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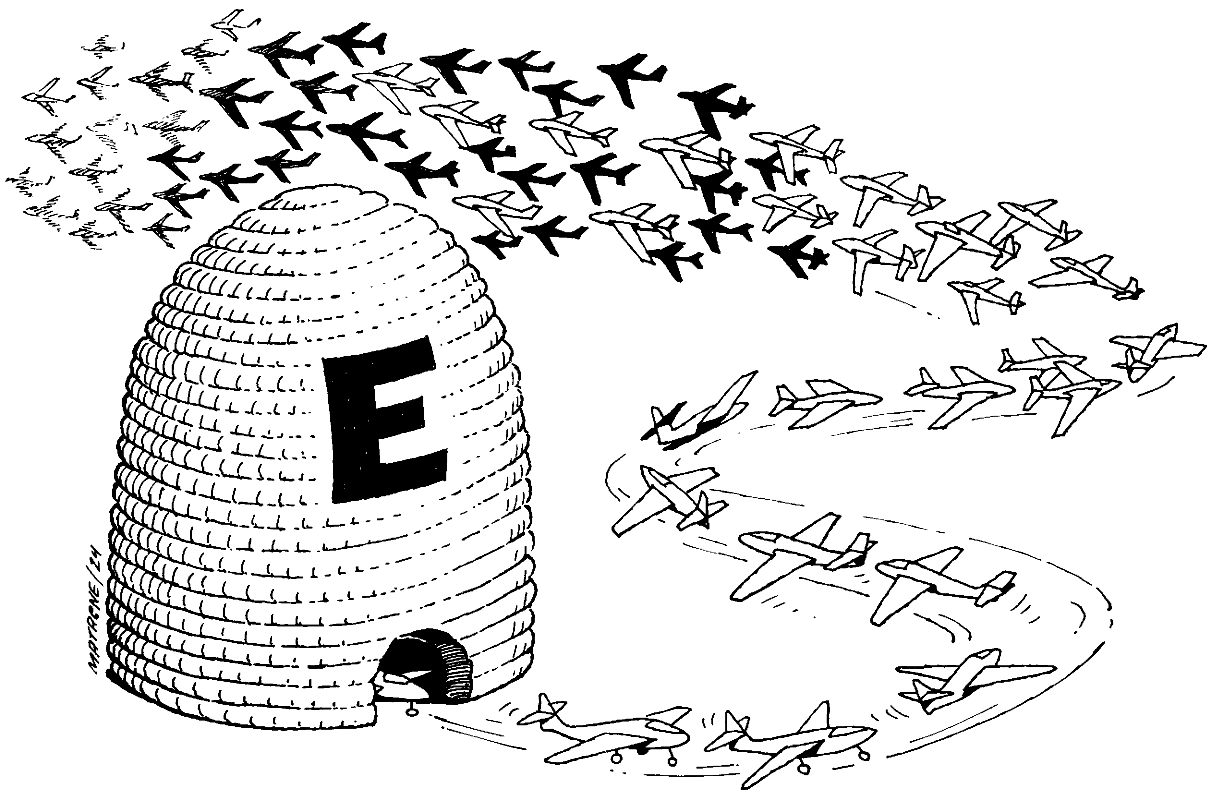

If European aircraft manufacturers got together, the industry could take off.

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IN THIS ISSUE

++ THE ALTERNATIVE CAR MARKET

To save 10-20% on the price of a new car, German buyers can turn to independent importers who obtain their cars in France at much lower prices.

This alternative car market is being actively protected by the European Commission for the benefit of consumers. How this import scheme works is outlined in Annex 1.

++ AEROSPACE : A FAMILY OF EUROPEAN AIRCRAFT

Aerospace is one of the advanced technology sectors which can help the European economy grow, and the European Commission is pressing for the development of a complete family of European civil aircraft based on the successful Airbus.

The reasons why the Nine should adopt a common strategy are discussed in Annex 2.

++ BAD YEAR FOR FRUIT, FLOWERS AND WINE

Production costs for agricultural products in the Community increased 8.5% in 1977 compared with an 18.3% increase in 1976 and 13.79% in 1975 (the high price rises in 1976 were mostly due to the drought). The price changes vary from country to country as follows:

	1977 (1970 = 100) :	Increase in 1976 :
Nine	210.5	+ 8.5%
Germany	142.4	- 4.4%
France	187.7	+ 7.9%
Italy	284.6	+23.9%
Netherlands	146.5	- 1.4%
Belgium	161.6	+ 0.1%
Luxembourg	156.2	- 0.1%
UK	272.5	+ 1.4%
Ireland	319.6	+20.6%
Denmark	192.1	+ 4.0%

For the Community as a whole, the price of animals and animal products remained more stable (rising nevertheless) than vegetable prices. Whilst potatoes, for instance, dropped in price, flowers and decorative plants rose 17.9%, fresh vegetables + 17.1%, wine + 16.4% - effectively increasing at double the rate for vegetables as a whole. In 1977, fresh fruit prices rose 70.5% on the year before under the impact of the poor 1976 harvest (mostly apples and pears).

++ HOW TO SAVE MANMADE FIBRES INDUSTRY

The manmade fibres industry has been badly hit by the economic crisis and the European Commission is currently examining ways the industry can be reorganised to make it once more competitive on the world market. The problems of the crisis in this sector are many:

- there is large overcapacity as in the steel industry, and the sector suffers from strong competition from South East Asian manufacturers and new manmade fibre plants in developing countries;

- though demand has dropped, certain producers have nevertheless increased capacity with the help of public money. Europe's production was only 62% of capacity in 1975 and 68% in 1976;

- market prices are 15% lower than 1974 levels, whilst raw material costs (energy and labour) have increased. European manufacturers estimate their production losses at around 1 billion dollars in 1975 and 600 million in 1976;

- labour requirements have shrunk from 173 000 jobs in 1973 to 153 000 in 1976. By 1980-81, 12 - 15 000 jobs will disappear.

According to the European Commission, rescue plans will not be able to avoid a reduction in capacity and no industrial agreements will be permitted unless a number of conditions are fulfilled:

- a reduction in production capacity (the European Commission has already forbidden national governments to accord investment aid likely to increase overcapacity);

- application of simultaneous labour assistance measures, by diversifying industrially to create new jobs for workers who are laid off.

The European Commission is closely following developments in this sector and Mr. Etienne Davignon, European Commissioner responsible for industrial affairs, recently met management and labour representatives from this sector. He stressed that any future "cartel" agreement between industries in this sector should be compatible with Community competition rules. In the Commission's view, governments, industrialists and trade unions should finish by the end of the month their analysis of the repercussions of the reorganisation agreements in progress. The Commission stresses that Community intervention can only be a supplement to the efforts of the companies themselves and national authorities.

++ BELGIAN BEER DRINKERS

Beer prices are being kept artificially high in Belgium, maintains the European Bureau of Consumer Organisations (BEUC) and their Belgian member organisation "Test-Achats". The Belgian beer drinker is no longer benefiting from free competition in the beer market they maintain, and BEUC has requested the European Commission - which is responsible for policing Community competition rules - to examine Belgium's beer cartel.

Belgian drinkers should be able to buy their beer at FB 110 per crate but an agreement between the breweries and distribution outlets has fixed the minimum price at FB 147 (FB 143 on special offer).

++ PROMOTING ELECTRIC CARS

By 1990 it is estimated that there will be more than seven million electric vehicles operating in the Community, but they will consume less than 2% of total electricity production and - by not polluting the atmosphere - they should make cities more habitable.

A new industrial association (AVERE) has just been set up which aims to promote the use of electric cars in Europe's cities. This organisation - the European Association for the Electric Road Vehicle (AVERE) - is supported by the Community's major electricity producers, automobile manufacturers, electrical and electronic component manufacturers, as well as users. AVERE intends to be a liaison agent between its members and the European Commission. Its new permanent office is located at Place du Trône N° 1, 1000 Brussels.

++ ZIP AGREEMENT ENDED

One of the European Commissions main tasks is to ensure that the rules of free competition are respected in the Community. Following a complaint made by the world's largest zip-fastener manufacturers - the Japanese YKK group - the Commission undertook a major investigation of the Community zip-fastener market, an investigation that covered more than 40 companies with total annual sales of some 200 million units of account.

During the course of the investigations, the Commission examined the links between Europe's two main producers of zip fasteners - the British Imperial Metal Industries Ltd. group (IMI) - (brand names Lightning and Eclair) - and the German-Swiss Heilmann family group (Heilmann) - (brand names Opti and Zip), and the Commission alleged that IMI and Heilmann had entered into a number of agreements with restrictive clauses in violation of Article 85 of the Rome Treaty and had abused their dominant position and violated Article 86. The Commission concluded that all the interests of IMI and Heilmann with regard to zip-fasteners had been merged.

The two groups had included provisions in licensing agreements whereby the freedom of licensees to fix their sales prices was restricted. They had also made provisions in an agreement whereby a holder of a patent renounced his exploitation rights in Community countries where IMI/Heilmann were active.

After the hearing, the Commission ascertained that the parties had voluntarily terminated all the alleged infringements (price fixing, market sharing, abuse of a dominant position). The Commission consequently decided to close the proceedings without taking a formal decision, or imposing penalties.

++ DANGEROUS GUMS

Recent scientific investigations in Switzerland and elsewhere have revealed some potential dangers present in the gums currently authorised as food additives (thickners) and traditionally regarded as harmless.

The Commission has announced that it is awaiting the judgement of the Community's Scientific Committee for Human Foodstuffs before taking any action, particularly with regard to gum tragacanth (E413), Karaya gum and gum arabic.

++ CHEMICAL POLLUTION OF THE RHINE

The Convention of the protection of the Rhine from chemical pollution has been signed by five countries involved : Germany, France, Luxembourg, Holland and Switzerland. The Community as a body also signed the Convention July 25, 1977.

All signatory countries are required to ratify the Convention by autumn to enable the Convention to enter into force. Meanwhile, preparatory work for the application of the Convention has begun.

++ INDUSTRIAL ILLNESS RESEARCH

The European Commission has decided to grant financial aid to help workers in the coal and steel industries:

- 368 400 European units of account (1 EUA = 1.2 dollars approx.) for three medical research projects. Two of these concern industrial illness and the third deals with health nuisances in iron ore mines. All three are part of the Community's research programme into chronic respiratory ailments;

- loans for the construction of social housing for personnel in the coal and steel industry in the UK, Italy, Germany and France.

++ SAVING DROPS IN MARCH

Summer clothes, new gardening equipment, preparing for holidays, March is never an easy month to save much money in. Not surprisingly, deposits and savings bonds dropped considerably in March this year compared to February. The slow down in savings was quite substantial in all savings banks in the Nine and was at its lowest level since September 1977. It was slightly lower than the level recorded in March 1977.

Following the substantial rise recorded in February 1978, (870 million European units of account), money held in current accounts has decreased considerably to 239 EUA in March. Money held in deposits also dropped 268 million EUA in March as against a rise of 582 million EUA in February 1978, and a drop of only 134 million EUA in March 1977. (1 EUA = 1.2 dollars approx.).

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THE ALTERNATIVE CAR MARKET

"Save up to DM 6 000 on new car prices. All models - Opel, Ford, Renault, Peugeot, Simca, Citroen - available on request. Prices include VAT. Join our car buying trips to neighbouring Community countries." Attractive little adverts similar to this have been appearing in German newspapers for a number of years now. Captioned as either "tax free imports" or "EEC cars", they invite potential car buyers to compare the attractive prices offered by independent importers to the recommended prices of car manufacturers and authorised importers in West Germany.

Substantial savings

In the interest of free competition, German consumer associations have been giving their full support to this perfectly legal alternative market. They have even gone so far as to publish lists of the independent importers, who, for the most part, are located close to the frontiers with Belgium and France.

Germany's automobile club ADAC has calculated that savings of around 10% are possible for small cars and 15-20% for larger cars. This parallel market for car imports is flourishing and more companies are joining in.

The vehicles which are the most attractive to import are:

- built in other Community countries (mainly France) or, more rarely in third countries and then imported into Germany;

- constructed in Germany, exported to Belgium, Luxembourg or France and then brought back into Germany by the independent importers or individuals.

Why the saving?

Three reasons for the growth of this alternative market are:

a) The low rate of VAT on cars in Germany

In most Community countries the amount of VAT levied on cars is higher than in Germany. Excluding special additional taxes, average VAT rates are 33.3% in France (25% of gross price), 25% in Belgium (20% of gross price), and can be as high as 18% in Denmark. Directly importing cars into Germany where VAT stands at 12% (10% of gross price), the car buyer can save 10-20% on the gross price of a car.

b) Exchange rate fluctuations

By exploiting exchange rate differences, a German car buyer can save £500 by purchasing a £3 500 car in Denmark, France, Italy or the UK.

c) Differential market pricing

German car manufacturers price their cars according to the local market (home or export) and local competition. If, for example, prices are higher on the foreign market, manufacturers will tend to raise export prices. If prices are lower, they adjust their prices accordingly.

Car prices in France are generally lower than in Germany. German independent importers can also obtain significant discounts by buying in quantity from foreign dealers who are only too pleased to have a fast turnover of stock and avoid after sales service costs. The risk of having to service guarantees is also greatly reduced.

Unhappy manufacturers

Both French and German car manufacturers are unhappy at the success of independent importers. The French car industry does not like seeing their cars being sold in Germany at French prices (which are lower) whilst they are trying to sell their cars at higher prices in Germany through their authorised distributors.

German manufacturers are also unhappy at seeing their own export cars returning at lower prices via France and Belgium. They claim this is upsetting sales and price stability.

European car manufacturers have in fact been trying hard to put an end to these independent operators and have brought law suits against them and published public warnings against the dangers of cheap imports : "Check the validity of the guarantee" they say, and point to the fact that a German owner of a car imported in this way only has the benefit of the often reduced guarantee given in the manufacturing country.

Apart from this, there are no other disadvantages in buying from the alternative car market, and despite all the warnings issued by European manufacturers and their distributors, independent imports continue.

For French and Belgian dealers, this alternative market is good business : they sell more and get bigger discounts, and until recently, they did not have to worry about guarantees or after sales service.

Legal offences

Independent imports or reimports do not as yet present a threat to German car sales. Only 1% of cars registered in Germany each year are thought to be bought through the alternative market (26 000 approx.).

Attempts at preventing the import of vehicles by individuals or independent operators are against the spirit of Article 85 of the Community's Treaty of Rome which forbids any agreement likely to affect trade between Member States by preventing, restricting or distorting the free play of market forces within the Community.

Under Article 85, it is forbidden to fix buying and selling prices, to carve up markets and to apply unequal conditions for equivalent services. Such measures are only authorised if they help improve the production or distribution of goods or promote technical or economic progress and ensure a fair share of the resulting profit for consumers.

Commission intervention

The European Commission has intervened several times in recent years to persuade certain European manufacturers to remove restrictions to parallel imports which they had entered into contracts with distributors.

In particular, the Commission approved a model contract for distributors drawn up by a German manufacturer which benefited both manufacturers (who wished to have a distribution network of approved garages) and consumers by permitting parallel imports.

Effective after sales service is important for consumers and this implies that distributors should be suitably technically qualified to undertake maintenance, repairs etc. as covered by the guarantee. On the other hand, consumers should also be free to buy cars at the lowest prices.

The model contract approved by the Commission authorises official dealers for a particular make of vehicle to sell these cars to final users in other countries, either directly or indirectly (if the consumers wish to use an import agent).

The ban on the free import or export of cars within the Community has consequently disappeared from contracts between manufacturers and distributors.

The Commission is continuing to watch this sector closely however to ensure restrictive practices are not quietly reintroduced.

According to import agents, manufacturers are always coming up with ways of attacking this alternative market and many verbal agreements have been made between manufacturers and their distributors. Dissuasion is the aim of these verbal agreements (through fines or discount reductions) and the intention is to make them less favourably inclined towards import agents.

It is rarely possible to prove that such practices are taking place, but the European Commission will be looking very closely at any complaints which come up under Article 85 of the Treaty.

The Commission does not intend to relax its basic principle that free market forces must operate to keep prices down, and that consumers should have the right to buy cars anywhere throughout the European Community.

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AEROSPACE : A FAMILY OF EUROPEAN AIRCRAFT

The European aerospace industry is expanding and between 1970 and 1976 turnover increased 40% (at constant prices and 1976 exchange rates), despite the current world economic crisis. Whilst total exports from the Nine increased 51% (including intra-Community trade) between 1973 and 1976, sales by Europe's aerospace industry to foreign markets increased 88% over the same period.

The 5.7% annual expansion in this industry is double the rate of growth of Community gross domestic product (GDP) which averaged 2.9% 1970-76. Employment in the aerospace sector (430 000) is at the same level as before the crisis.

Expansion has been based on two factors : the injection of large amounts of public funds in the form of military and research and development contracts, and the emergence of major clients in developing countries.

Expanding the Airbus family

Though the European aerospace industry only has a marginal position on the world market, it is still a growth area and is one of the technologies which the Community is banking on for its future growth. In 1975 the Council of Ministers endorsed the principle of Community cooperation in civil aviation. Shortly after this the European Commission proposed a common strategy and action programme.

The European Commission has now repeated this appeal and is pressing for the development of a veritable European family of civil transport aircraft based on the successful Airbus. Its three basic arguments are:

- the success of the Airbus on the world market (95 firm order and 63 options);
- that air traffic is continuing to grow which is encouraging airlines to renew their fleets;
- that French and German governments have requested their own manufacturers to get together and develop a programme for a family of European aircraft based on the Airbus programme.

Larger world market

International competition is strong and the aerospace industry needs a large market. The Commission has stressed the advantages which a European strategy can offer.

Increasingly the success of European programmes will depend on cooperation between European industries and the integration of their resources and efforts. All European manufacturers have to be involved in the programme. Finally the Commission insists that there should be more cooperation in Europe between airline companies and manufacturers as is the case in the USA. The Commission argues that it is preferable for our aerospace industry to have a European base rather than attempt to conclude bilateral agreements with American manufacturers.

Community's role

The Community cannot intervene directly in the aerospace industry but can nevertheless still play a useful double role:

- by helping to develop the domestic market and authorising State aids to help growth in this sector (cf Euroforum N° 24/78), and permitting appropriate industrial agreements;

- by taking a share in the risks involved in launching new projects (investments costs are around 2 billion dollars).

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