Brussels, 10 July 1973
No. 197

** THE USE OF HOLDING COMPANIES AS FINANCING COMPANIES OR LETTER-BOX COMPANIES encourages tax evasion and causes distortions in the capital market. The problems posed by holding companies in the Community were recently analysed by the Commission in a report on the tax arrangements applying to holding companies. A summary of this report will be found in ANNEX 1.

** IN 1975 WORLD CAPACITY FOR THE PRODUCTION OF NEW SHIPS should run to 40 million gross tons, whilst average requirements for the same year are estimated at 28.8 million gross tons. Over-capacity in the world's shipbuilding industry could therefore be 11.2 million gross tons, or 28%.

This is what emerges from the investigations being carried out by the departments of the Commission into the growth of supply and demand in the shipbuilding sector. The results of these

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This bulletin is published by the Directorate General Press and Information of the Commission of the European Communities

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Directorate-General for Press and Information
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The information and articles published in this Bulletin concern European scientific cooperation and industrial development in Europe. Hence they are not simply confined to reports on the decisions or views of the Commission of the European Communities, but cover the whole field of questions discussed in the different circles concerned.

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investigations should enable the European Commission, after consultation with the various economic sectors of the Community concerned, to adopt clearly-defined proposals for the implementation of a Community policy in the shipbuilding sector. An outline of the findings is given in ANNEX 2.

** With a view to implementing a COMMUNITY TYPE APPROVAL PROCEDURE FOR MOTOR VEHICLES, the European Commission has just submitted to the Council of Ministers a new proposal for a directive in the motor vehicle sector. This proposal refers to the approximation of Member States' laws governing interior fittings in vehicles, and more especially systems for adjusting and moving seats and tests to determine the strength of seats and their mountings. It will be recalled that 12 directives relating to the automobile sector have already been adopted by the Council of Ministers and that eight proposals, including this one, are being considered by the Council. A list of the directives which have been either proposed or adopted will be found in ANNEX 3.

** A selection will be found in ANNEX 4 of RECENT PUBLICATIONS acquired by the scientific and technical library of the Commission of the European Communities. These works may be consulted in the library (1, avenue de Cortenberg, 1040 Brussels, Loi Offices, first floor, No.43) or borrowed.

** The Commission recently submitted to the Council of Ministers a proposal for a directive referring to A UNIFORM BASE FOR VALUE ADDED TAX (VAT) in the Member States of the Community. This proposal is aimed at bringing about large-scale standardization of the laws of the Member States arising from the first two directives on VAT, dated 11 April 1967. It will, in fact, enable the Commission in accordance with Council decision of 21 April 1970 on replacing

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the financial contribution from the Member States by the Community's own resources, to grant the Community a fiscal instrument which would, by means of VAT, complement the resources accruing from customs duties and agricultural levies, in order to finance Community expenditure. Moreover, this harmonization of the VAT base, once applied in the Member States, is a step towards economic and monetary union and will pave the way for the abolition of fiscal frontiers.

The main points dealt with by the Commission's proposal include enlargement of the basic concepts of liability, the territoriality of the tax, the system of covering real estate, the principle of taxing all service payments, the working out of a common list of exempt goods and services, the system of deducting tax at an earlier stage in the production/commercial process, special systems for small undertakings, certain items of secondhand property, and the agricultural sector.

** The recent cooperation agreement signed between Philips, Siemens and CII will mark an important stage in the RESTRUCTURING OF THE EUROPEAN COMPUTER INDUSTRY in the opinion of the Commission, which is bound to be well disposed towards such an agreement inasmuch as it observes the Common Market rules on competition. The Commission considers that it is only by collaborating to create groupings of adequate size, which must be accompanied by the actual opening-up of a market of European proportions and a determined attitude on the part of the public authorities, that Europe will be able to become a competitive producer in the data-processing field, which is one of the key sectors of the future. With this in mind, the Commission plans to propose the formulation of a Community data-processing policy and the Commission's departments are at present putting

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the finishing touches to a document setting out a series of proposals along these lines.

** The urgent need for a COMMUNITY ENERGY POLICY was again emphasized in a resolution adopted by the European Parliament on 3 July 1973, following the Council meeting of 22 May 1973 (see IRT No. 191), the results of which were considered disappointing by the European Parliament.

Moreover, the European Parliament unanimously approved the report presented on behalf of the Parliamentary Committee on Public Health and the Environment by Mr Jahn on the EUROPEAN COMMUNITIES' PROGRAMME OF ACTION IN THE ENVIRONMENTAL FIELD, and also the draft measures in this field proposed by the European Commission (see IRT No. 195).

** The European Commission has decided to amend and add to the principles taken as the basis for coordinating the GENERAL SYSTEMS FOR REGIONAL AID which were the subject of the Commission's statement to the Council in June 1971 and of the resolution of the Member States on 20 October 1971.

In order to place all the Member States in the same position in this respect, the European Commission will use these principles to map out, by 31 December 1974 at the latest, a system of coordination which is valid for all the regions of the enlarged Community and not just for the central regions (i.e., the most industrialized parts of the Community). Under such a system of coordination it would, in particular, be possible to have various categories of regions where different ceilings of aid would be applied. It will also take account of the specific problems arising in each of the peripheral regions.

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Moreover, the Commission has decided to define the boundaries of the central regions in the three new Member States, where the coordination principles will apply from 1 July 1973.

** On a proposal from the Commission, the Council of Ministers of the Community recently adopted a directive on the abolition of restrictions on FREEDOM OF ESTABLISHMENT and freedom to provide services in self-employed occupations for BANKS AND OTHER FINANCIAL ESTABLISHMENTS. The Member States of the Community have 18 months in which to comply with this directive. Stockbrokers, however, are covered by special provisions, to form the subject of a later directive.

** The amount of the new Member States' contribution to reserves and reserve-type funds for the EUROPEAN INVESTMENT BANK has been set at 56,279,553 u.a. by the Board of Governors of the Bank, which met in Luxembourg on 27 June 1973. Since the accession of the new Member States, the European Investment Bank's capital has amounted to 2,025 million u.a., 405 million of which have actually been paid in. Taking into account reserves and reserve-type funds, the Bank's total funds now run to about 600 million u.a.

** PROBLEMS OF GROWTH have formed the subject of discussions by a small group of key figures from the world of business, administration, trade union and press, including Mr R. Toulemon (a former Director-General at the Commission) and Mr Albert (a former Director at the Commission) meeting at the invitation of the French economics magazine "L'Expansion". At the end of the first stage of its work, the group has published a pamphlet. This pamphlet, which is in French, can be obtained free of charge on demand from the European Commission, Division for Industrial and Scientific Information (200 rue de la Loi, 1040 Brussels).

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The magazine "L'Expansion" has informed us that it would be very interested to receive any criticisms or suggestions regarding the problems dealt with in the pamphlet with a view to extending the discussion (write to: L'Expansion, 10 rue Lyautey, 75016 Paris).

** The Commission intends to grant financial aid amounting to 551,359 u.a., to two research programmes on SAFETY IN COAL MINES, namely:

- a collective research programme on rescuing trapped miners through large-diameter boreholes (the second part of a series of research projects which have been receiving ECSC aid since 1970) aimed at providing mines with a safe and rapid method of reaching and rescuing miners trapped underground, by boring a hole of sufficiently wide diameter to allow a person to be transported through it without danger. The European Commission plans to grant financial aid totalling 234,332 u.a., to this programme.

- a collective research programme on ACTIVATED MAIN DUST BARRIERS (second part of a series of research projects supported by the ECSC since 1969) aimed at reducing the dangers arising from fire-damp and inflammable dusts by the development of a device for detecting explosions and a device for spreading an extinguishing agent in the galley. The Commission plans to grant financial aid totalling 317,027 u.a., to this programme.

** MANUFACTURERS OF HIGH-POWER LINEAR MOTOR in the Community met on 28 and 29 June 1973 at the invitation of the Commission in order to make a preliminary examination of problems regarding the production of motors capable of propelling land-based vehicles at speeds of over 400 kph. Since several industrialists in Community countries are pursuing research along similar lines, and with a view to overcoming common obstacles, the conclusion drawn was that it would be advisable to study the possibility of cooperation.

A REPORT BY THE EUROPEAN COMMISSION ON THE TAX ARRANGEMENTS APPLYING TO HOLDING COMPANIES

The use of holding companies as financing companies or letter-box companies encourages tax evasion and causes distortions in the capital market. Problems arising from holding companies in the Community were recently analysed by the European Commission in a report on the tax arrangements applying to holding companies.

The use of holding companies as finance companies is bound up with some very considerable disparities which exist at present between the systems applied by the various member countries for deducting at source the taxes levied on income from bonds. These arrangements range from complete exemption from tax to a very high rate.

Luxembourg legislation slightly favours holding companies, which are exempt from the usual 5% withholding tax, but no other Member States levies such a tax (Germany for residents; Denmark, Netherlands). This problem will therefore not be solved by isolated action in respect of one or other of these countries, but by harmonizing the various tax systems so as to affect all bond debtors resident in the Community. This harmonization is already part of the programme adopted by the Council in the attempt to bring about economic and monetary union, and the Commission intends to put forward a proposal along these lines in the near future.

The use of holding companies as letter-box companies is tied up with the tax privileges granted to holding companies in certain countries (little or no income tax, little or no tax on income earned abroad, tax privileges granted to certain types of companies, especially to firms which are not engaged in any genuine industrial or commercial activity).

Within the Community, Luxembourg and Gibraltar grant preferential tax treatment to holding companies in this way. (In Luxembourg, the number of holding companies increased from 1,260 in 1962 to 2,596 in 1970 and 3,198 at the end of 1972.)

Moreover, the advantages gained by using holding companies which benefit from special tax arrangements may be increased by employing, in addition, an intermediary company which is subject to normal taxation. In this way it is possible to escape all taxation, provided that:

- the intermediary qualifies for the application of a double taxation convention with the country where the royalties originate which provides that no withholding tax will be levied;

- the intermediary remits these royalties to a letter-box company exempt from such tax in order to escape corporation tax;

- the intermediary is subject to no withholding tax (which is the case in Denmark and the Netherlands, for instance).

Letter-box companies are a very widespread phenomenon throughout the world; even in Europe, there are far more of them in some countries than in Luxembourg and Gibraltar (it is estimated that there are 10,000 and 20,000 letter-box companies in Switzerland and Liechtenstein respectively).

Moreover, some countries or territories having special links with Member States also have legislation under which letter-box companies may be set up. This is true of certain countries which are already associated with the Community (Netherlands Antilles) or which under the Act of Accession will be associated on 1 February 1975 at the

earliest (Bahamas, Bermudas, etc.); it is also true of the Channel Islands and the Isle of Man. These countries or territories have an autonomous tax status (the United Kingdom, for instance, has concluded double taxation conventions with some of these countries or territories), and the articles of the Treaty of Rome relating to capital movements and approximation of laws do not apply to them. A Member State may nevertheless extend the Community rules on the liberalization of capital movements to these countries or territories, and this has already been done in some cases (between the Netherlands and the Antilles and between the United Kingdom and the countries and territories of the former sterling area). Harmonization measures in the field of direct taxation, however, could not be applied to them even in this case.

If one wanted to eliminate tax disparities likely to cause distortions in the capital market and to curb tax evasion within the Community, one would have to abolish those privileges enjoyed by holding companies which lend themselves to abuse, especially tax exemption of interest and royalties collected by these companies. The Commission had already looked into these problems in 1967, but at that time the Council did not consider it advisable to act on the matter.

Action restricted to holding companies within the Community would, however, inevitably touch off a flight of capital to tax havens outside the Community and would not therefore put an end to the tax evasion that is the authorities' main concern here. This flight could even be to the benefit of certain countries having special links with Member States. In this case it would be particularly serious, since harmonization of direct taxation does not apply to these countries, while the measures concerning the liberalization of capital movements may be applied to them unilaterally by the Member States with which they have ties. This is why the Community would have to take parallel action aimed at all tax haven countries.

The Commission has already begun to study this collaboration with experts from the Member States. It is already clear that, in order to take such action, very complex problems must be solved. A firm political will is therefore necessary if results are to be achieved within a reasonable period of time.

If it is felt that such a complete solution cannot be implemented rapidly, ways must be sought of quickly making a first move in this direction through a number of arrangements likely to improve the present situation. Here, consideration could be given to the following measures:

(a) arranging for cooperation between the tax authorities of the countries concerned and those of the other Member States in order to enable the latter to obtain the information they need to combat tax evasion through holding companies; strengthening cooperation between Member States' tax authorities in order to prevent abuse of the double taxation conventions;

(b) charging withholding tax on any dividends distributed by holding companies within the Community so that this income is liable to some tax if distributed;

(c) charging, in the Member States, a high withholding tax on interest and royalties remitted to companies paying little or no tax on this income so that income arising in the Community is taxed effectively;

(d) introducing arrangements in the Member States on the lines of Belgian legislation under which a presumption arises that the transaction is not genuine and the burden of proof is shifted in such a way as not to fall on the tax administration.

Adoption of such measures would not solve all the problems examined in this document, but it would constitute a partial solution which would act as a certain discouragement to tax evasion.

SUPPLY AND DEMAND IN THE SHIPBUILDING SECTOR

In 1975, world capacity for the production of new ships should run to 40 million gross tons, whilst average requirements for the same year are estimated at 28.8 million gross tons. Over-capacity in the world's shipbuilding industry could therefore be 11.2 million gross tons, or 28%.

This is what emerges from the investigations being carried out by the departments of the Commission into the growth of supply and demand in the shipbuilding sector. The results of these investigations should enable the European Commission, after consultation with the various economic sectors of the Community concerned, (public administration, industrial and trade union organizations), to adopt clearly-defined proposals for the implementation of a Community policy in the ship-building sector.

The growth of output capacity is expected to exceed anticipated needs during the decade, so that there will be a considerable threat of excess capacity towards the end of the decade.

The general anticipation of shipping requirements by shipbuilders, accelerated by monetary uncertainity and especially inflation, has brought order books to a record level, with the result that the total tonnage likely to be delivered between now and 1978 will meet estimated requirements up till 1980.

Three-quarters of the orders placed are for oil-tankers, a sector in which capacity is expanding at the highest rate, particularly in Japan, where 8% of shipbuilding activity is concentrated in this sector.

Capacity is likely to be well in excess of estimated requirements in

1975. Consequently, if the forecase of the trend of normal requirements arrived at by experts proves correct (and there are no new or unforeseen facts so far to raise any doubts about its accuracy), the world production of new ships should be below available capacity in the second half of this decade.

Since a large part of the present demand is for big ships, in which the growth in capacity has been most impressive, a recession at the end of the decade might affect this sector particularly.

IMPLEMENTATION OF A TYPE-APPROVAL PROCEDURE FOR MOTOR VEHICLES

The implementation of a Community type-approval procedure for motor vehicles will enable any motor vehicle which complies with Community regulations approved by the authorities of a Member State to be sold and used throughout the territory of the Community. Manufacturers will have to guarantee that every vehicle put on the market complies with the phototype which has obtained Community type-approval. The approximation of the laws of Member States for the purpose of implementing this Community type-approval procedure for motor vehicles is based on the strictest regulations in force in the Member States and thereby assures greater safety for drivers and their passengers. In this way the Community authorities are making a considerable contribution towards improving road safety.

At the present moment 12 directives have already been adopted by the Council of Ministers in the automobile sector, and eight other proposals are being considered. The Commission intends to continue its work, the projects in hand at present relating to fields of vision, seat-belts, lighting and tyres.

The following table lists some proposals already adopted or being considered by the Council in the automobile sector:

DIRECTIVES ADOPTED BY THE COUNCIL

	Subject	Adoption
1.	Type-approval of motor vehicles and their trailers	23 February 1970
2.	Permissible noise level and motor vehicle exhaust systems	23 February 1970
3.	Location and mounting of rear number plates for motor vehicles and their trailers	6 April 1970
4.	Tanks for liquid fuel and devices for the protection of the rear of motor vehicles and their trailers	6 April 1970
5.	Measures to be taken against air pollution by exhaust gases from spark ignition engines	6 April 1970
6.	Motor vehicle steering devices	18 June 1970
7.	Audible warning devices for motor vehicles	10 August 1970
8.	Motor vehicles doors	10 August 1970
9.	Rearview mirrors for motor vehicles	23 March 1971
10.	Braking systems for certain categories of motor vehicles	6 September 1971
11.	The suppression of radio-electrical interference from motor vehicles	6 July 1972
12.	Measures to be taken against the emission of pollutants by diesel motors	20 August 1972

PROPOSALS FOR DIRECTIVES SUBMITTED TO THE COUNCIL BUT NOT YET APPROVED BY THE COUNCIL

	Subject	Forwarding date to the Council
1.	Direction indicators for "motor vehicles"	July 1965
2.	Field of vision, windscreen wipers and washers for "motor vehicles"	August 1968
3.	Electrical connections for "motor vehicle" trailers	August 1968

4.	Vehicle anti-theft devices	July 1972
5.	Safety pass for motor vehicles	September 1972
6.	Interior fittings (interior of the passenger compartment other than interior rearview mirror(s), roof or sliding roof, arrangement of controls, seat squab and rearward-facing part of seats	January 1972
7.	Interior fittings of motor vehicles (protection of driver against the steering equipment in the event of impact)	September 1972
8.	Interior fittings of motor vehicles (strength of seats and their mountings)	May 1973

RECENT PUBLICATIONS

which have been added to the Scientific and Technical Library of the Commission of the European Communities and can be consulted in the library (1, avenue de Cortenberg, 1040 Brussels, Loi Offices, 1st floor, No. 43) or borrowed

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