Common Market Reports

EUROMARKET NEWS

Issue No. 881 *Report No. 541, December 5, 1985*

LIBRARY

IN THIS ISSUE

page
Community: Little Progress Expected From Summit.........1
Bonn Opposed to Major Parts of Excise Tax Plans.........2
In Brief: ECU 1.7-Billion Loan to Greece; 1986 Budget...3
Germany: General Speed Limit on Freeways Ruled Out......3
Belgium: Coalition Agrees to Continue Austerity Policy..4
Britain: New Details on Wages Councils, Cashless Pay....5
Company Futures Profits to Be Taxed as Trading Income...6
First Ombudsman Named to Settle Bank-Customer Disputes..6
Netherlands: Capital Market Deregulation on Jan. 1......7
Sweden: Riksbank Lifts Lending Curbs on Banks...........7
Euro Company Scene......................................8

Community: Little Progress Expected From Summit

The heads of government of the ten Member States were not expected to put the European Community on a major reform course when they got together on Dec. 2-3 in Luxembourg for the last summit in 1985. The ten foreign ministers, who were entrusted with preparing the ground for major policy decisions during an intergovernmental conference, had to scale down a wide range of proposals to two items that might be agreed on - a slight change in the decision-making process by granting the European Parliament increased involvement in lawmaking, and formalized cooperation in foreign policy matters, with the establishment of a small secretariat in Brussels. Political cooperation, not provided for in the EEC Treaty but now set forth in a separate draft treaty, has developed gradually since the 1970s because government leaders felt that the Member States have joint responsibilities in this area as well.

Over 30 proposals had been submitted to the intergovernmental conference. The foreign ministers were to draft provisions needed to achieve progress toward a European union through

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

COMMON MARKET REPORTS (ISSN 0588-649X), published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $980 per year. Second-class postage paid at Chicago, Illinois, and at additional mailing offices. **POSTMASTER:** SEND ADDRESS CHANGES TO COMMON MARKET REPORTS, 4025 W. PETERSON AVE., CHICAGO, ILLINOIS 60646. Printed in U. S. A. All rights reserved. © 1985, Commerce Clearing House, Inc.

a common foreign and security policy, changes in the decision-making process (especially by Council majority voting and increased powers for the European Parliament), and an express extension of the Community's competence in such areas as environment and consumer protection.

At the conference, the foreign ministers of France, Germany, Ireland, the Netherlands, and Luxembourg generally agreed that Parliament should be granted the right to have a second reading of proposed legislation. After the EP gives its opinion on a European Commission proposal and the Council of Ministers reads the proposal, the EP would be given the opportunity to consider the Council version and recommend changes that the Council would be free to accept or reject. The ultimate legislative powers would remain with the Council. Denmark, Greece, and the U.K., however, oppose granting Parliament additional rights; Belgium and Italy believe the envisioned rights do not go far enough.

Other amendments to the EEC Treaty, such as the incorporation of the European Monetary System (proposed by France and backed by a number of other States), were not even considered by the intergovernmental conference after Germany rejected them during Commission president Jacques Delors' visit to Bonn. Commission officials admit their disappointment on this point and also report criticism from officials of various Member States about the German government's negative attitude during the intergovernmental conference, although Chancellor Helmut Kohl announced in June that the Federal Republic would be a leader in pushing for EEC reform plans.

Bonn Opposed to Major Parts of Excise Tax Plans

The German government is opposed to a number of the Commission's proposals to harmonize excise tax rules. If the proposals were adopted, Germany would have to abolish its excise tax on coffee, tea, sugar, salt, and light bulbs and substantially lower the excise tax on tobacco. All told, it would mean nearly DM 3 billion in lost revenue for the German treasury. Bonn is prepared to revoke the excise tax on tea, sugar, salt, and light bulbs, which generates roughly DM 350 million annually, but insists on keeping the coffee excise tax because of the DM 1.4 billion it brings annually.

Germany is also against the Commission's proposal on the fuel excise tax. Adoption of the measure as it now stands would mean a 20-pfennig tax increase per liter of gasoline and an eight-pfennig excise tax reduction for diesel fuel. This would result in an undesirable difference in these fuel prices, the Kohl administration says. Bonn is further annoyed by the Commission's insistence on a general excise tax on wine. (Germany and Luxembourg are the only Member States without such a tax.) The Commission proposal for a higher excise tax on beer is another item on Germany's list of complaints.

The Kohl administration sees positive aspects in the Commission's recent proposal calling for a standstill in current value-added-tax rates. This proposal is the first of several VAT measures to be submitted to the Council of Ministers in the coming years in order to complete the Community's internal market. A second proposal, due to be tabled in 1986, would establish central VAT rates and commit the Member States to modifying their rates in the direction of these central rates. At 14%, Germany has the second lowest standard rate. (Luxembourg's is 12%.) The German government is aware that the most likely method of moving the national VAT rates closer to the future central rate would be for Member States with low VAT to raise their rates and the States with high rates (Denmark and Ireland have 22% and 23%, respectively) to lower theirs. Bonn is reportedly prepared to agree to a compromise that would mean raising its standard rate by 2 or 3 points.

In Brief...

The Council of Ministers has agreed to grant a six-year Community loan of ECU 1.7 billion to Greece to help it weather its balance-of-payments crisis. The loan will be granted in two equal installments and is tied to the Greek government's decision to implement an economic austerity program. The Commission, in collaboration with the Monetary Committee, will examine at regular intervals developments in Greece's economic situation and its progress in implementing the economic recovery program. The Commission wants Greece to put firm limits on the new system of import deposits that was introduced as part of the austerity program + + + The European Parliament has approved overwhelmingly an ECU 34-billion budget for 1986, adding an additional ECU 2.2 billion on top of the ECU 31.8-billion draft budget approved by the Council of Ministers last September. Almost ECU 700 million was added by the EP to ensure that Spain and Portugal get back as much as they pay into the budget in their first year of EC membership, beginning on Jan. 1. The other major addition of ECU 1.1 billion was for social and regional policy spending. It is up to the Council of Ministers to accept or reject these additions, creating the possibility of a new legal row between the two institutions.

Germany: General Speed Limit on Freeways Ruled Out

The German government has ruled out a general 100-kilometer-per-hour speed limit on the country's 8,500 km of freeways (motorways). The government's decision was based on the surprising results of tests made over the last 12 months on 20 stretches of *Autobahn* across the country. These tests showed that a 100-kph (62 mph) limit reduces automobile emissions of nitrogen oxide by only 10%. (Nitrogen oxide is widely considered to be the major

© 1985, Commerce Clearing House, Inc.

cause of forest blight.) Since automotive exhausts account for only about 300,000 of the total 3 million tons of annual nitrogen oxide pollution in Germany, such a speed limit would reduce the air's nitrogen oxide content by only 1%. (It was noted that during the test only one-third of the drivers abided by the speed limit.)

Explaining the government's decision, Interior Minister Friedrich Zimmermann and Transport Minister Werner Dollinger maintain that the only way to drastically reduce automotive exhausts is to switch to cars with catalytic converters and have older cars fitted with devices to lower pollution. A general speed limit would be counterproductive to the goal of lowering air pollution since buyers would feel less inclined to purchase low-pollution cars, the two ministers said. Nonetheless, registration of low-pollution cars went up dramatically in October for the first time since tax incentives went into effect in July (*Doing Business in Europe, Par. 40,635*). Of the 276,000 new cars registered in October, 73,000 (26.6%) were low-pollution vehicles.

Accident reduction was ignored in the decision not to impose a speed limit because only 4.3% of all traffic accidents occur on the freeways. A divided speed limit - no limit for low-pollution cars and a 100-kph limit for polluters - was considered but ruled out for road safety reasons as well as Community law considerations.

The Kohl administration's decision unleashed protests from the opposition Greens and Social Democrats and was also heavily criticized by environmental organizations. Two of the five states run by Social Democrats are considering a general 100-kph speed limit of their own, but these States - the Saarland and Hesse - would then face legal action by the federal government before the Supreme Court. In Brussels, a Commission spokesman said that the EC Executive would adhere to its plan to propose a measure calling for a general speed limit for road safety and energy savings considerations. (All of the States except Germany have speed limits ranging from 90 to 140 kph.) If this measure is included in a draft directive, Germany is expected to veto its adoption. If it is proposed in a draft recommendation, it would not be binding anyway.

Belgium: Coalition Agrees to Continue Austerity Policy

After more than a month of discussion, Belgium's Liberal and Christian Democratic parties have agreed on a governmental program that gives priority to the "policy of economic and social reconstruction." The four-party coalition, reelected on Oct. 13, plans to continue and, in some areas, strengthen the economic austerity policy it embraced in 1981.

Prime Minister Wilfried Martens intends to rely again on emergency decree powers to bypass Parliament if necessary to

guarantee the competitiveness of the Belgian economy. The government is ready to step in if wage pacts threaten to hurt company profitability.

Martens also intends to ensure that the budget deficit is reduced from over 10% to 7% of GNP by 1988. A major portion of the spending cutbacks have already been laid out. Beginning in 1987, BF 35 billion will be slashed annually from social benefits payments, BF 22 billion from the civil service budget, and BF 25 billion from other state payments. In addition, corporate subsidies and state investments are to be decreased.

Although the coalition parties also worked together in the previous government, they have had some difficulties in agreeing on a new economic and social program. The Liberals wanted to further intensify the austerity measures, including a privatization campaign in the public sector. The left wing of the Christian Democratic Party opposed a continuation of limits in the automatic wage indexation system, under which workers are not compensated for the first two percentage points rise in the cost of living.

Britain: New Details on Wages Councils, Cashless Pay

Further clarification has been provided of some measures announced in the Queen's Speech of Nov. 6 concerning the easing of certain regulations for British businesses. The measures relate to changes in the operation of wages councils and methods of paying employees. The government's legislative proposals will be incorporated in a wages bill in the current parliamentary session.

Currently, 26 wages councils establish minimum pay rates and working conditions for around 2.75 million employees, many of them among the lowest-paid *(Doing Business in Europe, Par. 23,953A)*. The government originally appeared to favor abolishing the councils altogether but has instead opted for some fundamental reforms. Employees under age 21 would be removed from the jurisdiction of the councils, and the councils' function would be limited to setting single minimum hourly and overtime wage rates.

Employees in the U.K. still retain the right to be paid in cash, rather than by check or bank transfer, because of the provisions of the Truck Acts dating to the last century *(Doing Business in Europe, Par. 23,953C)*. However, this system is increasingly felt to be anachronistic, and the new wages bill would in effect repeal the Truck Acts. As a result, the method of payment for wages and salaries would be a matter for individual contractual agreement between employers and workers. Controls are also to be introduced to protect employees from unlawful deductions from their salaries.

In the last few years, payment in forms other than cash has become increasingly common in Britain. However, a sizeable per-

centage of employees, particularly manual workers, are still receiving their pay in cash.

Corporate Futures Profits to Be Taxed as Trading Income

A decision by Britain's Inland Revenue to tax the returns from futures contracts of corporations and investment institutions as trading income rather than capital gains has come as a considerable surprise in view of this year's Budget statement. In March Chancellor of the Exchequer Nigel Lawson said that profits from transactions in futures that are not part of a trade should be charged as capital gains. The tax authorities, however, have adopted the view that this concession applies only to individual investors and not to companies.

The London International Financial Futures Exchange (LIFFE) had thought that the Chancellor's statement also applied to companies that do not deal regularly in the futures market. The Inland Revenue, however, has confirmed that any futures transactions - even if undertaken solely to offset risks - will be taxed as if they formed part of a trade in securities. This will mean that any profit on a futures position will be subject to corporation tax and cannot be offset against a portfolio loss.

LIFFE is concerned that this ruling will drive international business away from London. LIFFE's market secretary, John Foyle, said that corporations, unit trusts, and investment trusts need to know "whether they can hedge their risks without being penalized by the tax system." He stressed that it is up to the government, not the Inland Revenue, to decide how the tax system should be run.

First Ombudsman Named to Settle Bank-Customer Disputes

A group of 18 U.K. banks - including the four major clearing banks, the Scottish banks, and the Trustee Savings Banks - has named the first banking ombudsman to mediate disputes between banks and individual customers. Ian Edwards-Jones, a lawyer with substantial adjudicating experience, will investigate customer complaints free of charge when the usual banking channels fail to settle the matter. He is empowered by the banks to make an award of up to £50,000 per case. The banks are bound by the ombudsman's decision, but dissatisfied customers may still resort to the courts.

The ombudsman will be able to deal only with complaints about incidents that occur or are discovered after Jan. 1, 1986. He cannot intervene where the commercial judgments of a bank are concerned, including a bank's refusal to grant a loan on commercial grounds. Edwards-Jones will also not be concerned with "anything in the range of personal banking services."

The creation of the ombudsman position seems certain to enhance the banks' standing in the face of increasing competition

from building societies. In making this decision, the banks appear to have been influenced by the success of the Insurance Ombudsman Bureau set up in 1981 by the insurance industry as well as a 1983 survey of the banks' customer relations.

Netherlands: Capital Market Deregulation on Jan. 1

As expected, Dutch Finance Minister Onno Ruding has announced a program to liberalize the country's financial markets as of Jan. 1, although the measures are not as extensive as those included in the preliminary outline that had been leaked to the press. The program is intended to promote Amsterdam as a financial center in the face of increasing deregulation in foreign markets.

As previously reported, the issue of and trade in floating-rate notes will be permitted as of next year. Index-linked obligations such as zero-coupon bonds, however, will not be allowed until the government has reviewed its tax policies. The central bank is still discussing with the country's other banks the establishment of an Amsterdam interbank offered rate, which would serve as a generally accepted market rate. Banks will be able to issue certificates of deposit, and Dutch companies will be allowed to issue commercial paper.

Dutch subsidiaries of foreign banks and brokerages will be permitted to handle the syndication of Euroguilder and domestic guilder bonds and notes. This measure, however, will apply only to those banks whose parent companies are based in countries that extend similar rights to Dutch institutions.

Many bankers were disappointed with the government's decision to retain the central bank's calendar system, under which borrowers must wait their turn to issue bonds and notes. The system will be relaxed only slightly: issues of less than 50 million guilders (currently 15 million guilders) will be exempted from the wait.

Sweden: Riksbank Lifts Lending Curbs on Banks

The Swedish central bank has begun to implement a sweeping reform of the banking sector that includes the immediate elimination of ceilings on lending by banks, mortgage institutions, and finance companies. On Dec. 9, the penalty rate on bank borrowings from the Riksbank will be replaced by a series of interest rates that increase according to the amount borrowed. The normal rate for borrowings up to 25% of equity will be 10.5%, rising progressively to 18.5% for borrowings above 175% of equity. To prevent credit from growing too rapidly, however, the Riksbank's cash-reserve requirement will be raised from 1% to 3% on Jan. 13, and interest will no longer be paid on these reserves.

The central bank maintained that the changes are merely "technical" and imply no shift toward a more expansionary mone-

tary policy. The bank said that "a substantial reshuffling of credit will occur without implying any change in the firmness of monetary policy." Central bank governor Bengt Dennis said that the main loser following the deregulation will be the "gray market" in credit.

In general, the banking sector applauded the move toward deregulation. The banks hope to improve their share of lending, which has fallen from 75% in 1975 to 50%.

EURO COMPANY SCENE

Du Pont Co. plans to spend $120 million on the expansion of its Luxembourg manufacturing site to include the production of tyvek, a tough, nonwoven sheet material. The plant is to begin operation in 1988 and will have an annual capacity of 20,000 tons. Du Pont currently produces 40,000 tons of tyvek per year at its Richmond, Va., plant.

Du Pont also intends to build a £45-million plant in Northern Ireland to manufacture kevlar, a nonwoven material used in the marine, aerospace, and motor industries. Production is expected to reach 7,000 tons annually, compared with 20,000 tons in Richmond.

AT&T is considering several cities, including Paris, as the site for a new European headquarters to coordinate its business units for computer and telecommunications equipment in Europe, the Middle East, and Africa. These units are presently managed from Baskin Ridge, N.J.

Due to the depressed semiconductor market, Advanced Micro Devices of the U.S. is postponing indefinitely the building of a £180-million (Irish) wafer fabrication plant near Dublin. The company said that although it may be several years before the plan is revived it is going ahead with the purchase of the plant site.

Owens Illinois, Inc., Toledo, Ohio, has sold 58% of the shares of Gerresheimer Glas AG of Germany to Westdeutsche Landesbank Girozentrale, which plans to sell all but a 25% holding. Owens now owns 26.4% of the container-glass producer. The American company is decreasing its involvement in the packaging industries.

Universal Leaf Tobacco Co., Richmond, Va., is discussing the possibility of taking over all or part of NV Deli-Maatschappij, a Dutch processor and dealer in tobacco and other commodities. The two companies jointly own tobacco operations in Brazil, Italy, and Greece.

Common Market Reports

EUROMARKET NEWS

Issue No. 882 December 13, 1985

LIBRARY

IN THIS ISSUE

page
Community: Luxembourg Summit Ends With Meager Results...1
Tight Strings Attached to EEC Loan to Greece............2
In Brief: Beer Standard Cases; Door-to-Door Selling.....3
Germany: Central Bank Move to Ease Capital Market Seen..3
Belgium: Martens Makes Minor Cabinet Changes............4
Britain: Crackdown on Financial Sector Fraud Proposed...4
Northern Ireland to Comply With British Union Laws?......5
Greece: Higher Tax Receipts to Lower Deficit in 1986....6
Italy: State Employees Reach Wage, Worktime Agreement...7
Portugal: Interest Rates Cut, Devaluation Suspended.....7
Euro Company Scene.......................................8

Community: Luxembourg Summit Ends With Meager Results

The Dec. 2-3 summit of the heads of state in Luxembourg ended with only partial success. The leaders reached agreement on an amendment to the Treaty of Rome that would commit the 12 Member States to cooperation in monetary matters and to convergence in economic policies. The ultimate goal - a monetary union - would also be written into the Rome Treaty. However, the proposed amendments fall short of incorporating the European Monetary System. Alignment of economic policies, which would be necessary to attain a monetary union, would not be achieved by mere cooperation.

German Chancellor Helmut Kohl presented the compromise, to which U.K. Prime Minister Margaret Thatcher consented only because the draft amendments are limited to a pragmatic approach in further developing the EMS. Any change in the system's institutions would require unanimity and would be subject to consultation with the central banks. Thus, the amendments would have no repercussions on the position of Germany's central bank, which opposes an extension of the EMS without alignment of economic policies.

COMMON MARKET REPORTS (ISSN 0588-649X), published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $980 per year. Second-class postage paid at Chicago, Illinois, and at additional mailing offices. **POSTMASTER**: SEND ADDRESS CHANGES TO COMMON MARKET REPORTS, 4025 W. PETERSON AVE., CHICAGO, ILLINOIS 60646. Printed in U. S. A. All rights reserved. © 1985, Commerce Clearing House, Inc.

The ten heads of government also agreed on amendments to the Rome Treaty that would expressly extend the Community's competence in environmental and technological policies. No agreement was reached, however, on an express extension of the EEC's legislative powers in consumer protection.

The heads of government failed to come to terms on increased powers for the European Parliament, the decision-making process in the Council of Ministers, or completion of the internal market. Italy and the Benelux countries wanted to give the EP the final say on proposed legislation during a second reading. France and Germany were prepared to grant the EP the right to read proposals a second time and recommend changes to the Council, which would be free to adopt or reject them. Denmark, Greece, and the U.K. opposed granting the EP any additional powers.

Although the leaders agreed that the Council should use majority voting to speed up enactment of legislation aimed at turning the Common Market into a genuine internal market, they disagreed about the areas to which majority voting should apply. The U.K., the Netherlands, Denmark, and particularly Germany oppose majority voting in harmonizing national tax rules.

The leaders also failed to reach a general agreement promoting cooperation between the Member States on foreign and security policies.

Tight Strings Attached to EEC Loan to Greece

The Community's ECU 1.75-billion loan to Greece is subject to a number of unprecedented, strict conditions. Although it is up to the European Commission and the Greek government to work out the details, the Member States' finance ministers have set a series of economic targets for Greece. (Athens recently proposed a 1986 budget with these targets in mind. See related article on page 6.) The six-year loan was granted under Treaty Article 108, which commits the Community to helping Member States faced with serious balance-of-payments difficulties *(Common Market Reports, Pars. 3731-3735)*. In 1985 Greece expects a $2.8-billion current account deficit.

Among the economic targets that the Greek government must strive to meet are (a) limiting wage indexation to the rate of inflation, (b) reducing the 20% inflation rate to 15% by the end of 1986 and to 10% by mid-1987, (c) cutting public-sector borrowing requirements from the present 17% to 13% in 1986 and to 9% in 1987, (d) reducing the rate of domestic credit expansion by 17% in 1986 and by 13% in 1987, and (e) progressively reducing the balance-of-payments deficit. These conditions are much tougher than those imposed on France when it was granted an ECU 4-billion loan in 1983 to weather its balance-of-payments difficulties. At that time, the Community was satisfied with a vague commitment by the French government to take austerity measures. In the case of

the loan to Greece, the Member States' finance ministers have reserved the right to review the government's austerity program before the second of two equal loan installments is paid. (One payment is due this month and the other in December 1987.) In all previous cases of Community help to individual States, this review was left to the Commission.

In addition to the strict economic requirements, the loan was extended on the condition that Greece respect EEC rules in the future. Greece has been allowed a one-year respite, until Jan. 1, 1987, for introducing value-added tax to replace a variety of indirect taxes. (The deadline had previously been pushed back by two years to Jan. 1, 1986.) Athens says it plans to phase out its system of export subsidies by the end of 1986 and to abolish exchange controls for Greek residents by the end of 1988. Both measures represent delays that are in violation of EEC law, and the Commission has been trying for some time to get a firm commitment from Greece on a timetable for these changes.

The Greek government has promised to come forward with proposals to abolish the state's monopoly over the import of oil. The present structure cannot be reconciled with Treaty Article 90, which puts curbs on the operation of monopolies *(Common Market Reports, Pars. 2351, 2361).*

In Brief...

The European Court of Justice is scheduled to hear oral arguments in the beer standard cases on March 4, 1986. In July 1984, the Commission sued Germany and Greece, charging that their beer standards restrict intra-Community trade (Case Nos. 176/84, 178/84). The EC tribunal's plan to hear the oral arguments in October or November of this year reportedly was delayed by new arguments and expertises submitted by both sides + + + After blocking adoption of the draft directive on door-to-door selling for several years, Germany is now prepared to back the measure and thus ensure its passage at the Dec. 19 Council meeting devoted to consumer matters. Bonn's reversal was forced by submission of a bill on the matter by Germany's upper house. The Bundesrat backed the measure unanimously; the bill is now pending before the lower house. Aimed at harmonizing national rules, the EEC draft directive would require the Member States to pass legislation compelling sellers to present written contracts and granting buyers the right to reconsider and cancel contracts.

Germany: Central Bank Move to Ease Capital Market Seen

In the next few months, the German central bank is expected to move toward further liberalizing the country's capital market by modifying its minimum reserve requirement to allow German mark certificates of deposit (CDs). All banks in Germany are current-

© 1985, Commerce Clearing House, Inc.

ly required to deposit with the Bundesbank a certain percentage of their overall obligations resulting from customers' deposits and credits extended. The current total of these interest-free deposits maintained by banks with the central bank is put at DM 50 billion. The minimum reserve requirement is one of several instruments the Bundesbank uses to control the supply of money and credit.

The Bundesbank is prohibited by law from issuing CDs to the banks for their deposits. Certificates of deposit are widely used in other countries, and German bankers say that the minimum reserve requirement without CDs puts them at a disadvantage and causes higher interest rates. Bundesbank president Karl-Otto Pöhl has ruled out abolishing minimum reserves, but he has indicated the central bank's willingness to provide financial markets with short-term money market instruments "that are still underdeveloped in West Germany."

Months back it was generally thought that the introduction of CDs would require an amendment to the law establishing the Bundesbank and defining its functions. Now officials of the central bank say CDs could be introduced without affecting monetary policy levers. A proposal under discussion by the Bundesbank's policy-making arm, the central bank council, would extend the minimum reserve requirement to cover all forms of marketable papers. To compensate, the central bank would issue CDs for these deposits and lower the maturity level from four to two years for all deposits subject to the minimum reserve requirement.

Approval of the proposal allowing CDs would be Germany's second major step toward liberalizing its capital markets. Last May the central bank approved several other financial innovations, including authorization of zero-bond issues.

Belgium: Martens Makes Minor Cabinet Changes

Almost seven weeks after the center-right coalition was returned to power in Belgium, Prime Minister Wilfried Martens has formed his new cabinet. One of the few changes he made was to appoint Guy Verhofstadt, president of the Flemish Liberal Party, to succeed one of the three deputy prime ministers, Frans Grootjans, who is returning to a business career. Verhofstadt is taking over the budget portfolio from Philippe Maystadt, who will become the economic affairs minister. That post is being vacated by Mark Eyskens, who will assume Grootjans' former post of finance minister.

Britain: Crackdown on Financial Sector Fraud Proposed

The British government is proposing legislation that would give fraud investigators wider powers to combat dishonesty in the fi-

nancial sector. The measures will be included in the new financial services bill, which is to be introduced in Parliament in the near future. The bill would strengthen the powers of investigators "where evidence is obtained of theft, fraud, and deception," according to Michael Howard, minister of corporate and consumer affairs at the Dept. of Trade and Industry.

The measures would attempt to crack down on executives and securities traders who use inside information to make a substantial profit on their own dealings. Although insider trading is illegal in Britain, there have been few successful prosecutions because of the high standard of evidence needed to prove a criminal charge. Howard said that the new measures would rely more on civil charges, for which there would be lower standards of evidence.

The secretary for trade and industry would be given broad powers to authorize, regulate, and monitor the securities business. No one would be able to carry on an investment business in the U.K. without satisfying either a government board or a self-regulatory organization of his fitness to operate.

Howard said that, while he has high regard for the U.S. system of regulation in the financial markets, he believes it is "too legalistic and too bureaucratic" for the U.K. He agrees, however, that self-regulation is no longer adequate.

Concern has been mounting in Britain over the rise in financial fraud and the failure to prosecute offenders. The Fraud Investigation Group was set up early this year to coordinate efforts in major fraud cases, maintaining close police contact and using the services of accountants, solicitors, and insolvency experts.

Northern Ireland to Comply With British Union Laws?

Trade union laws in Northern Ireland may soon be brought into line with legislation in the rest of the U.K., despite concerted union opposition. The British government is considering action in three main areas, including the extension of the 1982 Employment Act to cover Northern Ireland. This law introduced compulsory ballots on closed shops and made unions liable for damages when they instigate unlawful industrial action. Also proposed is the extension of the 1984 Trade Union Act, which requires ballots for strikes and for the election of union officials.

Another move the government is considering is to withdraw union recognition powers from the Labor Relations Agency, the Ulster equivalent of the Arbitration and Conciliation Service (ACS) in the rest of the U.K. (The ACS lost those powers in 1980.) In Northern Ireland, employers as well as unions are able to bring recognition disputes before the agency, and about 44% of the cases during the agency's first seven years resulted in denial of union recognition.

The government's consideration of these moves is being warmly welcomed by employers, who believe they are long overdue. Common union laws would make business less confusing for employers with plants in both Northern Ireland and England, according to Alasdair MacLaughlin, director of the Confederation of British Industry in Northern Ireland.

Union leaders say that introduction of the labor legislation would raise political and constitutional questions that the unions have tried to avoid. Part of the problem is that union representation does not always mirror the territorial division between Northern Ireland and the Irish Republic. The unions maintain that there would be practical difficulties in enforcing a sequestration order under the 1982 Employment Act against unions based in the Irish Republic. MacLaughlin, however, points out that only about 10% of union members in Northern Ireland belong to organizations based in Dublin.

Greece: Higher Tax Receipts to Lower Deficit in 1986

The Greek government has presented to Parliament a 1986 budget that relies on a significant increase in tax revenues to reduce the deficit by 4% next year, to $3.8 billion. In November the EEC had ordered Greece to cut its public-sector borrowing requirement to 13% of GDP by the end of 1986 as one of its conditions for granting the country an ECU 1.75-billion loan. (See related article on page 2.)

Finance Minister Dimitris Tsovolas said revenues from direct taxes should jump by 53.4% because of a crackdown on tax evasion as well as the gradual elimination of certain tax privileges. Among the changes planned for indirect taxes are increases of 40.4% on alcohol, 23.1% on tobacco, and 14.3% on fuel. The budget planners assume an inflation rate of 16% in 1986, down from about 20% this year.

Austerity budgets in most ministries are expected to help hold 1986 expenditure increases to 20.3%. The departments of education and health and social welfare, however, will receive raises of 22.8% and 23.8%, respectively. Increases in wages, salaries, and pensions as well as public investments are to be held to 16%.

In related developments, Greece is still being hit by strikes protesting the austerity package announced in October to help lower the balance-of-payments deficit (expected to reach a record $2.8 billion this year - almost $1 billion more than was targeted) and foreign debt (some $14 billion). On Nov. 28, some 350,000 civil servants and 200,000 construction workers staged a 24-hour strike, while a 48-hour strike of taxi drivers and doctors began. The austerity package, which features a virtual two-year wage freeze, has caused a majority of the union leadership to leave the union congress in support of the strikes.

Italy: State Employees Reach Wage, Worktime Agreement

Italy's unions appear to have won a victory with the new wage and worktime accord governing state employees that was agreed upon in late November, shortly before the stalled private-sector contract negotiations were to be resumed. The agreement, which was to be formally signed early in December, modifies the controversial *scala mobile* wage indexation system, although not to the extent that the unions had feared.

Under the agreement, only the first 580,000 lire of each state employee's monthly wages or salary will be fully adjusted for inflation. Income above that amount will be adjusted by 25% of inflation, and all adjustments will be made semiannually rather than quarterly. The pact also reduces the workweek by two hours to 36 hours for the 800,000 state employees (20%) who do not yet have a 36-hour week.

Although Italy's three main unions are hoping that the agreement will serve as a model for private industry, the Confindustria employers' federation has already criticized the wage reform. The employers want to institute a new system that would index wages according to income levels. The standard 36-hour workweek is also expected to be limited to state employees, since the average workweek in the private sector is still 39 hours. The unions want a reduction of at least one hour per week, while Confindustria says it can agree only to a reorganization of working time because of the need to shore up the competitiveness of Italian industry.

Portugal: Interest Rates Cut, Devaluation Suspended

In its first major move since Portugal's October elections, the new minority government of Social Democrats has reduced bank interest rates by four percentage points and suspended for four months the monthly devaluation of the escudo. The interest rate on loans of three to six months is now 22.5%. The previous government coalition of Social Democrats and Socialists had already lowered lending rates by 2.5 points and deposit rates by three points in August.

The measures follow two years of austerity policies and are intended to expand the depressed economy by spurring investment, raising employment, reducing inflation, and increasing consumer purchasing power. In 1983 and 1984, high interest rates had helped push investments back by 27%. Prime Minister Anibal Cavaco Silva's government hopes to see investments grow by 6% in 1986. Other goals for the coming year are overall growth of 3% and inflation of 14%. (Prices rose by 30% in 1984 and approximately 16-18% this year.) Lisbon maintains that the abrupt increases instituted late in November in the prices of basic foods,

public transportation, utilities, and fuel will not have an inflationary effect and that these prices will remain stable throughout the coming year.

The austerity measures instituted by the previous administration helped to reduce the current-account deficit from $3.2 billion in 1983 to less than $200 million this year. The halting of the 1% monthly escudo devaluation (in effect since March 1983) is not expected to hurt exports because the escudo is already at a level competitive with other foreign currencies. (The country's exports grew by 15% in 1984 and 20.3% in 1983.) The strengthening of the escudo will mean a fall in the real prices of oil and grain imports and an easing in payments on Portugal's $14-billion foreign debt.

EURO COMPANY SCENE

IBM Italia and Italy's Industrie Pirelli SpA, the main operating unit of Pirelli SpA, have founded a joint venture for the development, production, and marketing of building management and security systems. The two companies are contributing equally to Boselli Sistemi SpA's beginning capital of 8 billion lire. At least initially, Boselli's products will be marketed only in Italy.

Due to a shift away from an emphasis on writing instruments, Parker Pen Corp., Janesville, Wis., is transferring ownership of Parker Pen GmbH, its German marketing and distribution subsidiary, to Parker's European headquarters in Britain. A purchase price of $50-70 million is being discussed.

A preliminary agreement has been arranged for Transworld Constructions, a U.S.-based consortium, to take over Huarte y Compañia, a Spanish construction group. Huarte owes an estimated 7 billion pesetas to Spanish and foreign banks and a similar sum to suppliers. The deal must still be okayed by Huarte's creditors and the Spanish government.

Internationale Verbandstoffabrik Schaffhausen, a Swiss manufacturer of bandages, has agreed to market in Switzerland the wound-dressing products of Thermedics, Inc., a U.S. maker of biomedical products.

Common Market Reports

EUROMARKET NEWS

Issue No. 883 *Report No. 542, December 19, 1985*

LIBRARY

IN THIS ISSUE

page

Community: Denmark Holds Key to EEC Treaty Reform........1

EC Committee Backs Commission's Economic Strategy........2

In Brief: Community Patents; 1986 Fishing Quotas.........3

Germany: Jobless Benefits for Strike-Affected Workers....3

Britain: U.S. Statement on Unitary Taxation Welcomed.....4

U.K., U.S. to Discuss Regulation of Financial Markets....5

Denmark: Austerity Measures to Slow Domestic Demand......5

France: Foreign Exchange Rules Eased; Oil Deregulation...6

Italy: 20% Rise in U.S. Investment in Italy Since 1982...7

Banks' Foreign Debt Limit Lifted; Goria Pessimistic......7

Austria: Voest Losses Prompt Review of State Sector......8

Community: Denmark Holds Key to EEC Treaty Reform

Denmark holds the key to success of the modest reforms of the EEC Treaty that the heads of state and government agreed on provisionally at their Dec. 2-3 Luxembourg Summit. Danish Prime Minister Poul Schlüter placed a reservation on the draft amendments that might be difficult to remove. Italy also withheld consent, arguing that the reform is not far-reaching enough, especially with respect to the European Parliament's limited legislative powers. European Commission officials are optimistic, however, that Italy will relent eventually.

The modest reform would cover nine areas, among them new voting procedures for Council decisions to complete the internal market, cooperation in monetary matters, and additional legislative powers for the European Parliament. An addition to the Treaty of Rome would grant the EEC express powers in the areas of research and technological development and the environment. A separate treaty would formalize cooperation among the Member States in foreign policy.

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

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

All rights reserved. © 1985, Commerce Clearing House, Inc.

The planned reform is expected to come under attack in a number of Member States if and when the national parliaments consider bills to ratify the amendments to the EEC Treaty. Commission officials expect that the most serious threat to the entire reform effort will come from Denmark. Denmark's major objection to the planned reform is that the provisional amendments lack any safeguard for the country's high environmental, consumer protection, and work safety standards. It is generally acknowledged that Denmark has the highest standards of environmental protection in Europe. This is why that country is blocking formal adoption of an EEC Council directive on car exhaust emission standards that the other nine States agreed on last June 28. For Denmark these standards are not tough enough. Environmental issues have become even more sensitive since the Nov. 19 local elections in Denmark, when the Green Party made an impressive showing.

All Danish governments have had problems in connection with the EC since Denmark joined the Community in 1973. The opposition in the Folketing against EC membership was and still is strong. (Four of Denmark's 16 members in the European Parliament belong to an anti-European political party.) Schlüter is also in a difficult position because he heads a minority government. Denmark was one of the three Member States that opposed the intergovernmental conference launched at the EEC's Milan Summit last June. Schlüter would have faced a parliamentary crisis if he had agreed to any significant changes in the EEC Treaty, especially majority voting, but he still may have trouble convincing a majority in the Folketing to agree to the modest draft amendments.

EC Committee Backs Commission's Economic Strategy

The Economic and Social Committee has endorsed the Commission's policy approach to guarantee continued economic recovery in the Community. In its Annual Economic Report 1985-86, the Commission recommended a dual strategy calling for restraining costs and increasing both consumer and investment demand. In its opinion on that report, the ESC also stresses the need for a constructive dialogue and consensus among the unions, management, and governments at the national and Community levels. The ESC says that the dialogue should concentrate on the reduction and adaptation of working time, increased labor market flexibility, a say for employees in the introduction of new technologies, modest wage increases, and the creation of new jobs through private and public investments.

The ESC notes with regret that the rate of economic growth in the EEC (2.3% is expected for 1985 and 2.5% for '86) will be insufficient to markedly reduce unemployment, although a slight improvement in the employment situation is expected in 1986. A higher growth rate should be achieved by improved supply-side measures, which should go hand in hand with steps to support the economy's demand side.

The committee calls for Community investment programs in construction, housing, infrastructure projects, environmental protection, welfare, and health care. At present, the Community can help only with the financing of infrastructure programs. The ESC believes it would be worthwhile to think about developing a new financing formula in instances where the present financing instruments (confined to borrowing) are inadequate. Like most economists in the Community, the ESC sees the biggest problem in promoting private investments, especially through formation of new businesses and expansion of existing ones. In the committee's view, these investments are important not only for bringing down unemployment but also for improving the competitive standing of European industry.

Lower interest rates and a more balanced monetary relationship between Member States would also contribute to Europe's economic recovery, the ESC says. The prospect for monetary cooperation among Member States has improved since the Luxembourg Summit, but the corresponding EEC Treaty amendments have yet to be finalized and ratified.

In Brief...

A conference of government representatives in Luxembourg is studying the draft protocol on the settlement of litigation concerning infringement and validity of Community patents. The representatives are trying to finalize the protocol as well as the draft statute of the Common Appeal Court. That court would have exclusive jurisdiction in all matters brought before specifically designated national appellate courts that involve European law questions. The conference may be able to solve the minor problems that arise but not the major political problem of the Community Patent Convention *(Common Market Reports, Par. 5795)*, which has not yet entered into force because Denmark and Ireland have not ratified it + + + The EEC and Norway have reached agreement on 1986 fishing quotas that allow both sides to raise their catches on a number of varieties, especially herring and mackerel. Norway was granted a 35% share of the total North Sea herring quota, fixed at 570,000 tons. Trawlers from EEC Member States will be entitled to a larger share of cod in Norway's territorial zone.

Germany: Jobless Benefits for Strike-Affected Workers

German government lawyers have prepared an amendment to Section 116 of the Employment Promotion Law (AFG) that would clarify the Federal Labor Office's position with respect to paying unemployment benefits to workers laid off in areas outside a struck region. Under present law, the office may deny benefits to employees laid off outside a struck region only when their union "makes

© 1985, Commerce Clearing House, Inc.

demands equal in type and scope" to those of the union that has called the strike. Under the draft amendment, the office could refuse payment whenever the union of the laid-off workers pursues "approximately the same main demands as the striking workers' union."

The amendment was prepared after the Kohl administration and union and business leaders failed three times to reach a compromise. Some 130 members of the lower house have drafted an amendment of their own that would be more radical: the Federal Labor Office would not have to pay workers who are laid off or put on short workweeks because of strike action in plants elsewhere.

To emphasize its demand for the introduction of the 35-hour workweek in 1984, the IG Metall metalworkers' union selected a number of key auto-component factories to be struck in the states of Hesse and Baden-Württemberg. The nation's car industry was thereby brought to a standstill: plants in areas outside the struck regions were also forced to close and some 100,000 employees were laid off. At first the Labor Office refused to pay benefits to laid-off workers outside the struck regions, but two appellate courts eventually forced payment. (The cases are now pending before the Supreme Social Security Court.) Thus, in a limited strike to gain a nationwide objective, the union paid strike money only to striking employees, and workers laid off elsewhere received government benefits. The laid-off workers eventually received the same pay raise and reduced workweek as their striking colleagues.

Meanwhile, the plan to change Section 116 has prompted the metalworkers' union to launch a national campaign "in defense of the strike laws," even though the planned amendment would not affect the constitutionally guaranteed right to strike. There have been sporadic walkouts of several hours, and a major nationwide strike cannot be ruled out.

Britain: U.S. Statement on Unitary Taxation Welcomed

The U.K. government has welcomed a statement by President Ronald Reagan that his administration will support federal legislation to limit state use of unitary taxation "to the water's edge." Such legislation would effect a requirement that the states could tax multinational corporations only on U.S. income. The U.K. has also expressed approval of the U.S. administration's intention of pursuing enactment of the domestic spreadsheet legislation designed to assist non-unitary states with tax enforcement of multinationals.

In light of the presidential initiative, the two governments will enter into negotiations to amend the U.K./U.S. double taxation treaty to prevent the application of the unitary tax method to British companies with U.S. subsidiaries. In 1979 the U.S. Senate rejected such a provision.

In July the U.K. passed Section 54 of the 1985 Finance Act, allowing Britain to withdraw from U.S. parent companies located in unitary states the right to tax credits on dividends paid by U.K. subsidiaries. In the light of "a major step forward," however, the British government is now prepared to defer action under this measure "for the present." It was made clear that this response is based on the understanding that the U.S. legislation will be introduced before the end of the year, take effect by Dec. 31, 1986, and "fully take account" of criticisms of the "water's edge" concept. Any action under Sec. 54 would not apply to dividends paid before the end of 1986, the British government said.

Legislative initiatives to change the unitary tax system have failed in all six states that apply this method to foreign-owned businesses. However, opposition to unitary taxation has been growing in Britian. The U.K. government has maintained that this method of taxation contravenes "internationally accepted principle."

U.K., U.S. to Discuss Regulation of Financial Markets

Britain would like to see a cutback in the regulatory barriers inhibiting certain forms of U.S. trading in the U.K. financial markets, according to Michael Howard, minister for corporate and consumer affairs. On his return from a U.S. trip, he said that he looked forward to talks early in 1986 with officials of the U.S. Securities and Exchange Commission that might lead to "a more formal relationship."

The proposed talks are intended to strengthen the rather loose links between the SEC's enforcement division and official fraud investigators in London and to establish a more clearly defined basis for exchanging information on securities transactions. Howard said that if the SEC could be satisfied that the U.K. authorities would provide enough information "that will go a long way toward opening up these markets."

Observers believe that U.S. regulatory authorities are becoming increasingly concerned about the possible implications of wider involvement of U.S. securities firms in the London markets now that restrictions on foreign involvement are being relaxed. The SEC recently published a discussion paper inviting comments on possible bilateral agreements on the enforcement of securities law. Howard said that there is keen U.S. support for the mixture of statutory rules and self-regulation that is to be included in the British financial services bill.

Denmark: Austerity Measures to Slow Domestic Demand

The Danish government has announced a package of measures - including higher energy taxes, lower public spending, and credit

restrictions - designed to stop the alarming rise in the country's current-account deficit. In presenting the program, Economics Minister Anders Andersen said that the payments deficit is expected to reach a record DKr 22 billion this year, up from DKr 17 billion in 1984. The austerity measures would reduce consumer demand by some DKr 8 billion and the current-account deficit by about DKr 6 billion in 1986. Further economic and financial measures will probably be introduced early next year to help achieve the goal of a balanced current account by 1988.

The proposals would raise energy duties as of Jan. 1 to yield an additional DKr 3.8 billion annually. The increases are meant to counter the price decreases resulting from the falling dollar and thus would not be inflationary, according to the government.

Copenhagen hopes to reduce public expenditures by DKr 5 billion next year, mainly by limiting spending by local authorities to 1984 levels. In addition, state payments to local governments would be cut by 10% for current and 20% for new investment projects. (However, the Radical Party, on whose votes the minority government depends for passage of the program, wants to exempt from the reductions those investments made to protect the environment.)

The government blames a major part of the rise in the current-account deficit on the fact that consumers have been able to obtain credit easily in a time of economic expansion and falling unemployment. The proposed package would prohibit mortgage institutions from giving loans for consumer durables and place restrictions on loans for home repairs and improvements.

Prime Minister Poul Schlüter said the measures would result in a "sensational improvement of the state's finances." Instead of the DKr 25.6 billion budget deficit previously forecast for 1986, the shortfall would amount to just DKr 14.5 billion, or 2.3% of GNP. A balanced budget would be expected by 1990.

France: Foreign Exchange Rules Eased; Oil Deregulation

The French Finance Ministry has further loosened its foreign exchange controls affecting both corporations and individuals. French companies are now permitted to finance foreign investments totally in francs. Previously, 50% of the financing had to be in foreign currencies. The government has also raised from FF 2 million to FF 15 million the value of foreign investments for which prior state authorization is necessary. French companies are now able to hedge against foreign exchange risks on the options, futures, and arbitrage markets, and they may make currency changes more easily to aid in managing their foreign debts. As far as individuals are concerned, many of the maximum limits on fund transfers or spending abroad have been doubled, although the individual tourist allowance remains at FF 5,000 in cash.

The Finance Ministry says that it was able to ease the foreign exchange restrictions because of the stability of the franc and the improvement in the balance of payments, which is expected to show a surplus this year after a deficit of FF 5 billion in 1984. The liberalization also seems to show that the French government is ready for wider cooperation within the European Monetary System. Although the Finance Ministry denies that the changes are tied to the parliamentary elections in March, observers note that the move eliminates part of the opposition's complaints about exchange restrictions.

In other developments, France has continued its deregulation of the domestic market for oil products by lifting price restrictions on heating oil. In addition, for a one-year trial period, retailers will not have to abide by the provisions of a 1928 law requiring them to purchase at least 80% of their gasoline supplies from European refineries.

Italy: 20% Rise in U.S. Investment in Italy Since 1982

During the last three years, the number of U.S.-owned companies in Italy has risen by 20% to 868, according to a report by the American Chamber of Commerce in Rome. At the same time, the annual revenues of these companies doubled to 53,255 billion lire. The report covers businesses that have at least 10% U.S. capital. In 86% of the companies, Americans own 81-100% of the capital. Total U.S. investment in Italy amounted to $4.99 billion at the end of 1984.

The U.S.-owned companies account for 6% of Italian exports and employ 258,874 workers. Of the 868 firms, 291 have 20 or fewer employees. Italians hold most of the top management jobs. with Americans in only 205 of 8,629 such positions.

Banks' Foreign Debt Limit Lifted; Goria Pessimistic

Due to a moderation in domestic credit demand, the Italian central bank has removed its limit on the foreign-debt exposure of domestic banks. The ceiling was instituted in July 1984 when the central bank feared that the banks' growing foreign debt would create difficulties in controlling domestic liquidity. Since then, the monthly growth in the credit supply to the private sector has fallen from 16.7% in June 1984 to 9.6% in October 1985. The bank now expects growth for 1985 to lie under the goal of 10%.

In other news, Treasury Minister Giovanni Goria said he is concerned that Italy has not taken as much advantage as other countries of the opportunities presented by the falling dollar and declining raw-materials prices. In his quarterly report, Goria said that "the year 1985 was wasted in Italy, so that the distance between her and her competitors became still larger."

Stagnating industrial production has meant no progress in the employment situation. The drop in inflation seemed to have stopped as prices again rose by 8.5% in October. The deficit in the balance of payments is expected to surpass 10,000 billion lire by the end of the year.

Austria: Voest Losses Prompt Review of State Sector

As a result of tremendous losses by state-run Voest-Alpine, Austria's largest corporation, Chancellor Fred Sinowatz has proposed reorganizing the state sector under the direction of a single holding company. In November it was announced that Voest, a giant steel group employing some 70,000 workers, was expecting a loss of 5.7 billion schillings for 1985, against capital of 4.88 billion schillings. According to Ferdinand Lacini, government minister in charge of the state sector, a major portion of the loss was incurred by Voest's Intertrading subsidiary through speculation in the international oil business.

Following the announcement of the loss, an opposition motion to dissolve Parliament and censure the government was turned down. Sinowatz then presented his plan for turning the Austrian Industry Administration AG (ÖIAG) into "a true holding company." He said that taxpayers will not have to make up for Voest's losses. No mention was made of removing certain subsidiaries from Voest; Vereinigte Edelstahlwerke AG had earlier decided to attempt to leave the ailing corporation.

Common Market Reports

EUROMARKET NEWS

Issue No. 884 *December 27, 1985*

LIBRARY

IN THIS ISSUE

page

Community: Consensus on Factory Noise Limitation........1

First Complaint Filed Under EEC Code on Unfair Trading..2

In Brief: Customs Procedures; Environmental Protection..3

Germany: Government Chided for Lax Collection of Taxes..3

France: Imports Taking Over Domestic Auto Market........4

Ireland: Industry Proposes Investment Incentives........4

Italy: Senate Passes Finance Bill With Few Changes......5

Portugal: Social Democrats Gain in Local Elections......5

Spain: Gasoline Prices Cut; Monopoly to Be Ended........6

Switzerland: Continued Drop in Popularity of Holdings...6

Euro Company Scene......................................7

Community: Consensus on Factory Noise Limitation

The Council of Ministers has reached agreement on a draft directive to reduce the risks of hearing loss from exposure to noise on the job. These risks would be controlled by either lowering the noise levels or shortening the duration of exposure. If these steps are not reasonably practicable, then personal protection devices would be required. Formal adoption of the measures is expected within weeks.

The draft directive falls short of the European Commission's original proposal of an average noise exposure of no more than 85 decibels daily. This figure corresponds to the lowest value found in the Member States' regulations. European employer organizations told the Commission that abiding by such a level would add considerably to production costs. The Commission then proposed a maximum noise level of 90 decibels. The Council of Ministers watered down the measure even further, so that States could permit noise levels exceeding 90 decibels. However, the States would be required to enact legislation aimed at lowering noise emissions at the source, e.g., by certifying only machines and equipment operating under the 90-decibel maxi-

COMMON MARKET REPORTS (ISSN 0588-649X), published weekly by Commerce Clearing House, Inc., 4025 W. Peterson Ave., Chicago, Illinois 60646. Subscription rate $980 per year. Second-class postage paid at Chicago, Illinois, and at additional mailing offices. **POSTMASTER:** SEND ADDRESS CHANGES TO COMMON MARKET REPORTS, 4025 W. PETERSON AVE., CHICAGO, ILLINOIS 60646. Printed in U. S. A. All rights reserved. © 1985, Commerce Clearing House, Inc.

mum. Where this is not feasible, national legislation will have to provide for the use of protection devices where noise exceeds 85 decibels.

The Member States would be required to reduce the hazards of noise exposure to the lowest practicable level. This principle would have to be applied in planning and constructing new factories as well as in designing industrial machinery and equipment. The States would have to see to it that workers exposed to high noise levels are regularly examined in order to determine any hearing loss. The States would have to enact rules to give workers' representatives the right to be heard on matters involving risks of hearing loss due to noise.

First Complaint Filed Under EEC Code on Unfair Trading

AKZO, the Dutch chemical and coating group, has become the first Common Market based company to seek relief under the year-old EEC Code against unfair trading practices by businesses from third countries. AKZO has lodged a complaint with the European Commission alleging that the U.S. International Trade Commission's recent decision banning the import of AKZO's aramide fiber was an illicit trade practice. The ITC decision was prompted by action taken by Du Pont, and the ban was imposed on the ground that aramide fiber imports would unfairly damage Du Pont. (Du Pont has also invoked the 1930 U.S. Tariff Act, claiming that AKZO's aramide sales in the U.S. would violate its patents. The two companies are accusing each other of infringing their aramide patents and have filed suit in five countries.)

The Commission now has 60 days to decide whether to accept AKZO's complaint. If it does, it will make inquiries in the United States and compile a report within seven months. Should the inquiries substantiate AKZO's allegations, the Commission would first seek an amicable solution by asking Du Pont to drop its action against AKZO. If Du Pont declined, the Commission would have to take the case to the Council of Ministers, which would then consider retaliatory action against the U.S. in general and Du Pont in particular.

AKZO's complaint is based on Council Reg. No. 2641/84, which gives the Community the instrument to combat illicit commercial practices by businesses from third countries far more effectively and on a broader scale than before *(Common Market Reports, Pars. 3845, 3846)*. (The measure, which took effect on Sept. 23, 1984, was enacted to counter practices available to U.S. businesses under the 1974 U.S. Trade Act.) The decision-making process is shorter than the protracted method provided for under Treaty Article 113 *(Common Market Reports, Pars. 3815, 3816)*, particularly with respect to GATT rules on the settlement of trade disputes. For example, the Community's powers now include suspension of negotiated trade concessions (under GATT, for instance) and imposition of customs duties and quotas.

In Brief...

The Council of Ministers has agreed on coordinated development of national customs procedures in order to make the Member States' data processing systems compatible with each other as they switch to computerization. France and the U.K. are considered to be ahead of the other States in using computers in customs matters. Most other Member States are just starting to use computers for customs procedures. Once these States have caught up, electronic communication would be possible not only between customs officials from different Member States but also between customs officials and traders + + + Some ECU 145 million ($126 million) will be spent in 1986-90 on research into environmental protection and development of new basic materials, according to a recent decision of the Council of Ministers. Besides research on climatology and air pollution, the program will also initiate work on how to prevent catastrophes similar to the Bhopal disaster.

Germany: Government Chided for Lax Collection of Taxes

The German Federal Accounting Office's report covering fiscal 1984 accuses the government of being lax in collecting taxes, maintaining that several billion marks could have been collected by taxing the interest that taxpayers earn from deposits but do not report. The Accounting Office recommends legislation that would ensure taxation of interest by requiring banks to withhold tax at the source, just as the law requires companies to withhold 25% tax on dividends paid to shareholders *(Doing Business in Europe, Par. 23,329)*.

A number of European countries have legislation requiring banks and savings institutions to withhold income tax on interest paid to depositors. Germany not only has no such law, but the tax offices are also prohibited from inquiring at the taxpayer's bank whether he has a savings account and how much interest he has earned. There are only two instances where the tax office can get an accurate picture of the taxpayer's interest income - if he is accused of tax evasion or if he dies. When a depositor dies, the bank must tell the tax office how much is in the deceased's accounts.

There have been several attempts in the past to change the law that bars the tax offices from inquiring about interest income. In 1979 the Social Democrats toyed with the idea of giving the tax offices the power to request such information. The idea foundered on the decision of the Free Democrats.

Finance Minister Gerhard Stoltenberg has not commented on the Accounting Office's recommendations. He reportedly feels bound by the promise made prior to the March 1983 elections that a Christian Democratic government would never propose a

© 1985, Commerce Clearing House, Inc.

withholding tax on interest paid by banks. Taxpayers are required to include interest income on their return (minus a DM 800 exemption per person), but it is generally understood that many taxpayers cheat on this point. This was confirmed in the Accounting Office's report.

The experience of countries that impose a tax at the source speaks against a withholding tax on interest: the result has been a flight of capital abroad or into tax-supported investments at home. The capital markets in these countries have been drained to such an extent that the governments have had to borrow at high interest rates. For this reason, Austria has relaxed its collection of tax on interest paid by banks to their customers.

France: Imports Taking Over Domestic Auto Market

In the battle for the lead in the French auto market, control has finally slipped from state-run Renault and privately owned Peugeot into foreign hands. In the first 11 months of 1985, imports accounted for 36.7% of French auto sales - almost double the 20% of ten years ago. During the same period, Renault's share fell from 33% to less than 29%. Peugeot is now in second place, with a 34.4% share. Although French demand for cars is stagnating, showing an increase of just 0.3% in the first 11 months of the year compared with the same period in 1984, imports are growing at a rate of 3%.

Both Renault and Peugeot are under increasing pressure to close plants and lay off thousands of workers. Renault, which lost FF 12 billion in 1984 and some FF 15 billion this year, eliminated 12,000 jobs in 1985 and expects to lay off another 9,000 workers in 1986. Peugeot, which wants to increase productivity by at least 6% annually, eliminated some 10,000 jobs this year and plans to eliminate 3,000 more in the coming year.

Ireland: Industry Proposes Investment Incentives

The Confederation of Irish Industry has called for reduced taxation of profits and incomes to "improve the climate of enterprise at individual and company levels." The CII believes that incentives to promote enterprise would be largely self-financing and thus compatible with the goal of reducing the public-sector deficit by 2% of GNP next year. The confederation, which predicts an inflation rate of 3% in 1986, argues that controlling inflation and improving investment and cost conditions would stimulate a much higher rate of private investment and job creation, resulting in higher state revenues.

The CII proposes that the government provide tax relief on dividend income and the interest paid on investment borrowing. Other proposed measures include fiscal relief for private companies and a reduced capital gains tax on share disposals in compa-

nies eligible for the reduced corporation tax rate of 19% *(Doing Business in Europe, Par. 25,335)*. For individuals, the confederation recommends providing greater tax relief by widening the 35% and 48% brackets. According to the CII, the tourism sector should receive special tax breaks, and value-added-tax rates should be reduced for those products manufactured primarily in Ireland.

The confederation recommends legislative changes to broaden the scope of employee share plans and to allow companies to buy limited amounts of their own shares. To encourage growth, the CII says, investment in private toll roads should be targeted at a minimum of £50 million (Irish) in 1986, natural gas prices should be competitive, and the tax on diesel oil should be reduced.

Manufacturing output grew by about 5% in 1985, according to the confederation. A growth rate of 8% is expected for 1986 due to anticipated improvements in the electronics sector.

Italy: Senate Passes Finance Bill With Few Changes

Rome's controversial 1986 finance bill, which attempts to hold back the soaring budget deficit, has finally been passed by the Senate but faces a long battle in the Chamber of Deputies. By law, the bill must be approved by the end of the year, but observers doubt that the lower house will pass it before February. In that case, government operations will be financed month by month under a system based on 1985 expenditures.

Although the Senate made few changes in the finance bill during more than a month of consideration, it did add 207 billion lire to the 110,000-billion-lire deficit anticipated for 1986. After accounting for inflation, this figure would represent a slight decline over the shortfall of 106,700 billion lire expected for 1985. Economic experts say the continual rise in the public-sector deficit must be halted to prevent a slide in economic growth and a return to rising inflation. The inflation rate now seems to be stuck at a level of about 9%.

Portugal: Social Democrats Gain in Local Elections

Portugal's Social Democratic minority government, the victor in the October parliamentary elections, appears to have solidified its position in the Dec. 15 local elections. This ballot is being viewed as doubly important as an indicator of how the parties' candidates will fare in the presidential elections at the end of January. Observers had questioned the popularity of Prime Minister Anibal Cavaco Silva's government after it instituted a package of economic measures, including increases in the prices of basic foods.

The Social Democrats received a total of 34.5% of the votes, while the opposition Socialists lost some ground, winning just 27.2%. The Democratic Renewal Party, formed this year by supporters of President Antonio Ramalho Eanes, received just 4.7% of the votes, although it was the third-strongest party in the October elections. However, the party was able to field candidates in only one-third of the local races.

Spain: Gasoline Prices Cut; Monopoly to Be Ended

Due to falling oil prices and the weakening of the U.S. dollar, the Spanish government has issued the first gasoline price reduction in the country's history. Prices were lowered by six pesetas per liter to 93 pesetas for super and 87 pesetas for regular. Madrid hopes that the reductions will help to hold down inflation as value-added tax is introduced on Jan. 1. Many Spaniards have been making major purchases early to avoid VAT-related price increases.

Next year Spain plans on eliminating the gasoline monopoly of state-run Cantsa, enabling private companies to operate gas stations. However, the Spanish refineries are expected to join together in some form of a "new Cantsa."

Switzerland: Continued Drop in Popularity of Holdings

The worsening Swiss tax climate is being blamed for the continuing decline in the number and attractiveness of holding companies in Switzerland. According to the latest annual report of the Association of Swiss Holding and Finance Companies, there were 11,481 holding companies among the country's 120,000 stock corporations at the end of 1984, having a total nominal share capital of SF 23.26 billion. Thus, the number of holdings had declined by 223 in comparison with 1983. The number of limited liability holding companies (GmbHs) dropped from 349 to 330, and their total capital declined from SF 190 million to SF 181 million. (Limited liability companies are not a common form of doing business in Switzerland.)

The association points out that the tax situation and other factors are not encouraging the establishment of new holdings in Switzerland. Indeed, many holdings would no longer exist were it not for the high tax burden imposed on the dissolution of such companies, which can amount to as much as a third of accumulated profits. Similarly, major tax disadvantages discourage the sale of a holding.

The report indicates that a Swiss holding continues to be an internationally accepted and administratively efficient form of business for the management and financing of commercial and industrial participations. However, virtually nothing has been done since 1917 to improve the tax situation of such holdings,

the result being that this legal construction has become much more popular in other European countries, such as Luxembourg and the Netherlands.

As it has done in previous years, the Association of Holding and Finance Companies has renewed its appeals to the Swiss tax authorities to discontinue the profit tax on the sale of holdings as well as the stamp duty on emissions. An increase in the share capital of holdings should be possible without tax penalties, according to the organization. The association continues to plead for a harmonization of the holding status between the federal government and the cantons. It is also campaigning for the acceptance by the Swiss fiscal authorities of certain tax credits in cross-border transactions, especially with Germany.

EURO COMPANY SCENE

Esso Italiana SpA, a unit of Exxon Corp., said it will slash its 1986 investment spending from a planned 350 billion lire to 110 billion lire. Esso has already reduced its spending this year from an anticipated 290 billion lire to 174 billion lire. The oil company said that the cuts are necessary because of poor market conditions and continued governmental restrictions, such as price controls.

Mobil Corp.'s French unit, Mobil Oil Francaise, intends to halt the processing of crude oil next year at its Frontignan refinery. The plant, which handles 100,000 barrels of oil per day, will be converted into a terminal for the supply and distribution of finished products.

Digital Equipment SpA, the Italian unit of Digital Equipment Corp. of the U.S., and Comau SpA, Fiat SpA's robotics subsidiary, have agreed to establish a 50-50 joint venture in Italy to develop automated factory systems. Sesam will have initial capital of $2 million and is expected to have a turnover of $232.7 million in its first five years.

The French government has tentatively approved, "subject to further technical and financial arrangements," a deal giving AT&T & Philips Telecommunications BV as much as 16% (about FF 1 billion) of the French telephone administration's digital-exchange procurements, according to AT&T-Philips. Under the proposed agreement, AT&T would also help Cie. Generale des Constructions Telephoniques sell its own digital exchanges in the U.S. and join CGE in a microwave-equipment venture. AT&T-Philips is a joint venture between American Telephone & Telegraph Co. and NV Philips of the Netherlands.

The Spanish government has authorized AT&T and Cia. Telefonica de Espana to form a joint venture to construct a $210-million microchip plant in Spain.

Hercules, Inc., of the U.S. and Montedison SpA, Italy's leading private chemicals company, are discussing the possibility of a joint venture to produce and market polypropylene film and fiber in Europe. A Montedison spokesman said the Italian company would probably contribute its polypropylene film operations at Terni and Hercules would contribute similar operations in the U.K.

Molecular Genetics, Inc., of the U.S. has finalized the formation of its Dutch agricultural research subsidiary, Mogen International BV. The unit is being financed by Molecular Genetics, Dutch regional and federal governments, and Maatschappij Voor Industriele Projecten NV, a Dutch venture capital firm.

Dresser Industries, Inc., of the U.S. has purchased the other 50% of Worthington Simpson Ltd., a U.K. pump maker, for $7.6 billion from Weir Group PLC of Glasgow.

GATX Leasing Corp. of San Francisco has ordered ten new A320 jets from Airbus Industrie, a Paris-based consortium of European aircraft manufacturers. GATX said it plans to lease the planes, which are valued at a total of $300 million, to U.S. and international carriers.

Pioneer Airlines, based in Denver, has agreed to purchase five ATR 42-300 turboprop planes and has taken an option on four more. The plane is built by state-owned Aerospatiale of France and Aeritalia SpA, the aerospace unit of Italy's state industrial holding group Istituto per la Ricostruzione Industriale.

This Issue, No. 884, dated December 27, 1985, is the final issue of *Euromarket News*.