K.'s Birmingham Small Arms (BSA) motorcycle and engineering group, which has registered heavy losses over the past two years, is looking for a solution to its financing problems. BSA is discussing the possibility of an injection of government money to help the company continue in its present form and to finance investment in a new motorcycle range. The Dept. of Trade and Industry has not yet announced any support plans, but aid might be forthcoming under the Industries Acts inasmuch as BSA is still a major dollar earner and, moreover, has a work force of some 6,000. An alternative to government aid would be a merger, of course, and rumors persist that BSA is having talks with an American industrial group.

United Air Lines, the largest carrier in the western world, has decided to drop its option to buy six Concorde supersonic airliners. United's decision means that there are now 48 options left to be taken up by airlines. The only firm orders to date are by BOAC (5) and Air France (4). The Chinese national airline has signed preliminary orders for three, and Iranair has signed a letter of intent for two, with an option on a third.

All Nippon Airways, to the satisfaction of the U.K.'s Rolls-Royce (1971), has decided to buy six Lockheed TriStar airliners powered by RB-211 engines. The order was the third new deal for Lockheed in five days: Germany's LTU ordered two and Delta Airlines raised its outstanding options by six to a total order of 30. More important, however, is the fact that the All Nippon order may prompt other Far East and Southeast Asia airlines to follow suit. The contract, worth £55 million, was won in direct competition with 747s and DC-10s.

U.S. Gulf and Western has acquired a 35% interest in the share capital of one of Italy's leading publishing houses, Fratelli Fabbri of Turin, controlled by the Agnelli group of Fiat. This is interpreted as another move by Agnelli to take over a major part of the Italian press. The group already controls La Stampa, the leading Turin daily, and a number of other publishing houses, and is now seeking major control of the papermaking industry. The Gulf and Western interest will help Agnelli to obtain control of the plants of Timavo (Trieste) and Arbatax (Sardenia), suppliers of newsprint.

Two German travel concerns, Transeuropa Reisen GmbH (Quelle and Karstadt) and market leader Touristik Union International GmbH KG (Touropa, Scharnow, Dr. Tigges, and Hummel) are merging through a joint holding company, with Quelle and Karstadt together to take a 25% stake in an expanded TUI. Last year Transeuropa had sales of DM 170 million ($53 million), up 33.8% from the previous year.

Dravo Corp., Pittsburgh, Pa., engineering, construction, and manufacturing, has established a subsidiary in Brussels, Dravo Europe, as a beachhead for expanding activities abroad. The U.S. company already has license agreements with a number of European manufacturers.

British-American Tobacco has made its first move into Europe since the termination of its longstanding agreement with the Imperial Tobacco group. BAT has acquired a one-third share in a new company by merging its Danish subsidiary Nordisk BAT with the Skandinavisk Tobakskompagni. BAT is to purchase £3.5 million ($8.4 million) of shares in Skandinavisk. Nordisk's assets are placed at around £3.3 million.

Germany's Oetker group has sold its grocery chain subsidiary Hermann Meyer & Co. Vertriebs-GmbH, Munich, to Deutscher Supermarkt Handels-GmbH, a joint holding of the Canadian-American Galen Weston company, Toronto (55%), and London investment house Comar Ltd. (45%). Deutscher Supermarkt, which operates 175 stores in 55 German cities, will gain another 31 retail outlets from the takeover. Oetker, in turn, is hoping to extend its test market for new food products by distribution throughout the Deutscher Supermarkt chain.

The U.K.'s J. Lyons has made an agreed $55-million cash bid for all the British, U.S., and Australian tea and coffee interests of Beech-Nut Inc., a subsidiary of the U.S. Squibb Corp. The deal will bring the Tetley Tea Co. into the Lyons fold and will give Lyons more than one-third of the rapidly growing tea bag market in the U.K. Lyons also has purchased an 80% holding in meat producers Le Rosemont of Besançon, France, and a stake in Italy's cake and confectionery market via Riunite di Panforte di Siena. Only last month Lyons acquired a 60% stake in DCA Food Industries of New York.

Common Market Reports

EUROMARKET NEWS

Issue No. 200 *November 14, 1972*

Britain Resorts to The Freeze: As of Nov. 6 the U.K. government has imposed a 90-day standstill on wages, prices, rents, and dividend rises. Coming in the wake of the unsuccessful tripartite talks, the measure will be enforced by a retrospective counter-inflation (temporary provisions) bill providing for fines of up to £400 on summary conviction of infringement. Also, there is a provision to extend the freeze for a further 60 days if considered necessary. The retrospective element was underlined by Prime Minister Edward Heath, who indicated that any time spent in either House delaying the bill's passage would be added to the freeze period. Royal Assent was expected in three weeks. The bill is to be replaced by a more complex Phase II bill at a later date, designed to introduce statutory controls allowing limited pay, price, and dividend increases.
The interim bill provides for the reversal of unjustified increases by giving ministers power to direct that incomes or prices and charges should not exceed levels prevailing before Nov. 6. In essence, the freeze will operate as follows:
Prices - All increases in prices and charges for goods and services will be prohibited in both the public and private sectors. Increases announced but not implemented also are covered. The government has established watchdog units to monitor prices and act on complaints. The order does not apply to fresh food and to imported raw materials since these are liable to fluctuate for seasonal or other external reasons.
Pay - The standstill applies to all pay, i.e., basic pay, overtime, weekend work, piece rates, and all allowances as of 3:30 p.m. on Nov. 6. Increases already agreed upon but scheduled to take effect during the 90-day period will be deferred. The freeze does not apply to increases resulting from promotion or greater productivity, fixed incremental payments to civil servants, or increases in occupational pensions.
Dividends - Companies cannot declare dividends of an interim or final character higher than for the corresponding period last year. Investment trusts and close companies are exempt.
Rents - Increases in council-house (social) rents, announced several

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weeks ago, are not affected by the freeze. Increases in private rents due Jan. 1, 1973, will be postponed.
Pensions - Each person drawing supplementary and retirement (social security) pensions will receive a lump sum payment of £10 ($24) - for married couples, £20 - early next year.

Anticipating the freeze, companies and labor unions scrambled to announce price rises and pay deals before the formal announcement. Five foreign car manufacturers came forward with increases ranging from £23 to £782, and the number of grocery price increases over the two weeks preceeding the announcement totaled 500 as opposed to some 200 in an average two-week period. Unions which beat the deadline included those for industrial civil servants, local government manual workers, and some auto workers.
In a predictable reaction, the Labour Opposition and labor union spokesmen immediately denounced the freeze announcement. Equally important, however, was the reaction of the Conservative Party itself, some of whose members also denounced the government's action. Heath already has gone on record as saying that the passage of a bill aimed at statutory controls on price and wage increases was by no means guaranteed. The Opposition leader emphasized that the bill did not cover fresh food prices or mortgage rates and that changes in added-value tax were left to the discretion of the Chancellor of the Exchequer.
In drafting the interim bill, the government has been careful to treat the unions as corporations and not as individuals. This will, of course, put union funds at risk in cases of contempt.

'A Distinct Lack of Realism': Because of the myriad problems it is confronted with elsewhere, the U.K. government has only now been able to launch its formal campaign to make British companies aware of the implications of EEC membership. This campaign, started on Oct. 29, happens to coincide with the publication of a report by the British Standards Institution reviewing the requirements facing U.K. industry in the various member and applicant countries. To most observers, the message of the government effort and the BSI findings is clear: Britain has done and is doing too little to prepare itself and there is, according to the BSI, "a distinct lack of across-the-board realism." This is seen to extend to the assumption in many quarters that the proposed EEC Regional Development Fund will bring instant relief to the troubled U.K. regions such as Wales and Lancashire as well as to the relatively lightweight questions of EEC commercial practice.
There are still optimists, however - notably in the financial and industrial sectors - who point out that the U.K. has created "a number of bridgeheads" on the Continent, either by direct investment or by a strengthening of their European sales organization. While this is true of a number of corporations such as ICI, GKN, British Leyland, and Mather & Platt, the question posed is how secure the other bridgeheads are and what the phrase "expanding into Europe" really means. Buying a Continental company is regarded, of course, as one of the most expedient ways of gaining a foothold and considered mandatory for those U.K. companies which have no market in Europe and no products suitable for it. Yet, it has been noted, this policy cannot be considered salvation for everyone: the time and money spent on reshuffling management and policies might well be better spent on expanding sales and services to boost exports directly from the U.K. It is regarded as significant that Continentals "expanding into Britain" are favoring this approach, with the result that the flow of direct investments into Britain has not been considerable.
The most anguishing realization now dawning on many people is that the City of London - accepted by many as the world's financial center per se - may actually lose some of its importance vis-à-vis Europe. While

the City can claim a liberal tradition and virtually unrivaled expertise, it has been observed, it will certainly be pressured to align itself with some of the more restrictive Continental practices as regards regulating financial institutions. Much of the City's domination has been directly ascribed to the boom in the Euro-currency market, but companies in Europe are tending to turn to local banks, partly for reasons of legislation, partly out of preference. Naturally, the City may counter this by "expanding into Europe" but this, in itself, would be interpreted as a move away from center. EEC members and central banks, it has been pointed out, are still jealous of their independence, in spite of the European ideal.

German Tax Operations to Be Computerized: Individual and corporate taxpayers in Germany can expect better and faster service once all 532 government tax offices have been reorganized and have switched to using data processing equipment. It now takes sometimes two to three years for taxpayers to find out exactly what they owe or what they may expect in refunds.
Currently, 20 tax offices are going through dry runs with their computer systems and the new assessment procedures. However, it has been established already that EDP alone will not do the job, since many offices also lack such basic equipment as typewriters, not to mention dictaphones or copying machines. Efficiency also is hampered by the fact that about half of the local tax offices are housed in more than one building.
The new assessment procedures, as now tentatively applied by the 20 tax offices, are putting taxpayers into three categories:
- Employed persons, accounting for 75% of all taxpayers, with annual incomes of up to DM 50,000 ($15,600), plus other incomes up to DM 15,000. They would receive the final tax bill within one year after filing.
- Large enterprises with annual sales exceeding DM 3 million ($937,500) or taxable profits of more than DM 140,000, whichever is greater. They would always be assessed on a preliminary basis and be subject to regular audits later.
- All other taxpayers, including small and medium-sized companies and the liberal professions. They would be assessed preliminarily every year and finally every other year.

Although trial operations are merely relying on new methods in applying existing law, finance ministry officials in Bonn are confident that application of new rules provided in the tax reform (now postponed) would present no major difficulties.

Management Voice for Sweden's Workers: The Swedish government has introduced a bill into Parliament that would entitle employees of companies with a work force of 100 or more to be represented on the supervisory board of the enterprise. Of the two representatives provided for in the bill, one must be an employee and the other a union representative. Both would be chosen by the union in which the company's blue- and white-collar workers are organized. If several unions are represented in the company, the two strongest local chapters may designate both representatives.
Labor representatives on the supervisory board would have a voice in all matters any supervisory board handles (namely, making policy decisions and confirming certain actions taken by management) in addition to supervising management. It is here that labor representatives would be able to exert influence on work organization, personnel matters and work safety. However, they would be barred from any board meeting involving negotiations with the unions and strike matters. Labor representatives could not sit on more than one supervisory board.
Business and industry have opposed the concept, pointing to the many examples of voluntary cooperation between labor and management. But there is little chance that their arguments will be heard. Nor is there any

hope that even one of their many demands will be met in the coming months of parliamentary debate. One of these calls for exemption of closed corporations with less than 200 employees, and another is that the employees themselves, not their unions, should elect their representatives.

The government's initiative was actually prompted by the Liberals in the Riksdag. They had come out with a co-determination concept of their own, with an eye on the next general election, scheduled for September 1973. So, the Socialists felt that action was needed to avoid losing the support of their closest ally, the unions, which did not raise the issue until their 1971 convention. This is unusual by European standards - Germany, for example, adopted its first co-determination laws in the early 1950s. But Swedish unions were always assured a predominant role in the 32 years of Socialist rule and have exerted their influence at the bargaining table rather than in the board room. Yet, concessions that employers may have granted in the past stopped short of breaking a cardinal rule contained in Section 32 of the Swedish Employers Association bylaws: any collective bargaining agreement must include a clause giving the employer freedom in hiring, firing, and work organization. Passage of the proposed law would erode the basis of that rule.

Flood of Foreign Labor Worries Dutch: Rotterdam's City Social Dept. would consider it "desirable" to limit the stay of foreign workers in the Netherlands to two or three years. That way, it was suggested, the immigration of families of these workers - now posing severe housing and social problems - could be contained too. The proposal came after the Dutch government provisionally suspended a decree by the Rotterdam Municipal Council which aimed to limit the number of foreign workers to 5% of the total population of any given city borough.

Rotterdam's foreign worker population has been officially put at 13,000, of which some 10,000 are single. The remaining 3,000 live with their families, which include about 3,700 children. In some city districts, aliens already constitute up to 35% of the population - a situation that lately has caused a rash of incidents between native citizens and foreigners, notably Turks.

To combat what it called a "structural lack of labor," the department has urged measures leading to increased automation as well as higher wages for certain forms of labor now performed almost exclusively by alien workers. It said the influx of such labor from abroad would continue - despite unsatisfactory housing and working conditions - unless limited residence and work permits were issued. In the same context, the Dutch socialist industrial unions have even called for a complete embargo on the employment of foreigners pending agreements on the EEC level and the outcome of a one-year trial of pertinent measures to control the problem of migrant workers. The unions feel that the time has come for the Community to restrict indirectly the mobility of foreign workers by requiring employment registration for the citizens of EEC member states. In fact, they endorse the demand by the international metal workers union that direct recruitment of foreign workers by employers be made illegal. Furthermore, their spokesmen insist that both unions and works councils should have a say when company management has to decide whether foreign employees should be hired or not. In cases where the hiring of foreigners could disturb the company peace or where a native employee could perform the same function, the works council should be given veto powers and an "ombudsman" should be appointed as an arbitrator.

Stagflation Persisting in Italy: The state of the Italian economy "remains serious though not desperate" and shows all the signs of steadfast stagflation, according to a government report that is now required reading for members of the lower house in Rome. The news is bad on nearly all fronts. Investment has been slackening in virtually all sectors. Industrial production shows an over-all increase of merely 2.7% for the first eight months of 1972. An averaged value, however, this figure fails to reflect the even bleaker picture in certain key industries. Construction activity, for instance, was down 10%, and machinery production had slumped by 7% compared to the same period in 1971. Over-all employment had dropped by 300,000, with the result that the number of people out of work reached 1.4 million as of the beginning of this month. Consumer prices went up 5.2 percentage points for an annual average of 7%.

Budget and Planning Minister Taviani, whose ministry prepared one part of the report, blames the business cycle as well as structural reasons for the crisis. Many businesses have been unable to balance increased costs with higher profits. Absenteeism was as high as 14% in some industries (the European average is 6%). These problems are compounded by the political instability and some of its most blatant manifestations such as plant takeovers by workers and the government's apparent unwillingness or inability to cope with the situation. Numerous Italian companies, mostly medium-sized, have difficulty adjusting to tougher international competition. Taviani offers as a solution the "radical modernization" of production in ailing industrial sectors or enterprises. He hopes to draw union leaders into a continuing dialogue and to work out a long-term plan that would enable businesses to make the necessary investments and to modernize production lines. Illegal seizures of factories and offices to forestall production cuts and layoffs, he said, cannot solve the problems businesses face because of ever-advancing technology and competition from abroad.

Economists consider too high the recent wage increases of 8 to 10% squeezed from employers (under pressure from both unions and the government) and granted to about 7 million employees. Many have doubts about the government's plans to overcome the crisis: a price freeze on public services except telephone; joining the EEC's efforts for increased supplies of foodstuffs through third-country imports; more aid to businesses concentrating on exports; better insurance services to cover the risk of exporting firms; a guarantee fund enabling small and medium-sized companies to finance modernization of production equipment.

EURO COMPANY SCENE

The future of the four-year-old cooperation between France's Citroën and Italy's Fiat looks increasingly dim. Fiat, which took a 49% stake in Paredi, the Michelin holding company in control of 53% of Citroën, had sought a total collaboration in terms of production and sales strategies. Citroën, on the other hand, according to the Italians and French auto industry observers, has been interested only in maintaining its own technical standards and independence. Fiat president Gianni Agnelli and his brother Umberto, chief of Fiat France, say Fiat will not subscribe to a planned FF 500-million increase in Citroën share capital unless the alliance between the companies is rethought along more profitable technical and commercial lines. Michelin, for its part, is said to feel strong enough to go ahead with the capital boost alone. Complicating the picture are Fiat's current labor difficulties. Absenteeism, averaging 13-14% daily, has knocked the year's production off target by some 150,000 units, with plant utilization at a mere 73-75%. President Agnelli has admitted that developments in the Italian economy were responsible for the decision of Deere & Co. to veto its projected cooperation with Fiat last January.

Sweden's Electrolux, household appliances, has made an almost sure-fire takeover bid for at least 90% of the 80-million kronor (\$16.7 million) capital of AB Facit, office equipment manufacturer. The offer, good until Dec. 5, is for five Electrolux shares to 16 of Facit, which is controlled to 70% by the Ericsson family. Facit just announced plans to lay off some 2,400 - almost one-third - of its employees over the next two years after suffering combined losses of about 110 million kronor for 1971 and 1972. The introduction of Japanese electronic calculators in Sweden and abroad has practically driven Facit mechanical adding machines off the low-price market, although the company's other products - electronic data equipment and typewriters - have shown steady sales increases. Electrolux had a net profit of 70.2 million kronor in 1971 and is expected to invest heavily in reorganizing Facit to concentrate on electronic components.

AB Svenska Kullagerfabriken (SKF) has announced it will be forced to dismiss over 300 white-collar employees next spring and possibly reduce its production force by some 200 workers in addition to the normal attrition rate of 50 per month. The rising tide of unemployment in Sweden also may affect the Bofors armaments, steel, and chemicals group, which just announced an expected 30% drop in pre-tax profits for the second consecutive year. The profit total for 1972 is anticipated at 17 million kronor (\$3.5 million).

Swedish Saab-Scania has announced it will build a truck and bus plant in Argentina at a cost of about \$12 million, with production to start in early 1975. A substantial portion of the output is expected to be for export.

Zanussi SpA of Italy said it plans to begin laying off some 2,500 of its 30,000 employees early next year. The company, which has reported losses of about \$31.5 million for 1972, hopes these labor cuts will enable it to break even in 1973 and begin showing a profit in the years following.

The U.K.'s Trafalgar House Investments has made a surprise £126-million (\$302.4-million) bid for Bowater Corp. The move follows the recent agreed bid by Bowater for the international trading group Ralli International. The Trafalgar offer is conditional on the lapsing of the Ralli deal. The outcome of the Bowater/Ralli takeover was to be decided this week. Much of the success of Trafalgar's bid hinges on the position adopted by the investment bankers Slater Walker, who advised Ralli on the Bowater proposal and okayed the agreed terms.
Trafalgar's bid is being studied closely by the U.K. Dept. of Trade and Industry to decide whether this could be a case for the Monopolies Commission. With Trafalgar's purchase of Cunard and the current bid for the world's largest newsprint group, the department feels obligated to take a closer look.

The DTI also is reviewing the £66.5-million (\$159.6-million) bid by British-American Tobacco for International Stores, the U.K. group operating more than 900 small grocers' shops and mini-supermarkets. The bid marks a shift in BAT interests toward food retailing. The company already has interests in perfumery and cosmetics and paper. The BAT announcement prompted immediate rumors of counter-bids by Allied Breweries, Wrensons Stores, or Cavenham. Of the three, Cavenham is the most likely to express interest, although spokesmen declined to comment. (The Trafalgar and BAT cases, together with the as yet unabated P&O/ Bovis battle, have given the government ample scope for documentation. The Opposition, meanwhile, has called for a formal government statement of policy in regard to takeover bids in general.)

In related news, BAT has purchased for some £30 million ($72 million) an 80% stake in Kohl Corp., the U.S. retail stores group.

Continental Foods of Belgium and Holland's Kwatta chocolate have announced plans for formal cooperation through an exchange of shares. The Kwatta group includes branches in the Netherlands, Belgium, France, Germany, and England. Continental Foods has operations in Belgium, Holland, France, and Spain. Last year the Belgian company's sales amounted to about $31.3 million, with profits of some $500,000; Kwatta had a turnover of approximately $12.8 million, showing a small loss.

The Générale Occidentale group owned by the U.K.'s Jimmy Goldsmith has joined with Hambros Bank in announcing parallel European deals worth £4.5 million ($10.8 million) designed to step up their investment activities in France and Holland. GO is to acquire (subject to exchange control permission) some 36% of Hambro International NV, an investment trust quoted on the Amsterdam Exchange. At the same time the Hambro group will acquire some 30% of Compagnie Equatoriale de Mines, a holding company on the Paris Exchange controlled by GO. As part of the deal, Equatoriale will change its name to Occidentale de Participations, and Hambro International will emerge as Hambro Occidentale.

Monsanto has formed two new business divisions to handle carpet and wearing apparel marketing throughout Europe, both headquartered in Brussels.

The U.K. subsidiary of Redman Heenan International, the Gloucester-based heavy engineering firm of Fielding and Platt, has decided to make a play for the American automobile market: a management team is to leave shortly for Detroit for talks with Ford in the hope of finding a U.S. outlet for the patented Redman system for manufacturing bumpers by a single process. Redman machinery is used extensively by automobile manufacturers in Western and Eastern Europe. Due to volume of business the firm has not as yet ventured into the U.S. market.

After over a year of on-again, off-again haggling, the Greek government finally has awarded a contract for construction of a $50-million aerospace complex at Tanagra, north of Athens, to a consortium involving Dassault-Breguet of France (20%), Lockheed Services of the United States (20%), and Olympic Airways of Greece (20%). The Greek government will own 40% of the Hellenic Aerospace Industries project, which is to be funded, in addition, by a U.S. loan of $25 million. Losing bidder was Automation Industries of Phoenixville, Pa.

Data 100 Corp., Minneapolis, Minn., has established its second Continental European subsidiary, Data 100 GmbH, in Frankfurt, Germany. The U.S. company, manufacturer of computer teleprocessing equipment, has another branch in Holland and maintains both sales and production facilities in England.

Elkem Spigerverket, the recently-formed Norwegian steelworks group, is expected to announce soon its decision to construct a mini-works in the U.K. The group is known to be reviewing sites in South Wales and in the Midlands. The British government turned down an application from Christiania Spigerverk, now a member of the group, late in 1971 to build a steel plant at Chesterfield. The Dept. of Trade and Industry then "proposed" that the company should consider establishing the plant in one of the U.K.'s development areas instead.

The two leading Italian building construction companies have amalgamated. They are Habitat SpA, with a capital of 11.2 billion lire, which belongs to La Centrale financial group, and Sacie SpA (11.95 billion), which belongs to the Bonomi-Bolchini group. Habitat specializes in the construction of luxury buildings and recently has been awarded a contract by Generale Immobiliare for building a new town in Mexico.

A £20-million ($48-million) investment combine, possibly the largest unquoted company to be formed in Britain for many years, has been established by five banks, 12 merchant banks, 15 insurance companies, 32 investment trusts, and 12 commercial companies from Scotland, England, and the Continent. The combine, essentially a Scottish initiative, will be known as North Sea Assets and will back companies and services relating to the oil industry. Company spokesmen indicated that several investment opportunities in such areas as warehousing, harbor accomodation, steel supplies, valves, well casings, barges, rigs, earthmoving equipment, cement and oil storage, and terminal facilities are already being considered and that the first investments might be announced in two to three months.

The international mining group Rio Tinto-Zinc Corp. is selling off its 30% interest in British Titan, the largest producer of titanium oxide pigments outside the U.S., to three other owners of British Titan shares, Imperial Chemical Industries, Lead Industries, and Greeff-Chemicals. The three are buying shares in proportion to their present holdings. The total amount involved is approximately £8 million ($19.2 million).

Italy's state-owned Istituto Mobiliare Italiano, investment bank, is helping to finance Moto Benelli's takeover of its slightly smaller competitor, Moto Guzzi. Both companies produce motorcycles, with combined annual output of 300,000 units and annual sales of some 21.4 billion lire ($36.8 million). Benelli-Guzzi spokesmen hope the fusion will give them a stronger hand against increasingly stiff competition from Japan.

Three German banks - Bayerische Vereinsbank, Munich, Vereinsbank in Hamburg, and Bankhaus Friedrich Simon KGaA, Düsseldorf - and the Paribas group (Compagnie Financière de Paris et des Pays-Bas, Banque de Paris et des Pays-Bas, Crédit du Nord, Banque de l'Union Parisienne, all of France; Banque de Paris et des Pays-Bas Belgique, Brussels, and Banque de Paris et des Pays-Bas, Amsterdam) have announced conclusion of an agreement for mutual aid and cooperation. According to the pact, Banque de Paris et des Pays-Bas also is to convert its present representation in Germany to a full-fledged branch, while Vereinsbank will set up a representative office in Paris.

Chase Manhattan Bank, through its subsidiary Chase Manhattan Overseas Banking Corp., and Commercial Credit Co. of Baltimore have taken stakes of 20 and 30%, respectively, in the newly founded Transleasing SA, Madrid. The Spanish company will lease construction, agricultural, and industrial machinery. Other shares are held by Chase affiliate Liga Financiera of Spain (25%) and Banco Espanol de Credito (25%).

Tokai Bank Ltd., Japan's sixth largest financial institution with a balance sheet total of almost $12.5 billion, has opened a branch in Frankfurt. The bank has other foreign offices in New York, Los Angeles, Hong Kong, Sydney, and London.