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FRENCH INDUSTRY AND THE COMMON MARKET

A Survey by

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Contents

Introduction	Page 3
SECTION ONE	
The influence of the Common Market on the development of the French economy	4
Gloomy forecasts on the eve of the Common Market	
Rapid industrial expansion	
The break with inflation	
The boom in external trade	
SECTION TWO	
French industry in the Common Market	15
Mechanical engineering	
Appendix I - <i>The motor industry</i>	
Appendix II - <i>Farm machinery and equipment</i>	
Appendix III - <i>The aviation industry</i>	
Textiles	
Electrical engineering	
The chemical industry	
Some miscellaneous industries	
<i>Paper and paperboard</i>	
<i>Footwear</i>	
<i>Food industries</i>	
CONCLUSIONS	
French employers and the Common Market	51
Developments in the French Employers' Council	
The employers' outlook	

Introduction

'The key to French expansion is the Common Market', declared M. Valéry Giscard d'Estaing (subsequently Minister of Finance) at the end of 1960. Since its inception it has dictated the economic policy of the country and prompted the activities of business heads in such matters as investments, market research, specialization agreements with French and foreign firms and the concentration of business and industry.

Although these general propositions are now familiar, there is still much vagueness as to what they really signify. The purpose of our study is to give an answer, supported by facts and figures, to the question 'How has the development of the French economy been influenced by the Common Market?'

The study takes us only up to the end of 1960, but the broad trends outlined in it have continued. M. Giscard d'Estaing himself confirmed this in his first Press conference as Minister of Finance in February, 1962. The overall picture of the French economy which he presented was one of sustained expansion in most sectors.

The index of industrial production for the last quarter of 1961 was 192, an increase of 6.6 per cent over the year. Industrial investment rose by 14-15 per cent during that year, and although the rate of expansion in 1962 is officially expected to be lower, there is no question of marking time.

In the motor industry, the position has improved significantly since 1960. Manufacturers are optimistic about the prospects for 1962, and exports are rising again. The relative failure of sales to the American market in 1960 is being made up by increasing exports to Community countries. For the electrical and mechanical engineering sectors, 1961 was a year of rapid expansion, and this trend is expected to continue throughout 1962. Sales of French machine tools were 20 per cent higher in the autumn of 1961 than they were in the similar period of 1960.

Exports and reserves continue to rise: The French foreign trade account shows that in 1961 visible exports amounted to \$7,220 million, a rise of 5.2 per cent, while imports were valued at \$6,688 million, a rise of 6.6 per cent. This means that on the visible trade account, exports covered imports by a margin of 7.9 per cent.

Successful foreign trading has made its mark on the French gold and currency reserves, which had risen to \$3,220.7 million by March 31, 1962. In mid-1958 they had been practically nil. The French balance of payments surplus for 1961 was \$1,440 million, compared with a deficit of \$722 million in 1958. 'Thus France', according to M. Giscard d'Estaing, 'has become a country with a structural surplus in its balance of payments'.

This study is in two sections. The first analyzes the trends of the French economy during the years 1959 and 1960 and the results of France's entry into the Common Market. The second, and longer section, traces the path followed by important branches of French industry during these two years of facing hard facts in the new world of the European Economic Community, and shows the lessons learnt by French industry from this first experience.

SECTION ONE

**THE INFLUENCE OF
THE COMMON MARKET
ON THE DEVELOPMENT OF
THE FRENCH ECONOMY**

Gloomy forecasts on the eve of the Common Market

On December 28, 1958, taking the floor after General de Gaulle to present the great economic and financial reforms of the 'Rueff Plan', M. Antoine Pinay declared: 'On January 1, 1959, the start of the Common Market will open a new era, in which our five partners will at the same time be our chief customers, our chief suppliers and our chief competitors in outside markets. France cannot afford to find herself in a weak position in this association'.

The necessity of a sound economic policy would clearly have imposed itself on the France of 1958 whether there had been the prospect of the Common Market or not. But the date when the first measures were to be taken to set trade free from customs barriers and import quotas appeared as a sort of deadline beyond which the signals were set to 'danger'.

The formation of the 'Six' was undoubtedly instrumental in the French Government's decision to launch its courageous schemes to restore the economy. 'I think only the fact that a date had been fixed by the Treaty of Rome enabled us to overcome the "taboo" on devaluation', M. Jacques Duhamel, Director-General of the CNCE¹ declared in an address delivered in Paris at the end of January, 1958. The worst fears which distinguished opponents of the European Treaties such as M.M. Mendès-France and Pierre Cot expressed during the ratification debates in July 1957 would have proved well founded if France had not made a vigorous effort to change her situation at the end of 1958.

There was much criticism at this time of the unpreparedness of French affairs, which made it dangerous for France to plunge into the Common Market.

Thus, M. Mendès-France declared, 'I should have preferred a different method, first laying foundations on which the edifice could later be erected without danger . . . In five years, I think, it would have been possible to create the conditions for a healthy integration of Europe . . . In five years we could have harmonized social charges and shared out equally the military burdens, set a common agricultural policy on foot and above all arrived at a common policy on investments . . .'

In any event, M. Mendès-France thought that it would take at least three years to bring about a recovery in France's external financial position.

'If we raise our exports by 150 billions a year, which . . . would be a remarkable performance, this would mean, on an optimistic view, that it would take us three years to achieve a balance of trade which could be regarded as satisfactory'.

For his part, M. Pierre Cot said 'If we ratify the Treaty . . . we commit ourselves . . . not only to balancing our payments, but to accumulating the reserves we shall need to meet current commitments . . . later to prepare ourselves for this Common Market experiment . . .'

The advocates of the Common Market in France were by no means impervious to these arguments in July 1957; by the middle of 1958 they appeared to have become even more valid.

In June 1958, the national finances were in a bad way, the rise in prices had been accentuated for a year past, economic expansion was marking time, and above all the external payments position was catastrophic:

The trade deficit had reached 223 billion francs (since January 1, 1958); exports covered only 71% of imports; each month the level of external sales was less (in terms of francs of constant value) than that of the corresponding month of 1957.

The balance of payments deficit had reached 229 million dollars since January 1, 1958; the gold and foreign currency reserves were practically nil - 19 million dollars in the Exchange Stabilization Fund on May 30, 1958; only 185 million dollars remained of the credit facilities granted by the International Monetary Fund and by the European Payments Union.

Following the change in the régime, a recovery was achieved in the last seven months of 1958. But the results obtained by the end of 1958, although satisfactory, were insufficient to allow France to get back to the level of her partners in the Common Market and to fulfil her obligations under the Treaty of Rome.

¹ *National Credit and Discount Bank*

A radical monetary and economic reform (the Pinay-Rueff Plan) was therefore launched, of which the main features were :

1. The freeing of 90% of trade with the OEEC countries and of more than 50% of trade with the dollar area.
2. The smallest quota would be equal to at least 3% of national production of the goods in question.
3. A 10% reduction of customs duties on imports into France from Common Market countries.
4. Devaluation of the franc by 17.5%, the new exchange rate taking into account the former disparity between French and foreign prices and allowing a margin of security sufficient to absorb the effect of devaluation on internal prices.
5. The franc was made convertible for non-residents.

What effect did this drastic remedy and France's participation in the Common Market (the effects of which are in most cases closely interwoven) have in concrete terms on the economic affairs of France in 1959 and 1960?

Rapid industrial expansion

Just before the first steps were taken towards establishing the Common Market, the French indices of industrial production were the reverse of encouraging. They showed that during 1958 French industrial production had grown by only 4%. The index for November 1958 was only 1% above that of November 1957. What were the main features of development in 1959 and 1960? What caused the new wave of expansion?

THE EVENTS OF 1959 - 1960

Three months marking time

The drastic measures taken in December 1958 to put the French economy back on a sound footing threatened to lead to a further fairly long period of stagnation. Experience shows that surgical operations intended to break inflationary cycles and bring external finances back into equilibrium have depressive effects on industrial production. For three months (in January, February and March 1959), after the launching of the Pinay-Rueff Plan, the indices of industrial production were *below* those of the same period of 1958, as the table shows.

Indices of industrial production

(Excluding building - corrected for seasonal variations)

	1958	1959	1960		1958	1959	1960
January	154	151	171	July	158	161	176
February	156	154	169	August	149	161	178
March	156	154	169	September	152	163	180
April	156	158	171	October	154	165	178
May	153	159	173	November	154	171	181
June	155	161	173	December	153	176	180

(Index for December 1961: 194)

Recovery

In April 1959 there was a sudden upturn. During the second quarter it became very pronounced; a 5% expansion was recorded between March and July 1959, corresponding to an annual rate of growth of about 15%. A loss of momentum was therefore inevitable and it came in the third quarter, when the growth of industrial activity slowed almost to a halt. At the beginning of the autumn there was a fresh recovery (index: 163 in September and 165 in October, against 161 in August).

The boom at the end of 1959

In November and December the wheels seem to have begun to turn furiously again. However, this spurt must be treated with some reserve. Fortuitous factors affect production figures each month. For example, in electrical engineering and aviation, output is only calculated according to deliveries made by firms. In November and December, such factors combined to an extent that, on an annual projection, would have implied an annual growth of 47 per cent.

Nevertheless, the growth of output during the second half of 1959 was appreciable. For this period the index rose at an annual rate of 17 per cent.

A lull in early 1960

Progress in late 1959 was too good to last and the fever of activity was bound to subside. During the first quarter of 1960, production did not increase, and it was not until April that it picked up again at a modest rate. But here again random factors render the index unreliable. Just as the special circumstances mentioned above had swollen the figures for the autumn of 1959, the same factors exaggerated the decline which followed.

Sound growth from May to December 1960

At first hesitant, the recovery of 1960 was obvious in May, and even more so in July. Industrial production then continued to expand at a very healthy rate until the end of the year (the slight loss of momentum shown in the October indices has no real significance: October 31, which fell between a Sunday and the feast of All Saints, was a holiday for many firms).

To recapitulate: if we take as a point of comparison the months of September 1958, 1959 and 1960 – months in which fortuitous circumstances did not affect the figures – the year-to-year increase in industrial production is shown to have been 7% in 1959 and 8.5% in 1960.

MAINSPRINGS OF EXPANSION

Three factors provided the mainsprings of expansion in French industry in 1959 and 1960.

1. Exports

In the second quarter of 1959 it became clear that the impetus behind production was provided by the recovery of sales of French goods abroad. Obviously, devaluation in December 1958 contributed to this trend, but so did the opening of the Common Market. As we shall see below in the section devoted to foreign trade, France increased her exports substantially in 1959, particularly to her partners in the Treaty of Rome. Perhaps the psychological atmosphere created by the launching of the Common Market played an even more important rôle than the practical effects of the first easing of customs and quota restrictions on January 1, 1959. The most go-ahead industrialists, who had long been preparing for what some believed would be a decisive encounter and what others thought would be no more than keener competition, had, in any case, understood that the best defence against foreign competition was attack, and attack on the enemy's home ground. This new attitude created by the establishment of the Common Market accounts to a great extent for the rise in exports in 1959 – a rise which was to continue in the first quarter of 1960. To measure exactly the size of the increase, one factor cutting across the continuity of French customs statistics must be eliminated: the union of the Saar with Germany on July 6, 1959. This event, it is true, lost to France part of the Saar market, but it explains in part the increase in export figures recorded by the French customs authorities. (Before July 6, 1959, French sales to the Saar had not, of course, been included).

However, if we take into account the period before July 6, 1959 as well as afterwards, French exports (excluding the Saar) show that the progress in sales value expressed in foreign currency was 38% between the fourth quarter of 1958 (just before the opening of the Common Market and the devaluation) and the maximum reached in the first quarter of 1960. According to the experts of the National Institute for Statistical and Economic Research (INSEE) who have made these corrections, **half of the growth in industrial production between the two periods is a direct result of the increase of French sales abroad.**

2. Investment

Investment, which marked time in the spring of 1959 and checked the momentum of overall production, had the opposite effect in the last months of 1959 when, together with exports, it acted as a spur to expansion.

This re-activation (of which the most obvious symptom was the rapid refilling of order books in the machine-tool sector) was mainly the result of government measures enabling investment before December 31, 1959 to be amortized more quickly. Orders also continued to flow in after this date, and for 1960 the progress of private investment was about 8 per cent.

Common Market prospects made a real contribution to this expansion. But certain factors were working in the opposite direction:

- the continuing war in Algeria, with its accompanying political disturbances, made the business future very uncertain ;
the end of the period of inflation, which altered the 'natural' attitudes of businessmen. In the years just after the Liberation, the best insurance against a decline in the value of money was investment: the return to stability rendered such courses less imperative.

The incentive of the Common Market fortunately succeeded the unhealthy stimulant of inflation.

By contrast, public investment and that of national undertakings hardly increased at all in 1960 compared with 1959 (which, it is true, was a good year in this sector, since the strengthening of public investment was intended at that time to offset the deflationary effects of the Pinay-Rueff Plan). Altogether, the overall year-to-year growth in volume of public and private investment was about 5 per cent.

3. Consumption

Chronologically, this was the last factor to contribute to the maintenance of expansion. It took over the baton from exports, which dropped back in the middle of 1960 with the collapse of French automobile sales on the United States market. Higher personal spending and the increase in wages, fairly rapid in the second part of 1960, played an effective part in sustaining home demand, which was also spurred at the beginning of 1961 by the increase in family allowances and help to old-age pensioners.

A BIRD'S EYE VIEW OF THE MAIN INDUSTRIAL SECTORS

Expansion, which continued, broadly speaking, over the two years following the actual opening of the Common Market, did not take place with equal strength in all industrial sectors.

In 1959, as in 1960, chemicals and electrical engineering headed the list. The greater part of mechanical engineering, paper and board, and to a lesser extent textiles and clothing, were also making progress.

The motor industry, whose sales had fallen on the home market in 1959, had more than offset this loss through exports, and its output had continued to grow. But this industry was affected by a shrinking of outlets in the United States and the rate of increase of 1960 over 1959 declined steadily from June onwards.

But this recession was slight in comparison with the situation in shipbuilding.

In the basic industries, coal output was down from 59.9 million metric tons in 1959 to 58.3 million in 1960. Stocks stood at over 13 million. A plan for putting the industry on a sound footing is now under way. On the other hand, petroleum output soared thanks to the exploitation of oil fields in the Sahara (11.5 million metric tons of crude oil, including 2 million in France itself and 8.5 million in the Sahara—compared with 1 million in 1959). In iron and steel, progress was also more rapid (17.2 million metric tons in 1960, compared with 15.2 million in 1959).

Though spectacular dismissals of redundant workers, such as those which became necessary at the Renault factories after the 1960 holidays, sounded a warning, they did not become general and the employment index was very satisfactory in 1960. It is true that the results of the Pinay-Rueff recovery plan were still being felt at the end of 1959 on the labour market, where the number of job-seekers was up on 1958 (this is a natural feature of the beginning of a recovery: firms take up the slack in their production capacity before hiring fresh labour). **But at the end of 1960 outstanding applications for employment were only 128,000 as against 146,000 a year before.**

The break with inflation

Even more remarkable than the rate of French industrial growth during the first two years of the Common Market were the conditions under which this growth was achieved.

It took place in an atmosphere free of the lurking menace of inflation. This was a new departure in the history of the French economy after the Liberation, and much needed if France was to hold her place among her partners in the Common Market.

A rapid increase in prices and wages would have wiped out—once more—the effects of the devaluation of December 1958. Moreover, with the progressive scaling down of customs and quota barriers throughout the Community, it would have led to more serious distortion than usual. **This sword of Damocles, the 'open competition' provided for in the Treaty of Rome, has played a significant rôle in ensuring more prudent administration by those who direct the French economy and the affairs of industry.**

STRICTER BUDGETING

The surgical operation performed in December 1958 by M. Pinay and M. Rueff brought the deficit in government finance down to 587,000 million old francs in 1959. During the year, actual spending was rather in excess of estimates but less so than in previous years. The result was that there was no need for long-term Government borrowing, and the Government was able to ease credit by lowering the bank rate from 4½ to 4¼% on February 5, 1959, and to 4% on April 23, 1959.

The state of the public finances in 1960 remained satisfactory. Expenditure increased by less than 3% during the year, which, for France, was something of a record. The deficit remained less than 7,000 million new francs (NF). Revenue was up on forecasts because of economic expansion, which increased tax yields. The Treasury Department therefore had ample funds available and the Government was able to leave more room on the market for private loans, since it did not itself make any calls on long-term savings in 1960.

SLIGHT INCREASES IN PRICES

The measures of economic reform taken at the end of 1958 necessarily led to higher prices: the devaluation of the franc by 17.5% raised the cost of imported products; the abolition of a number of subsidies, tax exemptions and the increase in certain taxes led to higher prices for certain public services (railways, gas, electricity and coal) and also for many groceries.

The general rise in prices was not, however, as severe as expected. All in all, the index of wholesale prices in 1959 rose by 6.9% and the retail price index by 6 per cent.

In 1960 prices were fairly stable with only a slight upward tendency. The general index of wholesale prices remained almost unchanged, since the prices of foodstuffs and, in many cases, of imported raw materials, offset the slight increases in industrial products stemming from higher steel prices.

The index of retail prices rose by only 3.3% from December 1959 to December 1960. The increase affected mainly services (rents, transport, medical attention). The prices of foodstuffs were fairly stable, but price cuts at the production stage did not always benefit the consumer.

Index of retail prices

(250 articles, July 1956 to June 1957 inclusive = 100)

1959		1960	
January	124.0	January, February	130.1
February, March, April	125.7	March, April	130.4
May	124.6	May	130.3
June	124.9	June	130.2
July	125.3	July	130.7
August	125.9	August	131.9
September	126.5	September	132.1
October	127.6	October	132.3
November, December	128.4	November, December	132.7

(Index for December 1961 : 183.3)

HIGHER WAGES

The slowing down of activity at the beginning of 1959, following the monetary and economic recovery measures, acted as a brake on wage increases. So much so that from January to October 1959 average hourly rates rose by only 4.2% as against 7.2% in the same period of 1958. But during the last quarter, a great many increases were granted and as a result the upward trend in the private sector for the whole year appears to have been very similar to that of 1958, i.e. between 7 and 8%. This was almost the same therefore as the increase in the cost of living.

In 1960 the situation was a good deal easier for wage-earners. Pay increases were about the same as in 1959, but the cost of living rose by only just over 3%, with the result that purchasing power increased by 4.5%, something which had practically never happened before.

On average, the wages of unmarried workers reached or even exceeded the maximum level of summer 1957, with the great difference that in 1957 France was spending more than she was producing – a situation which could not last. However, the standard of living of married workers with children lagged behind, for family allowances did not keep pace with wages.

Index of hourly wage rates

January 1956 = 100

	1957	1958	1959	1960
1 January	106.8	118.9	128.6	137.2
1 April	108.5	123.5	131.1	139.3
1 July	111.4	126.5	133.1	141.8
1 October	114.6	127.5	134.1	144.8

The following table shows the growth in the purchasing power of the net monthly income of workers in Paris on January 1, 1961 by comparison with January 1, 1960, January 1, 1959 and July 1, 1958 (end of the inflation):

	Over 1 year	Over 2 years	Over 30 months
Unmarried worker	+ 8%	+ 11%	+ 6%
Head of family: 2 children	+ 6%	+ 8%	+ 4%
5 children	+ 5%	+ 7%	+ 3%

THE COST OF AN HOUR'S WORK

The effects of the devaluation in 1958, of more severe competition in the Common Market, and of increased productivity have kept French industry, despite the increase in wages, in a strong competitive position in regard to her neighbours. Before the opening of the Common Market, it was often argued by industrialists that wages and social security were a heavier burden on them than on their trading partners and that French entry into the European Community would therefore be dangerous, but these arguments now carry much less weight. A survey published in March 1960 by the National Institute of Statistics (INSEE) showed that the average cost of an hour's work in French industry (NF 3.51) was in April 1959 rather higher than in the Netherlands (NF 2.81) and in Italy (NF 2.99) but lower than in Belgium (NF 3.62), Western Germany (NF 3.84) and Great Britain (NF 3.80).

The disparity in the burden of social security, heavier in France (50% of wages) than in Germany (44%), Belgium (31%), the Netherlands (30%) and England (14%), only partly accounts for disparities in the cost of an hour's work, since wage rates proper also vary widely: NF 2.32 in France as compared with NF 3.33 in Great Britain, NF 2.77 in Belgium, NF 2.66 in Germany, NF 2.16 in the Netherlands and NF 1.71 in Italy.

These are obviously only averages, concealing wide differences from industry to industry. In iron and steel, for example, INSEE calculates that in April 1959 the cost of labour in France was approximately on a par with that of Italy and lower by 9% than in Great Britain. It was also 28% lower than Belgium and Germany (costs being the same in these two countries) and 59% lower than in Luxembourg. In the mechanical and electrical engineering industries, British

and Belgian figures seemed rather higher than those in France and Germany, which were on a par, whereas in Italy and the Netherlands they were from 15 to 20% lower.

In chemicals, Belgium and France were equal, with costs midway between the lower figures of Italy and the Netherlands and the higher figures of Great Britain and Germany. In glassware, ceramics, building materials and textiles the position was much the same.

France was also below Germany in the timber and allied industries, but equal to Germany for paper and board and for hides and skins. Labour costs in France are higher than in Germany for machine tools and electronics. In printing and publishing they are higher than in any other European country.

The boom in external trade

French successes in foreign trade are without question among the outstanding achievements of the economy in the last three years.

Near equilibrium in the balance of trade with foreign countries was established in 1959 and in 1960, against a deficit of 361,000 million old francs in 1958, when exports amounted to only 79% of imports. Moreover the equilibrium is at a very high level of trade (imports plus exports up by 26.5% from 1958 to 1959 and by 25% from 1959 to 1960). The improvement in the balance is therefore due to the growth of exports and not to a decline in imports.

The boom in exports is due to many factors, but the two most important are without any doubt the devaluation and the Common Market, both of which spurred the efforts of French manufacturers.

The largest increase in exports is to the Six and it is here that the outlook is most encouraging. The 1959 jump in sales to the United States would seem to be no more than a stroke of good fortune, explained by exports of steel and motor cars. They slackened off later to a more modest pace.

The following tables show the growing share assumed by the Common Market in France's foreign trade:

EEC share in overall French trade with foreign countries

	1958	1959	1960
Imports	30.2%	35.3%	38%
Exports	35.4%	39.8%	42.6%

French trade with her partners in the Common Market now represents 40% of her total trade with foreign countries, compared with 3.25% in 1958.

Development of French trade with her partners in the Common Market

	(in millions of old francs)		
	1958	1959	1960
Imports	606,057	672,679	912,600
Exports	560,998	753,805	1,008,500

In two years (1959 and 1960) France's imports from the Common Market countries rose by 50% and exports to these countries by 79%.

The increases are admittedly slightly smaller in volume, and the statistical effect of the return of the Saar to Germany (see above) must not be forgotten, but the following table shows the development of French trade with each of the countries of the European Economic Community and demonstrates clearly enough what the Common Market has meant for France.

Development of French trade with each of the Common Market countries

	(in millions of old francs)		
	1958	1959	1960
France's customers			
Federal Germany	263,900	363,400	465,600
Belgium-Luxembourg	160,400	186,900	253,400
Italy	85,500	131,900	197,900
Netherlands	51,200	71,500	91,600
France's suppliers			
Federal Germany	322,300	364,800	488,800
Belgium-Luxembourg	148,500	133,000	183,800
Italy	65,200	78,700	124,700
Netherlands	70,000	87,200	115,200

These figures show that the Italian market has provided France with her greatest success in the European Economic Community. Exports to Italy broke all previous records, rising by 133% in the two years following the first customs and quota disarmament measures laid down by the Treaty of Rome.

These excellent figures for French foreign trade for 1959 and 1960 and the return of confidence in the franc had their effect, of course, on gold and foreign currency reserves. In June 1958 the latter were practically nil: on February 1, 1961 they stood at 2,143 million dollars.

SECTION TWO

**FRENCH INDUSTRY IN THE
COMMON MARKET**

Mechanical engineering

Metal working, from the semi-finished stage (forging, punching, pressing) to that of the most advanced products (precision, optical and measuring instruments) comes under the Federation of Mechanical Engineering and Metal Processing Industries. Unlike other countries, the French classification excludes shipbuilding, aviation and the motor industry. Here the 'mechanical engineering industries' will be defined as those which come under the Federation: about 12,000 firms (of which 10,000 employ less than 100 workers and 160 more than a thousand) distributed over 12 main branches and employing 654,000 wage-earners in 1960. In that year the total turnover was NF 25,000 million.

1 THE INDUSTRY'S ATTITUDE BEFORE THE COMMON MARKET

In an official statement released in July 1957, the Federation of Mechanical Engineering Industries saw entry into the Common Market as an 'adventure, fraught with danger, calling into question nothing less than the maintenance on French soil of a strong and independent industry'. According to industrialists, the general, political, financial, and economic conditions under which French industry operated made the conversion of the mechanical engineering industries to a new system of working very difficult. The protective framework to which these industries were accustomed must not be abolished, said the industrialists, 'unless accompanied by correction of distortions which account for the degree of such protection'.

To justify their reservations, the industrialists pointed out that their prices were from 25 to 30% higher than those of the Germans, their main competitors. (The German mechanical engineering industry is twice the size of that of France). They added that exchange rates, wage costs and credit terms were all to the disadvantage of the French industry, which could only export at a loss.

In the field of technical competitiveness, there was a heavy handicap: 'In the last 20 years, we have experienced first a recession, then a demand so overwhelming that it could absorb without difficulty everything produced, lastly a period of controlled prices which only encouraged technical innovation to the extent that such innovation eased the stranglehold on prices'.

2 FIRST RESULTS OF THE COMMON MARKET (1958 - 60)

General trend: After the promising beginnings and record peaks of output in the first quarter of 1958 the engineering industries were affected in varying degrees by the decline which followed the monetary reform at the beginning of the year. The recession was soon apparent in the output figures for the later quarters of 1958. They remained high only where order books had been well filled the previous year (delivery dates were from six months to two years ahead in various sectors, particularly for capital goods) or where the work on hand was dependent on delivery dates fixed by contract.

What was to happen when the orders in hand were completed? This was the question industrialists were anxiously asking themselves in January 1959, when the first measures were taken to establish the Community's customs union.

In mechanical engineering and metal processing, even more than in the other sectors of the French economy, 1959 was a year of stagnation, even of decline, as a consequence of monetary stabilization. But in many cases firms managed to maintain their output and their level of employment by emptying their order books. In the third quarter, however, clear signs of recovery gave hopes of better things in 1960. Favoured by monetary stability and the 1958 devaluation, exports made substantial progress.

A leading feature of 1960 was a general rise in output and a further considerable growth in sales abroad. However, the progress of mechanical engineering output was slower than that of total production all through the year, since the equipment industries failed to make up the time lost before the recovery in 1959.

Output, turnover, prices, investment : The average index of mechanical engineering output at the end of 1958 was 117 (1956 = 100) and 116 at the end of 1959. It rose again at the end of 1960 to 122 (previous maximum: 119 in the third quarter of 1958). Numbers employed at the end of 1959 were for the first time lower than those of the preceding year (639,000 compared with 640,400), but rose again in 1960 to 654,000. Productivity made no progress in 1959, but picked up again in 1960, at about the usual rate of 6% per year. Turnover, however, advanced by 5% over 1958 and reached NF 22,500 million in 1959, as a result of slightly higher selling prices at the beginning of the year. Prices thereafter remained stable. In 1960 there was an increase of 10% in value (turnover NF 25,000 million) and 7% in volume. Prices had therefore risen by 3% over the year.

The rate of investment of the industry fell in 1959 to about 4.3% owing to the unfavourable economic trend and then rose again to about 5%, the normal rate (the Ministry of Industry's somewhat optimistic estimate).

Trade : Exports of machinery to foreign countries reached NF 1,700 million in 1959, an increase of 35% over the previous year. Progress was even more substantial in 1960, for exports rose to NF 2,600 million, an increase of 47½%. The results are spectacular in about 10 sectors, including machine tools (+ 47%), cold storage equipment (+ 129%), ball bearings (+ 109%), lifting and handling gear (+ 79%). The proportion of French engineering production exported to foreign countries is therefore about 10 per cent.

At the end of 1960, exports were paying for 87% of imports, a figure not reached since 1952.

The main importers of French goods are the European countries (50%), particularly the EEC, headed by Germany.

In the table on page 19 the figures relate to the first half-year; hence the apparent discrepancy with the above percentages.

The following factors were regarded as decisive in this expansion of French exports:

The results of previous export drives in mechanical engineering;

Action by firms to make their prices more competitive;

- Recognition of the high quality of French technique in many fields;

A temporary decline in non-member countries of competition from Germany, which was overwhelmed with orders on its home market.

Sales to countries in the franc area, at NF 1,300 million, increased by only 8% over the previous year (1,200 million) and thus played a significantly smaller rôle in expansion than sales to other countries.

STRUCTURAL ADAPTATION

A. Trade associations

At national level : The Federation of Mechanical Engineering and Metal Processing Industries is pursuing a twofold policy: it keeps the public authorities informed of its attitude to the problems raised by the establishment of the Common Market, and it advises its own members of the decisions of European bodies and of the possibilities for adaptation to the new conditions of competition.

The main instrument of this twofold operation is a 'European problems' service which has been distributing since the beginning of 1958 a bi-monthly review under this title; it is the first of its kind in France. Opening with an editorial on a topical issue, this magazine, which goes beyond the framework of the Six, takes stock of the work of the European institutions and includes chapters on 'news of our opposite numbers', 'European industrial and trade committees', and 'the activities of individual firms'.

At the end of 1960 the Federation sent out a questionnaire to firms concerning their attitude to the problems raised by the Common Market. About a quarter of the firms approached replied. From this, it would seem that industrialists are more concerned with a few technical problems, such as transport, than with wider questions. The conclusion is that the ground has been sufficiently cleared and that they are ready to get down to questions of detail.

External and internal adaptation

Externally the industry was urged to adopt a more enterprising attitude in the following ways:

By stepping up collective publicity directed at the administration and the general public (informing them of French successes and evidence of foreign appreciation, e.g. French lenses for Leica cameras) and *at French customers* to recapture a confidence which was sometimes lacking;

By improving representation on the markets of other member countries. A wider participation in many specialized European fairs was recommended (particularly at the CNIT¹, where the French sometimes failed to exhibit) and above all at the **Hanover Fair**, where French participation has been rising steadily:

1959: 38 French exhibitors or groups of exhibitors 3,000 sq. m.

1960: 57 French exhibitors or groups of exhibitors 4,000 sq. m.

1961: 85 French exhibitors or groups of exhibitors 5,000 sq. m.

- *By increasing the number of export groups* in many fields (machine tools, agricultural equipment, lifting gear, etc.). This joint action abroad is in striking contrast with the keen competition which used to prevail between manufacturers on the external markets. It is also leading to closer relations among industrialists on the internal market.

Internally the industrial association recommended certain policies which are now under way: structural reorganization through specialization, concentration and decentralization; more collective financing; and the development of collective technical research.

- *Structural reorganization.* A specialized service of the Federation is available for members. Results so far have been meagre. Industrialists, who for the most part are heads of family concerns, are opposed to sweeping changes such as specialization or mergers. However, approaches from the financial angle has yielded some results.
- *Investment.* The efforts of the industry are in addition to government measures (reductions in rates of interest on advances, earlier amortization, etc.) taken in recent years. *Research on new means of collective financing:* GIMECA (Mechanical Engineering Group) loans since 1959; establishment in 1961 of TEFICA (Mechanical Engineering Technical and Financial Company) which groups industrialists and bankers and which is to serve as a consultancy to supply reorganization plans and possible finance after a 'diagnosis' of a firm's position.
- *Technical research.* The industry decided at the beginning of 1961 to set up technical centres in all branches of mechanical engineering, which did not then possess them, and an industrial technical centre with the tasks of assembling documentary material, training, and research on subjects of common interest. The establishment of this centre had for a long time been strongly opposed.

At EEC level. Contacts with other European countries have been considerably developed, and have been given institutional form.

Two bodies for the whole of the industry have been set up:

ORGALIME (a liaison body for the European metal industries) with 13 member countries; COLIME (liaison of the mechanical and electrical engineering and metal-working industries) covering the Common Market countries.

In addition there are about 40 primary committees grouping specific branches, where there were only about 10 before the opening of the Common Market. These committees generally go beyond the framework of the EEC, but representatives from the six countries frequently meet to deal with questions concerning the Common Market.

The committees deal with exchanges of information, general technical research, standardization and the comparison of methods. Contact is particularly close between the manufacturers of pumps, machine tools and optical instruments

¹ National Industrial and Technical Centre.

B. Individual firms

At national level

There have been co-operation and consultation between French firms, but few mergers. The latter occur almost exclusively among medium-sized and large firms, which are in the minority. About 30 noteworthy operations took place during the first half of 1960: complete, or more often partial mergers, the establishment of joint subsidiary companies, marketing agreements, establishment of joint research companies.

At European level

Agreements between French mechanical engineering companies and those in Common Market countries or non-member countries are few in number.

They are of various kinds: mergers, manufacturing under licence, technical co-operation, distribution, capital participation, formation of new companies in association with other firms.

During the last nine months of 1960, about 20 agreements were concluded between French firms and their counterparts in other Common Market countries. They were mainly for manufacture under licence and technical co-operation. These agreements were for the most part between companies in France and Germany.

More agreements were signed in the same period with non-member countries, mainly the United States; they number about 50 and concern more especially investment and acquisition of share capital.

In the industry it is thought that this trend will become more marked, particularly within the Common Market, in the next few years, but that the regulations on cartels will have a restraining effect.

3 OUTLOOK FOR THE INDUSTRY

For French industrialists in the mechanical engineering sector, the opening of the Common Market is the main factor making for continued expansion (estimated at 7% in 1961). They expect:

Wider outlets;

A strong incentive for all industries to remain competitive, and therefore to modernize their equipment – which means yet more work for the engineering sector.

On the other hand the industry feels that there is a danger of a decline in export markets, since prospects in this field are uncertain in the long term though they are fairly favourable in the short term.

'The positive factors – dynamism, drive in exporting, technical improvement, changes in structure – seem to us to be the most important', the Federation declared in February 1961.

This was indeed different from the attitude of a few years earlier. The change stems largely from the 'Common Market spirit', but it is also explained by:

The stabilization of French prices and the improvement in credit terms;

The appreciable (and probably short-lived) slackening of German competition in foreign markets.

FRENCH ENGINEERING EXPORTS to the EEC countries (in millions of NF – first six months)

	1958	1959	%	1960	%
Total mechanical engineering exports	678	774	14.5	1,295	67
Exports to the Community	197	256	52	404	81
Germany	61	99	61	158	58
Italy	36	50	35.5	90	80
Belgium-Luxembourg	70	81	15.5	116	43
Netherlands	28	25	11.5	38	54

FRENCH ENGINEERING IMPORTS from the EEC countries (first six months)

	1958	1959	%	1960	%
Total mechanical engineering imports	1,128	1,283	14	1,435	11.5
Imports from the Community	598	678	13.5	777	16
Germany	370	513	38	554	8
Italy	63	95	51	132	35
Belgium-Luxembourg	47	45	45	60	32
Netherlands	18	23	30	30	37.5

APPENDIX 1

The motor industry

Attitude before the Treaty of Rome

On the whole the French motor industry had not been hostile to the Common Market. Some manufacturers, prominent among them the Renault company, were even strongly in favour.

By contrast, commercial vehicle builders were more cautious (imports of lorries are still restricted by quota) but they were even more opposed to the Free Trade Area than to the Common Market owing to the threat of competition from Great Britain, which is the biggest manufacturer of heavy goods vehicles in Europe.

We should add that at the present time, though the attitude of lorry manufacturers does not seem to have changed in this respect, motor car manufacturers are almost certainly not opposed in principle to closer relations with the Seven. French exports to Switzerland, Austria and Portugal are higher than British exports to those countries, although they all belong to the EFTA.

RESULTS SINCE THE START OF THE COMMON MARKET

The figures for French vehicle production were as follows :

	1958	1959	1960
Private cars	969,000	1,128,000	1,175,000
Commercial vehicles	156,100	153,200	188,000
Motor coaches and buses	3,077	2,766	2,444

This trend is causing concern to industrialists who note that though from 1958 to 1959 French output (of all kinds of vehicles) was up by 14%, and by 6% between 1959 to 1960, the rate of development was much more rapid in Germany and in Italy (19% from 1959 to 1960 in Germany and 30% for the same period in Italy).

Moreover, in absolute figures, French output (1,369,000 vehicles in 1960) is well below German output, which was more than 2,000,000 vehicles. In an industry in which mass production is essential, this disproportion is a source of anxiety to industrialists, particularly as investment in the French industry is well below the figure for German industry. Renault's investment, for example, was expected to total some NF 150 million in 1961 whereas Volkswagen's is believed to have reached more than NF 500 million.

Development of trade

French exports to Common Market countries were as follows :

	Number of vehicles	Percentage of total exports
1956	45,492	23%
1958	58,176	16%
1959	139,358	23%
1960	157,943	27%

A feature of 1958 and 1959 was the spectacular progress of French exports to the United States, but that did not prevent French sales in other EEC countries from more than doubling. With the shrinking of the American outlet in 1960, French manufacturers again increased their efforts on the markets of France's neighbouring countries.

Imports from Common Market countries

On January 1, 1960 private motor cars and commercial vehicles of up to 3,000 c.c. engine capacity were released from quota restrictions. Imports of motor cars into France immediately doubled from 13,700 in 1959 to 30,000 in 1960. Forecasts indicate a figure of 50,000 for 1961.

Of the 30,000 cars imported in 1960, 18,500 came from Germany and 8,500 from Italy. Germany and Italy thus captured the lion's share and were expected to increase it as, with the latest reductions in customs duties, Community preference became even more pronounced.

Manufacturers are taking advantage of this period of grace to rationalize their production and prepare new models; for the fact is that French production in this field is not competitive, particularly for medium-sized trucks.

Adaptation to the Common Market

Action by the industry : A liaison committee of European motor manufacturers has been set up. It brings together representatives of the trade associations in France, Germany, Italy, the Netherlands and Belgium. France is represented both by the Chambre Syndicale in the Rue Presbourg and by the trade group from the Boulevard Haussmann. The committee meets twice a year but does not seem to play a rôle of any great importance.

Action by individual firms : The big regroupings of truck manufacturers took place before the signing of the Treaty of Rome ; an example is the Saviem-Latil-Somua agreement of 1955.

It is admitted that French automobile production, although it has only four big manufacturers, is still not concentrated enough. Closer integration would prove difficult, however. Certain trade circles considered that the 1960 agreement between Citroen and Simca for the use of the Nanterre factory might constitute the beginnings of closer co-operation, this move having taken place under the auspices of a big American manufacturer (Chrysler). But these are no more than rumours.

Peugeot and Renault have signed an agreement on the marketing of their cars in America (the Renault network has undertaken to sell a certain number of Peugeot cars on the American market) ; an attempt at commercial co-operation between these two firms on the national market in the Toulouse area, however, seems to have failed so far to get under way.

Some Government experts consider that the fact that the biggest French manufacturer, Renault, is a nationalized undertaking constitutes an obstacle to a concentrated policy of investment between the leading French manufacturers. The discord seems to have other sources, however, with each manufacturer extremely jealous of his rights.

As for the French motor industry's links with the industries of other EEC countries, the close relations maintained between Simca and Fiat are well-known.

There was at one time much talk of negotiations between Citroen and Mercedes, but this was never confirmed and no concrete results have emerged.

On the other hand, there has been an agreement between Renault and Alfa Romeo, whereby Renault sells Alfa Romeos in France and Alfa Romeo has installed plant for assembling Dauphines in Italy (the cars are not assembled solely from parts imported from France, but include a certain percentage of locally manufactured parts) and has placed its distribution network in the peninsula (some 300 distributors) at the disposal of Renault for the sale of their motor cars.

Renault recently signed an agreement with Finmeccanica, under the terms of which Renault will have diesel engines manufactured in Finmeccanica's Naples factory : these engines will be used in Renault tractors.

Lastly, American plans in Europe are a source of concern to French manufacturers ; reports were current that German Ford and Opel (a subsidiary of General Motors) are to lead an attack within the Common Market, possibly by introducing a small car.

APPENDIX II

Farm machinery and equipment

The farm machinery sector is the largest of all those grouped in the Federation of Mechanical Engineering Industries. But it has been in difficulties for some time, as can be seen from its declining turnover: NF 1,820 million in 1958, NF 1,780 million in 1959, and NF 1,660 million in 1960.

This industry, which employs some 40,000 workers, comprises 377 firms of extreme variation in size :

The **tractor industry** is relatively highly concentrated : five firms (Renault, Massey-Ferguson, CIMA, Simca, Vendevre) share 95% of total production (64,100 tractors in 1960). The turnover of the tractor industry was NF 765 million in 1960 ;

At the other end of the scale, the manufacture of **other agricultural machines**, of which there are more than two thousand different kinds, is distributed among more than 300 firms (of which 217, according to a survey in 1959, employed less than 20 workers each).

Attitude before the opening of the Common Market

The industry has never made any public pronouncement on the Common Market. In private discussions, certain manufacturers, particularly tractor builders, had shown a certain hostility, but were never overtly opposed. The industry decided to bring its position into line, purely and simply, with that of the CNPF (the National Council of French Employers or 'Patronat').

It should be noted that this is an industry working partly under foreign licence and which was already accustomed, before the Common Market came into existence, to contacts with outside firms.

RESULTS IN THE FIRST TWO YEARS

Output

The output of tractors has been steadily declining since 1958 : 93,600 tractors in 1958, 80,200 in 1959 and 64,100 in 1960.

The output of cultivators and one-axled tractors has, however, slightly increased : 26,489 in 1958, 26,200 in 1959 and 27,600 in 1960. But turnover in this branch is much smaller (NF 53 million in 1960).

A setback has been noted for other agricultural machinery as well. Expressed in weight, output fell from 235,000 metric tons in 1958 to 204,000 in 1959 and 195,000 in 1960.

As an example, 103,005 motor-driven horticultural ploughs were manufactured in France in 1958, 80,058 in 1959 and 80,000 in 1960.

Trade

French imports : The most important factor was the liberalization of trade in 1960 for all agricultural equipment, save crawler tractors, which were liberalized on April 1, 1961. The main effect of the abolition of quotas was to boost purchases of British equipment (especially tractors). This is not surprising, since the British farm machinery industry (and particularly the tractor industry) produces more cheaply than European firms, thanks to longer runs. It is likely that the price advantage of British production will continue to be a determining factor, at least until such time as equipment imported from the other EEC countries has the benefit of entering duty-free.

The total value of imports of agricultural machinery rose from NF 130 million in 1958 to 192.3 million in 1959 and 314.8 million in 1960. From 1959 to 1960 imports from the other Common Market countries increased therefore by only 11%. But those from other countries (mainly Great Britain) increased by 63% (largely tractors).

Some imports of specific items were as follows:

Tractors: overall imports of wheeled tractors rose from 14,281 in 1959 to 21,700 in 1960 but some of them accumulated as stock, for sales of imported tractors totalled only 15,000 (12,477 in 1959).

Imports from Common Market countries rose from 10,321 to 12,108 (+ 17%);

Imports from other countries rose from 3,225 to 8,392 (+ 160%).

Combine harvesters: total imports rose from 3,738 units in 1959 to 3,759 in 1960 (+ 0.5%).

Imports from the rest of the Common Market fell from 3,527 to 3,308 (- 6%);

Imports from the other countries rose from 143 units to 395 (+ 176%).

For pick-up balers, imports were negligible in 1959, but they rose to 1,457 units in 1960, of which almost all were from outside EEC.

French exports: French exports of agricultural equipment were far below imports: they moved from NF 44 million in 1958 to 68 million in 1959 and 83.1 million in 1960.

Unlike imports, exports to other Common Market countries tended to expand much faster than to non-member countries, as the following table shows (in millions of NF):

	1958	1959	1960	% change	
				1958-59	1959-60
Total French exports	44.7	68	83.1	+ 52%	+ 22%
OEEC (but not EEC) countries	17.4	25.9	39.4	+ 58%	+ 74%
EEC countries	14.3	22.6	21.3	+ 49%	- 18%

DOMESTIC MARKET

As has already been pointed out, 1959 and 1960 were poor years on the home market: in 1959, sales fell off by about 15% in comparison with 1958; in 1960 tractor sales dwindled by 20% and those of other agricultural machines by 5%. This situation is obviously not due to the implementation of the Treaty of Rome, which has so far had very little effect on agriculture. It is connected with the general problem of agriculture in France.

STRUCTURAL ADAPTATION

Action by trade associations

After long negotiations, which opened in April 1957 just after the signing of the Treaty of Rome, a European Agricultural Machinery Committee was set up in April 1959. The industrial organizations of eight countries are represented on this Committee: five Common Market countries (France, Germany, Italy, Netherlands, Belgium) plus Great Britain, Austria and Switzerland.

The first contacts of April 1957 had been made between the five Common Market countries on the initiative of the French, but it was the Germans who requested that the Committee be widened to include the organizations of the three countries mentioned above, which belong to the Free Trade Association (and which, within that area, are those having a large agricultural engineering industry).

This European Committee includes five working parties which all meet two or three times a year:

1. **Nomenclature, terminology and statistics**: This working party has already obtained useful results: a common nomenclature has been established, which the European Committee is trying to have adopted by international organizations (particularly the OEEC). From the beginning of 1962 the eight national Federations represented on the Committee began a regular exchange of statistical information;

2. **Fairs and exhibitions**: This working party has been endeavouring to reduce these events in number and co-ordinate their dates;

3. **Economic expansion**: Studies ways and means of increasing the activities of the farm machinery industry;

4. **Standards**: The progress of this working party has been slow moving but is now yielding positive results;

5. **Technical questions**: This working party partly overlaps with the preceding one. It has the task of eliminating purely technical obstacles to the expansion of trade. For example, the maximum speed of tractors on the public highway is 27 kilometres an hour in France and 20 kilometres in

Germany, with the result that when a French tractor is exported to Germany, its gearbox has to be changed. The working party therefore proposes that this speed limit be made uniform in all European countries at 25 kilometres per hour. Similarly it proposes that the Highway Code in the various countries be unified, for example, for the lighting of vehicles. This would make it possible to standardize types of lamps.

Action by firms

As in England and Germany, many big French manufacturers are linked with international American combines. These large American companies are at the present time distributing their production over several different European factories. For example, Massey-Ferguson used to build the same tractor in Britain and in France. Henceforth this will be changed and the French and English factories will specialize in different types of tractors. The CIMA (Compagnie Internationale de Machines Agricoles, controlled by International Harvester) also intends to spread its production over various European factories.

These big companies, whose interests range over the Common Market countries and those of the Free Trade Association, are organizing their manufacturing schedules on a pan-European scale.

Under the future common external tariff of the EEC, the duties on most agricultural machines will be comparatively modest (+11 to 12 per cent).

Industrialists are convinced that, in order to face international competition, the French farm machinery industry must consolidate. But scope for this varies according to the particular branch:

1. *The tractor industry*: We have already pointed out that this industry consists of only a small number of manufacturers. In present circumstances fresh concentration would seem difficult. But the following three factors are worth noting:

- Tractor manufacturers, when they are not themselves manufacturers of miscellaneous agricultural machines (and even, in certain cases, when they are), are seeking to conclude technical and commercial agreements with firms specializing in the production of such equipment. The reason for this is that a tractor by definition must be able to adapt itself to all the agricultural implements with which it is used. Tractors, therefore, can scarcely be produced in isolation. Renault has entered into many agreements with manufacturers of agricultural machinery, and numerous other examples could be given;
- Tractor manufacture is becoming more and more international. Renault and Massey-Ferguson (France) use German diesel engines; Simca imports engines made by Fiat or O.M. (Fiat subsidiary). The British firm of Perkins has a factory making engines in France;
- The American hold on the French tractor industry seems likely to tighten: Allis-Chalmers has acquired a majority interest in the Vendevre company.

2. *Agricultural machinery*: Among the 350 manufacturers, a certain number of agreements on specialization, rationalization and distribution have been concluded, mainly since the entry into force of the Treaty of Rome. The most important is probably that which established the Compagnie Continentale de Motoculture, a group of three machinery manufacturers. It is significant that the Compagnie Continentale has an agreement with the biggest American tractor manufacturers, John Deere, who are to set up a factory at Orléans. The products of this factory will be sold by the Compagnie Continentale.

Another notable example is the Union Charrue-France, which is a group of four plough manufacturers. The agreement covers the sharing out of production and the establishment of a sales network and a joint export service.

3. Lastly, since the Treaty of Rome came into operation, many *foreign firms*, particularly American ones, have been setting up subsidiaries in France: the controlling interest in Vendevre acquired by Allis-Chalmers and the construction of a factory in Orléans by John Deere under an agreement with the Compagnie Continentale de Motoculture, have already been mentioned, but other examples could be quoted, including, among the most important: purchase by the Case company of the Société Française de Matériel Agricole at Vierzon; establishment of the New-Holland company; establishment of Caterpillar (crawler tractors).

THE OUTLOOK

Because the same interests and the same companies are often found in the Common Market countries and in the EFTA countries, because trade is very active between these two groups, and because the trade associations of Britain, Austria and Switzerland are represented on the European Agricultural Machinery Committee with France, Germany, Italy, Belgium and the Netherlands, it would be a mistake to conclude that French agricultural engineering favours the establishment of a large free trade area in Europe. The association which represents the industry is hostile to such a development, and this is a faithful reflection of the industry in general.

What the industry fears for the future is that the big American firms may transplant their competitive struggle to Europe, and that this may lead to the creation of productive capacities exceeding foreseeable demand.

The same misgivings are being expressed in other quarters, notably the motor industry and chemicals.

The aviation industry

The French aviation industry had a turnover of NF 2,400 million in 1960 ; it gives employment to about 80,000 persons. (This number may decline on account of the troubles now besetting Sud-Aviation, following the decline in exports of the Caravelle). France's aviation industry is thus the leader within the EEC. The German industry comes second, employing only about 20,000 workers.

Reorganization of the industry has been going on for the last four years ; the production of military aircraft has been falling off and that of civil aircraft increasing. Whereas military orders were still 80% of the total in 1957, they represented only 55% in 1960.

Depending on the year, exports account for 20 to 25% of production.

The industry can be divided into three branches :

One branch, representing rather more than half of the whole, and employing about 47,000 workers, is devoted to the manufacture of airframes. The two biggest companies in this field are the nationalized firms of Sud-Aviation (more than 20,000 workers) and Nord-Aviation. Together these two undertakings are bigger than all the private airframe manufacturers put together.

A branch for engines (15,000 workers). This branch also includes a nationalized firm, SNECMA, which accounts for a little over half the branch's activity.

An equipment branch distributed over about 200 firms with about 17,000 workers.

ADAPTATION OF THE INDUSTRY TO THE COMMON MARKET

The Treaty of Rome has scarcely affected this industry at all.

Action by trade associations

It was not the Common Market which provided the framework for the establishment of an association of the various European industries. The relevant body, the International Association of Aircraft Manufacturers (AICMA) was founded in 1950 and includes as well as the trade associations of five Common Market countries (Germany, France, Italy, Belgium, the Netherlands) those of Spain, Switzerland, Sweden, Norway and Denmark. Great Britain, which originally had declined to take part in the Association, now seems to be seeking closer relations.

This Association has a standardization committee and an economic committee. The latter is studying, in particular, customs problems involved in the Common Market and is also making comparisons of manpower costs in the different countries.

Action by firms

It should be noted first of all that Article 223 of the Treaty of Rome stipulates that products intended for specifically military purposes are not affected by the Common Market.

The only co-operation agreements between French firms and firms belonging to other Common Market countries concern just this kind of aircraft :

- The joint manufacture, by Bréguet (France), Dornier (Germany), Fokker (Netherlands) and the Belgian Association for Patrol Aircraft, of the prototype of the 'Atlantic', an anti-submarine patrol plane which was ordered under a NATO agreement ;

The joint manufacture of the military cargo aircraft 'Transal' by Nord-Aviation and two German companies. One prototype is to be built in France and two in Germany.

EFFECT OF THE TREATY OF ROME ON THE CUSTOMS SYSTEM

Aircraft equipment, both military and civil, was already exempt from customs duties before signature of the Treaty of Rome, and still is (except for aircraft of less than one-and-a-half metric tons). The Treaty of Rome has had the effect in this field :

1. Of irreversibly establishing the duty-free system of trade with France's EEC partners ;
2. Of establishing for the future a common external tariff. (Protocol xvii annexed to the Treaty).

In principle, duties will vary between 15% and 12% according to the weight of the aircraft ; the duties are at present 'suspended'. This suspension will be maintained until January 1, 1967 for aircraft weighing more than 15 metric tons. After that date, each state may apply for a tariff quota, and this cannot be refused.

For aircraft between 5 and 15 metric tons, duties are suspended until January 1, 1964 ; after that date it will be possible to apply for the opening of a tariff quota, but the application will have to be accepted unanimously.

Textiles

The French textile industry accounts for about 10% of total national production. The home market absorbs NF 9,000 million worth (ex-works) of finished fabrics. Exports total NF 4,000 million, a quarter of this in the franc area.

The industry is very scattered and consists for the most part of family concerns. It employs 485,000 wage-earners, including 412,000 manual workers of both sexes in almost equal numbers. The labour force is smaller by 35% than before the war, whereas textile production, of which a growing proportion consists of man-made fibres, has expanded since then by 25%, though not without serious setbacks.

ATTITUDE OF THE INDUSTRY BEFORE THE COMMON MARKET

The view taken by the French textile industry before the signature of the Rome Treaty was that the idea was good but that the Treaty was bad. Generally speaking, lack of self-confidence and fear of the unknown coloured the industry's attitudes. Numerous 'disparities' working to the detriment of France were invoked to justify this large and old-established sector's cool reception of the Common Market :

Disparity in the costs of social benefits ;

Disparity in men's and women's wages, since the latter were less well paid abroad, whereas equal pay for equal work, *de jure* if not always *de facto*, is the rule in France. The problem was aggravated by the fact that the textile industry is a large employer of labour – particularly female labour – relative to the other factors of production ;

Disparity in taxation (*pro memoria*);

Fear of German, and even more of Italian competition (at Prato, near Florence, for example, work is put out to be done at home and costs are thus particularly low).

Lastly, disparity in monetary conditions.

It should be noted that the more vigorous and forward-looking sections of the industry (synthetics in particular) made no comment.¹

RESULTS IN THE FIRST TWO YEARS

From the moment the Treaty was signed, the industry threw itself wholeheartedly into the new venture, pausing only to declare that, for textiles, 'the Common Market is not a point of departure but the end of a journey.' Today the atmosphere in textiles has changed completely. Misgivings have evaporated, inferiority complexes have disappeared and the much talked of 'disparities' are now no longer felt to be a grave difficulty. Devaluation has provided a complete answer to the monetary problem. There has been a distinct trend towards equalization of wages and social charges, because of increases in the other countries of the Six ; tax disparities are found in the end not to be so disastrous and French industrialists, it is discovered, are perfectly capable of pulling off big successes on external markets.

The value of textile output (approximate figures ex-factory) was NF 10,000 million in 1958. It rose to NF 11,600 million in 1959 and NF 13,000 million in 1960, a very remarkable boom in an old-established industry – some 30% in two years.

This growth is mainly due to the expansion of external markets. The value of textile exports moved from NF 2,500 million in 1958 to 3,100 million in 1959 and 3,900 million in 1960, an improvement of 54 per cent.

Exports to other EEC member countries account for rather less than half total exports. They grew by 62% in 1959 and 37% in 1960, an average improvement of about 50% in two years. The most noteworthy feature is the maintenance of a vigorous rate of expansion in exports to Germany. The rate of increase of French sales to her other partners later declined sharply, though it was still very high.

¹ The cotton industry was strongly opposed to the Treaty of Rome but feeling in the wool industry was on the whole favourable.

In the opposite direction, French textile imports grew even more vigorously, rising from NF 218 million to 494 million in 1960. They represent (excluding raw materials) only about one-tenth of exports, however, although the proportion is rising in relation to total sales.

The position is summed up in the following two tables :

Textile Output and Trade

(millions of NF)

	1958	1959	1960
Value of textile output¹	10,000	11,600	13,000
Total value of textile exports	2,525	3,178	3,890
To EEC	624	1,013	1,388
To other foreign countries	928	1,187	1,412
To franc area	973	978	1,090
Value of textile imports excluding raw materials			
Total	218	292	494
From EEC	107	144	266
From other foreign countries	95	135	215
From franc area	16	13	13

¹ The figures are *rough approximations*, as exact figures cannot be computed from the statistics available.

Trade with other Community Countries

(millions of NF)

	1958	1959	1960	% change	
				1958-59	1959-60
French textile exports :					
Germany (F.R.)	260	427	642	+ 64	+ 50
Italy	99	184	232	+ 86	+ 26
Belgium - Luxembourg	192	291	374	+ 51	+ 28
Netherlands	73	111	140	+ 52	+ 26
Total EEC	624	1,013	1,388	+ 62	+ 37
French textile imports :¹					
Germany (F.R.)	39	47	87	+ 20	+ 85
Italy	46	80	148	+ 74	+ 85
Belgium - Luxembourg	52	79	104	+ 52	+ 32
Netherlands	12	19	28	+ 58	+ 47
Total EEC	149	225	367	+ 51	+ 63

¹ These figures refer to *total* textile imports including raw materials.

Overall expansion has stimulated investment, which is, broadly speaking, rather low. The extensive investments in the man-made fibres branch were made before the Treaty of Rome came into force. Moreover, there is no noteworthy equipment problem, since present productive capacity exceeds demand and there is little new development in machinery.

STRUCTURAL ADAPTATION OF THE TEXTILE INDUSTRY

Action by trade associations

On the national level : The Union of Textile Industries - a sort of confederation of the federations covering the textile industries - devotes half its activity to Common Market problems. Its staff has not increased, for the personnel who dealt first with controls and later, after liberalization, with de-control, have now been transferred to Common Market questions. At branch level, however, the number of officials has slightly increased.

Broadly speaking, the industry's statistical services have been considerably developed, and economic trends are followed much more closely than a few years ago. Similarly, large market research services have been set up in the cotton, wool and silk branches.

The anxiety to broaden contacts with foreign manufacturers and to be represented on foreign markets has led to the institution of :

(1) An annual International Textile Fair in Paris (MTI). This was founded in 1959 by the French Textile Union to enable the textile industries of Europe (including countries outside the Common Market) to exhibit their products. It is enjoying growing success (100% increase in floorspace each year, rapid increase in the number of exhibitors, of whom 40% were from abroad as early as 1960, and of visitors: 8,700 in 1960, including 2,300 foreigners). This event is now regarded as the leading event among European specialized textile fairs.

(2) A 'Safety-Club', a Paris reception and information centre for foreign visitors opened jointly by the French wool and cotton industries in June 1960.

At EEC level: The French textile industry took the initiative two years ago, backed by the Germans, in setting up a common body for the textile organizations of the EEC to act as a spokesman for the industry *vis-à-vis* the administration of the Common Market. This research and liaison organization, the Co-ordination Committee for the European Textile Industries (Comitex) was set up in Brussels at the beginning of 1961 and will soon possess a permanent secretariat.

The founders of Comitex are the national federations of general textile industries (set up only recently in Italy and Belgium) and the separate sector organizations set up at EEC level. These bodies, about 10 in number, are for the most part nucleus groups from the international federations. They are very active, meeting at least once a quarter, and their meetings are a strong stimulus to contacts among industrialists who previously knew each other only slightly or not at all. The atmosphere at these meetings is variously described as good or very good.

Action by individual firms

In France: The manufacturers feel that the prospects in the Common Market have speeded up the rather slow process of modernization and adaptation in textile firms. The rate of progress varies widely from branch to branch, each having very marked special features. It is stronger in synthetic textiles and in finishing processes (dyeing, printing, bleaching, dressing) linked with progress in chemistry, and in cotton, than in wool for example.

There have been few drastic merger operations, nor has much been done in the field of specialization (variety in products being an important asset in the textile industries, where much depends on the whim of fashion).

In November 1960, about 15 sizable regrouping operations had been officially recorded, but the list is far from being exhaustive. These operations include mergers pure and simple, agreements for rationalization, agreements for joint research, and the establishment of buying centres. In the man-made fibres sector, which is already highly concentrated, there have been developments in product quality control and more vigorous action to promote sales.

For foreign operations, export groups have been set up in recent years. The most noteworthy are :

'Normandie Exportation' grouping cotton manufacturers in Normandy ;

'Qualité Exportation' founded by the Lyons silk industry ;

'Maille Exportation' set up at the national level by manufacturers of hosiery and knitwear ;

'Vefexport' set up in the framework of the National Garment Federation.

Generally speaking the need to be 'present' on the export market is being more and more strongly felt. The prospects on foreign markets are being studied more thoroughly, and the network of representatives abroad is being reorganized and strengthened.

In the framework of the EEC: Associations of French firms with those of other member countries have so far been few in number. Commercial relations have been placed on a firmer basis, sometimes going as far as organizing the joint representation of firms manufacturing complementary products. For example: the Etablissements Gillier have concluded a marketing agreement with the German company Bleyle; the German group Manby have set up, with the Etablissements Motte-

Bossut, the 'Manby Junior de Paris' for the wholesale and retail distribution of clothing for young people.

By contrast, the acquisition of holdings is rare in the old-established sectors, though sometimes it remains undisclosed. One known example: the Compagnie Française de Bonneterie (a hosiery and knitwear company) has acquired a holding in the Italian company Spa Avagolf.

Lastly, specialization in the manufacture of products at the European level is as yet a feature only of big firms with a high rate of investment and an ample market. For example: the Deutsche Rhodiaceta has halted the production of rhovyl, and the German market is now supplied with this product from the firm's French factories.

Investment from outside the Common Market

Investment by the textile firms of non-member countries in France is not very heavy, since existing capacity in France is already adequate. One example: the American firm Oronite Chemical has associated itself with the Société Pétrochimique de l'Atlantique for the production of paraxylene to be used in the manufacture of Tergal (the French terylene).

THE OUTLOOK

The situation in French textiles is, for the first time for many years, now considered by industrialists as 'very satisfactory'. However, the same industrialists consider that external markets cannot continue to grow at the rate of recent years and there are misgivings as to the consequences of the reductions in the customs duties which protect home production.

In particular, competition from Italy is feared (a country 'which still has some cards up her sleeve') and in general that from France's other partners, who are making big efforts to adapt themselves to 'French taste' and in this way to encourage their sales in France whilst at the same time competing with French manufacturers on other markets.

Again, it is observed that the vigorous growth in the textile trade of the Six from 1959 to 1960 is partly explained by a vogue for articles produced in other member countries, which it is thought will inevitably subside.

However, industrialists consider also that the 'will to export' has made great progress in recent years in France and the age of limited and sporadic exports, often at a loss, is past. The future, it is said in conclusion, can be faced with confidence as long as a joint attitude among the Six can be reached and complied with towards non-member countries with nationalized trading systems and multiple exchange rates, whose unbridled competition would be impossible to contend with. Initial results have been obtained in this field: European cotton manufacturers have promised under the agreement of Noordwijk, signed in 1959, not to re-export, within the Six, Japanese grey cotton cloth and other semi-finished products imported at dumping prices.

Electrical engineering

ATTITUDE OF THE INDUSTRY BEFORE THE COMMON MARKET

The French electrical engineering industry was for the most part in favour of the Common Market. It was even one of the few branches which dared to say so openly at meetings of French employers organizations. Doubtless, some sections of the industry, which feared foreign competition, were more reluctant and asked for government protection or help. But on the whole the industry welcomed the idea of the Common Market and prepared itself enthusiastically to face international competition.

Two documents reveal the attitude of the management side of electrical engineering at that time. The first is an extract from the annual report presented by M. Davezac, then vice-president and delegate of the Syndicat Général de la Construction Electrique, at the general meeting of this association (June 19, 1958). The report reflects the soundly-based optimism of the industry, while at the same time pointing out the handicaps which it had still to overcome in order to give a good account of itself in the European race :

'For many months the Common Market has been at the centre of our thoughts. Our first concern has been, and is, to help the different sectors of our industry to define concretely the problems which will eventually face them, and to work out the appropriate solutions. With this aim in view we have studied certain matters and established contacts with the public authorities.

'Moreover, we have approached the trade organizations in the neighbouring countries to compare the views of the electrical industries of the Six and concert our attitudes. We should thus be able to furnish the Common Market authorities with reliable information, particularly on disparities in production conditions. The necessary contacts, which were facilitated by traditional links, have been established. Studies are going on and we hope that it will be possible to learn the first results at our meetings in the near future.

'But to our mind this co-operation must go further. The real task of the trade organization will in future have to be accomplished without regard to national frontiers, and in the setting of the Common Market. In this way a vast field of activity is about to open up for the industrial federations.

'The future action of these federations will largely determine whether the Common Market brings to the economies of the Six countries the benefits which are rightly expected of it.

'But whatever the efforts, both of enterprises and of trade organizations, we must have no illusions about the severity of the test which has already begun. In the immediate future the problem of price disparities places us in a position of inferiority to other countries.

'In the main, however, these disparities are not attributable to our internal production conditions, but to a number of external factors over which we have no control. Comparative studies on rigorously identical manufactures in France and abroad already show that, far from being inferior to those of our competitors, our strictly industrial conditions of production expressed in physical units (working time, weight of materials used, power consumed), are superior to them in certain cases.

'In other words, our production apparatus considered in itself and detached, so to speak, from the general context of which it forms a part, is on the whole intrinsically competitive'.

There followed an exact catalogue of the measures which the industry recommended to the government to help it perform well in the European race: relaxing of price regulations (in particular an end to the freeze); lighter taxation; lowering of interest rates; effective action to narrow the gap in wage costs between France and its neighbours.

The second text, dating from the same period, is the address given at the Hanover International Fair by M. Davezac inviting German industrialists to co-operate permanently with their French opposite numbers to avoid 'the disordered play of blind automatism'. This appeal, which though it had no practical effect among firms, was to facilitate a rapprochement between French and German trade organizations, and typified a line of thought favourable to friendly organization of the market under - it was hoped - the benevolent eye of the European institutions.

'Nobody underrates the number or the complexity of the problems which the Common Market will entail for our economies and our respective social structures. It will be possible to solve these difficulties only if all those ready to help put their shoulders to the wheel in a concerted effort.

'Producers must be conscious of the rôle they have to play and of the tasks awaiting them in this indispensable joint action. Since they are responsible for the economy, the national authorities and the European institutions must be helped with advice and active support. Only thus will the Common Market, which is full of promise but sown with pitfalls, be able to attain its objectives without causing unnecessary or unjustified damage or hardship.

'The trade organizations must first see to it that they are able to supply both our national authorities and the European authorities with objective information. This is a vital task and one of the most valuable ways in which we can help those who will be shouldering the heavy responsibility of directing the new institutions.

'The objective of the Common Market is the maximum yield and the best use of the productive forces of the Community. This means the elimination of waste and dispersed efforts, the alignment of technical standards, the exchange of manufactures, the specialization of production. There can be no question of achieving all this by the disordered play of blind and automatic forces.

'The need will be for converging efforts and collective action well thought out and concerted; in a word, continuous co-operation. I can state that for its part, French industry is ready for this co-operation'.

RESULTS OF THE OPENING YEARS

The effects of the Common Market on the French electrical engineering industry are difficult to detect: first, the general statistics do not provide the necessary detail; secondly, the trends vary according to the type of electrical equipment and it would be hazardous to attribute such widely differing results to the influence of the Common Market.

Production

The following table, which shows the production trend for the French electrical engineering industry as a whole, calls for comments under three heads.

First, the general rate of growth in the industry: the entry into force of the Common Market would seem in 1959 to have reduced the rate of progress, which had averaged 12% between 1949 and 1956, and reached 16% in 1957. However, this is pure coincidence.

	Index	Rate of growth
1956	100.0	
1957	116.0	16.0%
1958	118.9	2.5%
1959	128.7	8.2%
1960	143.1	11.2%

In fact, the slow growth in 1959 (as in 1958) was due to internal reasons connected with the fall in the living standards of the mass of the population and to cutbacks in long-term investment by the State, which resulted in a general slowing down of French industrial activity. This emerges clearly when production is examined by categories. Output of the following goods fell or stagnated in 1958: domestic electrical equipment (fall in living standards which slowed down orders for household equipment), railway equipment (reduction of public orders), small appliances for commercial use and electric cable (slackening in business for users of this material). Although there was no actual falling-off, the growth in production of radio and television sets was appreciably slower and only picked up again in 1959. If we add to these specific effects of slack business conditions the effects of the consequent general fall in production, it will be seen that the Common Market had little to do with the slowdown in 1958 and 1959.

It would be equally idle to attribute the recovery in 1960 to the Common Market, first because its rate was roughly the same as that of French electrical engineering before the 1958 recession – 11.2% as against 12% on the average – and secondly because this rate, far from being uniform, depended on the business situation for each type of equipment. It ranged from a 28% growth rate for radio and television sets (very strong demand) and of 26% for the spare parts needed for this

industry, to a fall of 12% in heavy electric traction material (the equipment of the French railways having reached an advanced stage). Moreover, differences within a given sector are often great because of customers' preferences, and the equipment which they have already acquired. In the household sector, for instance, washing machines and electric irons were down on the 1959 production but whisks and small coffee mills showed a 25% advance, while hairdriers – which are much in vogue – were produced at ten times the rate of the previous year.

It is thus impossible to be over-cautious in judging the impact of the opening of the Common Market on national production.

External trade

The two following tables show that, here too, the effect of the Common Market is difficult to determine.

French exports of electrical equipment

(in thousand NF)

	1957	1958	1959	1960	1960 (1957=100)
Total¹	360,890	547,800	652,340	959,290	266
To EEC countries	116,920	172,250	220,180	281,570	236
Germany	50,470	92,150	86,830	105,620	209
Netherlands	21,660	26,910	57,000	71,070	328
Belgium – Luxembourg	31,120	40,040	53,230	64,840	209
Italy	13,670	13,150	23,120	40,100	293

French imports of electrical equipment

(in thousand NF)

	1957	1958	1959	1960	1960 (1957=100)
Total¹	325,570	378,160	422,170	655,270	201
From EEC countries	137,090	142,960	171,760	262,880	191
Germany	74,500	83,270	97,100	143,960	193
Netherlands	36,110	34,570	42,980	79,380	219
Belgium – Luxembourg	18,260	14,840	19,080	19,670	108
Italy	8,220	10,280	12,600	19,870	241

¹ Countries of the former French Union are not included.

Both for imports and exports, trade with the EEC countries varied in the same way as with the other foreign countries. Compared with 1957, French imports of electrical equipment from EEC increased by 91% in 1960 as against 101% for imports from all sources. This difference of only one-tenth is of little economic significance. It is true that purchases from the Netherlands and Italy went up more than the average (119% and 141% respectively), but on the other hand, the increase in imports from Germany, and particularly from Belgium-Luxembourg, was below the average (93% and 8%).

The situation was similar for sales. Here the increase was less by about one-fifth to EEC than to other countries. There was also a certain disparity in the trend of sales to member countries of EEC. Progress was most evident in the case of Italy and the Netherlands. The increase in French exports to these countries (193% and 228% respectively) was well above the average of 166%.

On the other hand, sales to Germany, Belgium and Luxembourg advanced less rapidly than to the rest of the world – by only 109% between 1957 and 1960, as against an average rise of 166%. Thus, by the end of 1960, the Common Market had not made any unmistakable impact on French trade in electrical goods any more than on the output of the industry. The rise in exports seems rather to be linked with the persevering efforts to prospect foreign markets (both within and without EEC). Owing to the reduction in the prices of French equipment in terms of foreign currencies following the December 1958 devaluation, these efforts began to produce better results from 1959 onwards. The following table is particularly eloquent on this point.

French electrical engineering: share of exports in total turnover.

1949	9.7%	1958	10.8%
1956	8.0%	1959	11.6%
1957	8.7%	1960	12.9%

Only a detailed table of trade with the EEC countries by category of equipment would make it possible to measure exactly the effect of the Common Market. Since no such statistics yet exist, two approaches are possible :

1. General study of trade in each category of goods. Insofar as trade with EEC has differed little from that with the rest of the world, we may suppose that the trend of trade in electrical equipment with foreign countries as a whole gives an idea of the trend with EEC. The following are some examples of the main developments which have been noted in trade with foreign countries as a whole (in every case exports are increasing and in only one case are imports declining). The figures are in thousands of New Francs.

	Exports		Imports	
	1957	1960	1957	1960
Rotary machines	37.1	93.2	35.1	46.0
Industrial equipment	53.6	107.5	20.2	36.0
Installation equipment	6.2	15.4	12.6	29.9
Fixed condensers	1.9	6.8	5.1	9.8
Electrical household appliances	19.8	63.7	18.4	50.8
Batteries	1.5	5.6		
Lifts	4.3	40.3	Light traction equipment	4.9 1.7
Radiological apparatus	3.7	10.0	Electric lighting	3.1 14.4
Meters and measuring apparatus	26.8	58.4		52.7 124.5
Radio and television sets	6.3	32.9		13.2 35.7
Wire and cables	50.9	79.9		8.5 19.7
Electronic trade equipment	29.6	78.2	Telephone equipment	9.6 16.8
Electronic valves and semi-conductors	19.1	64.5		27.2 77.4
Heavy traction equipment	4.5	120.1	Electric relays	4.5 7.1

2. Firm-by-firm study of the trend of sales in EEC. Although it does not reveal the pattern of trade in full detail, this method reveals interesting aspects of the effects of the Common Market, which obviously vary according to categories of equipment.

Heavy equipment

In this sector the enlargement of quotas and the reduction of customs duties had little effect. Germany and Italy had, moreover, virtually ended quota restrictions long before the opening of the Common Market. Nevertheless, the opening of the French quotas gave Belgian industrialists opportunities on the French market for transformers for pithead power stations.

On the other hand, French manufacturers took advantage of devaluation to attempt to gain a foothold on the German and Italian markets, which were traditionally the preserve of domestic firms. Except in the field of electric traction they had little initial success. They were aided by the German boom which, by overstraining the capacity of electrical engineering firms in the Federal Republic, resulted in longer delivery dates. These delays led a growing but still limited number of German industrialists to order electrical equipment and motors in France.

However, there are at present three obstacles to the rapid growth of this trade :

Military security: the French Government forbids the sale of very high quality radar and electronic apparatus to its Common Market partners (as well as to other foreign countries) ;

Differences in technical specifications: the Germans, for instance, are used to working on 100 megawatts and the French on 125. Each installs the equipment to which he is accustomed ;

- **Customers' habits:** although in France the national industries are beginning to place occasional orders with foreign manufacturers, the large German and Italian industries continue to buy German or Italian. In Italy, moreover, the financing by the State of a part of the deficit of the electrical engineering industry is tantamount to subsidizing these firms to the detriment of their French competitors.

In short, the Common Market has so far had little effect on trade. According to the President of one of the biggest French firms: 'We are still in the observation period'.

Small electronic equipment and spare parts

The increase of sales in the Common Market is much more evident here. Because of its high technical quality (it is a tradition in the industry to devote considerable sums to laboratories) French equipment has succeeded in winning the place which it previously lacked in foreign markets. An example is C.S.F. Transistors, whose sales have increased considerably both in Italy and in Germany. This concern has even taken over several factories in Italy (and has built one south of Rome) for the assembly of parts produced in France. The apparatus is then distributed in France, Germany and, of course, Italy.

German and Dutch competition is still formidable, but the best French products seem to be able at present to face their rivals on equal terms.

Household equipment

In this field the French market is in a special situation because of the low level of household equipment in French families (only 23% of households have a refrigerator, as against 32% in Germany; 23% have a washing machine, as against 57% in Belgium, 41% in Great Britain and 27% in Germany). France is particularly favourable ground for foreign products and its imports of electrical household equipment trebled in three years despite the continuance of quota restrictions.

British producers have been in the van of the offensive (45,000 washing machines exported to France in 1960), and the Germans have followed suit. The Italians for their part have set up a distribution network in South-East France, while the Germans were perfecting theirs. The high price of French goods (20 to 30% more than in Germany and Italy for equipment which is only slightly better) made the French market particularly vulnerable. The weakness of the French industry in this field—too many producers for a still narrow market—with most firms turning over at only 70% of their production capacity for household apparatus, has already enabled many foreign firms to gain a foothold and this tendency will certainly become stronger (in particular for refrigerators and washing machines).

On the other hand, for small equipment (coffee-mills, whisks, hairdriers, etc.) the quality of the French articles (which are much less weighty and often cheaper than their German equivalents) have so far ensured them a very steady home market and opened new outlets in Germany, Belgium and the Netherlands. French efforts to sell washing machines in Germany were initially less successful for lack of adequate after-sales service, and also because of their price.

Between 1957 and 1959 French refrigerator production rose by 140,000 units (as against a million in Germany and 350,000 in Italy). Production of washing machines and vacuum cleaners declined, while continuing to grow in the other two countries.

Investment

A study of statistics for the industry shows an appreciable increase in investment in 1959, following it is true, a very slight falling off in 1958. Further substantial progress occurred in 1960 and 1961.

Gross investment in French electrical engineering

(land, buildings, plant)

	Thousand NF	Per cent of turnover	NF per wage-earner
1956	319,160	4.8%	1,330
1957	363,110	4.7%	1,423
1958	362,960	4.3%	1,390
1959	390,415	4.1%	1,501

The contradiction implied by these figures is more apparent than real. If investment per worker is increasing while the percentage of turnover invested is declining, this is explained simply by the increase in turnover per worker, which it is the aim of investments to speed up.

Moreover, the growing share of plant in the strict sense in investment as a whole (about 70% at present as against only 62% five years ago) makes the increase of directly profitable investments more perceptible. This increase is estimated at some 15% between 1957 and 1959, and rather higher if 1960 is included.

As is shown by the above figures, the trend of investment does not appear to be closely linked with the opening of the Common Market. It is apparently related only to the ups and downs of the general business situation, irrespective of the geographical origin of orders (EEC or rest of the world).

It is however certain that the Common Market has given a fillip to investments. This is the opinion of management itself. But it has happened in a general and not in a specific way.

In the first place many new companies have been set up (generally by agreement between existing ones), which have equipped themselves to produce new sorts of goods. Although not the only reason for these operations, the Common Market has often been one important cause since the opening of new outlets calls for extra production apparatus. Some of the most important of these agreements are listed below.

Secondly, to expand their sales in one or other of the Common Market countries, certain firms have also extended existing workshops, created new ones and in some cases built entirely new factories. An example is the factory built at Dijon by the CSF on a site chosen precisely for the transport facilities it offers for exports to Italy and Germany. This firm has built another factory (transistors) in Italy and was thinking of building one in Germany. Conversely, Telefunken has created a French subsidiary. Robert Egelhof has opened a factory for electrical household equipment in the Department of Bas-Rhin ; Metallegesellschaft intends to use its patents in a factory in France ; Pertrix batteries are to be built in France by a joint subsidiary of two German firms and of Cartoucheries Françaises. Even without the Common Market, however, a good number of these plants or workshops would have been established. They cannot, therefore, be credited solely to EEC.

Thirdly, American electrical engineering firms are investing in France. Texas Instruments is building a large transistor factory in Nice ; Polarad Electronics is building in the South-East a factory for the production of ultra-short-wave apparatus and finishing the installation of a laboratory at Montrouge ; Controls of America is building a factory for measuring apparatus in Schirmeck ; an American financial group is producing TV receivers in Le Mans in conjunction with Schneider. Burndy is establishing a new company, Burndy S.G., with Précision Mécanique ; Thomson Houston is to manufacture semi-conductors, etc., with General Electric. Similarly, the English firm Solartron Electronic has decided to manufacture electronic instruments in France.

Fourthly, in less spectacular fashion, but much more frequently, French firms have increased their capital investment a little more than they would have done without the Common Market – if we may believe their managements. This is a reflection of the 'big market idea' which has been influencing the attitude of French mechanical engineering firms for the last two years. Above all, and this is perhaps more important, firms have planned their capital investment with a view to the specialization of products which they think should come about within the Common Market. In the heavy equipment sector, for instance, several firms have deliberately gone in for goods for particular types of production (the steel industry, for example) in the hope that the Common Market will improve their position in this field (the appraisal of the technical advance or lag of each industry has been decisive in such choices). But in this sector, as we have said, we are still at the 'observation stage'.

STRUCTURAL ADAPTATION TO THE COMMON MARKET

The trade organizations

Adaptation in this sphere is indisputably a tangible result of the Common Market. It has four aspects :

1. In the general association of the French electrical engineering industry (Syndicat Général de la Construction Electrique Française – SGCE), a **new Common Market service** has been set up. It is responsible especially for questions of national and international regulations. It has to watch the development of these regulations and if necessary take a hand in shaping them.
2. **All the existing departments** of the association (wages, employment, general economic studies, legal studies, taxation advice, studies of costs and prices, study of technical standards) **have broadened their activities** to the dimensions of the Common Market. They are now asked to familiarize themselves, each in its field, with the situation of the other Common Market countries and to see the problems facing French industry from the angle of the European Community. This extension of the interests and activities of the different departments of the organization has been reflected, to put the matter prosaically, by rising expenditure on these services, which the industry has readily

accepted since it has undergone a similar change of outlook. The smaller branches affiliated to the general association have also been moving in the same direction as regards activities and the outlook of their delegates.

3. **Numerous international contacts** have been organized in France between electrical engineering employers or officials of trade associations in the Common Market countries. Last year alone the general electrical engineering association took part in more than 100 international meetings of this kind, in addition to innumerable committee meetings. German and Italian delegations now stay frequently in Paris and work for whole days at the headquarters of SGCE in the rue Hamelin where formerly foreign members of the industry were rarely seen.

These meetings, to which may be added trips by French industrialists to other EEC countries – now an everyday occurrence – generally have three main aims:

- to work out a common attitude for employers within the Six ;
- to provide joint answers to enquiries and questions from the Common Market Executive ;
- to endeavour to agree on joint proposals to the Common Market institutions.

This is one of the SGCE's main preoccupations and was already expressed three years ago in the Hanover speech mentioned at the beginning of this chapter. Up to the present this form of co-operation in the industry has been directed to a number of specific points: unification of technical standards (the new German standard specifications were only published after harmonization with the French standards); standardization of methods of cost accounting ; improvement of packaging. Other subjects for consultation are being considered.

4. Finally, several bodies have been set up for **liaison between employers** in the six countries : a Liaison Committee of the mechanical and electrical industries, a European Committee for electrical equipment, a European Committee of Manufacturers of electrical household appliances, and a European Committee of builders of refrigeration equipment.

Individual firms

The number of firms which have adapted their structure or trading practices to the Common Market is very high. Not only have the large concerns modified their attitude in greater or lesser degree and extended the activities of their research and planning departments in the way just outlined for the SGCE, but other changes have occurred in many fields. The main ones are listed below, with a few examples.

1. Specialization or technical collaboration. Sometimes the firms have specialized on their own account in certain manufactures; more frequently, they have entered into specialization or technical operation agreements with other firms (French or foreign). Among them are the following: S.W. – Westinghouse (manufacture of semi-conductors), Cie des Compteurs – Vincent Frères (water-meters), Pathé Marconi – Thomson-Houston (gramophone records), Languepin – GSP (machining equipment), Vedette – Bendix (washing machines), Merlin Gerin – S.W. (transformers), CEM – Rateau (steam turbines), Thomson-Houston – Siemens (rectifier valves), Lip-Berger – Elettro Domestici (synchronous and asynchronous motors), etc. This heading also covers a large number of agreements made between companies for the exchange of patents or joint sale of their products abroad.

2. Establishment of new companies. Here the list is enormous. In addition to all the new firms already referred to above with regard to development, new companies worth mentioning are: COSEM (CSF Alsacienne and Radio Belver : production of semi-conductors), Mecasid (CEM, Rateau, Chavanne, Brun: equipment for the steel industry), Massiot – Philips (medical equipment); Générale des Condensateurs (Philips, CGE, radio equipment), FRESA (Philips, Air Liquide, Soudure Autogène : welding electrodes), Diéselair (Alsthom, CLM: air-cooled diesel motors), SERMAC (Merlin, Gerin, Sept: control and regulation apparatus), Générale des Composants Electroniques (CGE and Générale d'Electronique : semi-conductors), SETEL (Thomson-Houston, Telefunken, Finmeccanica, Philips, ACEC : guided weapons), EURISTA (CSF, Resista, Elektrischer Widerstand, Landshut : electric resistances). To these should be added all the new companies set up to develop and use nuclear energy.

3. Mergers. These are also very numerous. Among the main ones are: Fives-Lille and Cail ; Hotchkiss-Delahaye and Brandt ; Westinghouse and Freins Jourdan-Monneret ; Pinchard-Deny-Duval and Laden ; Labinal and Précision Mécanique ; CSF and Radio-France ; Bendix and Saint-Laurent, Grammont and ACM ; CSF and SFR – Sadir Carpentier.

4. Numerous take-overs. Conord by CEM, Pir-Moteurs by Normacen, Accus Monobloc and Magnetos R.B. by Ducellier, Verre Etiré and Acier Vitrifié by Bull, Sonora by Edison, Sonneclair by Alsacienne de Construction Mécanique, the industrial television department of RBVRI by Générale de TSF.

But, looking beyond these individual agreements, we find that the proposal for Franco-German co-operation made in 1958 by M. Devezac in Hanover has remained practically a dead letter. No agreement has been signed at the level of the whole industry, or even between firms, and there have been no cartel arrangements (market sharing or price understanding). Doubtless, lack of confidence of the German industrialists in their French competitors and fear of infringing the anti-cartel articles in the Rome Treaty have both played a part in preventing such a development.

OUTLOOK FOR ELECTRICAL ENGINEERING IN THE COMMON MARKET

It is perhaps easier to forecast the future effects of the Common Market on French electrical engineering than to say what they are at present, because the economic forces which will prompt developments in this industry will operate more intensely from now on.

Probable effects on the industry's activity

Here again we must distinguish according to the type of equipment produced. Although it is to be expected that on the whole the present trend will continue (regular increase of trade between the Six without sudden disturbances ; expansion and specialization of plant) it is clear that the trend will vary according to the type of product.

Heavy equipment

Any increase in trade will depend on three factors :

The standardization of technical specifications between the Six, making it possible to order equipment equally well in any country. The movement will be towards higher standards (no return to old ones) and therefore will take time ;

- The behaviour of the large buyers. As already indicated, these now tend to buy home-produced equipment. They will have to get into the habit of placing orders elsewhere, either because they are encouraged to do so where foreign supplies are cheaper or because for political reasons the government urges them to turn to other European suppliers: this could be the case of the nationalized companies in France, for instance ;

Technical progress. Any revolutionary discovery in manufacturing processes would ensure the firm making it and the country to which the firm belongs an indisputable advantage on the market. At present research among the large firms is fairly widespread and goes on constantly, so that such a discovery would not long remain the property of a single concern.

Intermediate equipment

Certain features of the likely trend in the two markets at opposite ends of the mechanical engineering scale – heavy equipment and domestic appliances – are also present in this sector. The French electronics branch, however, appears to be particularly well placed because of the very great effort made in scientific research.

Domestic appliances

This is the weak sector in which foreign competition is formidable. However, French producers are making special efforts to adapt themselves to the taste of foreign customers and hope to exploit their technique of light, handy appliances. There are fears, however, that the reduction of customs duties will favour the entry of foreign products into France more than the export of French products.

In this sector, where technical advance is less important than with heavy equipment, the wind of competition will blow with increasing strength. As the producing firms are smaller, their adaptation to market trends will have to be correspondingly greater. It is by no means impossible that mergers and specialization agreements, which are particularly numerous in this sector, will become more frequent during the coming years to the disadvantage of the less dynamic firms.

All these remarks are subject to two provisos :

1. That wage gaps do not widen between countries. The higher French wage bill has been roughly offset by devaluation and by the sharper pay rises over recent years in Germany. If this trend were reversed French producers would again be at a disadvantage ;
2. That interest rates are harmonized in Europe. This is a decisive factor in an industry which calls for very high investment and long-term loans.

Probable effects on structure

Three sorts of transformation appear probable if not certain :

Concentration of firms : This concentration by mergers or take-overs which was already going on has been speeded up by the establishment of the Common Market. It is practically certain that in order to lower their cost prices and extend their production capacity, French industrialists will seek to integrate their enterprises still further. The need to do this is felt in the heavy equipment sector and even more in electronics, where the cost of research work is high. In the domestic appliance sector the present dispersion of manufacturers is a disadvantage, to which a remedy will certainly have to be found.

Specialization : This is in a way the corollary of concentration. As we have already seen, many firms are framing their investment policy with a view to future specialization in the Common Market, whilst others are deliberately making some of their subsidiaries specialize – sometimes by agreement with another firm – in a given department of production. This trend will inevitably be accentuated.

Groupings of exporters are becoming more numerous. The establishment of Expor-telec has shown that by clubbing together even medium-sized firms could break into foreign markets and sell their small motors, small transformers and various accessories. This example, coming on top of all the agreements between firms to pool their marketing networks abroad, will certainly be imitated. One of the most obvious effects of the Common Market is that it has made very many industrialists in the electrical engineering sector export-minded. This trend can only become stronger as they find themselves obliged to seek compensation abroad for orders lost on the home market through foreign competition.

The generalization of this urge to export is one of the great results of the Treaty of Rome. It is only beginning to produce its effects.

The chemical industry

With a turnover of approximately 1.7 billion old francs in 1960, chemicals hold fourth place among French industries and have enjoyed one of the fastest rates of expansion. External markets are large ; in 1960 15.7% of production was exported.

About 230,000 persons are employed in the industry. When making comparison with the chemical industry of other countries, some allowance should be made for the fact that the definition of the industry varies from country to country. Thus, the French nomenclatures (INSEE) include neither man-made fibres, nor matches, nor soap, all of which come into the German nomenclature. Similarly, the OEEC classification is wider than the French. It may, however, be estimated that the productive capacity of the German industry is about 35% greater than the French. The ratio to the American industry is about 1 to 7.

The French chemical industry is relatively little concentrated. The ten largest companies (in alphabetical order : Air-Liquide, Compagnie Française des Matières Colorantes, Kodak, Kuhlmann, Lever, ONIA, Péchiney, Rhône-Poulenc, Solvay, Saint-Gobain) together account for only about 25% of the volume of production. The total number of concerns in the industry is about 1,700.

Even the largest companies are still not on the scale of the Big Three of the German industry, or even of Montecatini. The most important, Rhône-Boulenc, including all its subsidiaries (Specia, Rhodiaceta, etc.), probably has an annual turnover of about 180,000 million old francs ; the Péchiney-St Gobain group should represent a turnover of about 120,000 to 150,000 million.

In the opinion of members of the industry, one of the most disquieting aspects of this low degree of concentration, in view of coming competition in the Common Market, is that it precludes adequate expenditure on research. Rhône-Poulenc, for instance, devotes about 6% of its annual turnover to research, but the actual amount is very much lower than that spent by Bayer. Although the latter spends a slightly lower percentage (about 5.5%) on research, this percentage is applied to a turnover about three times greater. All in all, French laboratories have about 4,000 research workers on their staffs.

However, as an indication of the competitiveness of the French chemical industry, this general judgement that it is less concentrated than its competitors requires qualification. In certain fields France has plants which are among the biggest and most modern in Europe. Examples are the Naphtachimie factory (a subsidiary of Péchiney) at Lavera, which is the largest European unit for the production of ethylene (the output is 48,000 tons a year from two plants, one with a capacity of 18,000 tons and the other of 30,000 tons). The St Gobain sulphuric acid factories at St. Fonds near Lyons and Le Havre are the biggest in Europe.

ATTITUDE OF THE INDUSTRY BEFORE THE COMMON MARKET

Unlike other industries, the French chemical industry did not commit itself one way or the other at the time when the Treaty of Rome was being negotiated. But the Union des Industries Chimiques, on behalf of the industry and the large firms, naturally followed the course of the negotiations very closely.

Their chief anxiety was with the fixing of the future common external tariff, annexes C and D of which deal especially with chemical products.

This emphasis on the future common external tariff was due to feared competition from the United States and, to a lesser extent, from Britain (through which American products could pass to continental Europe). German or Italian competition was less feared. This frame of mind has not changed. The explanation is to be found in the orders of magnitude of the various national industries. The American industry, whose production capacity is seven, and even, for certain branches, ten times greater than the French, seems all the more formidable for having available cheaper raw materials and energy than Europe. It is also protected by prohibitive customs duties which practically make it impossible for French industrialists (except for a few products) to compete in its own market. M. P. Godard, Vice-President and Delegate of the Union des Industries Chimiques wrote in the *Revue du Marché Commun* of September 1958: 'In relationship with non-member

countries the new aspect of our situation will be the application of the common external tariff, which, it must not be forgotten, represents from the strictly French point of view a sizeable and one-sided reduction in the protection of our industry against foreign industries'.

With regard to keener competition, M. Godard writes in the same article: 'It should be possible when these encounters begin for us to conclude co-operation and specialization agreements between the competing industries. Only abuses of such agreements would run up against national and international regulations (Articles 85 and 86 of the Treaty of Rome) which are very properly designed to prevent them'.

RESULTS IN THE FIRST TWO YEARS

The effect of the Common Market has been to stimulate further the growth of the chemical industry, whose progress has been more rapid than any other sector of the French economy. Turnover (including tax) rose from 1,241,000 million old francs in 1958 to 1,410,000 million in 1959 and about 1,680,000 million in 1960. In order to appreciate the situation in the various sectors of this very diversified industry, it should be noted that in 1959 the turnover in inorganic chemicals (comprising chiefly sulphuric acid, ammonia and chlorine) was 335,000 million, in organic chemicals 361,000 million, and in related industries 714,000 million (of which 215,000 were pharmaceuticals) 122,000 for paint, 92,000 for perfume, with the remainder broken down between explosives, abrasives, cleaning compounds, photographic supplies, etc.). The expansion was particularly impressive in organic chemicals, where production went up by almost 30% in 1960.

Output of almost all leading chemicals increased in 1960. Production of sulphuric acid was nearly 2 million tons; chlorine was over 330,000 tons – a record; for ammonia the figure was more than 720,000 tons. There was one exception, however. Production of compound fertilizers fell slightly to 3.23 million tons in 1960 against 3.28 in 1959.

Mention should be made of the progress of the more important plastics. Production of polyvinyl chloride rose from 28,000 tons in 1959 to 110,000 tons in 1960 and polystyrene rose from 31,000 to 41,000 tons.

The total production of plastics (the sector in which German competition is likely to be particularly severe in the future) rose from 250,000 tons in 1959 to 300,000 tons in 1960.

Trade with foreign countries also advanced rapidly. In 1960 it was 30% up on 1959.

The expansion of trade was definitely greater with the EEC countries than with others, as the following table shows. Between 1958 and 1960 French exports to Germany trebled in value, whereas those to Great Britain scarcely doubled.

	French exports			French imports		
	1958	1959	1960	1958	1959	1960
Germany	8,543	17,349	24,009	22,839	29,889	41,329
Italy	7,178	10,731	14,749	4,947	6,800	9,267
Belgium - Luxembourg	7,931	10,278	14,075	5,114	6,775	9,598
Netherlands	5,083	6,480	8,767	4,331	7,088	10,313
Total EEC	28,735	44,838	61,600	37,231	50,552	70,507
Total EFTA	20,000	30,661	40,074	21,730	24,549	31,351
Great Britain	7,077	10,853	15,382	10,172	10,489	14,509
United States	8,565	12,659	15,431	33,616	38,889	49,910
Total	100,580	140,744	182,487	107,615	127,732	173,376

The above figures are in millions of old francs and the sums correspond to products coming within the French definition (Chapters 35 and 36 of INSEE).

In 1959 and 1960 the French trade balance for the first time showed a surplus in respect of chemical products. Since the middle of 1960, exports have been running at the record level of 15,000 million old francs monthly. The sharp rise of imports in 1960, particularly from EEC, should be noted. This trend is likely to continue, particularly since the remaining import quotas were abolished on April 1, 1961.

In order to meet increased internal and external demand, the chemical industry has continued to spend relatively large sums in capital investment: 78,000 million in 1958, 83,000 in 1959 and about the same amount in 1960. These figures exclude tax.

Expenditure on plant in the petrochemicals sphere is particularly high. Several new factories have been set up in the last two years in France, notably around the Lacq natural gas field.

STRUCTURAL ADAPTATION

Action by trade organizations

On the national level. The Union des Industries Chimiques, which covers the whole industry, has not set up any special body to study Common Market problems, but each department of the Union, and in particular the legal, fiscal and customs services, have received instructions to make studies. The legal service deals in particular with the important questions of patents and industrial property in EEC. No extra staff have been taken on by the Union to deal with Common Market questions.

At the Community level. On September 1, 1957 the Secrétariat International des Groupements Professionnels des Industries Chimiques des Pays de la Communauté Economique Européenne (SIIC) was set up. This comprises, in addition to the Union des Industries Chimiques, the German, Belgian, Italian and Dutch federations. Its offices are in Brussels, 32, rue Joseph II.

The functions of the secretariat are as follows :

1. To maintain liaison with the institutions and departments of the Community ;
2. To centralize the study of problems arising for the different national industries from the implementation of the Treaty of Rome and where possible to find solutions favourable to all concerned and to make representations thereon to the Brussels institutions ;
3. To promote the necessary contacts between the chemical industries of the member countries of EEC through the responsible associations (but without acting for them unless expressly instructed to do so).

In practice SIIC has not yet been able to arrange common action. The national federations have not even managed to agree upon common statistics (not an easy matter, anyway). Working parties have been set up to study customs, fiscal, legal, statistical, transport, and industrial property questions. A working party on social questions was recently established.

SIIC is directed by a steering committee consisting of the Presidents of the five signatory groups of the convention: the Union des Industries Chimiques, the Fédération des Industries Chimiques de Belgique, the Arbeitsgeberverbände der Deutschen Chemischen Industrie, the Algemene Werkgeversvereniging, the Associazione Nazionale dell'Industria.

The Centre Européen des Fédérations des Industries Chimiques (CEFIC) was established in February 1959. It includes the chemical federations of the EEC countries and those of the chief EFTA countries (United Kingdom, Austria, Sweden, Switzerland, Denmark). The problems which CEFIC intends to study are very wide: they include European integration, dumping, the activities of American firms in Europe, and social questions.

Action by firms

On the national level. By far the most important agreement concluded as a result of the Common Market was that which set up the Société des Produits Chimiques Péchiney-St Gobain. The object of this is to integrate the chemical sectors of the two companies. (The agreement does not include aluminium for Péchiney or glass for St Gobain, or petrochemicals for either company). When it has been attained, the chemical group Péchiney-St Gobain will be the second largest French chemical concern after Rhône-Poulenc and will represent a turnover of between 120 and 150,000 million old francs, or one-third of that of each of the German Big Three (Bayer, Badische Anilin und Sodafabrik, Hoechst).

How far has this object been achieved ?

On the commercial side (joint sale of chemical products) the company began operations in November 1960 and has been fully active since January 1961. The common management of factories and research laboratories was introduced progressively and completed by early 1962. This agreement has made it possible to increase productivity and to expand plant. Primary materials will be pooled. For example: Péchiney did not manufacture nitric acid. Thanks to St Gobain it now has supplies available and can therefore use other products to greater advantage. Research will now be carried out jointly.

The group will produce more than 50% of the vinyl chloride manufactured in France, almost 50% of the polyesters, and in general will further strengthen its dominant position in the plastics

industry. Similarly in inorganic chemicals, the group will contribute an important share of national supplies of sulphuric acid and fertilizers thanks to St Gobain, and of chlorine thanks to Péchiney.

Among operations which have strengthened the position of leading chemical companies, we may also quote the take-over by Kuhlmann of the Société des Produits Chimiques Coignet, the establishment of the Nobel-Bozel company by the absorption of Bozel-Maletra by Nobel Française. Before the agreement with St Gobain, Péchiney had taken over the Société des Produits Chimiques de Ribecourt and the Société des Produits Chimiques des Terres Rares.

In the last few years the big French companies have acquired the habit of setting up joint subsidiaries for the manufacture of new products or the exploitation of new resources (Lacq natural gas, for example). This is to avoid chaotic competition and duplication of effort. The Common Market has naturally encouraged this trend, but concentration is still found only in special fields.

For instance, Aquitaine-Chimie was set up by Péchiney, Rhône-Poulenc, St Gobain, Pierrefitte, the Banque de Paris et des Pays-Bas, the Office National industriel de l'Azote (ONIA).

In the wake of Aquitaine-Chimie the following were founded:

Méthanolacq (Aquitaine-Chimie and Kuhlmann);

Acétalacq (Péchiney, Rhône-Poulenc, St Gobain and Pierrefitte);

Vinylacq (Péchiney, St Gobain, Banque de Paris et des Pays-Bas).

Similarly, Ugine, Péchiney, St Gobain and Rhône-Poulenc have combined in forming the Société des Résines Fluores for the manufacture of a difficult product (Teflon). This seems to have met with disappointment.

Nevertheless, the large French concerns consider that the French chemical industry is not nearly concentrated enough to face the Common Market.

There are also a certain number of agreements for the organization of production on a national basis. These are particularly frequent among firms making fertilizers and their primary materials. In the case of sulphuric acid the understanding is 'unofficial', but for nitrogen it is openly acknowledged.

Leading French concerns are at present attentively following the development of the European policy on cartels on the basis of Articles 85 and 86 of the Treaty of Rome, and have made it a rule not to conclude agreements which might run up against these Articles.

Other aspects of the adaptation of private firms to EEC

Certain large firms which have long had manufacturing subsidiaries in several European countries are now studying reorganization on an international scale to take account of the establishment of a single market among the Six. For example, St Gobain is at present considering the rationalization of its factories at the level of the Six and the creation of a common export sales organization for all its plants within the Common Market.

Co-operation within the Community

There have been numerous contacts between French concerns and German, Italian or Belgian firms. But they have not yet resulted in any important agreements covering major branches of production.

On the other hand, a fairly large number of joint subsidiaries have been created in the same way as Acétalacq, Vinylacq, etc., were set up by French companies. Among these are:

- Compagnie Française des Matières Colorantes (a subsidiary of Kuhlmann); the Badische Anilin and Soda Fabrik have together set up Les Dispersions Plastiques for the manufacture of acrylic resins and polystyrene (on a small scale for the time being).
- Progil, Ugine and Bayer have founded Progil-Ugine-Bayer (PBU) whose factory at Pont de Claix makes synthetic resins.
- Hoechst and Nobel-Bozel have established Polysynthèse for the manufacture of vinylic emulsions.

Marketing agreements have also been concluded. One which is often mentioned is between Bayer and Rhône-Poulenc. The latter company, when it is questioned on the matter, asserts 'that no general agreement has been concluded between it and Bayer, but that many specific agreements exist between the two companies for the marketing of their respective products'.

It is difficult to find out whether French concerns have an understanding with foreign firms on the sharing of markets. It would seem in any case that no long-term agreement of this kind has been concluded. The presence of powerful American subsidiaries is an obstacle to such understandings, since experience has shown that the Americans either take advantage of an understanding to which they are parties to consolidate their own position, or, if they are outside it, turn it to good use to extend their grip on the market.

The chief effect of EEC has been not so much to create new links with German or Italian industry (links which have long existed, e.g., subsidiaries of Rhône-Poulenc and Montecatini in Italy), but to stimulate the establishment of American firms in France (see the examples mentioned in the appendix).

Serious problems are already arising for the French industry. Whereas it formerly used a great number of American patents and manufacturing licences, American firms wishing to take advantage of the 170-million strong Common Market are more and more tending to exploit their own technical discoveries on the spot through wholly-owned subsidiaries. This will oblige French firms to make a quite unprecedented effort in research. But, as M. Broufer, President of the Union des Industries Chimiques, recently observed: 'It is difficult for a French firm to line up with an American firm when, as is often the case, the net profits of the latter are of the same order of magnitude as the whole turnover of the former'.

THE OUTLOOK

The prospect of total customs disarmament *vis-à-vis* the Common Market countries has no terrors for the leaders of the chemical industry. They consider that as regards both raw materials and manpower, their production costs are not greatly different from those of their European competitors, the widest disparities being with Italy.

On the other hand, the French chemical industry remains sensitive on all matters concerning the future common external tariff.

Its opposition to any form of free trade area has done nothing but harden with time. In particular it fears that in the event of an agreement between the Six and the Seven, Great Britain would serve as a base for American operations.

Thus, it is no exaggeration to say that the French chemical industry is the sector of the economy most resolutely opposed to any rapprochement between the Common Market and the Little Free Trade Area. Moreover, it is alarmed, for the reasons given above, by American investment in Europe.

Future prospects appear excellent. It is expected that under the Fourth Plan, production by 1965 will be 70% greater than in 1959.

APPENDIX :

1. Joint subsidiaries formed by French and foreign firms

PETROPLASTIQUE

Members : Compagnie Française de Raffinage
El Paso France-Afrique (United States)

Production of polyethylene

OROGIL

Members : Progil
Oronite Chemical (United States)

Production of lubricant additives

PETROSYNTHÈSE

Members : Atlantique-Progil-Electrochimie
Compagnie Française de Raffinage
Oronite Chemical (United States)

Production of surface-active products

CALIFORNIA ATLANTIQUE

Members : Société Pétrochimique de l'Atlantique (in which Progil has a 25% interest)

Oronite Chemical (United States)

Production of paraxylene

SOCIÉTÉ CHIMIQUE ARMOUR-BEZONS

Members : Société de Produits Chimiques et de Synthèse
Armour et Compagnie (United States)

Marketing and, later, manufacture of nitrogen derivatives and fatty acids.

SOCIÉTÉ DES ELASTOMÈRES DE SYNTHÈSE

Members : Shell Saint-Gobain
Produits Chimique et Raffineries de Berre
Michelin
Dunlop
Kléber-Colombes
Cabot-Texas Butadiene (United States)

Production of SBR synthetic rubber

PLASTICHIMIE

Members : Péchiney
Dow Chemie (Swiss subsidiary of the American company Dow Chemicals)

Production of polystyrene and polyvinylchloride

POLYSYNTHESE

Members : Nobel-Bozel
Hoechst (Germany)

Production of vinyl emulsions

2. French subsidiaries of foreign companies

United States :

Société Cabot-France

Subsidiary of Godfrey et Cabot, Boston.
Production of carbon black

Compagnie Française du Carbon Black
Subsidiary of Phillips Petroleum Company and of Continental Carbon Co.

Production of carbon black

United Carbon France

Subsidiary of United Carbon Company, Houston
Production of carbon black

Du Pont de Nemours France

Production of weed-killers

Société Polypenco France

Subsidiary of the Polymer Corporation
Sale of plastic materials manufactured by the parent company and its English subsidiary.

Compagnie Chimique Merck Sharp & Dohme

Subsidiary of Merck Sharp & Dohme International

Production of pharmaceuticals (has bought up the plant of the French company Synorga)

Société Firestone France

Subsidiary of Firestone Tire and Rubber
Production of SBR synthetic rubber

Germany :

Société E.W.M. France

Subsidiary of Elektrochemische Werke Munchen

Production of organic peroxides

Great Britain :

I.C.I. France

Subsidiary of Imperial Chemical Industries

Production of chlorinated paraffins

Canada :

Polymer Corporation SAF

Subsidiary of the Canadian company Polymer

Production of industrial synthetic rubber

Some miscellaneous industries

Paper and paperboard, footwear and food industries

Paper

In 1960 the French paper industry produced 1,185,000 tons of pulp (including 62,000 tons for artificial textiles) worth NF 645 million, and 2,600,000 tons of paper and paperboard NF 2,450 million). The industry comprises about 250 concerns of very varied size (about 50 are vertically integrated) and 50,000 workers not counting those employed in lumbering.

Paper production is concentrated in hilly, wooded country or near ports; it is a heavy industry needing large investments and consuming an enormous amount of power.

ATTITUDE TO THE COMMON MARKET

There was a prejudice in favour, for a heavy industry needs wide markets. Furthermore a widening of markets should also promote higher living standards, which have a direct bearing on the consumption of paper.

Since the general conditions of production are much the same in the member countries (and favourable rather than otherwise to France) there was no great problem of adaptation to the wider market. Furthermore, the Common Market offered the possibility of establishing a united front of the Six in face of the low price Scandinavian suppliers. There was overt hostility to the Free Trade Area, but the attitude to the Common Market, being favourable, was not expressed officially.

RESULTS OF THE FIRST TWO YEARS

On the production side there was no direct repercussion, any more than on general economic activity. Despite the 14% increase in output of pulp and 12% for paper in 1960, there is still a large surplus of productive capacity.

Trade with foreign countries is small in absolute figures. However, exports have gone up sharply since 1958. They were 66,750 tons in 1959 and 120,215 tons in 1960, i.e. three times the 1958 figure. During the same period the share exported to EEC countries has increased four-fold. The share of EEC in overall exports, which was 58% in 1958 rose to 62% in 1959 and 73% in 1960.

Despite the present surplus of productive capacity, the development of capital investments is considered good. This confirms that the French paper industry has confidence in the Common Market.

Structural adaptation of the industry

It is in this field that changes are most numerous.

Action by trade organizations

On the national level. A vertical structure has been organized for the 'pulp' and the 'paper' branches of the trade in order to facilitate joint discussions (unfriendly relations had hitherto precluded any coherent organization).

The importance of the international relations service, whose work is to combat the free trade area plan, is increasing. Attempts are also being made to obtain protection for pulp (list G) and to safeguard the external tariff on paper and paperboard.

On the Community level. Contacts on a sector or federation basis are increasingly frequent and close. Members of the industry in the different countries have very rapidly become aware that they share the same fate, and this awareness has been heightened by the desire for unity in face of the external threat. It should be noted that the British industry made common cause with those of EEC against the free trade area. 'We now know each other, whereas two years ago we were both in the dark about each other'.

Action by individual firms

In France. There has been a bustle of activity which has resulted, particularly since 1960, in concentrations (mergers and regroupings) of certain large firms.

After the purchase of Begles from Cenpa and the merger between Cellulose du Pin, Tarbes and Rochefort, Saint Gobain controls the whole of the paper industry in the Landes, except for Papetries de Gascogne. The resulting combine is of international stature.

Cenpa and La Rochette, which were previously associated, have merged. Gouis is included in the merger and the three together have bought Alfa. Beghin, a shareholder in La Calaisienne, which supplies bi-sulphite pulp, has become a majority holder in this company and acquired the Cartonnerie de Kaysersberg in Alsace.

A very strong trend towards specialization may also be noted in the packaging, printing and writing-paper sectors.

About 15 of the larger companies, which account for 45% of the industries' exports, have merged their sales services abroad in anticipation of the Common Market. This organization has played an important part in the successes achieved on external markets.

Certain plants in the East of France are systematically prospecting the German market.

Non-member countries. The market of the Six exercises a strong attraction for investors in non-member countries. Whilst Scandinavian and German firms are extending their supply agreements, the Bowater group is getting a foothold in France as in the other EEC countries. American firms are endeavouring to acquire holdings in France, where the forestry potential guarantees steady activity for the industry.

THE OUTLOOK

The prospects are considered to be good provided the continental industry is adequately protected against the Scandinavians and Canadians.

The footwear industry

The footwear industry is the most important branch of the traditional leather and hides sector. Its turnover, including taxes, was NF 1,471 million in 1960 (as against 1,290 million in 1959 and 1,110 in 1958). It has 725 officially registered factories scattered among semi-rural centres. Only three of these have more than a thousand workers, and the average is 65. Concentration of the industry is taking place by elimination (450 factories closed down between 1954 and 1959). However, the labour force (72,000 persons) is increasing (by 12% between 1954 and 1959).

ATTITUDE TO THE COMMON MARKET

No official attitude was ever expressed and many members of the industry were completely ignorant of the effects of the Common Market. Employers were reserved. The industry is somewhat lacking in resilience and uses a large labour force of both sexes (hence anxiety concerning wages and the cost of social benefits).

RESULTS OF THE FIRST TWO YEARS

Business has been good. Output rose from 63 million pairs in 1958 to 70 million in 1959 and 80 million in 1960. These figures concern only all-leather shoes. Production of rubber-soled shoes, which is growing rapidly, was 35 million pairs in 1960; that of slippers was 65 million pairs.

Trade has expanded greatly. Imports (leather and rubber) have risen from 1,189,000 pairs in 1958 to 1,627,000 in 1959 and 3,486,000 in 1960. In this total, EEC countries accounted for 700,000, 845,000 and 1,523,000 in respective years – an increase in 1960 of 118% over 1958.

Exports to foreign countries have made even greater progress: 2,710,000 pairs in 1958, 5,407,000 in 1959 and 10 million in 1960. Of these totals, EEC accounted for 573,000, 1,733,000 and 3,884,000, an increase of 403% in 1960 over 1958.

STRUCTURAL ADAPTATION OF THE INDUSTRY

Action by the trade organizations

In France there has been no change in the trade organization. The economic service of the federation, with a very small staff, keeps a watching brief over European questions in liaison with the other interested federation services. Contacts with the equivalent services of industries in the other member countries, which previously did not exist, are now developing. Since 1958 the federation has had an export service to which the most go-ahead manufacturers belong.

In the Community a liaison and study commission for footwear was established in March 1958, with a French chairman. It is doing notable work. The Italians, however, have so far been unenthusiastic.

It has arranged for an exchange of statistics with periodical surveys of the business situation and an annual questionnaire; studies on other subjects of common interest have also been undertaken.

It has made representations to governments and to the EEC on the subject of protection against imports from the low-wage countries.

An important event was the meeting in February 1961 at Waalwijk (Netherlands) of the directors of the research institutes of the footwear industry who have decided to undertake specialized research, and to exchange the results. France will be responsible for research into leather; Germany for rubber, Belgium for chemical products and the Netherlands for work on adhesives.

Action by firms

In France there are many firms under family ownership, and this militates against mergers since directors do not wish to give up their position. About 100 firms close down yearly. Slow progress is being made with specialization. Unlike pre-war practice, most enterprises specialize in either men's, women's or children's footwear, but they rarely broaden their interests for fear of having to cast about for a new clientele.

About eight small regional export groups have emerged in recent years, among them Savic in Bordeaux and Safrec in Paris. Each comprises 8 to 10 members, who are encouraged to specialize their production within the framework of the group.

A few isolated firms are making vigorous attempts to enter external markets. They open shops ('Seducta' in Munich in 1960) or depots where retailers can obtain supplies (particularly in Germany, where the firms Bidegain and Bram operate).

There seems to be little if any interpenetration in the EEC. Only the powerful German firm Salamander has set up in France (it has a shop on the Boulevard de la Madeleine in Paris).

Non-member countries do not seem to be interested in footwear in the Common Market.

Food industry

The food industries comprise 16 to 17,000 firms, mainly medium and small units, employing about 350,000 persons. Their turnover in 1959 was NF 22,000 million. Their purchases of agricultural products amounted to NF 10,000 million. Exports are low at NF 1,200 million, the result of high protection abroad.

These industries consist of primary processors (flour and sugar mills, etc.), closely linked with agriculture and with farm prices, and therefore sensitive to Common Market policies. In second or third stage processing (chocolate, biscuits, jam, etc.) agricultural raw material prices weigh less heavily in production costs.

Attitude to the Common Market

The industry was not too unfavourable to the Common Market, as French agricultural products are generally cheaper than those of the other member countries. On the other hand, there was much fear of an invasion of products from non-member countries purchased at world prices by other Community countries and re-exported to France.

Results of the first two years

Uncertainty whether food processing would come under the industrial system of the Community or the agricultural system, and as to the nature of the contemplated agricultural policy, led most French industrialists to adopt a wait-and-see attitude.

Moreover, since the level of protection remained very high, they have not had to fear being swamped by produce from other member countries.

Production, trade and investment have not yet been influenced by the Common Market.

STRUCTURAL ADAPTATION OF THE INDUSTRY

Action by trade organizations

In France the Common Market is arousing very lively interest, which is a departure from the traditional isolationism of this branch of French industry.

Trade organizations have been strengthened and their authority is more readily accepted. Each association has appointed a Common Market adviser or department with adequate material resources.

The heads of even small concerns are taking a lively interest in their foreign counterparts.

In the Community each branch of the French industry meets its Common Market partners in *ad hoc* bodies. The meetings are very frequent and lively and 'much less academic than those of OEEC'. They deal with exchange of information and joint defence against outside competition.

Action by firms

In France, on the whole, the industry is still feeling its way, not knowing the rules of the game. Only a few go-ahead sectors have acquired the Common Market reflex (a sales office for the canning industry in Frankfurt, for instance).

In the Community there does not seem yet to be much financial interpenetration. But some French firms have opened branches abroad. Dutch and Belgian pressure is strong in the North and East of France, as is that from Italy in the South (Motta is opening a new factory at Argentat).

In the confectionery industry there are sales agreements between French and German producers.

Relations with non-member countries. American investors are making great efforts to put capital into the French food processing industry because agricultural produce is plentiful and prices are lower than in the other Community countries. There have been no tangible developments as yet.

CONCLUSIONS

FRENCH EMPLOYERS AND THE COMMON MARKET

Developments in the CNPF (National Council of French Employers)

Addressing 250 industrialists at a dinner organized by the newspaper *Les Echos*, M. George Villiers, President of the National Council of French Employers, said: 'I am an ardent European, and for a very good reason; I think that the need for union between the free countries is becoming more and more imperative, and for me the Common Market is the beginning of a Europe in search of itself'.

This leader of French industry is already looking beyond the horizon of the Six – a far cry from his extreme caution five years ago.

In July 1956 the CNPF stated its views as follows:

1. There must be no fixed timetable for the Common Market. Operations must not go forward at a set pace if it is found that certain countries are taking advantage of a theoretical and complicated mechanism in order to enjoy the lion's share.

2. The adjustment of social and fiscal systems must take place prior to, or at least concurrently with, the reduction of tariffs.

3. Precautions will have to be taken when establishing a common external tariff. To adopt the arithmetical average of the customs duties at present applied by each of the six countries would cause disruption.

4. The proposed investment fund will lead to further complications.

M. Villiers stated then that a major anxiety which had emerged from the discussions was that there might be attempts at economic unification before an adequate degree of monetary and political unification had been attained. It was necessary first to ensure equivalent working conditions in the Six countries.

'For when the unifying measures we demand (the need for which is growing greater) have been put into effect, what assurance shall we have that governments, having retained their freedom of action in the political, social and fiscal spheres, will not introduce new disparities of the sort from which we are now suffering?'

This attitude of the CNPF in 1956 was a polite way of rejecting the Common Market. The 'conversion' of French industrialists was greatly helped by the economic and currency reform of 1958, but M. Villiers probably still regrets that the 'economic union' of the Six is not keeping pace with the customs union. Nevertheless, faith in the Common Market is now so deeply rooted that the faster implementation of the Treaty of Rome was accepted with astonishing equanimity by the leaders of French industry.

Within the CNPF itself new organizations have appeared to meet the needs of the Common Market, and existing organizations have been modified.

The Committee for European Affairs, drawn from the Committee for International Economic Relations, meets about once a month and includes the general secretaries of the leading industrial federations or their deputies.

The permanent staff of three prepares business for this committee and studies the position of the CNPF in regard to developments in the Common Market. It publishes articles in the monthly *Bulletin du CNPF*, a circular on the Common Market, and an annual progress report of the European Affairs Council.

This staff also liaises with French official bodies and the Common Market Commission on subjects of consequence to French industry or the industries of other Community countries.

Relations with employers' organizations in the other Community countries : the CNPF is a member of the Union of Industries of the European Economic Community (UNICE), whose office is in Brussels. As the CNPF represents trading interest, it also participates in COCCEE (Committee of Trade Organizations of the Community).

UNICE has a policy-making body, the **Council of Presidents**, which meets every two months, and numerous committees dealing with various problems. These follow the work of the European Executives and endeavour to formulate a common policy on related questions.

Among the permanent committees are those for social affairs, transport, rules of competition, industrial property and taxation. There are also *ad hoc* working parties on common trading policy, under-developed countries, and overseas investment. Finally, there is a committee for agricultural and food industries and one for nuclear power.

Representatives of CNPF take part in these meetings and they have taken action on a number of questions within UNICE. In some cases there have been positive results, but in others no compromise has yet been reached.

One achievement of French employers was to win over their other European colleagues on the interpretation of Article 97 of the Rome Treaty. They held that the Belgians and Italians had manipulated excise or other charges on certain products to cancel the effect of customs reductions. Thanks to French objections it is now generally agreed that changes in such taxes may only be made after consultation with the countries affected, and the Common Market Commission has had this view adopted by the Council of Ministers.

On the other hand, France has been less successful in pressing for a common policy on indirect taxation. 'Multistage taxes' were indeed condemned by all experts on the industrialists' side, but in the Council of Presidents, the Germans successfully raised political objections to an added value tax. Difficulties also appeared on another subject on which the CNPF feels strongly, namely, equal pay for men and women.

Nevertheless, the activities of the CNPF within UNICE are instructive. They show that French employers have abandoned their isolationism and have grown out of their inferiority complex.

The Employers' Outlook

A great lesson has been learnt and the Common Market has had a decisive influence on the outlook of French producers.

The French industrialist becomes export-minded

According to M. Jeanneney, Minister for Industry, the mentality of French industrialists has undergone three revolutions since the war :

There has been a revolution in productivity which has found expression in the modernization of plant and bold new social concepts ;

Their attitude to protection and its privileges has become much more liberal ;

The advent of the Common Market has been decisive in making many employers aware that it was vitally necessary to export. French industrialists now realize that their sales abroad are not only useful in earning foreign currency, but also that by competing abroad they are more able to maintain competitive prices in the home market.

Previously unthought of markets are being found for French goods. Extensive market research, trips abroad, and the first results of attacks upon the expanding market of the Six have shown French industrialists that they hold excellent cards. The merchant-venturer spirit has thus been aroused, and as M. Jacques Duhamel has said (at the ESSEC study conference on the Common Market): 'For some people it almost seems as if the road to Brussels has become the road to Damascus'.

French industrialists no longer fear their competitors

The Common Market has caused other important changes in the mentality of the French industrialist. Hitherto he had shown little inclination to undertake rationalization by concluding agreements with home or foreign competitors, but now he is quite willing to look for such contacts.

According to specialists who are acting as intermediaries between French firms or between French and foreign firms in matters of mergers, specialization agreements, etc., two fairly clear-cut phases have occurred in this process.

1. Rather than seek agreement with a French competitor, a company would agree to meet a foreign competitor. Agreements were thus concluded precipitately and with some naïvety on the French side, and they have sometimes occasioned disappointment to the signatories.

Furthermore, the French industrialist was too intent, at the beginning, on reaching agreement with his German or Italian competitor – always a difficult matter – rather than with the maker of a complementary product – a much more promising tactical move.

2. Having recovered from these illusions, heads of firms are now turning more readily to their fellow-countrymen for agreements of diverse kinds: technical exchanges, joint use of marketing networks, acquisition of interests in each other's businesses, establishment of joint subsidiaries, etc. The result is almost always a financial agreement. Experience shows that this is the soundest form of agreement, for in purely technical or commercial agreements it often happens that one partner does not play the game.

The attitude of foreign industrialists towards their French colleagues has also changed. Taking the Common Market countries in turn :

The **Germans**, who, during the first year of the Common Market, used to wait for the French to approach them, now come to France to meet heads of French firms and endeavour to invest in French businesses. Rather than make use of former agents for German brands in setting up enterprises in France, as they tried to do at the beginning, they now prefer to act through the French themselves.

The Germans also realize that France is a good staging point for business in Africa, and there is a new tendency to go through Paris rather than to negotiate directly with African states. The latter tend to turn to French technicians for advice on the economic wisdom or otherwise of allowing a German firm to set up on their territory.

With the **Italians** two attitudes must be distinguished : that of medium and small concerns which are much more tempted by agreements with the French because they have difficulty in obtaining finance for modernization.

Large concerns do not show much interest in alliances with French firms, either because such arrangements exist already or because agreements have been signed with Americans, Germans, etc.

For a long time, the **Belgians** concentrated on Germany. Today they are looking for partners in France, even more than for markets. They already hold large numbers of American licences and proximity and the use of the same language also make agreements easier.

The **Dutch** are not particularly Community-minded when it comes to making agreements. Their big groups have long operated on a world scale and they look for agreements as much with the British and Americans as with the French, Germans or Italians.

This industrial osmosis throughout Europe, helped on by the Common Market, has influenced French public opinion also. The French public has always been prepared to support the little man against the giants, but today it has a better understanding of the advantages of industrial concentration. It is significant that the new left-wing parties are perfectly conscious of the need to move in the direction of large enterprises (which, moreover, pay higher wages than the medium or small firms) even if they regret the harmful effects of domination in the capitalist system.

French public opinion has also changed in another way since the opening of the Common Market. This concerns foreign, and in particular United States, investments. For a long time after the liberation, fear of being colonized by America was uppermost. Marshall Aid and the weakness

of their economy had given the French a complex. They saw a very pressing danger in the influx of American firms and in the acquisition of holdings by Americans.

French membership of the Community has dispelled these misgivings and the opposite reaction prevails today. The fear is rather that neighbours like the Dutch or the Germans, who are more skilled in the art of attracting foreign capital, may deflect American investment away from France.

Germany has the largest share of American investments in Europe. In 1960 the Federal Republic received more than half of the capital invested in the European Economic Community. France was second with 20%. Benelux accounted for 16% and Italy 9%. From 1958 to 1960, 43% of the capital investment of American companies in Europe was in the petroleum industry, 15% in vehicles, 11% in mechanical engineering and 10% in chemicals.

Whereas a few years ago the Americans aimed at acquiring a majority interest when they contributed capital to a French business, they are now quite content to be minority shareholders. On the other hand, the tendency to set up purely American factories is more marked than a few years ago, when American businessmen preferred to sell patents rather than exploit them abroad.

