A large, stylized graphic of the numbers '91' in a bold, sans-serif font. The '9' is yellow and the '1' is white. The numbers are set against a background of a yellow and white striped pattern, reminiscent of the European Union flag. Several yellow stars are scattered around the numbers. The entire graphic is set against a yellow background.

Panorama
of Ec
Industries
1991-
1992

**Current
situation and
outlook for**

180
sectors

of
manufacturing and
service industries
in the
**European
Community**

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PANORAMA OF EC INDUSTRY 1991-1992

describing over 180 sectors
of the European Community's industry, including
both manufacturing and services

Message from Jacques Delors
Preface by Martin Bangemann
Introduction by Riccardo Perissich

COMMISSION OF THE EUROPEAN COMMUNITIES

The opinions expressed in this publication are those of the authors alone. Under no circumstances should they be taken as an authoritative statement of the views of the Commission of the European Communities.

Panorama is commissioned by the Unit "Competitiveness and general questions of industrial policy", of the Directorate-General for the Internal Market and Industrial Affairs of the Commission of the European Communities (DGIII), with the cooperation of the trade and professional associations of the European Community.

All professional associations/organisations known to the Commission which represent industry at a European level were asked to contribute material on their sector.

At the end of each monograph the names, addresses and telephone numbers of the respective professional association concerned and the nature of their contribution are indicated. Questions about the content of the Panorama of EC Industry should be directed to the association concerned or to the Commission service responsible for this publication:

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PANORAMA OF EC INDUSTRY 1991-1992



Jacques Delors,

**President of the Commission of the
European Communities**

The completion of the internal market by the end of 1992 in the context of liberalised capital flows and the maintenance of economic growth will pose important challenges in the Community. The first stage of economic and monetary union requires a strong coordination of monetary and

budgetary policies to support growth and real convergence.

The objectives in creating the Single Market in 1992 are partly political, but they are also intended to provide European industry with an environment in which it can successfully handle the challenge of global competition.

Europe's response to this challenge is taking place against a background of unprecedented upheaval. The recent changes in Eastern Europe will provide both new opportunities and new difficulties; the GATT

negotiations of December 1990 left major issues unresolved; the consequences of the crisis in the Gulf had far-reaching effects on our key industries and services. It is more important than ever to make regular clear and objective assessments of our current situation and performance. The success of the ongoing integration process depends on its credibility with and its response from industry. The realisation of its potential benefits will depend in turn on strategic changes at individual company level. At both national and regional level this demands an effective diffusion of information, both at the level of national governments and industrial and other organisations and individual companies - especially small and medium-sized enterprises.

Panorama provides a comprehensive update of the basic facts of European industry. It is unique in providing figures on all significant sectors at European level, as well as giving the analysis of current trends and outlooks that are a vital background to the strategic policy making and business decisions of its readers.

The manner of Panorama's production is itself an exercise in creating collaboration and the ability to "think European" between professionals in industry and economists. I am sure that this third edition, while providing a key reference on industrial activity in the Community, will also encourage us further to think - and act - European.

Jacques Delors



Martin Bangemann

Vice-President of the Commission of the European Communities

Work on the foundation of the Single European Market is continuing to make good progress. The removal of technical trade barriers has generated a significant advance. Until now, more than 70% of the suggested measures for the establishment of the Single European Market on a legal basis have

been adopted. In fact, in many important areas, EC regulations have paved the way for a Single Market. Considerable delays still exist with regard to technical coordination, but these difficulties will be overcome over the next few months. Even in this area, however, there is optimism that the Single European Market will be completed on schedule. The most attractive benefits of these measures are already being experienced in all areas of economic life. Total production has risen by 20% since 1984, and 8 million new jobs have been created. The EC is clearly

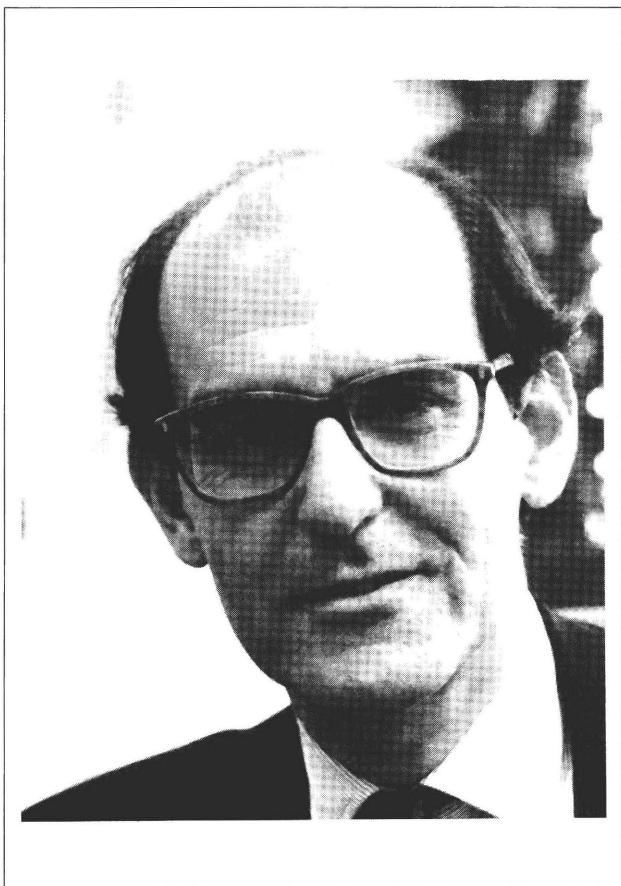
becoming more attractive as an area for investment. This is also apparent in the increasing investment within the Community, particularly in the lesser developed Member States. These are impressive signs which demonstrate that the Single European Market is giving fresh stimulus to all regions of the Community.

The positive economic development is caused, to a large degree, by the enhanced economic environment of the Single European Market. The Community's commitment to advanced liberalisation and deregulation of the European markets and their persistent support for the improvement of opportunities for the economy are clearly expressed in the policy document "Industrial policies in an open and competitive environment" which on my initiative, the Commission has adopted and the Council of Ministers have taken up since the end of last year. On this basis, the EC Commission will further develop its industrial and political plans over the next few years with a view to greatly improving the competitiveness of European industry in an open environment. The Single European Market programme is an even greater stimulus for economic growth than has been accepted up to now. East-West relations and the unification of Germany have decidedly enhanced the prospects for medium-term growth in Europe. Moreover, Europe has a potential market of 400 million customers. These large market and investment opportunities should not be overlooked by European industry. The Commission will give this as

much support as possible by means of intensive industrial cooperation with the countries undergoing reform in Central and Eastern Europe. Translating this potential into practice requires the establishment of freedom of movement for people, goods, services and capital, within the entire European Community. These purposes are served by the negotiations on a united European Economic Area (EEA), such as the European agreement with the countries undergoing reform. Aside from this, we urgently require a functional pan-European network of communications, telecommunications, energy and professional training. Such a network will create the missing links between existing national systems. Within the Community this network is, amongst other things, an essential factor in the requirements of outlying regions.

Panorama of EC Industry '91/92 gives an up-to-date and detailed view of more than 180 branches of industry and areas of service within the EC. This is the essential basis for a successful analysis of present and future market trends, and each year represents valuable help when making important decisions in our rapidly changing economic environment.

Martin Bangemann



Riccardo Perissich

**Director-General for the Internal Market
and Industrial Affairs**

Panorama of EC Industry is fast proving its value as the definitive update on the state of European industry and services. This third edition focuses on the more dynamic aspects of industry, such as structural changes, the effects of new technologies, environmental regulations, new or

forthcoming legislation and changes in cost structures and forecasts.

Panorama was written against the background of recent dramatic changes in Eastern Europe, and the development of the Middle East crisis during the latter half of 1990. This has made sound forecasting particularly complex for many sectors, and these and other anomalies are further explained in the section "Panorama '91/92 - time frame and statistics".

When it comes to the industry reviews, we regard the professional associations as a vital source of assessment of the current situation and future prospects within their respective sectors. Contributions to Panorama were sought from over 200 associations represented at Community level, even though at times this has raised problems of sectoral definition.

A large number of these associations updated and expanded their previous year's contribution to Panorama, and many others have collaborated by supplying statistics or partial reports.

The contributions of associations and consultants do not always precisely correspond with the views of the Commission services. They are nonetheless included, as we regard the views of those actually working closely within their respective sector as one of the unique and valuable features of Panorama.

A major effort was made to assemble comprehensive, up-to-date and relevant statistics. Eurostat (the Statistical Office of the European Communities) worked with the professional associations and consultant authors to define, seek out and process the statistical material presented in Panorama.

This is an evolutionary exercise, and in spite of good progress in recent years, not all of what is needed to give a detailed picture at Community level is currently available. Sectoral contributions should be read

independently of each other, bearing in mind that while every effort has been made to achieve consistency throughout the book, figures cannot be cumulated across sectors.

Where a professional association has provided information or is the author of the chapter, the name and details appear at the end of the text in question. Consultant authors, responsible for writing or reviewing a large proportion of this year's edition, are similarly acknowledged at the end of the respective section. In a number of cases, sectoral reports have been written by industry experts or departments at the Commission Services, and where relevant, this has been indicated.

The final responsibility for Panorama '91/92 was carried by DGIII.A.3 - "Competitiveness and General Questions of Industrial Policy" - with the technical assistance of consultants in the coordination and editing process, and collaboration of staff in a number of other Commission services.

We aim to upgrade the quality of individual chapters of Panorama every year, at the same time as gradually expanding the number of sectors covered. Each time we repeat the exercise, sources of information are further developed, and in the service sectors in particular, more and better organised data are available.

We see Panorama as more than just a publication. The exercise as a whole can and will generate other projects. At present we plan to transfer

the basic Panorama information to a database, which may be updated and available to subscribers throughout the year. Collaboration with the professional associations will be further developed so that national as well as EC level associations may become more involved in the "think European" process. We also aim to see that Panorama benefits an ever wider public. A broader marketing campaign is being launched this year, and substantial effort has gone into producing a book with a strong visual identity which is also more reader-friendly.

I should like to thank the professional associations, the consultant authors and coordinators, and the many staff in the Commission services who participated in producing this year's Panorama. They have good reason to be proud of the result.

Riccardo Perissich

Message from Jacques Delors I

PRESIDENT OF THE COMMISSION OF THE EUROPEAN COMMUNITIES

Preface by Martin Bangemann III

VICE-PRESIDENT OF THE COMMISSION OF EUROPEAN COMMUNITIES

Introduction by Riccardo Perissich VII

DIRECTOR-GENERAL FOR THE INTERNAL MARKET AND INDUSTRIAL AFFAIRS, COMMISSION OF THE EUROPEAN COMMUNITIES.

Panorama '91/92 - time frame and statistics XV

Special Issues

Highlights 3

Sectoral prospects for the EC 31

Inward investment in the European Community 39

The pattern of recent mergers and acquisitions 65

The internal market taking shape 73

The opening of Eastern Europe 77

The largest groups at world and EC level 95

Company size:

The role of small and medium size enterprises 113

Cooperative, mutual and non-profit organisations in the European Community 121

Industry Reviews and Forecasts

1 Energy

- Overview 1-1
- Solid fuels 1-12
- Exploration and production of crude oil and natural gas 1-21
- Refining and distribution of oil 1-28
- Nuclear fuels 1-41
- Electricity generation and distribution 1-51
- Transmission and distribution of natural gas 1-60

4 Non-ferrous metals

- Non-ferrous metals - Zinc 4-1
- Non-ferrous metals - Aluminium 4-8
- Non-ferrous metals - Precious metals 4-14
- Non-ferrous metals - Lead 4-22

7 Ceramic goods

- Overview 7-1
- Ceramic tiles 7-6
- Sanitaryware 7-9
- Tableware and ornamental ware 7-12
- Industrial ceramics 7-16
- Refractory products 7-20

10 Mechanical engineering

- Overview 10-1
- Agricultural machinery 10-11
- Machine tools for metal-work 10-16
- Cutting tools 10-23
- Special tools 10-28
- Production automation 10-33
- Textile and clothing machinery 10-41
- Plastics and rubber machinery 10-49
- Industrial trucks 10-52
- Wood-working machinery 10-57
- Liquid pumps 10-61

2 Mining

- Crystallized salt 2-1

5 Construction materials

- Overview 5-1
- Stone 5-6
- Clay products 5-11
- Cement 5-17
- Precast concrete 5-22
- Ready-mixed concrete 5-28
- Mineral wool 5-31

8 Chemicals

- Overview 8-1
- Plastics 8-12
- Paint, varnish and printing inks 8-17
- Glues and adhesives 8-25
- Fertilizers 8-27
- Agrochemicals 8-32
- Soaps and detergents 8-40
- Perfumery, cosmetics and toiletries 8-45
- Maintenance products 8-49
- Pharmaceuticals 8-53
- Non-prescription pharmaceuticals 8-59
- Man-made fibres 8-64
- Petrochemicals 8-71

3 Ferrous metals

- Overview 3-1
- Iron and steel 3-6
- Steel mini mills 3-12
- Steel tubes 3-14
- Drawing, cold rolling and cold folding 3-22

6 Glass

- Overview 6-1
- Container glass 6-7
- Flat glass 6-10
- Glass tableware 6-13
- Glass fibre 6-16
- Specialised glass 6-19

9 Metal products

- Overview 9-1
- Foundries 9-8
- Steel-forging 9-16
- Constructional steelwork 9-20
- Door and window frames 9-24
- Boilermaking 9-30
- Domestic heating appliances 9-36
- Hand tools 9-39
- Light metal packaging 9-43

11 Electrical engineering

Overview 11-1

Insulated wires and cables 11-8

Power transformers 11-14

High-voltage switchgear 11-20

Low-voltage switchgear 11-26

Welding equipment 11-32

Consumer batteries 11-36

Domestic electrical appliances 11-41

Electric lighting 11-47

15 Food, drink and tobacco

Overview 15-1

Vegetable and animal oils and fats 15-8

Olive oil 15-13

Margarine 15-16

Slaughter and preparation of meat 15-19

Abattoirs 15-26

Poultry 15-29

Dairy products 15-33

Fruit and vegetable processing and conserving 15-41

Deep-frozen products 15-48

Flour 15-51

Industrial baking 15-54

Rusk making, biscuits, chocolate and sugar confectionary 15-57

Sugar 15-61

Ice-cream 15-66

Compound feed 15-69

Miscellaneous products: soluble coffee, tea and vinegar 15-74

Alcohol and spirits 15-79

Wine 15-85

Brewing 15-89

Malting 15-93

Soft drinks 15-96

Tobacco 15-99

12 Electronic engineering

Overview 12-1

Electronic components 12-7

Telecommunications equipment 12-18

Computer and office equipment 12-28

Consumer electronics 12-37

14 Instrument manufacturing

Overview 14-1

Measuring, precision and control instruments 14-7

Medical and orthopaedic equipment and material 14-13

Optical instruments and photographic equipment 14-18

Clocks and watches 14-23

16 Textiles, leather, clothing and footwear

Overview 16-1

Textiles 16-6

Clothing 16-11

Leather tanning and finishing 16-16

Footwear 16-25

17 Wood processing

Overview 17-1

Sawing, planing and drying of wood 17-6

Semi-finished wood products 17-9

Wooden building components 17-15

Wooden containers 17-18

Other wood products 17-21

The brush industry 17-24

13 Transport equipment

Overview 13-1

Motor vehicles 13-8

Motor vehicles parts and accessories 13-18

Mopeds and motorcycles 13-25

Shipbuilding 13-32

Railway rolling stock 13-39

Aerospace 13-44

Public transport equipment 13-56

18 Furniture

Overview 18-1

Furniture 18-5

Office furniture 18-11

19 Pulp, paper, printing and publishing

Overview 19-1

Pulp, paper and board

manufacturing 19-6

Paper and board converting 19-19

Printing 19-27

Daily newspapers 19-34

Periodicals 19-39

20 Rubber and plastics

Overview 20-1

Rubber 20-5

Plastic film and sheeting 20-12

Plastics processing 20-16

Fibre-reinforced plastics 20-23

Other manufacturing industries

Overview 21-1

Jewellery 21-5

Costume jewellery 21-12

Musical instruments 21-16

Toys 21-22

Sports goods 21-27

Tourism

Overview 24-1

Hotels 24-9

Consumer catering 24-14

Travel services 24-18

Business services

Overview 27-1

Real-estate 27-5

Legal services 27-11

Notaries 27-18

Accountancy services 27-22

Architects 27-26

Engineering consultants 27-30

Construction economists 27-34

Geodetic Surveying 27-38

Advertising 27-41

Direct marketing 27-49

Public relations 27-53

Market research 27-57

Management consultancy 27-64

Labour recruitment 27-69

Temporary work services 27-72

Security services 27-77

Industrial cleaning services 27-82

Express services 27-88

Exports promotion 27-93

Vocational training 27-99

Contract research 27-108

Operational leasing 27-112

Building and construction

Overview 22-1

Building construction 22-6

Civil engineering 22-12

Industrial engineering 22-16

Transport

Overview 25-1

Railways 25-7

Regional and local bus transport 25-14

Road passenger transport 25-19

Road freight transport 25-24

Inland waterways transport 25-31

Shipping 25-36

Air transport and airlines 25-43

Airports 25-52

Public transport 25-58

The audiovisual industry

Overview 28-1

Music recording 28-9

Other services

Private hospitalization 30-1

Waste disposal and recycling 30-7

Water distribution 30-17

Distribution

Overview 23-1

Wholesale distribution 23-4

Retail trade 23-10

Scrap and waste metal trading 23-25

Financial services

Overview 26-1

Stock exchanges 26-6

Banking and finance 26-13

Information services

Overview 29-1

Telecommunications services 29-4

Software and computing services 29-15

Electronic information services 29-23

Subject index

Abbreviations

List of associations

Panorama '91/92 - time frames and statistics

Panorama '91/92 provides a comprehensive picture of industry and services within the European Community. It is intended for all those requiring an update on the present situation and probable future developments in the manufacturing and service industries in the EC.

Panorama opens with a "special issues" section, which takes a global approach to a number of horizontal subjects of topical interest. The main part of the book - the industry reviews - provides a microeconomic survey of EC industry and services, tracing the major developments in production, employment, trade and structural changes and including, in most cases, detailed statistical data and forecasts.

Time frame

The industry reviews and forecasts were written during the second and third quarters of 1990. Time series run from 1980 onwards, and the latest data is limited to 1990. Gaps in the data were filled by estimates wherever information was available, and these estimates are footnoted in the tables.

All figures for 1990 are estimates. Forecasts, if available, were provided by the associations or consultants involved in the compilation of individual reports, or by Eurostat, the Statistical Office of the European Communities.

Particular qualifications

In assessing the short-term outlook, every effort has been made to take into account the possible effects of the crisis in the Middle East. Reports must be read bearing in mind that at the time of writing it was impossible to accurately assess the impact of a very volatile situation, of which the effects in some sectors may well be very far-reaching indeed.

Most of the sectoral material was compiled before the date of the formal unification of East and West Germany. While the medium term and even short term effects of unification are also very unclear, and although authors have been requested to make "guesstimates" on the subject where possible, the text should be read from the viewpoint of the second half of 1990. Some references to East and West Germany which are now out of date will appear in the text.

Industry classification system

The selection and ordering of industries and services included in Panorama is based on the NACE coding system. This system classifies economic activity in terms of the nature of goods and services produced or by the nature of the production process employed. It is arranged on the decimal system and is subdivided into divisions (1-digit codes), classes (2-digit codes), groups (3-digit codes), sub-groups (4-digit codes) and items (5-digit codes). Panorama is primarily focused at the '3-digit' and '4-digit' level.

More detailed information on the NACE codes is contained in the General Industrial Classification of Economic Activities within the European Community published by Eurostat (1985 reprint of the 1970 edition). This publication is available from the usual outlets for Community publications.

Although most chapters are headed by the appropriate NACE code, some do not have a NACE code indicated as the sector represents too small a fraction of the total NACE group. This is particularly common in the service sectors.

Revisions to the NACE classification have been incorporated in a Council Regulation (OJ L293, 24th October 1990) and will start being used for data collection over the next few years. One of the objectives of this revision is a further breakdown of some service and industrial categories. Even when a NACE code is published beneath the sector title this should be regarded with caution. In some cases the NACE classification does not exactly coincide with the industrial sector under discussion. Each chapter includes a preliminary section explaining the sectoral coverage in the chapter in question, and indicating the extent to which this deviates from the NACE classification. There are cases where an overlap occurs between sectors and therefore data cannot be cumulated.

Statistical data

The statistical data in Panorama should be regarded with caution, particularly for the more recent years where data have often been estimated. The two main sources of data are the professional associations and Eurostat. Data sources are indicated for each statistical table. Data from separate sources have generally not been mixed since their respective sectoral definitions frequently differ. Where the data comes from Eurostat, the particular data-base consulted is indicated in parentheses.

For manufacturing industries each chapter includes a summary table containing the main indicators for the industry. These cover apparent consumption (defined as production + imports - exports), net exports (the trade balance for the Community with the rest of the world), production and employment.

Data in the tables are in current ECU unless otherwise stated. Indices (reference year: 1985 = 100) have been calculated for production and trade data providing easier reference to trend changes. Production series in constant 1985 prices are given to provide an indication of real volume change by removing the effects of inflation. The productivity measure used in certain monographs is based on value added at factor cost in 1985 prices per person employed.

Every effort has been made to include data for all 12 Member States. All figures are on a pre-unification basis, and exclude East Germany unless otherwise stated. However, where data are not available for the EC-12, country coverage is clearly indicated in the footnotes appearing below each table. Production figures for the USA and Japan derived from their respective censuses of manufacturers have also been included. To compare the Panorama of EC Industry with the American Outlook, Eurostat can provide you with a table correlating NACE to the American SIC.

Production and employment Data for production and employment come from annual enquiries conducted by Member States to all firms with 20 or more employees. The exceptions to this are Spain and Portugal where the coverage is for firms of all sizes. Figures are generally available at the NACE 3-digit level. The production data exclude VAT, and the employment data relate to persons employed excluding home workers. The definitions are standardised, and so the figures are comparable across industries and countries. The exceptions are the Spanish and Portuguese data, where the coverage is for firms of all sizes.

Estimates are not supplied to Eurostat by Member States for the firms not covered by the enquiries, and the figures under-report actual employment and production. Where this is significant, either industry association sources are used or a note is made in the commentary. Derived statistics which are calculated from both production and trade statistics will also be affected. Apparent consumption will be understated, and import penetration ratios and export rates will be overstated.

Gaps in Eurostat's data for production and employment have where possible been filled by estimation. The majority of countries provided final data up to 1987, exceptions being Greece (1985), the Benelux countries and Spain (1986), and Denmark (1988). There EC totals from 1986 onwards contain estimates for missing countries, and these are not specifically footnoted.

Estimates are derived from short-term indicators such as indices of production, producer prices and employment. Data for 1990 are based on indicators for the early months of the year, but also take into account independent sectoral forecasts. Eurostat's estimates are only made for the NACE 2-digit and 3-digit level. Gaps in industry association figures at the 4 or 5-digit level have normally not been able to be filled due to the scarcity of statistics at this level.

Exchange rate conversion and deflators All data are reported in ECU, and national currencies have been converted at the average exchange rate prevailing for the year in question. The exchange rates used for the conversions are stated in the 'Annex' section at the end of the 'Highlights' chapter. Producer price indices have been used to deflate production and value added data. In cases where the corresponding NACE 3-digit index has not been available, the NACE 2-digit index has been used. For Portugal, where such indicators are not yet available, the corresponding retail price indices have been taken.

Trade data The trade data are reported in terms of Community trade flows with the rest of the world. In most cases these data are based on Eurostat figures. Export valuations are generally fob (free on board, ie; excluding freight and insurance costs) whereas import data are cif (ie; inclusive of carriage, insurance and freight). Import statistics may generally be regarded as slightly more accurate than export statistics due to greater ease of data collection in the former case.

All trade figures are in current ECU. For comparative purposes, the trade ratio of exports to imports (X/M) has been calculated for each set of trade data.

The entry into the Community of Greece in 1981 and Spain and Portugal in 1986 caused breaks in the available trade series, which are footnoted in the tables. Indices given in the tables are chained so that annual changes reflect the movement for a fixed group of countries. Because the definition of the zone extra-EC changed twice during the period, the net exports in the main indicators have been calculated from the figures for imports and exports to and from all partners.

QUESTIONNAIRE

FOR THE ATTENTION OF READERS OF PANORAMA OF EC INDUSTRY

This is the third edition of "Panorama of EC Industry" published by the Office for Official Publications of the European Community. The work was carried out by independent consultants, in collaboration with professional European associations.

We would be grateful if you could complete this short questionnaire which will enable us to determine both your needs and wishes and to adapt future editions of Panorama to these requirements.

Please mark the appropriate response(s)

1) How do you know about Panorama ?

- Advertisements ()
- Recommendations (specify) ()
- Through work ()
- Don't know ()
- Other (specify)

2) Where did you obtain your copy of Panorama 91/92 ?

- Office for Official Publications of the European Community ()
- Bookshop ()
- Local agents ()
- Library ()
- Other (specify)

3) Do you read Panorama every year or is this the first time ?

- Every year ()
- 1st time ()
- 2nd time ()

4) What do you think of Panorama 91/92 with regard to :

- Presentation -- - 0 + ++
- Content of industrial reviews -- - 0 + ++
- Quality of information -- - 0 + ++
- How comprehensive the information is -- - 0 + ++
- Choice of subjects for the "special issues" -- - 0 + ++
- Quality of the "special issues" -- - 0 + ++

5) If you have read Panorama before, how does this new edition compare with previous ones with regard to :

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- Content of industrial reviews -- - 0 + ++
- Quality of information -- - 0 + ++
- How comprehensive the information is -- - 0 + ++
- Choice of subjects for the "special issues" -- - 0 + ++
- Quality of the "special issues" -- - 0 + ++

6) For what reasons do you read Panorama ? (several answers possible)

- Occasional reference tool ()
- For information about specific sectors ()
- Statistics ()
- Overview of Community industry ()
- Others (specify)

7) Would you be interested in the following proposals:

- Consulting Panorama on a database CD-ROM Yes No
- Ordering a selection of certain chapters Yes No
- An update of statistics every six months Yes No
- Other suggestions:

.....
.....
.....

8) Would you prefer Panorama to be published :

- Every 2 years ()
- Annually ()

9) What additional information would you like to find in Panorama ?

.....
.....
.....

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Special Issues

Highlights

This third edition of Panorama of EC Industry was compiled between September 1990 and March 1991, i.e. amid the major economic uncertainties generated by the Gulf crisis.

Whereas the first two editions concentrated on the various structural changes which have occurred since the early 1980s, the horizontal chapters of the third edition focus on recent changes and the outlook for EC industry in the face of new challenges such as:

- ❖ the opening of Eastern European markets and Germany's unification;
- ❖ the run-up to the Single Market and economic and monetary union;
- ❖ the upsurge in direct Japanese investment and the internationalisation of large firms.

After five years of steady growth, EC industry has just gone through a somewhat rough patch. The economic repercussions of the Gulf War may have proved less serious than generally feared, but overall, the economic situation in 1991 has taken a less favourable turn than that predicted at the end of 1990.

For 1991, the European Commission expects an economic growth rate of 1.5%, i.e. half that achieved in 1990 and around 2 points down on 1989. This low growth rate will have adverse effects on the job market, bringing a further rise in unemployment which could reach 8.8% for the Community as a whole in 1991.

While the Gulf War seems to have had a less serious and lasting effect than expected on confidence, inflation and growth, other factors are having a more notable impact on economic prospects:

- the economic recession in the United Kingdom is proving more persistent than in most other European countries;
- in the former East Germany, reunification has led to the collapse of industrial production, while in the West, as indeed in other European countries, the economic situation has been clearly boosted by the new markets to emerge in the five new "Länder". For the first time, Western Germany has seen a sharp decline in its balance of trade and is now facing the risk of a balance of payments deficit;
- in the United States, economic growth, which has declined greatly since 1989, remains shaky while the rise in the dollar since the end of the Gulf War is threatening to divert attention from the more deep-rooted problems besetting the American economy. Although a stronger dollar certainly enhances the competitive position of European industries, it could have an adverse effect on inflation since many EC imports are invoiced in American dollars. In the course of 1990, the depreciation of the dollar against the ECU contributed to the slowdown in EC exports;
- in the Soviet Union, the economic crisis is going from bad to worse, plunging the country into an even deeper state of political turmoil;
- meanwhile, the rest of Eastern Europe is also experiencing major problems in its transition to a market economy. The entire trading system has collapsed, countries are having to face up to the large debts amassed over the years, and, as one might expect, industrial output has suffered an initial sharp decline. In some countries, notably Yugoslavia, ethnic troubles and social strife have cast a shadow over future prospects.

Table 1
The EC economy at the beginning of the decade

(% annual variation)	1984-87	1988	1989	1990	1991(*)	1992(*)
Real GDP	2.6	4.0	3.3	2.8	1.4	2.3
Employment	0.6	1.6	1.6	1.6	0.4	0.4
Inflation (%)	5.1	3.7	4.9	5.1	5.0	4.6
Investment	3.3	9.0	6.7	4.2	0.9	3.7
investment in machinery	6.1	10.4	9.1	4.5	0.2	4.4
Real unit labour costs	-1.1	-1.1	-0.7	0.5	0.5	-0.7

(*) Forecasts
(%) Deflator of consumer prices
Source: EC annual economic report 1991

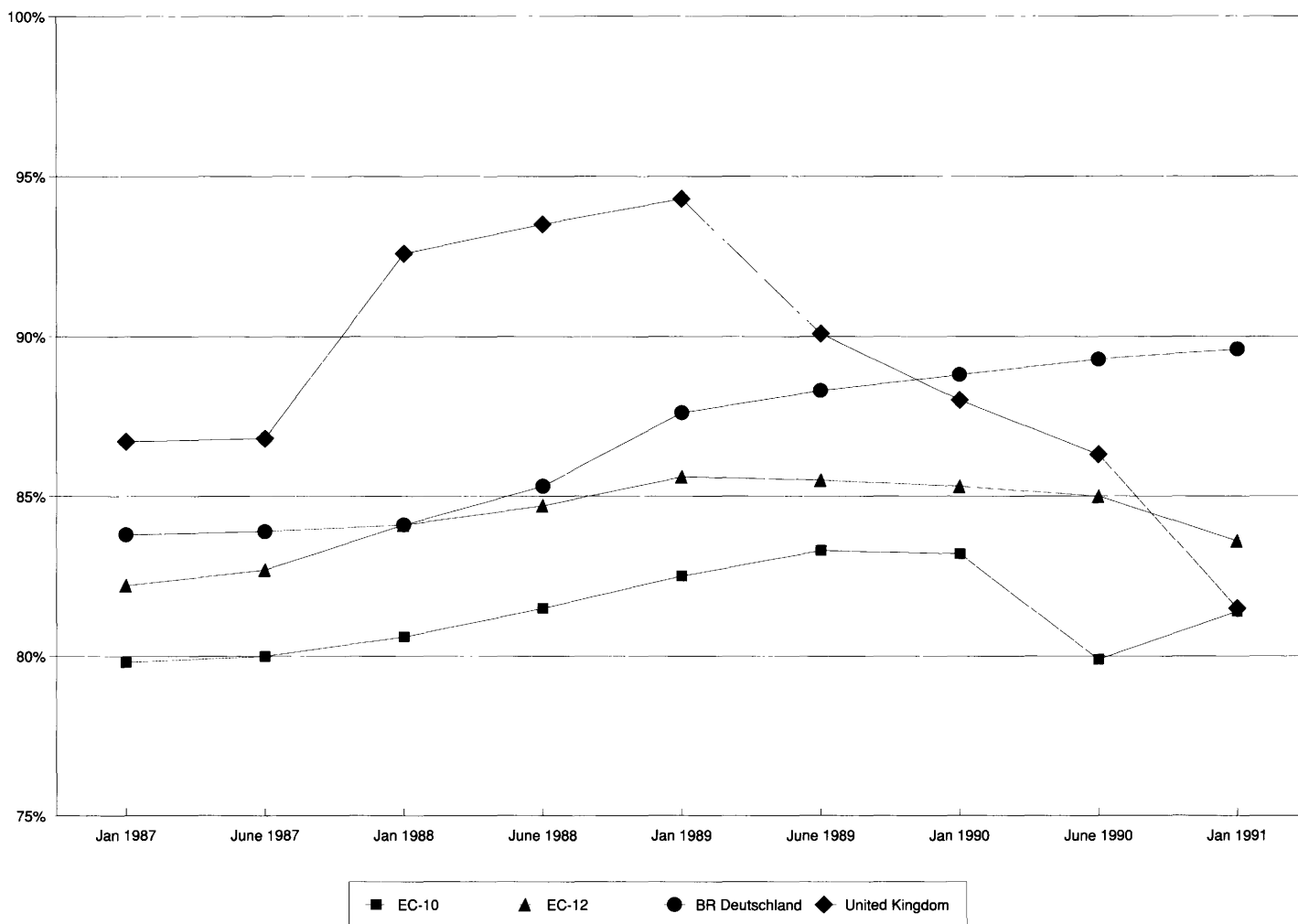
Despite all this, the European Commission expects the situation to improve slightly by 1992, provided Member States maintain or reinforce stability. Economic growth could reach 2.25% by 1992 (Commission's annual economic report dated June 1991). The increase, however, will not be enough to stem the rising tide of unemployment, poised to reach 9.2% in 1992. The average level of inflation is expected to remain fairly stable, albeit still too high. The drop in inflation in the United Kingdom is a positive sign, but an increase seems likely in Germany, owing to the rapid rise in wages and the need to finance the costs arising from German reunification.

The repercussions of the Gulf War and other signs of a slowdown

Since the beginning of 1990, industrial output in the EC has witnessed a marked slowdown, leading to virtual stagnation, starting in the summer of 1990. Among those hardest hit by the effects of the Gulf War are air transport, consumer durables, carmakers (except in Germany) and, most notably, industrial equipment sectors, many investors having put off investment decisions during the Gulf crisis. 1990 saw a slowdown in investment, followed by a period of near-stagnation in 1991. No doubt it was partly a case of a

cyclic reaction to previous years (1987-1990) when investment grew at an average rate of 7%. According to the Commission's annual economic report, a certain downward turn was inevitable because as soon as foreign demand flagged, surplus production capacity increased and monetary policy was tightened. The Commission's annual economic report also indicates that, since 1990, the profitability of investments has deteriorated in virtually every Member State, because unit labour costs are no longer falling, as they had done since 1981, and 1991 and 1992 are expected to see nominal wages rise by over 7% on average. Since the end of the Gulf War, there have been signs of renewed confidence, particularly among consumers, but also in the construction industry. In industry, on the other hand, recovery still seems a long way off (May 1991). An upturn in business confidence in industry is essential, however, if investment is to pick up. In the United Kingdom, the outlook is less rosy: in 1991, GDP is expected to decline by 2%, investment by more than 10% and private consumption by 1.75%. Another determining factor in economic recovery is the pattern of interest rates. With the slowdown in growth, a drop in real interest rates already seemed certain at the beginning of the year. Since the be-

Figure 1
Capacity utilisation rate in the EC manufacturing industry



Source: EC annual economic report

ginning of 1991, rates have indeed dropped, which should help to curb inflation. The surge in oil prices during the Gulf crisis proved short-lived. Prices stabilised fairly quickly at around 18-19 Dollars, after soaring to 32 Dollars during the final quarter of 1990. The drop should encourage renewed, non-inflationist growth in the EC, providing the Dollar does not go any higher.

Although inflation rates in some countries are still fairly high, they are now less divergent. In the United Kingdom, inflation declined from 10.9% last October to 8.5% in February 1991, and the projected rate for 1991 as a whole is only 5.5%.

Divergent economic trends in Western and Eastern Germany

A key factor in the economic development of the European Community will be the performance of the German economy. The West German economy has benefitted greatly from German reunification. In 1990 it grew by a record 4.7%, compared with 3.3% in 1989. Industrial investment increased by 12%, accounting for 10% of the GNP. Much of this success can be attributed to strong domestic demand, which has had positive effects on employment. The number of people employed has increased by over 650 000 while the number of unemployed has fallen by over 450 000.

The unemployment rate fell from 6.1% in 1988 to 4.5% in 1991.

For the current year, the GDP is forecast to rise by 2.7%.

In Eastern Germany, industrial output has plummeted by over 50%. The after-effects of 40 years under a planned economy are proving harder to overcome than expected. With the advent of economic and monetary union between the two Germanies, production costs in Eastern Germany spiralled overnight, without, however, any corresponding increase in productivity. Eastern Germany has lost many of its outlets in Eastern Europe, Western Europe and on its own home market.

Foreign investment is slow in coming:

Table 2
Nominal wages, real wages and real unit labour costs

(% variation)	1986-88	1989	1990	1991 ⁽¹⁾	1992 ⁽¹⁾
Nominal wage per employee					
EC - 10 ⁽²⁾	6.2	6.6	7.7	6.7	6.0
BR Deutschland	3.3	2.8	4.1	6.4	5.0
United Kingdom	7.9	8.9	10.8	8.6	6.8
EC - 12	6.0	6.1	7.5	7.0	6.0
Real wage per employee					
EC - 10 ⁽²⁾	1.9	1.2	2.2	1.5	1.3
BR Deutschland	2.5	-0.2	1.5	2.8	1.2
United Kingdom	3.2	2.8	3.3	1.9	1.7
EC - 12	2.2	1.2	2.3	1.9	1.3
Real unit labour costs					
EC - 10 ⁽²⁾	-1.2	-1.3	0.3	-0.3	-0.7
BR Deutschland	-0.7	-1.6	-1.2	1.4	0.3
United Kingdom	0.0	2.6	3.0	2.2	-1.6
EC - 12	-0.9	-0.7	0.5	0.5	-0.7

⁽¹⁾ Forecasts

⁽²⁾ Excluding Germany and the United Kingdom

Source: EC annual economic report 1991

Table 3
Producer price index in national currencies, 1985-90

(1985=100)	1985	1986	1987	1988	1989	1990 ⁽²⁾
EC ⁽¹⁾	100	99	99.2	101.9	106.5	109.4
B	100	90.9	86.9	88.0	93.0	93.4
DK	100	96.2	97.0	100.9	107.0	108.8
D	100	97.4	95.0	96.2	99.3	100.7
GR	100	121	130.2	144.6	163.3	184.3
E	100	100.9	101.8	104.8	109.2	111.1
F ⁽²⁾	100	N/A	N/A	101.4	105.8	107.6
IRL	100	102.3	104.5	107.4	112.7	113.0
I	100	100.2	103.2	106.8	113.1	117.1
L	100	97.7	91.3	93.7	100.8	99.4
NL	100	90.1	83.7	83.6	86.0	87.2
UK	100	99.7	102.4	106.1	111.6	116.6

⁽¹⁾ Excluding Portugal

⁽²⁾ Jan-Sept 1990

⁽³⁾ Estimated

Source: Eurostat (Industrial trends)

Table 4
Producers price index in national currencies, Jan. - Sept. 1990

(1985=100)	01/1990	02/1990	03/1990	04/1990	05/1990	06/1990	07/1990	08/1990	09/1990
EC ⁽¹⁾	108.5	108.7	108.8	109.2	109.3	109.3	109.4	110.2	110.8
B	93	93.1	93.4	93.2	92.8	92.4	92.4	94.4	95.5
DK	108	108	108	108	109	109	109	110	110
D	100.1	100.1	100.2	100.7	100.8	100.8	100.7	101.3	101.7
GR	174.3	175.9	178.5	179.6	185.3	186.5	188.4	192.8	197.7
E	110.9	111.1	110.9	110.9	111.1	110.9	110.7	111.2	112.1
F ⁽²⁾	107	107.2	107.3	107.4	107.5	107.5	107.8	108.1	108.5
IRL	113.9	113.4	112.9	112.7	112.7	112.8	112.9	112.7	113.1
I	116.4	116.6	116.7	116.8	116.8	116.9	117.1	118.2	118.8
L	101.2	99.9	100.3	99.6	99.3	99.3	98.7	98.5	98
NL	87	87.5	87.2	87.2	87.2	87.1	86.8	87.2	87.8
UK	115.1	115.1	115.7	116.6	116.6	116.6	116.6	118	119

⁽¹⁾ Excluding Portugal

⁽²⁾ Estimated

Source: Eurostat (Industrial trends)

disputes over ownership will take years to settle, the task of setting up new administrative structures requires time and effort and by May 1991, only 1 500 or so out of a total 8 000 state-owned firms had been privatised. Approximately 90% of foreign investment comes from the former West Germany. Figure 2 shows how the remaining 10% is divided up between the main foreign investors.

The reversal of this trend is taking longer than expected and unemployment could reach 3 to 4 million (depending on whether or not one counts part-timers, who are strictly speaking periodically unemployed). With such high unemployment in the East and a chronic shortage of skilled labour in the West, the number of East Germans who will move to the West this year looks certain to remain high. According to the estimates, as many as 400,000 people will attempt to settle in the West, either temporarily or permanently.

According to the German government, state financial aid for the five new Länder will amount to 130 billion DM (65 billion ECU) for the period July 1990 to December 1992. The funding (as well as Germany's financial contribution to the Gulf War)

will come partly from an increase in taxes as of July 1991 and partly from government loans. This could well fuel inflation, particularly since in 1991, after several years of restraint, wages in both parts of Germany look set to rise at a much faster rate than productivity.

The expansion of the West German economy and the opening up of the East German market have led to a rapid increase in German imports. Some EC trading partners have benefitted more than others, as can be seen in Table 5.

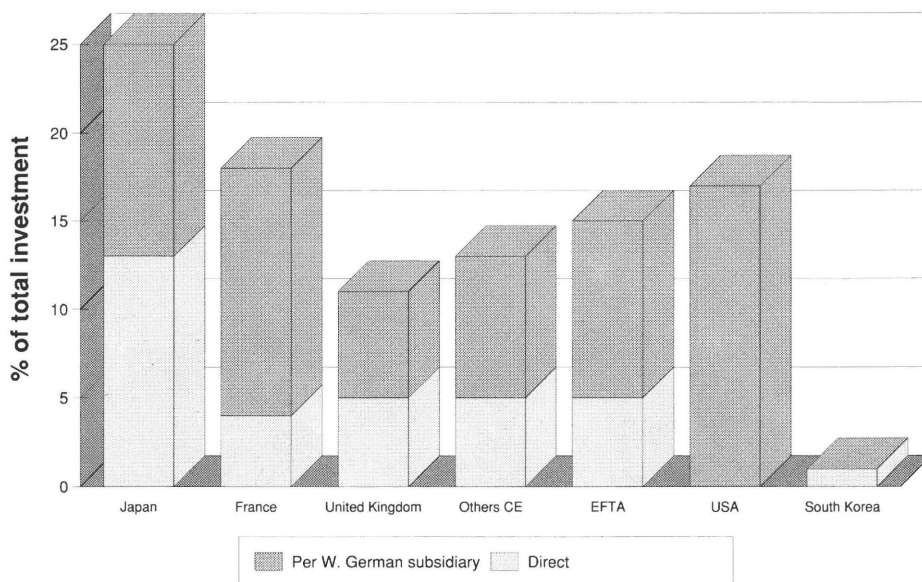
As the Commission pointed out in its annual report for 1990, it is vitally important that Member States move down the path to economic and monetary union. Over the 1985-1990 period, Pound Sterling, which only joined the European Monetary System in October 1990, the Italian Lira, the Portuguese Escudo and the Greek Drachma depreciated significantly against the ECU, whereas the French Franc and Spanish Peseta remained fairly strong. Countries such as the Netherlands, Belgium and Denmark which are all closely tied to the German economy, saw their currencies rise against the ECU, in the wake of a strong D-Mark.

The American Dollar, meanwhile, regained its 40% drop in value against the ECU.

A more solid base for European industry

Despite the repercussions of the Gulf War, European industry is fairly well-placed to tackle the challenges which lie ahead. The EC, after all, has seen five years of steady growth (roughly 3% per year since 1986), during which time company profits and investments reached an all-time high. Real investment in machines and equipment increased by a third between

Figure 2
Foreign investment in East Germany
March-Dec 1990



Source: Institut der deutschen Wirtschaft

1986 and 1990. According to the Commission's estimates, the recent increase in wages has not yet had a serious effect on medium-term profit forecasts in the Community, but greater restraint is essential in order to boost the sort of investment that creates jobs.

Over the past five years, the economy as a whole has benefitted from a certain freeing of resources. In almost every country, we have seen a reduction in the rate of public spending and revenue. For several years now, wages have increased less rapidly than productivity. In addition, the

utilisation of production capacity has been very high, thus encouraging new investment. As highlighted in Table 6, however, EC industrial output over the past five years has failed to keep pace with that of the United States and, most importantly, Japan.

The effect of the Single Market on mergers and acquisitions

The prospect of the Single Market has given an added boost to the restructuring and modernisation of the EC economy.

It has prompted not only European firms

Table 5
German imports of manufactured goods, 1989-90

(million ECU)	1989	1990	% Variation
Intra-EC	96 627	109 616	13.4
Extra-EC	81 201	89 741	10.5
Belgique/België/Luxembourg	15 891	18 307	15.2
Danmark	2 657	3 249	22.3
Hellas	1 198	1 156	-3.5
España	3 644	4 676	28.3
France	23 183	25 494	10.0
Ireland	1 610	1 715	6.5
Italia	18 825	21 758	15.6
Nederland	14 968	17 151	14.6
Portugal	1 593	1 945	22.1
United Kingdom	13 053	14 162	8.5

Source: Eurostat (Comext)

but also American and Japanese firms to improve their competitiveness and reinforce their market share in Europe. The flurry of restructuring and integration measures, mergers and acquisitions, the takeover of holdings and cooperation agreements which marked the late 1980s, transformed most sectors. The number of takeovers launched by the EC's 1 000 largest firms has doubled since 1986/87, from 415 to 833 in 1989/90.

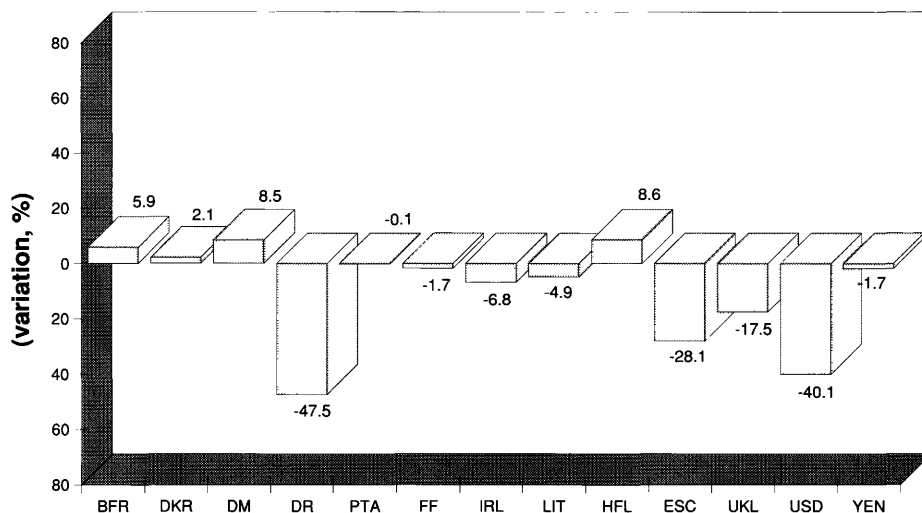
As can be seen from table 7, these operations tend to involve ever larger firms.

The proportion of operations involving firms with a total turnover of more than 10 billion ECU, for example, increased from 10% in 1986/87 to 19% in 1989/90. In 1990, according to "Acquisitions Monthly" the total value of corporate acquisitions between any two countries within the EC increased by 12%. The number of operations declined slightly in the second half of 1990, due to the slowdown in economic activity worldwide and the saturation of demand from Swedish companies. Following the lifting of exchange controls, Swedish companies alone spent 2.4 billion ECU during the second quarter and only 184 million ECU in the final quarter of 1990.

Greater internal cohesion

From the point of view of economic and

Figure 3
De(re)valuation of currencies as against the ECU 1985-90



Source: Eurostat (log), ERA

social cohesion within the EC, it is important that Spain, Portugal and Ireland all managed to achieve higher economic growth rates than the EC average. The same, alas, cannot be said of Greece, where purchasing power parity per capita has failed to keep pace with the EC average. In Spain and Portugal, the increase in growth rates is mainly the result of investment. The share accounted for by investment in total GDP has increased by over 20% in Spain to around 26%, while in Portugal it has increased by over a third to around 30%.

External trade

With the worldwide slowdown in economic activity in 1990, especially in the latter half of the year, EC external trade de-

clined in volume and increased only very slightly in value. The value of imports increased by 3.2% and that of exports by 1.2%.

1986 was the only year when the overall EC trade balance showed a surplus. In 1987, trade was balanced, but since then the deficit has grown (34.5 billion ECU in 1990, i.e. 2.4% up on 1989). Imports are increasing more rapidly than exports, partly due to the upsurge in demand on the internal market. The import/export cover rate was only 90.6% in 1990.

Even the services balance, which is traditionally positive, shows signs of weakening. In the 1985-1990 period, intra-EC trade increased considerably more than EC exports to the rest of the world. Among the main contributory factors was the fact that

Table 6
Growth in industrial output
EC, USA & Japan

(Index 1985=100)

	1985	1986	1987	% variation		1990(*)	89/88	90/89
				1988	1989			
EC	100	102.3	104.3	108.9	113.0	114.4	3.8	1.2
United States	100	101.1	105.9	111.7	114.5	115.7	2.5	1.0
Japan	100	99.8	103.3	112.8	119.7	125.1	6.1	4.5

(*) Provisional: Jan-Nov 1990
Source: Eurostat (Industrial trends)

Table 7

Distribution of national, EC and international takeovers (including mergers) by sector and total turnover, 1986/87-1989/90

Sector	Year	National (¹)					EC (²)					International (³)					Total				
		Total	>1	>2	>5	>10	Total	>1	>2	>5	>10	Total	>1	>2	>5	>10	Total	>1	>2	>5	>10
Total	1986 / 87	290	144	94	55	24	90	57	46	27	14	35	19	11	7	3	415	220	151	88	41
	1987 / 88	321	170	110	61	30	146	108	80	44	26	91	64	50	35	17	558	342	240	140	73
	1988 / 89	352	211	155	74	30	225	163	123	79	55	89	75	72	46	28	666	449	350	199	113
	1989 / 90	353	219	147	83	56	315	237	176	115	74	165	127	116	59	27	833	583	439	257	157
Industry	1986 / 87	211	111	73	42	18	75	52	42	24	13	17	8	3	2	-	303	171	118	67	31
	1987 / 88	214	135	84	48	24	112	86	61	34	22	57	47	40	28	15	383	268	185	110	61
	1988 / 89	233	163	118	60	29	197	148	110	72	53	62	62	60	38	24	492	373	288	170	106
	1989 / 90	241	183	117	66	44	257	212	158	102	70	124	118	109	56	26	622	513	384	224	140
Distribution	1986 / 87	40	19	12	6	1	5	2	2	2	-	4	-	-	-	-	49	21	14	8	1
	1987 / 88	40	15	11	6	2	8	5	3	1	-	9	2	2	2	-	57	22	16	9	2
	1988 / 89	53	21	17	8	-	4	1	1	1	-	1	1	1	1	-	58	23	19	10	-
	1989 / 90	31	13	11	3	2	17	6	3	3	1	4	2	2	2	1	52	21	16	8	4
Banks	1986 / 87	22	9	6	5	3	3	2	2	1	1	10	9	7	5	3	35	20	15	11	7
	1987 / 88	53	19	14	7	4	12	10	10	8	4	13	7	5	4	2	78	36	29	19	10
	1988 / 89	51	22	15	3	1	16	11	9	4	2	16	8	8	5	4	83	41	32	12	7
	1989 / 90	65	22	19	14	10	23	10	9	7	2	25	5	4	1	0	113	37	32	22	12
Insurance	1986 / 87	17	5	3	2	2	7	1	-	-	-	4	2	1	-	-	28	8	4	2	2
	1987 / 88	14	1	1	-	-	14	7	6	1	-	12	8	3	1	-	40	16	10	2	-
	1988 / 89	15	5	5	3	-	8	3	3	2	-	10	4	3	2	-	33	12	11	7	-
	1989 / 90	16	1	-	-	-	18	9	6	3	1	12	2	1	-	-	46	12	7	3	1

(¹) Operations between firms from the same Member State

(²) Operations between firms from different Member States

(³) Operations between firms from one Member State and from a third country having an effect on the EC market

Source: Data gathered by the Commission from specialised press.

EC firms, spurred by strong internal demand, sought to strengthen their position on the EC market rather than conquer new markets abroad.

Table 9 traces the pattern of EC imports and exports of manufactured goods according to the main partners.

The EFTA countries buy more than a quarter of EC exports and their share has more or less stabilised since 1986. This is in marked contrast to the United States, whose share has steadily declined and now stands at less than 20%. The share accounted for by Japan in EC exports stands at around 5.6% whilst its share of EC imports is 15%.

The drop in oil revenue in the OPEC countries means that these countries now absorb only 8% of EC exports, i.e. a third less than in 1985.

Following the drop in the value of the Dollar, the EC trade balance with the United

States, which had been in the black until 1989, showed a deficit in 1990.

As regards trade with Japan, on the other hand, the cover rate is slowly improving, even though the value of imports from Japan is nearly three times the value of exports to Japan.

The performance of EC industry during the 1985-1989 period

Amid the excellent economic climate that prevailed from 1985 to 1989, EC industrial

output increased at an annual average rate of 3.8%. Since investment increased at a higher rate than consumer goods, it was producers of capital goods who benefited most, with an average increase in output of 4.4%.

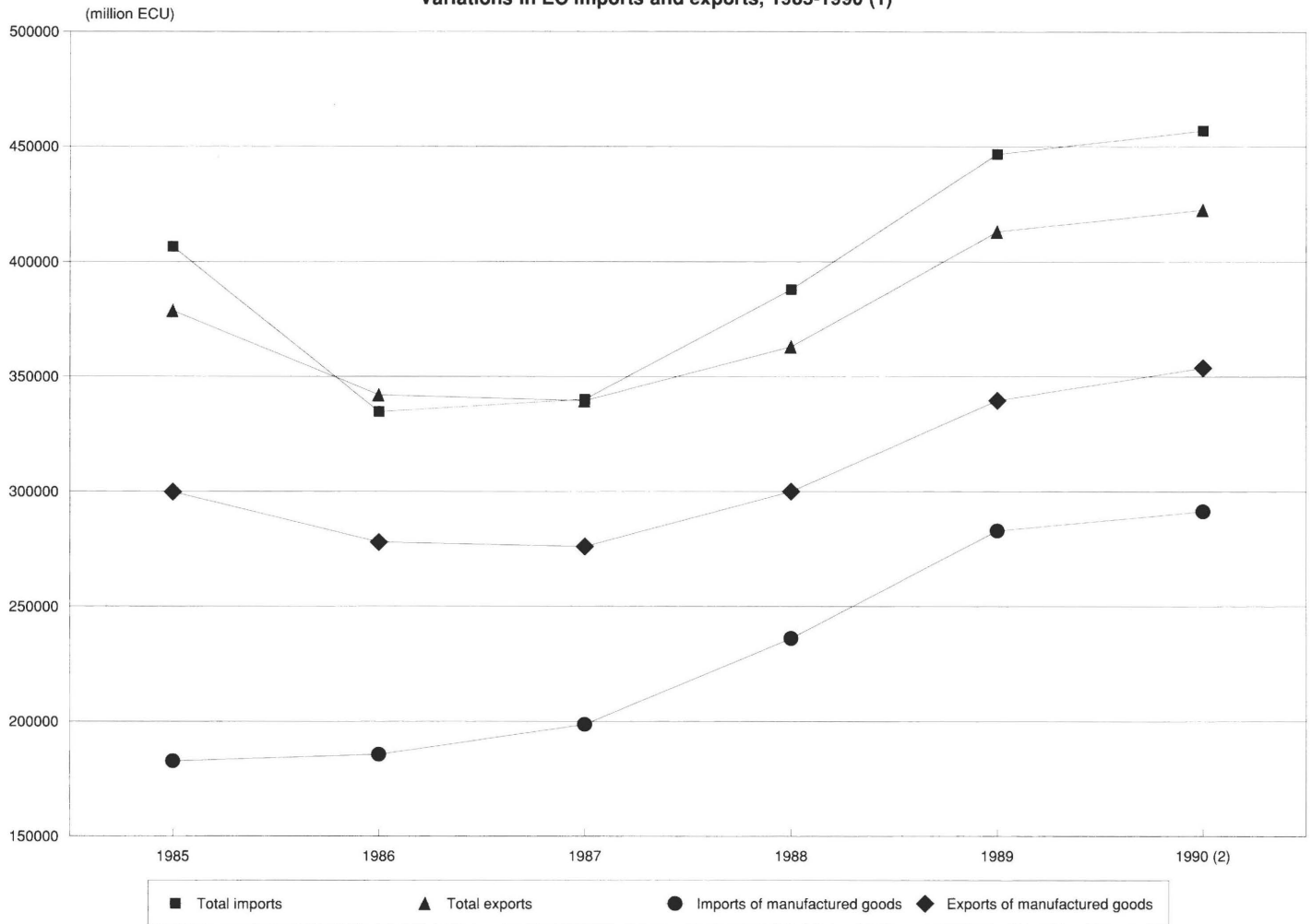
Manufacturers of machines for processing plastics (average growth of over 9%) and plastic products (average growth of 6.5%) have been among the prime beneficiaries, which is itself an indication of the importance assumed by plastic products in the

Table 8
The catching-up process in the EC
GDP at current prices and purchasing power parity per capita, 1985-1990

(EC 12= 100)	Hellas	España	Ireland	Portugal
1986	55.9	72.8	63.4	52.5
1987	54.1	74.7	64.4	53.7
1988	54.2	75.7	64.7	53.7
1989	54.0	76.9	67.0	54.9
1990	52.9	77.8	68.6	55.6
1991	52.6	79.2	68.7	57.1
1991-1986	-3.3	6.4	5.3	4.6

Source: EC annual economic report 1991

Figure 4
Variations in EC imports and exports, 1985-1990 (1)



(1) As from January 1988: CTCL, revision 3

(2) Estimated

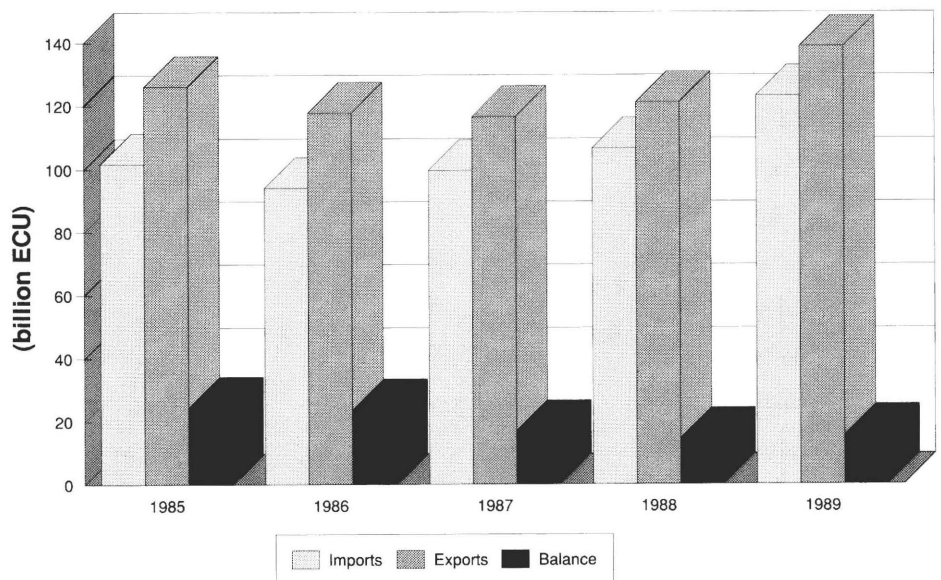
Source: Eurostat, ERA

manufacturing industry (cars, etc.).

Other capital goods sectors to experience above-average growth include the aerospace industry (7%), machine tools, the printing and publishing industry, textile machinery and steel. The iron and steel industries have staged a remarkable recovery following the fall in output at the beginning of the 1980s and subsequent restructuring. As far as consumer goods are concerned, the most notable successes are consumer electronics which grew by around 7% on average and carmaking, with an average growth rate of 6%.

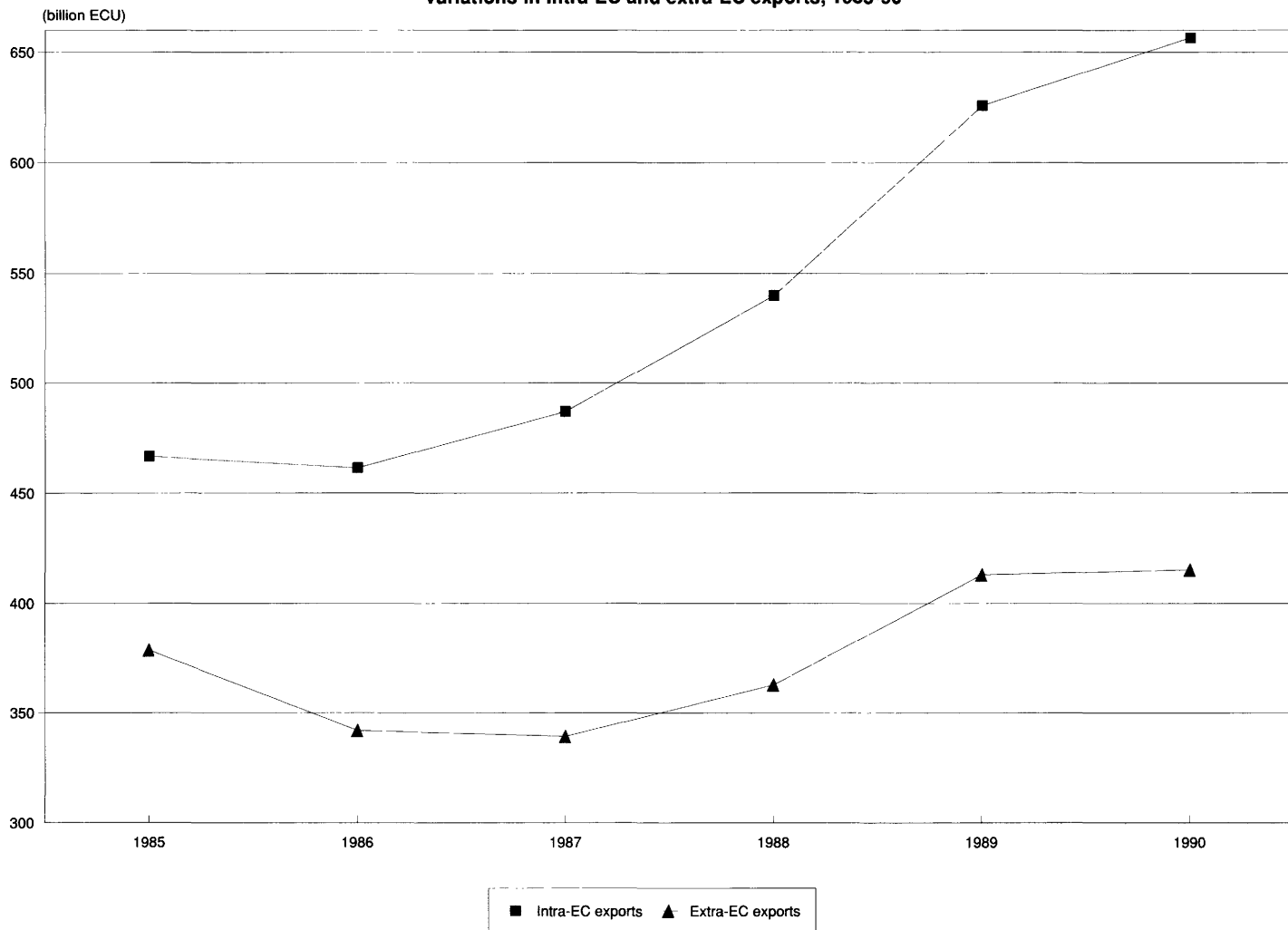
Domestic appliances and furniture have also witnessed annual growth of around 6%.

Figure 5
Variations in the balance of EC services, 1985-1989



Source: Eurostat

Figure 6
Variations in intra-EC and extra-EC exports, 1985-90



Source: Eurostat, ERA

Intermediate products, as well as the food industries, have experienced fairly weak growth, owing to the slower increase in demand. Numerous consolidation and merger operations have taken place within the food industry, where the giants of the sector are still engaged in a fierce battle over market shares.

A number of industries saw output levels fall between 1985-1989. Prime examples include the railway equipment and shipbuilding industries. The latter, faced with stiff competition from third countries, has since restructured and seems to be back on an even keel. In 1990, EC shipyards fended off competitors to retain their share of the world market and for the first time, in-

creased output (over 20% in one year).

Other sectors where output levels have fallen under pressure from foreign competition are the footwear and clothing industries, as well as manufacturers of steel tubing. Manufacturers of farming machinery have suffered from both the drop in demand and foreign competition.

Employment and productivity

The construction industry remains by far the most important sector in terms of jobs, followed by mechanical engineering, electrical engineering, electronics and the food industries.

During the 1985-1989 period, favourable economic conditions led to net job cre-

ation, in spite of major restructuring in various branches of industry and the service sector. The total number of jobs within the EC increased by an average of 1.1% per year, and the GDP by 3.3% per year. Most of the new jobs were created in construction and the services sector, namely tourism and transport-related services, as well as financial services, wholesale and retail trade and business consultancies.

A number of services, however, suffered job losses following a new wave of restructuring. Sea and air transport are notably affected.

From 1987 onwards, industry too began to contribute to net job creation. Since then,

Table 9
Variations in EC imports and exports of manufactured goods by main partners from 1985 to 1990 ⁽¹⁾

(million ECU)	1985	% ⁽²⁾	1986	% ⁽²⁾	1987	% ⁽²⁾	1988	% ⁽²⁾	1989	% ⁽²⁾	1990	% ⁽²⁾
Extra-EC												
Imports	198 668	100.0	185 688	100.0	198 607	100.0	240 627	100.0	282 918	100.0	294 462	100.0
Exports	315 186	100.0	277 902	100.0	275 949	100.0	299 764	100.0	339 562	100.0	344 912	100.0
Balance	116 518		92 214		77 342		59 137		56 644		50 450	
EFTA												
Imports	55 139	27.8	55 296	29.8	59 187	29.8	67 041	27.9	75 637	26.7	80 553	27.4
Exports	70 312	22.3	71 870	25.9	75 589	27.4	81 945	27.3	91 786	27.0	94 515	27.4
Balance	15 173		16 574		16 402		14 904		16 149		13 962	
United States												
Imports	46 625	23.5	40 250	21.7	40 335	20.3	50 344	20.9	63 758	22.5	65 112	22.1
Exports	67 659	21.5	61 749	22.2	59 271	21.5	60 215	20.1	65 749	19.4	64 196	18.6
Balance	21 034		21 499		18 936		9 871		1 991		- 916	
Japan												
Imports	27 761	14.0	32 449	17.5	33 941	17.1	40 535	16.8	45 101	15.9	45 192	15.3
Exports	7 958	2.5	8 763	3.2	10 808	3.9	13 822	4.6	17 351	5.1	19 323	5.6
Balance	- 19 803		- 23 686		- 23 133		- 26 713		- 27 750		- 25 869	
OPEC												
Imports	2 104	1.1	2 008	1.1	2 021	1.0	3 714	1.5	3 970	1.4	4 378	1.5
Exports	38 433	12.2	27 564	9.9	22 005	8.0	24 148	8.1	25 559	7.5	27 161	7.9
Balance	36 329		25 556		19 984		20 434		21 589		22 783	

⁽¹⁾ SITC Rev. 3, 5-8

⁽²⁾ Relative share of total EC imports (exports) of manufactured goods
Source: Eurostat

roughly 500 000 jobs have been created per year (net contribution) in high-growth industries such as plastics, electronics and data processing. The number of jobs in the steel and non-ferrous metals industries has declined by an average of 2.5% per year.

If one examines the situation over a longer period, the increases in productivity achieved by the various sectors emerge even more clearly.

Figure 10 shows the annual average increase in output and productivity for the main industrial sectors from 1980-1989. By following the straight regression line, it is possible to see that it is mainly those sectors which are most open to international competition which have increased their productivity the most, such as electricals and electronic goods, data processing, precision instruments, chemicals and transport equipment. At the other end of

the spectrum, farming and industrial machinery, construction, the farm-produce industry and most services (apart from air transport) have performed much less strongly in terms of productivity.

Average productivity in the EC manufacturing industry increased during the eighties by 3.1% and industrial added value by 1.8%.

The competitiveness of EC industry

Figure 11 shows the performance of the various industrial sectors according to a combination of two criteria, namely the export/import ratio (X/M) and the share represented by exported goods in relation to output. One can thus form some idea of both the intensity of trade (mainly due to specialisation within sectors) and the competitive position of those sectors.

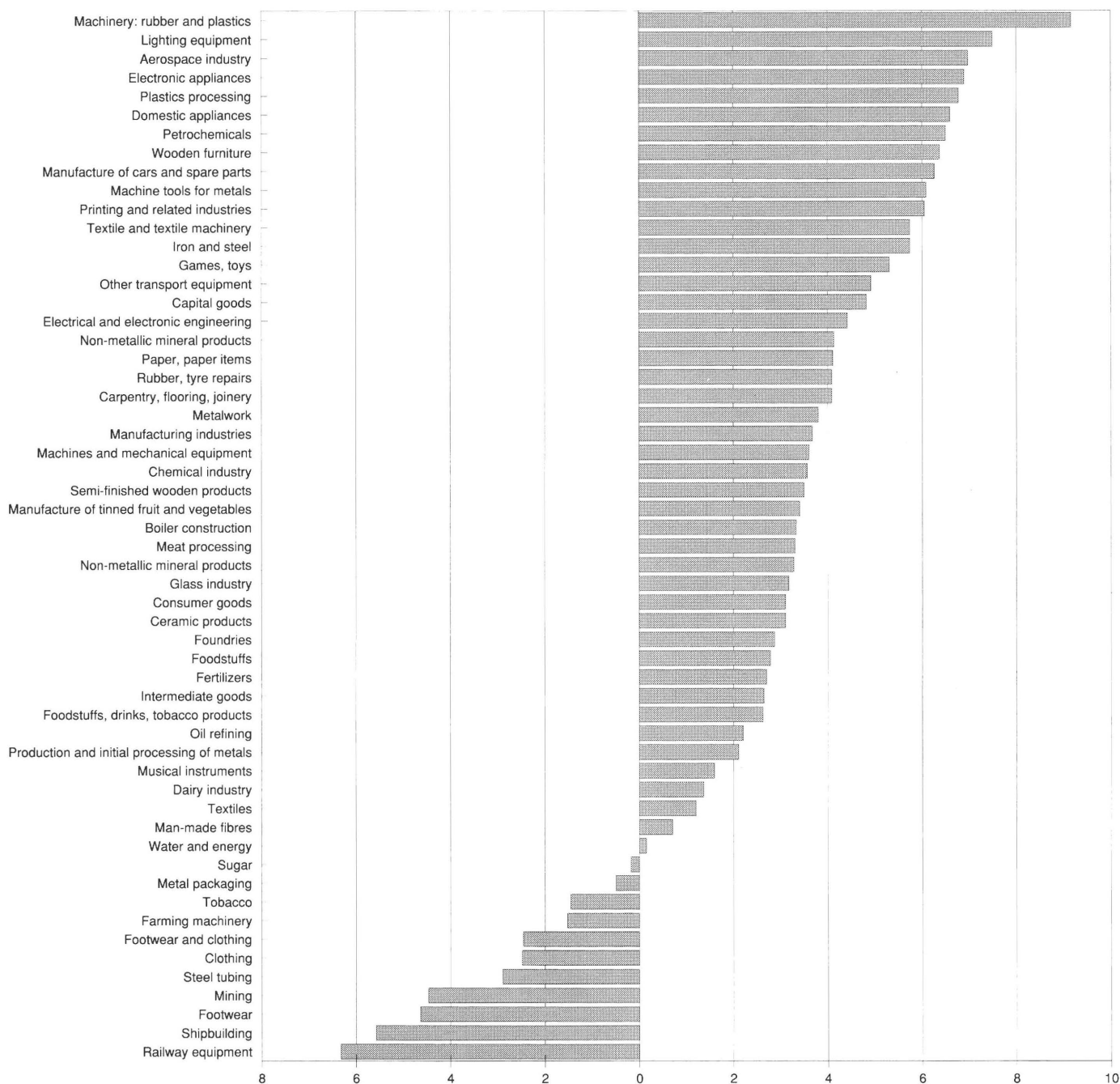
Obviously this is only a rudimentary method of assessing the competitiveness

of European industry. It comes as no surprise to see that consumer electronics, computers and office equipment, clothing, footwear and toys are among those sectors where the EC is most vulnerable to foreign competition. The same applies to electronic components, where more than 50% of output is exported but where the EC is nevertheless running a deficit.

It is difficult to give an overall assessment of the competitiveness of EC industry at world level. The share accounted for by the EC in world exports among the developed countries has stabilised at around 33%, whereas that of the United States has declined sharply since 1970 and that of Japan has increased markedly. It was not until 1986 that Japan's share stabilised and that of the United States began to recover.

The balance of manufactured goods is an even greater source of concern for the

Figure 7
Variations in industrial output, 1985-89
(TCAM)



Source: Eurostat, Panorama of EC industry

EC. Since the mid-1980s, the still largely positive balance has declined overall, although it did recovery slightly in 1990.

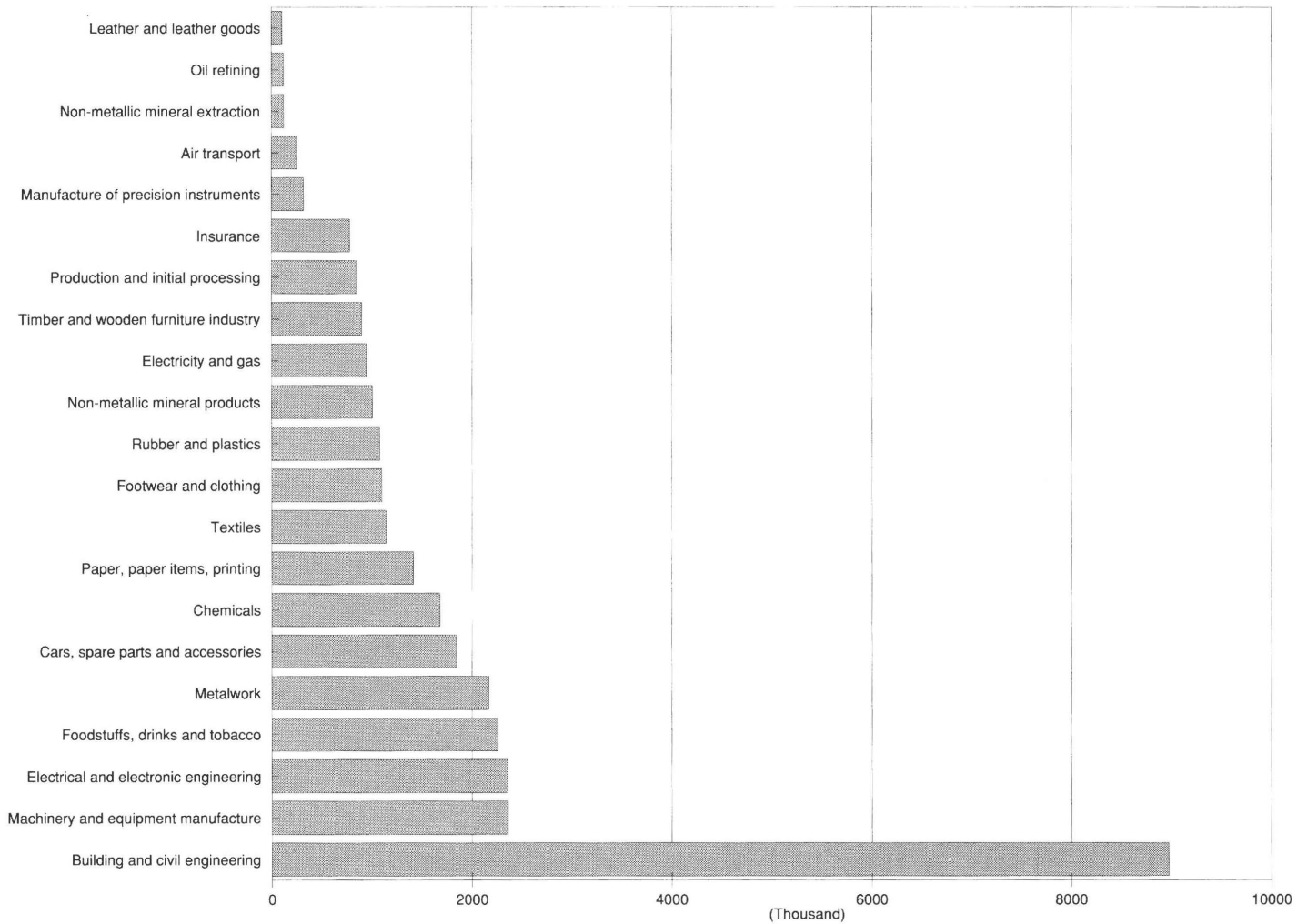
The cyclic or structural nature of this phenomenon remains to be proved because, as the Commission pointed out in its report on industrial policy, the deterioration in the balance of manufactured goods is partly due to the completion of the internal market. EC firms are seeking to reinforce

their position on a fast-expanding internal market, rather than on foreign markets.

Figure 13 highlights the EC's weak position as a global competitor in the Japan-US-EC triangle. One area of particular weakness is European investment in Japan, which is very limited compared with Japanese investment in Europe and American investment in Japan. With investment constantly increasing between global

competitors, the full meaning of this imbalance is beginning to emerge. Trade relations between the United States are also more intense than trade between the EC and Japan. In both cases, the volume of imports is more than twice the volume of exports (for other aspects of competitiveness, see COM (90) 556 of 16 November 1990).

Figure 8
Employment in the main EC industries, 1989



Source: Eurostat (Inde), ERA

Ongoing commitment to change

European industry is once again in the grip of a major restructuring effort. Yet the situation facing the European Community today is very different from that witnessed at the beginning of the 1980s. Then, the main impetus came from the consequences of the oil crisis and primarily affected heavy industry (iron and steel, mining, shipyards and industries such as carmaking, textiles and machine tools). These days, the range of companies affected is much wider: electronics, data processing and the service sector. The prospect of a fall-off in growth and, for some sectors, a drop in demand is forcing firms to step up the fight for market

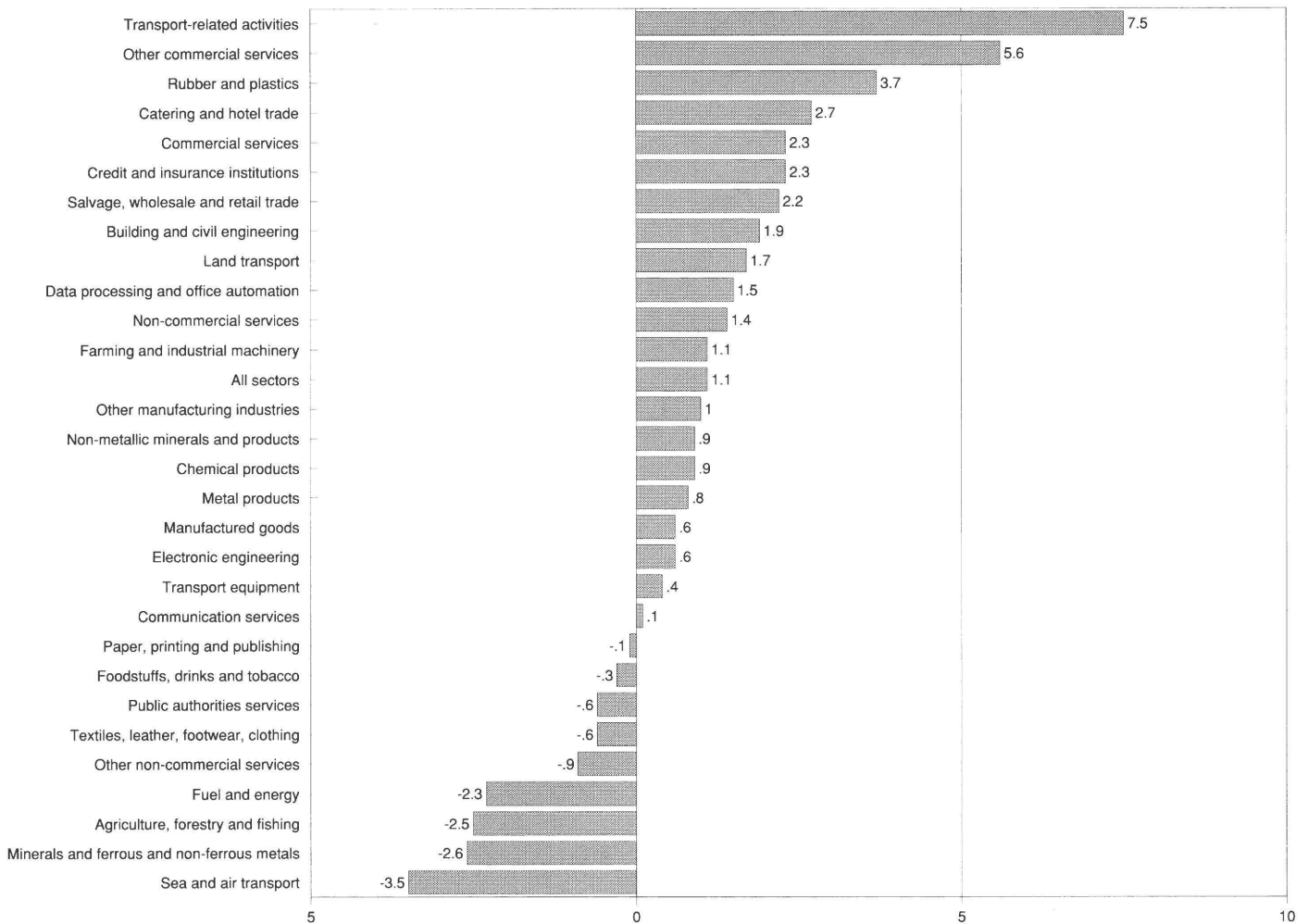
shares, and to look for new ways of improving productivity. In order to remain competitive, EC industries are under constant pressure to develop new products and improve their methods of production, financing and distribution.

In the electronics industry, for example, the struggle to capture new market shares is particularly fierce in the case of computers and office equipment, as well as consumer electronics. A number of large companies, headed by Philips and Thomson, reported losses in 1990 and have been forced to shed jobs. The same applies to Olivetti, a leading manufacturer of computers and office equipment.

In the electronics industry, there is a tendency for the various branches to become

increasingly integrated: information technology, office equipment, telecommunications, consumer electronics, computer-aided manufacturing. The consumer electronics industry has consolidated its position on the European market, mainly by developing top-of-the-range products in the field of car radios, hi-fi's and colour televisions. The overall strategy of large firms, however, is susceptible to exchange-rate fluctuations and developments on the American market. The electronics and aerospace industries are feeling the effects of cuts in arms expenditure. The aeronautical industry is faced with an uncertain market. Production of satellites and rockets has been affected by arms reduction measures over the past few years. The Gulf crisis is unlikely to

figure 9
Employment: annual average growth rate 1985-89



Source: Eurostat, ERA

influence this trend which dates back to the end of the Cold War.

Aeronautical firms will therefore press ahead with efforts to diversify and restructure their military activities. British Aerospace has already announced the closure of two plants.

The civil aviation market is also experiencing a period of uncertainty, one which began long before the Gulf crisis. The industry is expecting a sharp drop in new orders, which reached record heights in 1989.

In the air transport market, competitive pressure is forcing companies to streamline their services. The merger trend is continuing as markets are gradually lib-

eralised. As we have already mentioned, a number of large firms affected by the repercussions of the Gulf War have announced lay-offs.

In the car industry, a further drop in demand is expected in 1991, following an initial drop in 1990. In the United States, carmakers are experiencing financial difficulties, further exacerbated by Japanese penetration of the American market. The Japanese are applying their global production strategy and production unit transfers are becoming increasingly widespread.

The current trend worldwide is towards the manufacture of more reliable, environment-friendly cars.

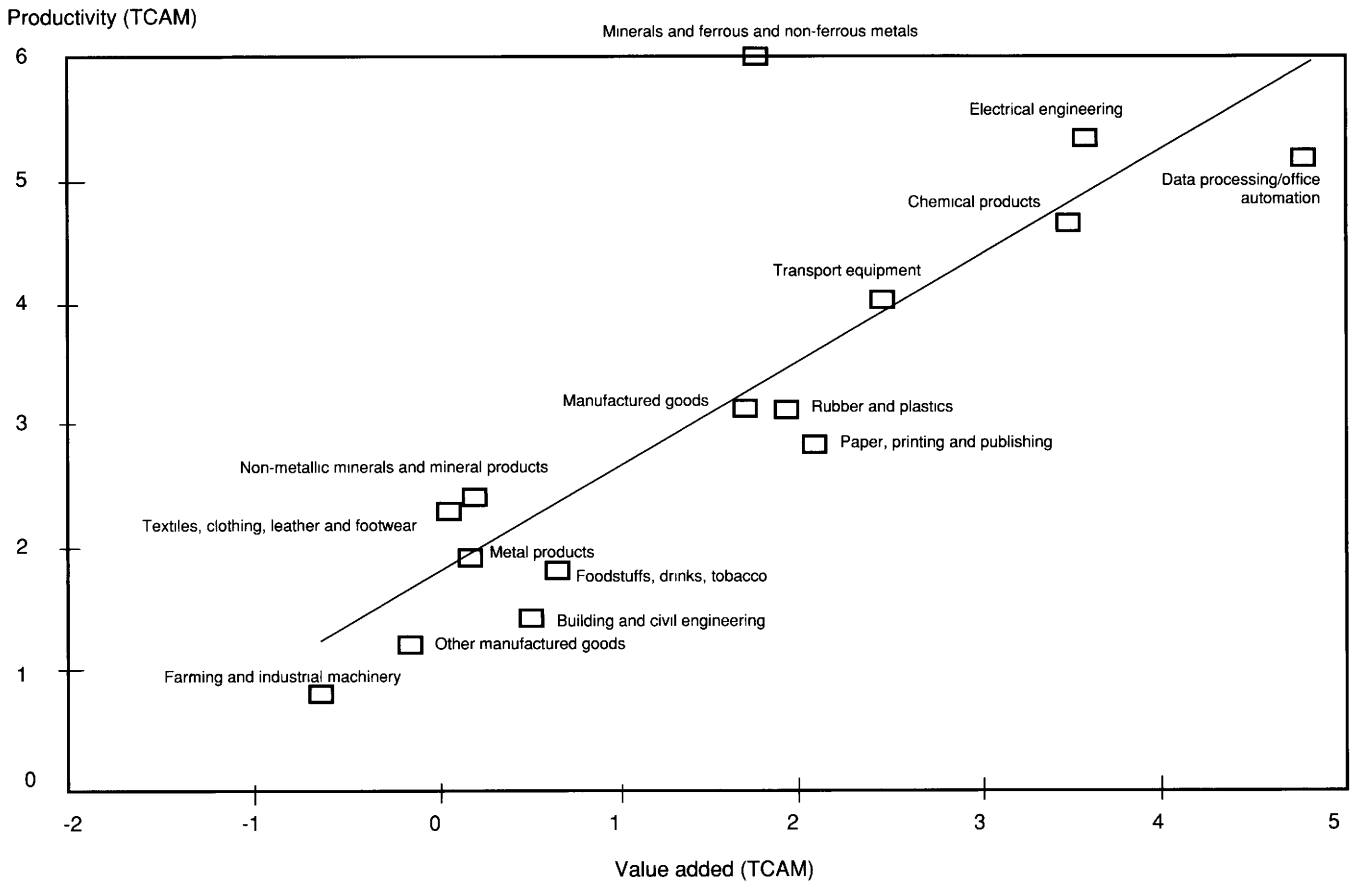
Within the European Community, demand

for cars will increase only on the German market and decline everywhere else, particularly in Great Britain and Spain. All the major carmakers reported a drop in profits in 1990. FIAT has reduced output and staff while small manufacturers such as Jaguar have been badly hit by the recession in the United States.

Many European carmakers, such as FIAT, Volkswagen/Audi have invested heavily in Eastern Europe (Poland and the USSR) to form joint ventures. Whether or not they prove successful remains to be seen.

The steel industry, which was in a recession at the beginning of the 1980s and had shed 40% of its jobs, has consolidated its position by specialising in top-of-

Figure 10
Industrial output and productivity: annual growth rate, 1980-89



Source: ERA

the-range products. It benefitted from the period of growth which lasted until 1989, but 1991 threatens to be a difficult year and demand for steel is expected to decline in the main markets of the EC, Japan and the United States. Steel manufacturers in the newly industrialised countries look set to increase their market share thanks to lower production costs. In the European Community, small steel-making firms, which are more flexible in terms of innovation and launching sophisticated products, are enhancing their market share.

The challenge of innovation

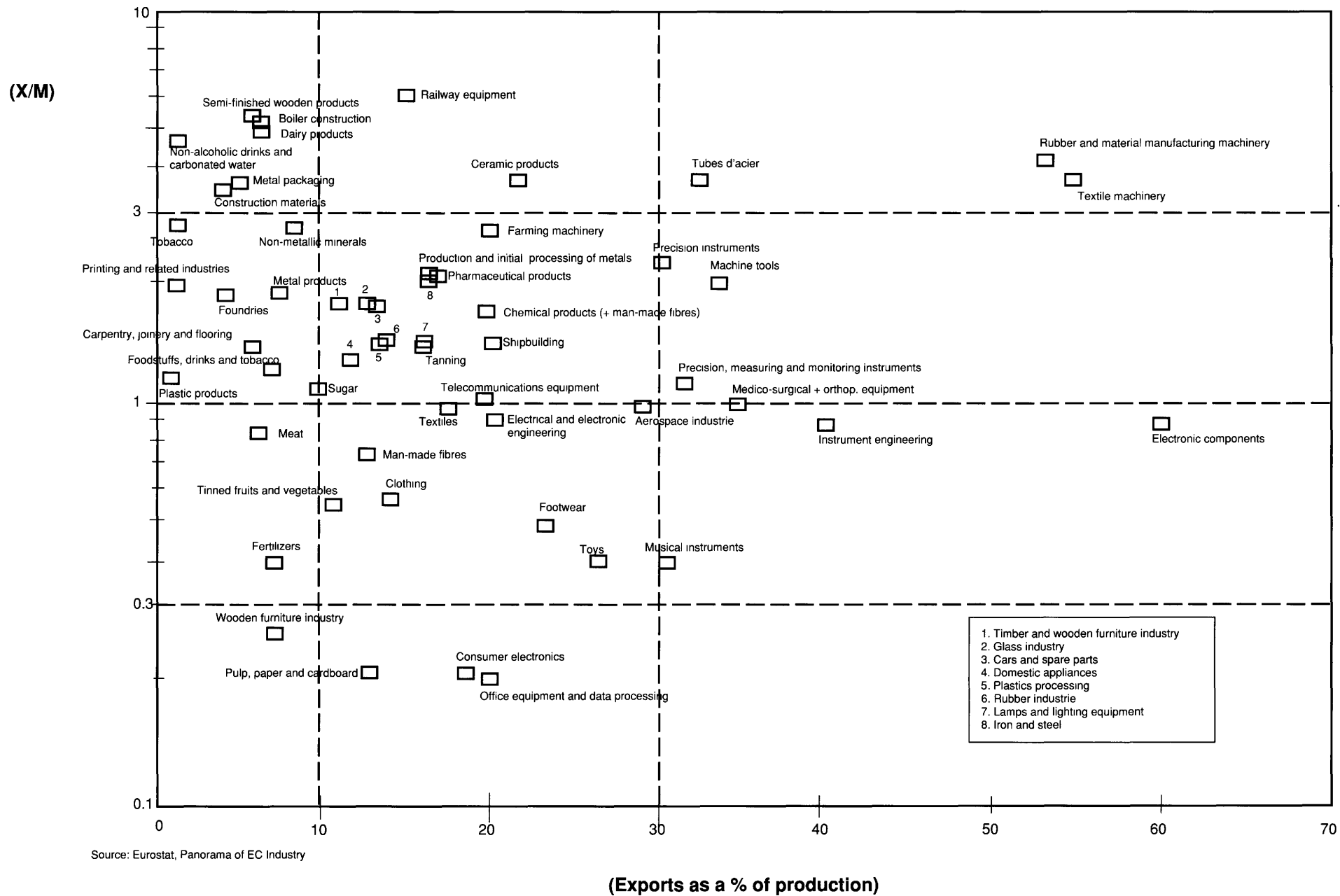
As signalled by the European Commission in its recent report on "industrial policy in an open, competitive environment" (COM(90)556 of 16 November 1990), the

future competitiveness of EC industry will increasingly hinge upon its ability to tackle major global challenges, in particular competition from its main trading partners at a world level. With the introduction of the internal market and the increasingly transnational nature of the economy, the problems of industrial competitiveness will increasingly call for EC-wide solutions. Competition is becoming more global and intense on both the world market and the EC market. While EC firms are still the undisputed leaders in many fields of advanced technology such as the aerospace industry, chemicals and pharmaceuticals, the same cannot be said of certain electronics markets (data processing, semi-conductors, components) where their international competitiveness is seriously threatened, mainly due to the highly con-

centrated nature of world production and the barriers "to entry". Technological know-how requires ever greater investment and is constantly reducing the life-cycle of products. Only those companies which are at the leading edge of technological progress will be able to maintain and improve their competitiveness. Global corporate strategies now play a determining role. From now on, decisions about where to locate one's production operations will be based on a systematic comparison of production conditions. The presence of industrial "cores" is of crucial importance in this area. The European Commission's report poses four main challenges for EC industry:

- living standards and employment levels in the EC will continue to depend on the ability to successfully compete with our in-

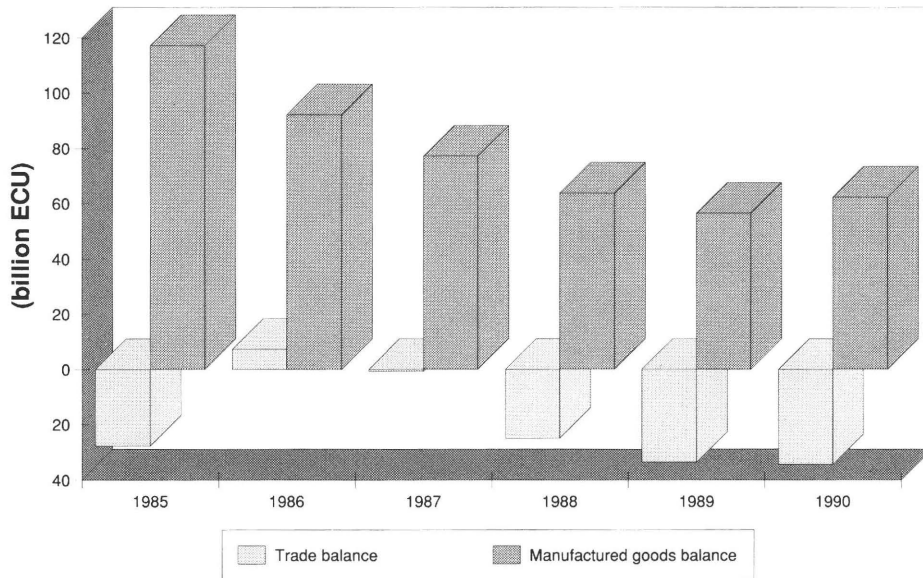
Figure 11
Performance of EC industry in terms of exports, 1989



Source: Eurostat, Panorama of EC Industry

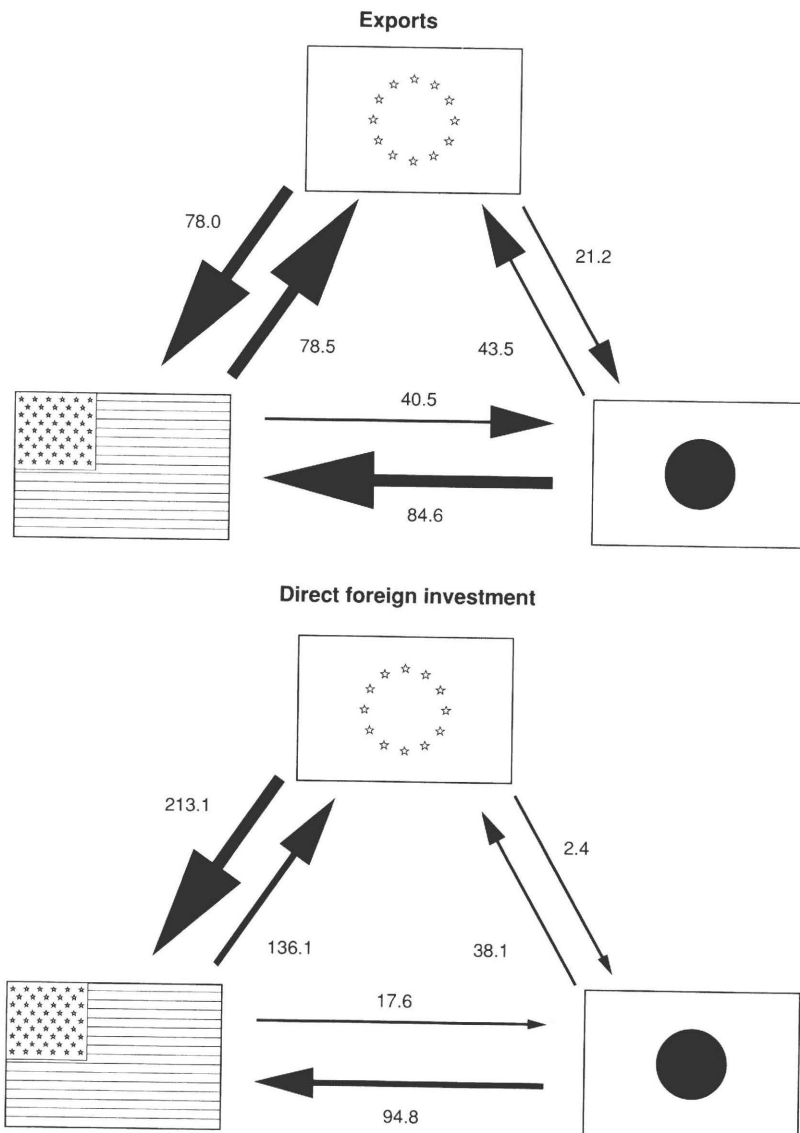
PANORAMA
 1989
 EUROPEAN
 COMMUNITY

Figure 12
Variations in the EC balance of trade, 1985-90



Source: Eurostat, ERA

Figure 13
EC-United States-Japan, 1989



Source: EC annual economic report 1990

- dustrial rivals worldwide. This in turn will depend on the ability to stay at the forefront of technological competition and will entail substantial increases in productivity, sufficient investment in human resources and, most importantly, acceptance of a high rate of structural change;
- firms' ability to invest ever more effectively in both equipment and know-how and in training/skills will remain an essential prerequisite;
 - the ability to fully exploit the potential and results of research and to effectively control the spread of technological innovation will constitute a major competitive advantage;
 - the ability to develop human resources in order to master technological change and new methods of organising work. In particular, this will require a more thorough knowledge of EC industry's future needs in terms of skills.

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Statistical annex

Table 1
Statistical annex
GDP at current prices (1)

(% annual variation)	1988	1989	1990	1991(2)	1992(2)
B	4.6	3.9	3.7	2.25	2.50
DK	0.5	1.2	1.6	1.50	2.25
D	3.7	3.3	4.7	2.75	1.75
GR	4.1	2.8	1.0	0.75	1.50
E	3.2	4.8	3.7	3.00	3.50
F	3.6	3.6	2.8	1.50	2.50
IRL	3.9	5.9	5.2	1.75	2.25
I	4.2	3.2	2.0	1.75	2.50
L	5.5	6.1	3.7	3.00	3.25
NL	2.7	4.0	3.3	2.75	1.75
P	3.9	5.4	4.0	2.75	2.75
UK	4.0	2.2	0.6	-2.25	2.25
EC	4.0	3.3	2.7	1.25	2.25
United States	4.5	2.8	1.0	0.00	1.25
Japan	5.7	4.9	5.6	3.75	4.00

(1) GDP for United States and Japan as from 1989
(2) Forecasts for the month of May 1991
Source: Commission Services

Table 2
Internal demand at constant prices

(% annual variation)	1988	1989	1990	1991(1)	1992(1)
B	4.1	4.9	3.6	2.25	2.50
DK	-1.7	0.3	-0.8	0.25	1.50
D	3.8	2.7	5.1	3.00	2.50
GR	7.0	3.3	2.5	0.75	2.00
E	7.1	7.8	4.6	3.50	4.25
F	3.8	3.2	3.2	1.75	2.75
IRL	0.4	6.0	5.5	1.50	1.75
I	5.0	3.6	1.9	2.00	3.00
L	3.6	7.8	3.7	4.25	3.75
NL	1.6	4.9	3.8	2.25	1.00
P	7.4	4.0	5.8	5.25	4.50
UK	8.0	3.1	-0.1	-3.00	2.50
EC	5.0	3.7	2.8	1.50	2.75
United States	3.3	2.2	0.5	-0.50	1.50
Japan	7.3	5.7	5.8	4.00	4.50

Source: Commission Services

Table 3
Deflator of private consumption

(% annual variation)	1988	1989	1990	1991 ⁽¹⁾	1992 ⁽¹⁾
B	1.6	3.5	3.5	3.25	3.50
DK	4.9	5.1	2.6	2.50	2.50
D	1.3	3.1	2.5	3.50	4.25
GR	14.2	14.7	20.5	18.00	13.00
E	5.1	6.6	6.4	6.00	5.25
F	2.9	3.5	3.0	3.00	3.25
IRL	2.5	3.9	2.6	3.00	3.00
I	5.2	5.8	3.8	6.25	5.50
L	2.8	3.4	2.6	3.50	3.50
NL	0.4	2.9	13.6	2.75	3.00
P	10.0	12.8	7.2	11.50	9.75
UK	4.9	5.9	5.0	6.50	5.00
EC	3.7	4.9	5.0	5.00	4.75
United States	4.0	4.5	5.0	4.50	5.00
Japan	-0.1	1.7	2.4	2.75	2.50

(¹) Forecasts for month of May 1991
Source: Commission Services

Table 4
Balance of current transactions

(as a % of GDP)	1988	1989	1990	1991 ⁽¹⁾	1992 ⁽¹⁾
B	1.5	1.1	0.7	1.00	1.00
DK	-1.2	-1.2	0.8	1.50	2.50
D	4.2	4.7	3.0	0.00	-0.25
GR	-2.0	-4.8	-5.7	-5.00	-4.00
E	-1.1	-3.2	-3.5	-3.00	-3.25
F	-0.3	-0.1	-1.0	-0.75	-1.00
IRL	1.7	1.3	2.7	2.25	1.75
I	-0.8	-1.4	-1.4	-1.25	-1.50
L	33.5	34.4	29.3	26.50	24.75
NL	2.5	3.3	3.8	3.50	3.50
P	-4.4	-2.9	-0.1	-1.25	-2.25
UK	-4.6	-4.8	-2.3	-1.00	-1.25
EC	0.1	-0.1	-0.2	-0.50	-0.75
United States	-2.5	-1.9	-1.8	-0.25	-1.00
Japan	2.8	2.1	1.2	1.00	1.00

(¹) Forecasts for month of May 1991
Source: Commission Services

Table 5
Number of unemployed as a %
of the civil working population

	1988	1989	1990	1991(*)	1992(*)
B	10.0	8.5	8.1	8.50	8.25
DK	6.5	7.7	8.6	9.00	8.75
D	6.1	5.5	5.1	4.50	4.75
GR	7.6	7.5	7.5	8.75	9.25
E	19.3	17.1	16.1	16.00	15.50
F	9.9	9.4	9.0	9.75	9.50
IRL	17.4	16.0	15.1	16.00	16.75
I	10.8	10.7	9.8	9.75	9.50
L	2.1	1.8	1.7	1.50	1.50
NL	9.3	8.7	8.1	7.75	7.75
P	5.6	4.8	4.6	4.75	5.25
UK	8.5	7.0	5.7	8.50	10.75
CE	9.7	8.9	8.2	8.75	9.25
United States	5.5	5.2	5.4	6.50	6.50
Japan	2.5	2.3	2.1	2.25	2.25

(*) Forecasts for month of May 1991
Source: Commission Services

Table 6
Financing requirements or capacity of public authorities

(as a % of GDP)	1988	1989	1990	1991(*)	1992(*)
B	-6.6	-6.6	-6.0	-7.25	-6.00
DK	-0.5	-0.5	-1.5	-1.25	-1.00
D	-2.1	0.2	-2.2	-4.75	-4.00
GR	-15.5	-19.2	-18.9	-15.50	-10.75
E	-3.3	-2.7	-3.7	-2.75	-2.00
F	-1.7	-1.4	-1.6	-1.50	-1.50
IRL	-5.2	-3.5	-3.4	-3.75	-3.50
J	-10.9	-10.1	-10.6	-10.00	-10.00
L	2.1	3.1	4.2	1.75	1.50
NL	-5.2	-5.2	-5.7	-4.75	-5.00
P	-5.4	-3.8	-5.8	-5.50	-5.00
UK	1.1	1.0	-0.5	-2.25	-3.25
CE	-3.7	-3.0	-4.1	-4.50	-4.50
United States	-2.0	-1.7	-2.4	-1.75	-2.50
Japan	2.1	1.8	2.2	1.75	2.00

(*) Forecasts for month of May 1991
Source: Commission Services

Table 7
Total number of employed

(% annual variation)	1988	1989	1990	1991 ⁽¹⁾	1992 ⁽¹⁾
B	1.5	1.3	1.0	0.00	0.00
DK	0.0	-0.6	-0.7	-0.25	0.25
D	0.8	1.4	2.8	1.75	0.75
GR	1.6	1.5	0.4	-0.25	0.00
E	3.5	3.6	2.6	1.50	1.75
F	0.7	1.2	1.2	0.50	0.50
IRL	0.4	-0.1	2.1	1.25	0.50
I	0.9	0.2	1.4	1.50	0.50
L	3.1	4.0	2.4	1.25	1.50
NL	1.4	1.6	1.9	1.00	0.50
P	0.1	1.0	2.5	1.00	0.50
UK	3.3	2.8	0.6	-2.50	-2.00
EC	1.6	1.6	1.6	0.25	0.25
United States	2.8	2.3	0.4	-1.00	1.00
Japan	1.6	1.9	2.0	1.50	1.50

⁽¹⁾ Forecasts for month of May 1991
Source: Commission Services

Table 8
Real wage per capita ⁽¹⁾

(% annual variation)	1988	1989	1990	1991 ⁽²⁾	1992 ⁽²⁾
B	0.8	0.6	2.3	2.50	2.50
DK	-0.9	-1.6	1.0	1.00	1.00
D	1.7	-0.2	1.5	2.75	1.25
GR	3.7	4.1	0.6	-2.00	-1.25
E	1.1	-0.5	1.2	1.25	1.00
F	2.0	1.2	1.8	1.50	1.00
IRL	2.9	2.2	3.0	3.25	2.50
I	4.0	3.1	3.9	1.75	2.00
L	0.5	3.0	1.8	2.50	2.25
NL	1.1	-2.4	1.6	2.00	1.75
P	3.1	0.8	3.7	5.25	4.75
UK	2.9	2.8	3.4	2.00	1.75
EC	2.1	1.2	2.4	2.00	1.50
United States	0.9	-0.7	0.0	0.25	1.75
Japan	3.7	2.2	3.0	3.00	2.75

⁽¹⁾ Deflated by deflator of private consumption
Source: Commission Services

Table 9
Investment in the construction industry at constant prices

(% annual variation)	1988	1989	1990	1991(*)	1992(*)
B	15.0	9.6	5.7	-1.00	3.00
DK	-3.1	-4.6	-3.8	-3.00	0.25
D	4.7	5.1	5.2	3.25	2.00
GR	7.6	2.1	0.7	0.50	4.00
E	12.6	14.7	10.7	6.50	7.50
F	6.2	4.5	2.3	1.25	2.25
IRL	-0.7	9.8	8.4	1.50	3.00
I	3.7	3.9	2.5	0.75	2.50
L	9.9	8.8	5.9	5.50	4.50
NL	11.8	2.6	2.5	-0.25	0.25
P	10.1	3.5	6.5	6.25	6.00
UK	6.1	-0.5	0.1	-3.25	2.00
EC	6.4	4.8	3.8	1.50	3.00

(*) Forecasts for the month of May 1991
Source: Commission Services

Table 10
Investment in equipment at constant prices

(% annual variation)	1988	1989	1990	1991	1992
B	17.7	19.0	9.9	3.50	4.00
DK	-7.5	6.6	2.3	-1.25	4.75
D	7.7	9.8	12.9	8.75	5.75
GR	10.8	17.3	10.4	6.00	10.00
E	16.5	12.4	1.2	2.50	5.75
F	8.9	7.0	5.3	1.00	2.50
IRL	5.6	14.1	6.8	3.75	4.50
I	6.4	5.2	3.5	1.25	5.25
L	-5.4	14.9	5.6	6.25	5.75
NL	6.8	5.5	6.0	2.75	0.25
P	23.2	7.7	8.5	5.25	5.50
UK	17.7	8.4	-3.7	-17.00	3.50
EC	10.4	8.4	4.7	0.25	4.50

Source: Commission Services

Table 11
Deflator of private consumption

(% annual variation)	1988	1989	1990	1991 ⁽¹⁾	1992 ⁽¹⁾
B	13.5	13.6	7.6	1.00	3.50
DK	-6.6	0.2	-1.0	-2.25	2.25
D	5.1	7.1	8.8	6.00	4.00
GR	8.8	8.6	5.2	3.00	7.00
E	14.0	13.7	6.7	5.00	6.75
F	8.5	5.8	4.0	1.25	2.50
IRL	4.6	11.3	7.5	2.75	3.75
I	6.7	5.1	3.0	1.00	4.00
L	-5.5	13.4	5.8	5.75	5.00
NL	9.4	3.0	4.1	1.25	0.25
P	15.0	7.5	7.5	5.75	5.75
UK	14.8	4.8	-1.9	-10.50	2.75
EC	9.0	6.7	4.3	0.25	3.75
United States	5.0	2.7	-0.1	-3.00	5.75
Japan	12.6	11.0	10.8	5.00	6.50

(¹) Forecasts for the month of May 1991
Source: Commission Services

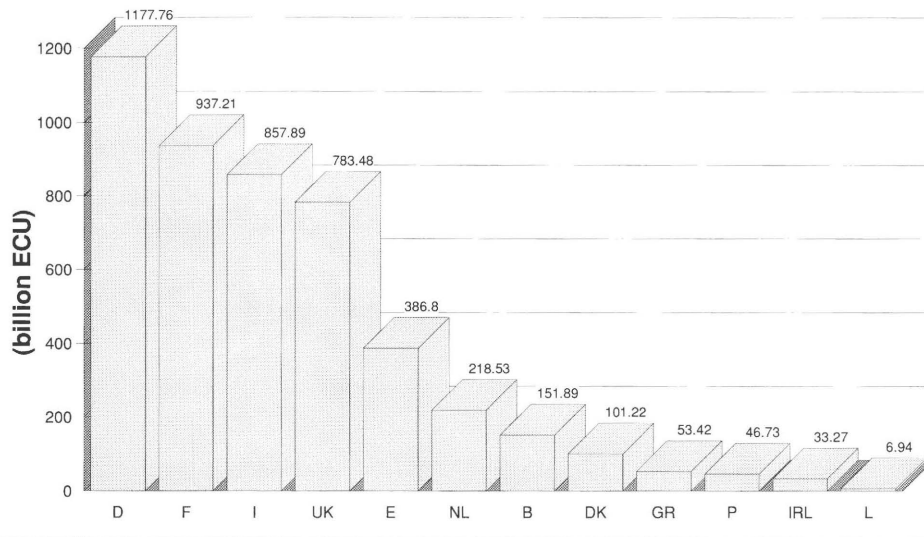
Table 12
GDP per capita (EC=100) at current prices and purchasing power parity

	1960	1973	1986	1991 ⁽¹⁾	1992 ⁽²⁾
B	95.4	101.2	100.6	104.3	105.0
DK	118.3	113.1	117.0	108.3	108.8
D	117.9	111.1	114.0	113.7	112.2
GR	38.6	56.8	55.9	52.6	52.3
E	60.3	79.0	72.8	79.2	80.4
F	105.8	110.4	110.1	108.9	109.0
IRL	60.8	58.9	63.4	68.7	68.7
I	86.5	93.3	103.0	103.5	104.0
L	158.5	141.9	126.2	132.0	143.3
NL	118.6	113.1	106.0	103.9	103.2
P	38.7	56.4	52.5	57.1	57.6
UK	128.6	108.5	105.4	101.5	101.6
EC	100.0	100.0	100.0	100.0	100.0
United States	189.6	161.6	148.0	145.7	145.7
Japan	55.8	96.3	121.7	123.9	123.9

(¹) Forecasts for the month of May 1991
Source: Commission Services

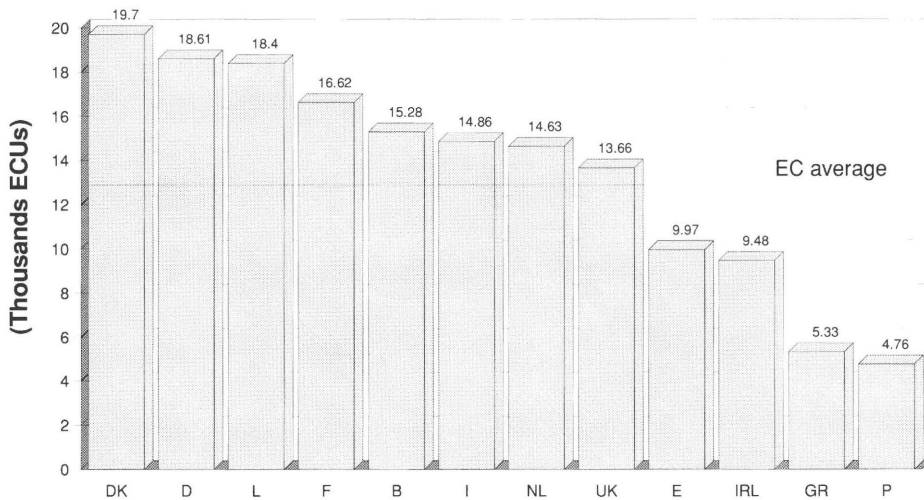
Snapshots

Figure 1
GDP of the EC Member States, 1990



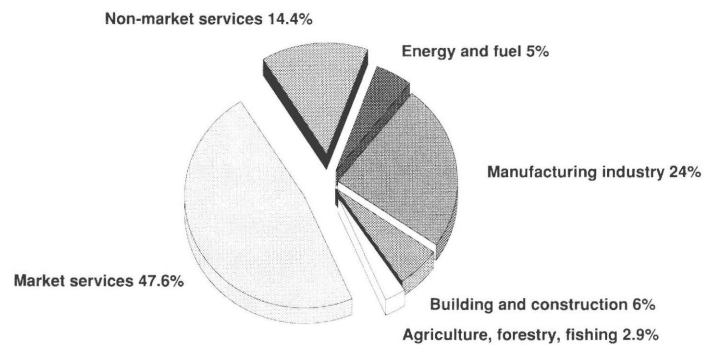
Source: Eurostat

Figure 2
GDP per capita in the EC Member States, 1990



Source: Eurostat

Figure 3
Distribution of EC value added by main activities, 1990



Source: Eurostat

Table 1
Ranking of major EC sectors by output and employment, 1989 (*)

NACE code		Output		Employment	
		(million ECU)	Rank	(1 000)	Rank
50	Building and civil engineering	440 226 (*)	1	8 973 (*)	1
41	Food and drink (except tobacco)	350 451	2	2 260	4
25	Chemicals	265 595	3	1 680	7
82	Insurance	254 411 (*)	4	784 (*)	16
35	Motorvehicles, parts and accessories	243 070	5	1 848	6
16	Production and distribution of electricity, gas, steam and hot water	210 143 (*)	6	948 (*)	13
32	Mechanical engineering	207 546	7	2 362	2
34	Electronic and electrical engineering	199 876	8	2 358	3
31	Manufacture of metal articles	162 496	9	2 168	5
47	Manufacture of paper and paper products; printing and publishing	145 123	10	1 415	8
22	Production and preliminary processing of metals	140 365	11	848	15
14	Mineral oil refining	113 038 (*)	12	120 (*)	20
48	Processing of rubber and plastic	96 347	13	1 079	11
24	Manufacture of non-metallic mineral products	87 791	14	1 007	12
43	Textile industry(except jute industry)	83 928	15	1 145	9
66	Tourism	65 674 (*)	16	N/A	N/A
46	Timber and wooden furniture industries	64 329	17	901	14
45	Footwear and clothing industry	56 225	18	1 103	10
75	Air transport	24 789 (*)	19	251 (*)	18
37	Instrument engineering	21 172	20	322	17
23	Extraction of minerals other than metalliferous and energy-producing	10 158 (*)	21	123 (*)	19
44	Leather and leather goods industry (except footwear and clothing)	9 793	22	107	21

(*) The rankings are based principally on Panorama sectoral data; wherever this was not possible, Eurostat (Inde database) estimates were used to complete the table.

(*) Estimated 1988; excluding Greece and Ireland.

(*) Estimated 1988

(*) Excluding Greece and Denmark.

(*) Excluding Denmark, Ireland and Luxembourg.

(*) Only members of the Association of European Airlines (AEA)

(*) Excluding Netherlands.

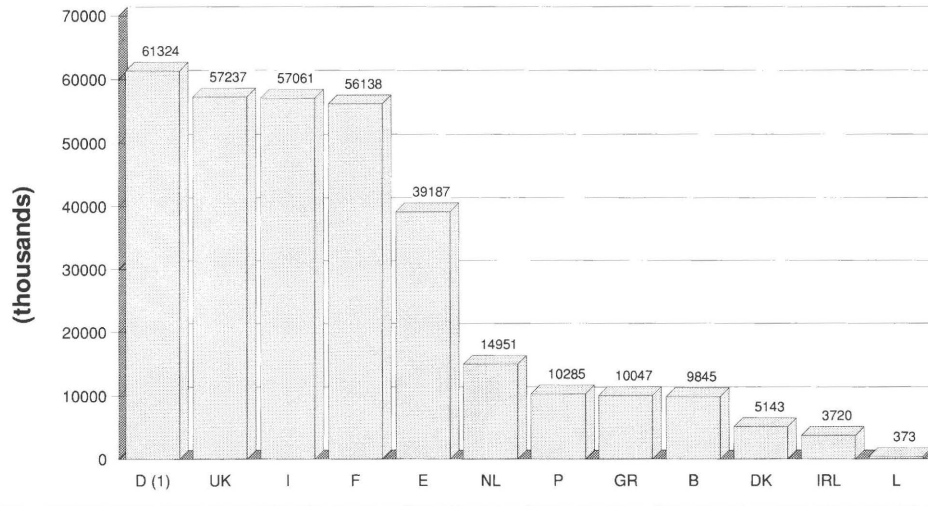
Source: Panorama of the EC industry

Table 2
Exchange rates, 1980-90
(1 ECU = ... National currency)

	BFR	DKR	DM	DR	PTA	FF	IRL	LIT	HFL	ESC	UKL	USD	YEN
1970	51.11	7.667	3.741	30.67	71.36	5.678	0.4259	638.9	3.700	29.38	0.4259	1.022	368.0
1971	50.87	7.753	3.646	31.43	72.57	5.772	0.4286	647.4	3.658	29.64	0.4286	1.048	363.8
1972	49.36	7.789	3.577	33.65	72.20	5.657	0.4489	654.3	3.600	30.48	0.4489	1.122	339.7
1973	47.80	7.416	3.276	36.95	71.81	5.468	0.5023	716.5	3.429	30.27	0.5023	1.232	333.2
1974	46.40	7.259	3.084	35.78	68.82	5.734	0.5098	775.7	3.202	30.25	0.5098	1.193	347.5
1975	45.57	7.123	3.049	39.99	71.16	5.319	0.5600	809.5	3.135	31.50	0.5600	1.241	367.7
1976	43.17	6.762	2.815	40.88	74.74	5.345	0.6216	930.1	2.955	33.62	0.6216	1.118	331.2
1977	40.88	6.856	2.648	42.04	86.85	5.606	0.6537	1 006.8	2.800	43.59	0.6537	1.141	305.8
1978	40.06	7.019	2.556	46.78	97.43	5.740	0.6639	1 080.2	2.754	55.86	0.6639	1.274	267.1
1979	40.17	7.209	2.511	50.77	91.97	5.829	0.6695	1 138.5	2.749	67.04	0.6695	1.371	300.5
1980	40.60	7.827	2.524	59.32	99.70	5.869	0.6760	1 189.2	2.760	69.55	0.5985	1.392	315.0
1981	41.29	7.923	2.514	61.62	102.68	6.040	0.6910	1 263.2	2.775	68.49	0.5531	1.116	245.4
1982	44.71	8.157	2.376	65.34	107.56	6.431	0.6896	1 323.8	2.614	78.01	0.5605	0.980	243.5
1983	45.44	8.132	2.271	78.09	127.50	6.771	0.7150	1 349.9	2.537	98.69	0.5870	0.890	211.4
1984	45.44	8.146	2.238	88.34	126.57	6.872	0.7259	1 381.4	2.523	115.68	0.5906	0.789	187.1
1985	44.91	8.019	2.226	105.74	129.16	6.795	0.7152	1 448.0	2.511	130.25	0.5890	0.763	180.6
1986	43.80	7.936	2.128	137.42	137.46	6.800	0.7335	1 461.9	2.401	147.09	0.6715	0.984	165.0
1987	43.04	7.884	2.072	156.22	142.19	6.928	0.7754	1 494.7	2.334	162.58	0.7047	1.154	166.6
1988	43.43	7.952	2.074	167.58	137.60	7.036	0.7757	1 537.3	2.335	170.06	0.6644	1.182	151.5
1989	43.38	8.049	2.070	178.84	130.40	7.024	0.7768	1 510.5	2.335	173.41	0.6733	1.102	151.9
1990	42.42	7.856	2.052	201.41	129.31	0.7677	1 521.9	1 521.9	2.312	181.10	0.7138	1.273	183.6

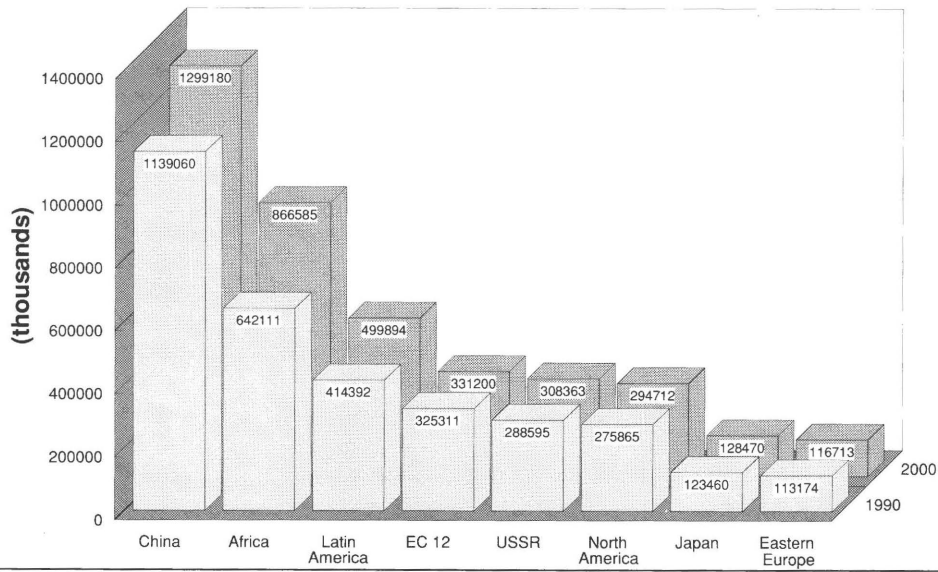
Source: Eurostat (log)

Figure 4
EC population by Member State, 1990



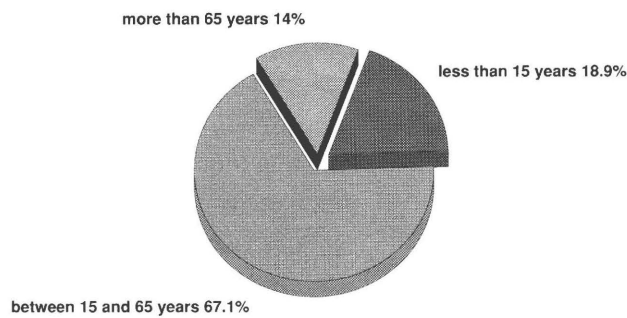
Source: Eurostat, UN
Excluding former GDR

Figure 5
International comparison of the EC population, 1990-2000



Source: Eurostat, UN

Figure 6
Distribution of the EC population by age group



Source: Eurostat



Table 3
Ranking of EC subsectors by output and employment, 1989

NACE code		Output (million ECU)		Rank	Employment (number)		Rank
3510	Motor vehicles (including road tractors)	188 712	(38)	1	1 224 484	(36)	2
1610	Generation and distribution of electric power	150 347	(31)	2	732 987	(31)	9
2510	Basic industrial chemicals and further processing of such products	119 565	(35)	3	643 578	(35)	12
1400	Mineral oil refining	113 038		4	119 530		58
2210	Iron and steel	71 143	(33)	5	433 307	(33)	14
3280	Manufacture of other machinery and equipment	69 124	(25)	6	799 686	(25)	5
7903	Telecommunication services	69 000	(1)	7	875 000	(1)	3
4830	Processing of plastics	68 300		8	666 600		11
4120	Slaughtering, preparing and preserving of meat	65 542		9	421 477		16
4130	Dairy products	63 009		10	262 365		28
3160	Tools and finished metal goods, except electrical equipment	59 255	(7)	11	795 820	(7)	6
4730	Printing and allied industries	57 336	(16)	12	671 000	(16)	10
3440	Telecommunications equipment	57 220	(32)	13	819 000	(32)	4
1620	Gasworks; gas distribution	49 777	(9)	14	178 247	(9)	42
2570	Pharmaceutical products	48 100		15	445 000		13
4530	Manufacture of ready-made clothing and accessories	47 436		16	752 979		8
3300	Manufact. of office machinery and data processing machinery	46 353		17	238 935		31
2240	Production and preliminary processing of non-ferrous metals	44 022	(36)	18	201 910	(36)	40
3640	Aerospace equipment	43 822	(30)	19	418 054	(30)	17
4670/3166	Manufacture of wooden and metal furnitures	41 372		20	760 000		7
4720	Paper and board conversion	40 347		21	412 400		18
3250	Machinery for the mining, iron and steel, metallurgical and other industries	38 821	(16)	22	392 120	(16)	19
8380	Advertising	36 432	(2)	23			105
2560	Manufacture of other chemical products, mainly for industrial and agricultural purposes	36 405	(12)	24	232 727	(12)	35
4290	Tobacco products	34 763		25	86 398		71
2580	Soap, synthetic detergents, perfume and toilet preparations	30 802	(20)	26	204 664	(20)	39
4710	Pulp, paper and board	30 091		27	191 550		41
8392	Software and computing services	29 000	(2)(3)	28			106
4220	Animal and poultry feeds (including fish meal and flour)	27 524		29	88 279		68
4230	Manufacture of other food products	26 177	(39)	30	164 227	(39)	48
4810	Rubber products	25 983		31	243 000		29
3140	Manufacture of structural metal products	23 992	(43)	32	287 105	(43)	22
3240	Machinery for the food, chemical and related industrie	23 648	(16)	33	271 641	(16)	25
2430	Manufacture of concrete, cement or plaster products for construction	23 184	(6)	34	223 953	(6)	37
4270	Brewing and malting	23 037	(17)	35	140 020	(17)	53
3460	Household appliances	22 587		36	233 200		34
3130	Secondary transformation, treatment and coating of metals	21 362	(41)	37	324 279	(41)	20
4190	Bread and flour confectionery	20 513		38	432 589		15
2470	Manufacture of glass and glassware	19 889		39	236 767		32
3110	Foundries	19 386		40	275 000		23
4210	Cocoa, chocolate and sugar confectionery	19 038	(26)	41	164 722	(26)	47
4360	Knitting industry	18 927	(13)	42	307 573	(13)	21
4320	Cotton industry	18 427	(38)	43	274 412	(38)	24
3150	Boilermaking	17 604		44	227 089		36
4110	Vegetable and animal oils and fats	16 471		45	45 405		94
3270	Manufacture of other machinery and equipment for use in specific branches of industry	15 938	(28)	46	168 489	(28)	46
3450	Consumer electronics; manufacture of records and tapes	15 620		47	236 000		33
3210	Manufacture of agricultural machinery and tractors	15 346	(25)	48	144 998	(25)	52
2480	Ceramic goods	15 010		49	263 928		26
4140	Processing and preserving of fruit and vegetables	14 674		50	138 893		55
3610	Shipbuilding, repair and shipbreaking	14 044		51	215 300		38
3120	Forging : drop forging, closed die-forging, pressing and stamping	13 710	(21)	52	161 320	(21)	49
2420	Manufacture of cement, lime and plaster	13 557	(39)	53	79 587	(39)	75
4510	Manufacture of mass-produced footwear (excluding footwear made completely of wood or of rubber)	13 455	(38)	54	263 035	(38)	27
4200	Sugar manufacturing and refining	13 424	(29)	55	60 802	(29)	86
4310	Wool industry	13 266	(20)	56	149 197	(20)	50
2230	Drawing, cold rolling and cold folding of steel	12 841	(37)	57	109 824	(37)	61
4280	Soft drinks including bottling of natural spa waters	12 816	(25)	58	91 181	(25)	67
9230	Industrial cleaning services	12 644	(18)	59	1 497 000	(18)	1
8393	Temporary work services	12 600	(2)(24)	60		(2)(24)	107
3260	Transmission equipment for motive power	12 544	(28)	61	175 407	(28)	44
3220	Machine tools for working metal and other tools and equipment for use with machines	12 050	(18)	62	172 000	(18)	45

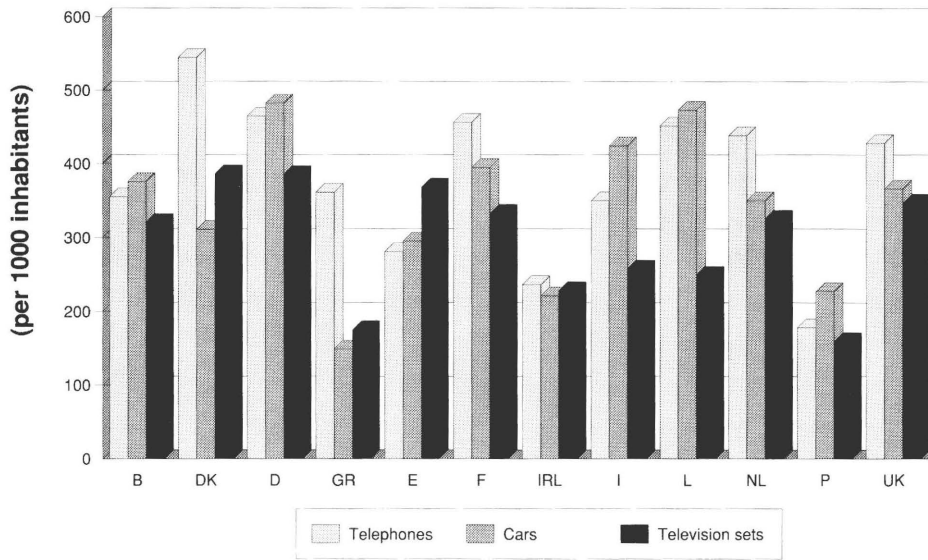
3410	Insulated wires and cables	11 298		63	111 000		59
4160	Grain milling	10 988		64	37 627		96
1700	Water supply : collection, purification and distribution	10 880		65	138 966		54
2550	Paints, varnishes and printing ink	10 450	(27)	66	95 700	(27)	64
2220	Steel tubes	10 047		67	74 900		78
4630	Wooden building components	9 988		68	148 518		51
2590	Manufacture of other chemical products, chiefly for household and office use	9 602	(10)	69	81 341	(10)	73
8370	Consulting engineers	9 547	(2)	70	178 000	(2)	43
3230	Textile machinery and accessories; sewing machines	9 371	(25)	71	110 040	(25)	60
4330	Silk industry	8 970	(40)	72	92 686	(40)	65
3710	Measuring, checking and precision instruments and apparatus	8 617		73	131 037		56
4370	Textile finishing	8 443	(40)	74	107 978	(40)	62
4410	Leather tanning and finishing	8 308		75	69 800		83
3470	Electric lighting	7 796		76	97 500		63
4390	Miscellaneous textile industries	7 792	(38)	77	124 933	(38)	57
2450	Working of stone and of non-metallic mineral products	7 643	(34)	78	77 528	(34)	76
4150	Processing and preserving of fish and other sea foods	7 324		79	86 840		70
2310	Extraction of building materials and refractory clays	7 212	(37)	80	87 312	(37)	69
4620	Semi-finished wood products	7 190		81	67 500		84
8393*	Security services	6 174		82	243 000	(5)	30
4380	Manufacture of carpets, linoleum and other floor coverings, including leathercloth and similar supported synthetic sheeting	6 124	(38)	83	61 757	(38)	85
2410	Clay products for constructional purposes	5 670	(25)	84	85 329	(25)	72
4910	Jewellery	5 572	(43)	85	57 200	(43)	87
3720	Medical and surgical equipment and orthopaedic appliances	5 545	(37)	86	92 008	(37)	66
3730	Optical instruments and photographic equipment	5 358	(7)	87	76 104	(7)	77
4940	Manufacture of toys and sports goods	5 256	(13)	88	70 287	(13)	81
4941	Toys and games	5 256		89	70 000		82
4610	Sawing, planing, drying and seasoning of wood	5 195		90	72 600		80
4550	Manufacture of household textiles and other made-up textile goods (outside weaving-mills)	4 850	(14)	91	80 245	(14)	74
8391*	Management consultancy	4 585	(22)	92	74 000	(22)	79
4942	Manufacture of sports goods	3 958	(16)	93	53 948	(16)	89
3630	Cycles, motorcycles and parts and accessories thereof	3 932	(26)	94	46 552	(26)	93
4420	Manufacture of products from leather and leather substitutes	3 175	(7)	95	56 627	(7)	88
4650	Other wood manufactures (except furniture)	3 160	(19)	96	47 263	(19)	92
4950	Miscellaneous manufacturing industries	3 009	(8)	97	53 872	(8)	90
2320	Mining of potassium salt and natural phosphates	2 945	(38)	98	30 962	(38)	98
4640	Wooden containers	2 565		99	40 000		95
3620	Railway rolling stock : locomotives, coaches, goods wagons and parts	2 477	(42)	100	48 200	(42)	91
8391*	Market research	1 852		101	23 000	(2)	100
4660	Manufacture of articles of cork and articles of straw and other plaiting materials (including basketware and wickerwork; Manufacture of brushes and brooms	1 801	(38)	102	36 200	(38)	97
8370*	Inspection, quality control and standardisation (*)	1 589	(2)(4)(15)	103	30 000	(4)(15)	99
4820	Retreading and repairing of rubber tyres	1 165	(11)	104	18 351	(11)	101
4920	Musical instruments	883		105	14 000		102
7902	Express services	566	(2)	106	8 000	(2)	103
8391*	Public relation	356	(2)(23)	107	2 000	(2)(23)	104

The industry covered by this Nace code is larger than the industrial sector defined here.

(1) 1987	(28) Excluding L, I, DK, GR
(2) 1988	(24) Excluding L, I, IRL, GR, P
(3) Eurostat estimations	(22) Excluding L, IRL
(4) Only public organisations	(28) Excluding L, IRL, DK
(5) Only manned services	(27) Excluding L, IRL, GR
(6) Excluding B, IRL	(28) Excluding L, IRL, P
(7) Excluding B, L	(28) Excluding L, UK
(8) Excluding B, L, IRL	(28) Excluding NL, B, IRL, DK, P
(9) Excluding B, L, IRL, GR	(27) Excluding NL, B, IRL, GR
(10) Excluding D, B, L, IRL	(28) Excluding NL, B, L, DK, P
(11) Excluding D, L, IRL	(28) Excluding NL, B, L, IRL
(12) Excluding D, NL, L, E	(28) Excluding NL, B, L, IRL, E
(13) Excluding F, L	(28) Excluding NL, B, L, UK
(14) Excluding F, L, P	(28) Excluding NL, B, L, UK, IRL, DK
(15) Excluding GR, IRL	(27) Excluding NL, IRL
(16) Excluding IRL	(28) Excluding NL, L
(17) Excluding IRL, E	(28) Excluding NL, L, IRL
(18) Excluding IRL, GR	(40) Excluding NL, L, IRL, P
(19) Excluding IRL, P	(41) Excluding NL, P
(20) Excluding L	(46) Excluding NL, UK
(21) Excluding L, DK, GR, P	(42) Excluding P
(22) Excluding L, GR	

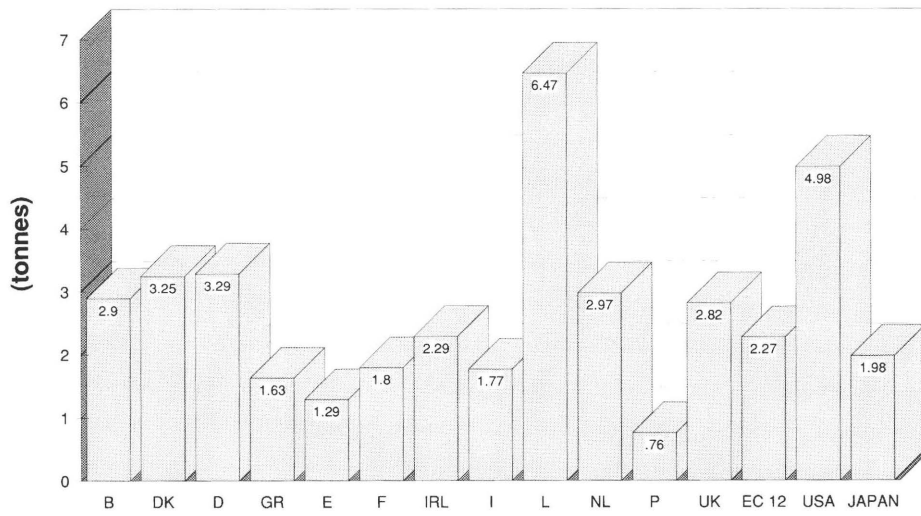
Source : Eurostat (Inde), Industry associations

Figure 7
Standard of living indicators, 1989



Source: Eurostat

Figure 8
Per capita carbon dioxide emissions, 1987



Source: Eurostat

Sectoral prospects for the EC in the 1990s

Following the restructuring efforts of the late 1980s, European industry should see further major changes in the years to come, as much in terms of the structure of trade as its nature and intensity. Monetary union, the opening up of Eastern European markets, the impact of the Gulf War on EC relations with the Middle East and the ever closer integration of Member States will continue to influence the competitiveness of European firms and alter the international scene.

Influence of structural factors on European industry

The Single Market and monetary union

The prospect of the Single Market and the gradual disappearance of trade barriers have strengthened companies' resolve to become more competitive and enhance their market shares. The number of mergers and acquisitions has more than doubled in the EC since 1985, and a growing proportion of these are being carried out on an international scale.

Closer economic integration within the EC goes hand in hand with the creation of Monetary Union. The latter should help to improve the competitiveness of EC firms and encourage their investments.

Among the prime beneficiaries of Monetary Union will be those sectors most open to international trade, in which the EC was previously hampered by the segmented nature of its markets and the lack of a common currency, and where trade is not regulated by bilateral or other types of agreements. The main sectors of this type, therefore, are electronics and office automation, as well as transport equipment, mechanical engineering and chemicals.

The opening of Eastern European markets

Eastern Europe represents an attractive market owing to its low labour costs and the proximity of western markets.

In some sectors, such as certain branches of mechanical and electrical engineering, construction materials and clothing and footwear, a fairly low level of investment, coupled with much better management of existing resources would be enough to bring about major improvements in productivity. The Eastern European countries, in-

cluding the USSR, also represent a very considerable market (400 million consumers).

When these countries have emerged from the crisis which characterises them at present, the recovery in private consumption in Eastern European countries is primarily expected to affect basic consumer goods such as agri-foodstuffs, textiles, furniture, domestic appliances and paper.

Eastern Europe is also currently suffering from major deficiencies in the services sector - deficiencies which could be partly remedied if more EC companies were to become established in these countries.

During the transition to a market economy, the sectors most likely to see an increase in demand in Eastern Europe are those which produce capital goods, sectors in which the EC is particularly well-placed worldwide.

Environmental protection Whilst most environmental protection measures are going to mean increased costs for many sectors, there are also certain repercussions, such as the fact that new impetus will be lent to technological innovations and new projects designed to save energy and increase both the efficiency and output of production processes.

Stricter environmental protection policies at an EC or national level will have varying effects, however, depending on the sector concerned, the degree of pollution which it engenders and the amount of energy it uses.

Policies which are currently in operation in terms of environmental protection nevertheless encourage the development of new markets. The most promising areas of growth are industries which supply protection equipment (filters, catalytic exhausts,

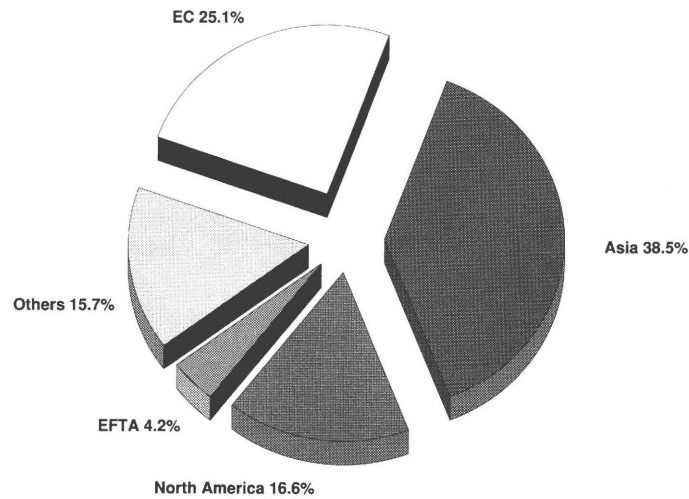
desulphurisation and denitrification equipment...), or equipment designed to control production processes, as well as equipment for treating water, air, waste, alternative forms of energy and also consultancy and audit services specialising in problems related to the environment.

Projected short and medium-term changes in supply and demand

Changes in demand A "wait-and-see" policy should continue to dominate consumer reactions in 1991, leading to a slowdown in consumer spending on durables such as domestic appliances or cars in particular, which had been among the main stimulators of growth in private consumption in the late 1980s. Consumption of non-durable goods should nevertheless continue to grow at a moderate rate in 1991, somewhere in the region of 2.5%, i.e. slightly lower than the rate of demand for services (up 3%). Some service categories however will see demand grow at a much slower rate than in previous years, such as tourism and transport services for private individuals, for example.

In the medium term, the type of goods for which we can expect to see above-average growth in demand are furniture, carpets and household furnishings, whose development will be influenced by the rapid growth in residential construction in The Federal Republic of Germany and other EC countries following the expected drop in interest rates from 1992 - 1995. Yet another sector expected to show above-average growth in demand is communication services. The rapid growth in demand for telecommunication services, postal and telephone services, etc. reflects a continuation of past trends and accelerated efforts on the part of certain

Figure 1
Sectoral prospects for the EC in the 1990s
Contribution made by the various regions of the world to growth during the 1990s



Source: DRI/MC Graw-Hill

countries to acquire telephone and other communication lines in order to catch up with richer countries.

Demand for medical services should likewise continue to grow at a higher-than-average rate (the average in the EC will be around 3% over the next ten years), mainly as a result of demographic changes within the EC. Other categories, such as purchases of motor vehicles, education, leisure and personal services should grow at a rate closer to the average, which will be around 3% per year in real terms between 1990 and the year 2000.

Finally, basic consumer goods such as agri-foodstuffs or textiles and clothing should see only limited growth: 2.1% per year on average for agri-foodstuffs and approximately 2.3% for textiles and clothing.

Demand for investment goods on the other hand will see something of a slowdown at the beginning of the period, owing to restrictive monetary policies in some Member States, and the slowdown in business activity. The construction sector in particular has felt the repercussions of the crisis. In the medium and long

term, a return to annual investment growth in the region of 5% to 7% is expected, supporting the demand directed at the mechanical engineering, electrical sectors and construction sectors.

External demand The sectors which depend most on foreign markets - i.e. the most export-oriented - are chemicals, mechanical and electrical engineering, computer hardware and office equipment and transport equipment in the broadest sense.

During the 1990s, the greatest contribution to world growth will come from Asian markets, with Western Europe in second place with a total contribution of around 30%. Within Europe, the EC will account for around 86% of overall growth in Western Europe, i.e. 25% of world growth excluding Eastern Europe (Figure 1).

Among the various regions featured in Figure 1, Asia is the most attractive potential outlet for EC exports. EC producers already supply large quantities of capital goods and in particular, transport equipment, to these regions. Accelerated growth in these countries will continue to sustain demand for exports from these EC sec-

tors, whereas the share of exports to these regions represented by basic goods such as iron and steel products, paper or even plastics will tend to decline as the importing countries increase their production capacity in these sectors.

Although Eastern Europe currently constitutes only a very small market for the EC, rapid growth in Eastern European demand for capital goods from these regions for example, or advanced technologies could be enough to influence the general market trends. This particularly applies to sectors which produce transport equipment: car equipment, the aerospace industry, chemical specialities, and plastics or packaging in general.

Areas where the EC should be able to increase its export market shares are engineering, chemical specialities (plastics), biotechnology and, more generally, any sector which calls for advanced technologies and a relatively low input of labour. There are however a number of sectors where European producers are in danger of losing export market shares in the years ahead: minerals and metals, data

Table 1
Sectoral prospects for the EC in the 1990s
Rate of increase in volume within the EC, in descending order of
growth rates for the period 1990-93

%	Average annual growth rate	
	1990-93	1993-96
High-growth sectors (>4%)		
Communication services	5.8%	6.4%
Data processing and office equipment	4.3%	4.6%
Electric engineering	4.3%	4.8%
Rubber and plastic	4.2%	4.3%
Average-growth sectors (>2.5%)		
Mechanical engineering	3.8%	3.5%
Chemicals	3.3%	4.2%
Commerce, tourism and finance	3.3%	3.5%
Transport services	3.0%	4.5%
Paper, cardboard and publishing	2.8%	3.5%
Energy	2.6%	2.6%
Low-growth sectors (2.5%)		
Construction materials	2.4%	3.4%
Metal products	2.4%	3.0%
Agri-foodstuffs	2.3%	2.5%
Timber, furniture and miscellaneous industries	1.9%	3.4%
Agriculture, forestry and fishing	1.8%	2.1%
Construction	1.8%	3.2%
Textiles and clothing	1.6%	2.0%
Transport equipment	1.5%	3.0%
Minerals and metals	1.0%	1.5%

Source: DRI/McGraw-Hill

processing, office equipment, precision instruments, paper and printing, timber and furniture and basic chemicals. Generally speaking, these are sectors whose production activities were extensively internationalised in the 1980s, and where Japan and the countries of Southeast Asia have acquired more knowledge and become increasingly competitive. They are also sectors which have seen a sharp increase in exports from the United States, or which are expected to face growing competition from Eastern European countries. There are a number of relatively inward-looking sectors where the prospects for demand or for change in terms of competitiveness in the rest of the world play a less important role. This applies to certain sectors which are still hampered by trade barriers for regulatory reasons or

due to transport costs, or for which proximity to the markets served is of vital importance. Examples of these sectors include certain construction materials, the agri-foodstuffs industry (due to consumption standards and conservation problems), the metal products sector and part of the transport equipment sector (cars) etc. The gradual opening up of the European market to foreign producers could, however, place European producers under considerable strain over the next few years. Finally, there are a number of sectors where demand should benefit both national and foreign producers, in equal measure. The sectors in question are chemicals, textiles and clothing, construction materials, and rubber and plastic. What these sectors have in common is the fact that EC producers increasingly

tend to specialise in high-value-added goods, whereas most of the countries from which such goods are imported concentrate on mass consumer goods.

Table 1 ranks the various industrial and service sectors of the EC according to the average annual rate of increase in output between 1990 and 1993, and compares the projected growth rate for the period 1990-93 with that of the period 1993-1996.

In the majority of sectors, growth is expected to accelerate from 1993 onwards.

Table 2 summarises the likely effects of the cyclical and structural factors presented in the first part of this chapter with regard to each industrial sector within the EC, from a medium-term perspective. The (+) sign denotes a positive influence on the sector within the EC while the (-) sign denotes a negative influence. If there is no symbol, this implies a varying influence depending on the type of market segment concerned.

High-growth sectors

Communication services The communication services sector ranks highest with an average annual growth rate of over 6% over the next ten years. This growth will mainly be due to:

- ❖ technological advances and efforts to catch up by a number of Member States currently somewhat behind the rest of the EC;
- ❖ the growing role played by communication services in the economic infrastructure;
- ❖ the deregulation of public works contracts, which will mean a welcome increase in competition within this sector;
- ❖ the consequences of the large-scale investments in communication (and telecommunication) networks, undertaken in

Table 2
Sectoral prospects for the EC in the 1990s
Influence of structural and cyclical factors on EC industry

	Monetary union	Opening up of Eastern European markets	Protection of the environment	Liberalisation of international trade	Rise in oil prices
Agriculture			-	-	-
Energy				-	-
Ferrous and non-ferrous metals					-
Non-metal minerals					-
Chemicals	+				-
Metals products			-		
Mechanical engineering	+	+		+	
Office equipment and precision instruments	+				
Electrical equipment	+			+	
Transport equipment	+	+			-
Food, drink and tobacco			-		
Textiles and clothing					-
Paper and printing				+	
Miscellaneous manufactured goods					
Plastic and rubber				-	
Construction				+	
Transport services		+		+	-
Communication services		+			
Other commercial services		+		+	+

Source: DRI/Mc Graw-Hill

many Member States during the 1980s;

- ❖ the growth in trade with Eastern Europe and the Soviet Union.

Data processing, office equipment and precision instruments

It seems likely that this sector will continue to show an annual growth rate of around 4.5% to 5% on average, following the current slowdown. 1990 was decidedly less promising for European producers, who have had to contend with mounting competition worldwide and undertake further restructuring in order to stay abreast with rapid developments in the micro-computers market. Growth within the sector will be particularly influenced by:

- ❖ demand for existing equipment to be re-

placed by a new, much more advanced generation of machines;

- ❖ the opening up of new markets in Eastern Europe, once the Cocom rules have been permanently relaxed, opens up important perspectives for EC producers, providing they can find the right niche in the market, in the face of competition from newly industrialised countries, the United States and Japan.

Electrical engineering This sector includes the manufacture of electronic components, consumer electronics and household appliances as well as telecommunications devices. It should see a growth rate of 4.3% and 4.8% respectively for the two sub-

periods mentioned.

This sector is the main supplier of data processing equipment, office equipment and precision instruments.

Continued rapid growth in demand should allow an annual increase in domestic output of around 5% in the long term, despite increased competitiveness following the gradual removal of obstacles to trade, the liberalisation of public works contracts and the harmonisation of standards.

In addition, tighter measures aimed at controlling the quality of the environment would speed up the creation of new markets and lend fresh impetus to the electrical equipment sector, faced with the

challenge of replacing existing equipment with other higher-performance versions.

Rubber and plastic processing This so-called "high-growth" sector should show an annual increase of over 4.2% between now and 1996. The plastics industry is characterised by high-speed technological developments. The rubber industry, on the other hand, tends to be more stable and heavily reliant on the car industry. The opening up of Eastern European markets for example, should lead to very rapid growth in the packaging sector in these countries, and hence in the demand for plastics too. Part of this demand could be met by imports from the EC. In addition, the collapse of transport equipment production in Eastern Europe should limit demand for this particular sub-sector, as well as for rubber processing and tyre manufacturing, at least in the short and medium term.

The liberalisation of international trade or an increase in oil prices will affect the sector's growth prospects, largely through a variation in the overall growth of the world economy.

Finally, any coherent environmental protection policy aimed at reducing CO₂ emissions will lead to a fall-off in the sector due to a reduction of cars on the road per capita.

Average-growth sectors

Mechanical engineering The mechanical engineering sector is Europe's second-largest exporter, after chemicals. It should increase by 3% for the period 1990-93. By its very nature, the mechanical engineering sector is highly susceptible to the cycle of investments within the EC and worldwide. By reducing the uncertainty and costs for investors, the creation of a Monetary Union will have a salutary effect on investment in Europe, stimu-

lating demand for capital goods.

Similarly, the change from planned to market economies in Eastern Europe should fuel demand for Western-made capital goods.

Stiffer environmental protection measures, as well as measures aimed at improving Europe's energy dependency, will lead to an increase in the volume of investment in energy savings and clean technologies.

The chemical industry The chemical industry, for its part, is emerging from a period of radical restructuring and diversifying into chemical specialities, abandoning those segments of the market where the competition was becoming too keen. A growth rate of 3.3% should be seen between 1990 and 1993. Artificial fibre production is expected to show only moderate growth in the coming years, bearing in mind the projected growth in demand for textiles and stiff competition from imports.

It is in the sub-sector of chemical specialities that the opening up of Eastern European markets offers most scope for speeding up specialisation within this sector. In the long term, there is every reason to believe that these countries will be able to satisfy their own needs in terms of basic chemical products via domestic production. Whilst environmental protection regulations will certainly create enormous potential in terms of new markets (to replace CFCs, which destroy the ozone layer, or to produce catalysts etc.), they will also entail lost market shares for certain products, such as fertilisers or pesticides etc, whose use could be restricted.

Paper and publishing In the medium term, this sector should continue to see sustained growth in demand, particularly in export markets, and in the case of higher-value-

added goods (paper for photocopiers, fax machines, for graphic printing, etc) achieving a growth rate of 3.5% between 1993 and 1996, after a slowdown at the beginning of the 1990s (up 2.8% from 1990 to 1993). The level of demand directed by Eastern European countries at the European packaging industry is forecast to increase very rapidly, as both the aesthetic and functional aspects of packaging assume increasing importance in these countries.

In the long term however it is unlikely that the EC countries will become influential suppliers to Eastern Europe, bearing in mind the USSR's advantages in terms of natural resources (timber, minerals and energy).

Tighter environmental protection measures aimed at reducing the amount of solid waste in the economy could lend impetus to the paper sector and paper items, which are much easier and cheaper to recycle than plastics for example.

Retail trade, tourism and financial

services The expected growth in the retail trade, tourism and financial services sector is around 3.3% per year on average between 1990-93.

Growth in the retail trade will be due, firstly, to the standardisation of consumption trends within the EC and, secondly, to an increase in specialist micro-markets.

The increase in terms of leisure, the ageing of the population and the expected increase in income will have a positive influence on the tourism sector, even though this sector will remain extremely sensitive to cyclical events, more especially with regard to trans-border tourism.

The favourable position of the EC banking sector is partly due to its low exposure to high risk loans, and the high level of

shareholders' equity as well as their sound profitability. Rivalry within the sector will be further heightened by the liberalisation of markets. The restructuring of the Eastern European countries will have a positive effect on banks on the German borders.

Transport services This sector should see an annual growth rate of 3% between 1990 and 1993.

The deregulatory moves currently under way in the EC should enable transport services to become more closely integrated and lead to a reduction in costs thanks to greater transparency. Intra-EC traffic therefore, should gain in terms of efficiency, which would in turn stimulate demand by facilitating trade.

The increase in trade with Eastern Europe is also likely to speed up growth in the sector.

In the short term, however, the sector will suffer from the slowdown in the world economy and trade, and from the fall-off in tourism.

Energy The energy sector, should grow at an average annual rate of around 2.6% between 1990-93, i.e. a rate similar to that of the GDP, and over the next four years, growth should continue at a similar rate, which will be lower than that of the GDP however, reflecting further improvements in energy efficiency within our various economies. The introduction of production standards should reduce costs for refiners.

The two directives in respect of the transparency of prices and the transit of electricity will stimulate competition and the liberalisation of intra-EC and non-EC trade with Eastern Europe and the Mediterranean basin.

Low-growth sectors

Textiles and clothing Faced with ever mounting competition, the EC has gradually begun to specialise in high-value-added goods, or goods which involve sophisticated production technologies, while Southeast Asia and a number of Eastern European countries have strengthened their already dominant position in bottom-of-the-range goods.

Over the next few years, demand should remain fairly depressed, except for Southern Europe, and growth within the sector should not exceed 1.6%.

Further measures to liberalise trade in this sector could magnify the problems currently affecting western producers, and would force firms to restructure, sometimes drastically so.

The opening up of Eastern European markets will not have a marked effect on the level of demand directed at Western producers, since these countries are already major clothing manufacturers.

Agri-foodstuffs The agri-foodstuffs sector is basically stable. The growth rate should be 2.3% per year for the period 1990-1993.

Although external trade remains very limited in this sector, it should nevertheless pick up thanks to improved transport and packaging and the removal of trade barriers. This should also lead to the formation of larger, pan-European groups.

The sector's prospects within the EC and on world markets will also depend on the future progress of the debate on the abolition of farming subsidies worldwide, and the opening up of these markets.

Transport equipment The low growth rate shown by this sector (1.5%) reflects the marked slowdown in demand in the car and

aerospace sectors this year.

In the medium term, difficulties could arise on the European car market, if external trade were to be further liberalised.

Major European car-makers have expressed a clear interest in setting up production units in Eastern Europe. In the longer term, therefore, EC production units could well face increased competition from these areas. In the other sub-sectors of the transport equipment industry (railways, aerospace,...) the opening up of Eastern European markets will chiefly result in increased demand from these countries, bearing in mind their low level of facilities.

Construction materials The other sectors featured under the "low-growth" heading are, in one way or another, linked to the construction sector. One example is the construction materials sector, also referred to as the non-metal minerals sector, which is expected to show an average growth rate of around 2.4% in the EC over the period 1990 to 1993.

More rapid growth is forecast during the second sub-period, however, thanks to lower interest rates and the general economic recovery within the EC.

The sector could also reap short-term benefits from an increase in demand in Eastern Europe. Construction materials however, are difficult and expensive to transport so the prospects for growth will remain limited for the EC (except for Germany).

Timber and furniture The prospects for the timber and furniture sector are similarly linked to those of the construction sector. This sector should grow by just under 2% per year on average over the period 1990-93.

Minerals and metals Despite sharp increases in productivity, the general slow-

Table 3
Sectoral prospects for the EC in the 1990s
Rate of increase in employment per sector in the four largest countries of the EC (1)

%	1988	1989	1990	1991-92
Agriculture, forestry and fishing	-0.89	-0.77	-0.78	-1.02
Energy	-3.86	-1.31	-1.04	-0.60
Minerals and metals	-1.49	-0.91	-0.61	0.20
Construction materials	-1.48	0.80	0.70	1.17
Chemicals	0.33	-0.46	0.07	0.47
Metal products	3.49	0.50	0.61	0.65
Mechanical engineering	3.28	1.15	0.83	0.65
Data processing and office equipment	-0.45	-0.45	0.15	0.67
Electrical equipment	0.66	0.12	0.65	0.44
Transport equipment	-0.45	0.86	0.73	0.97
Agri-foodstuffs	-0.10	-0.54	-0.49	0.66
Textiles and clothing	-3.03	-4.21	-0.68	-0.63
Paper, cardboard and publishing	1.01	0.93	0.57	0.74
Timber, furniture and miscellaneous industries	1.90	1.40	0.69	0.64
Rubber and plastic	3.40	1.39	2.26	2.23
Construction	1.13	2.92	2.53	1.76
Transport services	0.09	-0.50	-0.74	0.47
Communication services	-0.06	1.17	1.21	1.33
Commerce, tourism, finance	2.37	1.88	1.73	1.05
Government	1.19	0.75	0.79	0.78

(1) Federal Republic of Germany, France, Italy and United Kingdom
Source: DRI/McGraw-Hill

down in business in 1990-91 will hamper short-term growth prospects (1%). In the medium term, the increase in international competition and the emergence of new producers on world markets will erode the market shares of European producers, who will have to specialise more thoroughly in high-value-added products or more technologically advanced products. Any reduction in the use of ferrous metals in Eastern Europe and the Soviet Union could result in serious surplus supply on world markets.

Prospects for employment

The investments made over the past few years should help to ensure positive growth rates in employment productivity, but there is little prospect of an increase

in employment itself. Many firms, particularly in the data processing equipment and consumer electronics sector, have already announced large-scale job cuts this year. The most vulnerable sectors from the point of view of employment are textiles and clothing, timber and furniture and any sector which depends on the level of business in the construction sector, as well as sectors which are particularly exposed to international competition, and in which firms will try to rely mainly on improved productivity. In the iron and steel sector, employment levels have been falling in EC countries for several years now and should continue to do so at a more or less steady rate. This also applies to farming.

Employment levels in the services sectors,

on the other hand, will continue to rise in the coming years, albeit at a slower rate. Overall, the rate of increase in employment within the EC should fall to around 0.5% in 1991, and slightly under 1% in 1992, compared with an average annual rate of 1.7% since 1988. The period 1993 to 1997 will see a fresh improvement in industrial employment, and a faster rate of increase in the services sector, taking the average rate of increase in employment within the economy to nearly 1.5% per year on average between 1993-97.

Written by: DRI Europe

Inward investment in the European Community

Definitions and methodology

Foreign direct investment (FDI) as defined by the IMF is "investment that is made to acquire a lasting interest in an enterprise operating in an economy other than that of the investor, the purpose being to have an effective voice in the management of the enterprise." ⁽¹⁾ All other forms of international investment which do not entail control are classified as portfolio investments. While there is little conceptual difficulty in distinguishing between portfolio and direct investment, it is often very difficult in practice.

In expanding on the IMF definition, the OECD suggested that a firm should be considered to have an effective voice in the management of a foreign firm if it holds 10% or more of the voting stock of that firm unless it can be shown in individual cases that control is ensured at a lower level or that the investment is essentially of a portfolio nature, regardless of the percentage ownership. ⁽²⁾ Few EC countries have conformed completely with the OECD suggestions. Most countries require at least a 20% share. These discrepancies are mitigated somewhat by the fact that the actual stake in the affiliate is often more than 50%.

Controlled companies are known as affiliates. All capital flowing between the parent company and its foreign affiliates will usually be classified as FDI. The OECD recommended including all intra-firm debt and equity flows as well as the parent's share in the affiliates' retained earnings. These earnings are treated as a capital flow in the balance of payments by recording them as being repatriated through the current account and then sent out again from the parent in the capital account. There are good reasons for either including or excluding retained earnings which we will not discuss here.⁽³⁾ The relevant point is that there is no consensus in the EC as to the appropriate methodology. Most countries exclude retained earnings while the UK and Germany include them. Few countries provide a measure of the stock of inward investment, which is a better gauge of the relative importance of countries and sectors than are volatile annual flows. Where possible, we have derived a proxy for such stock values based on cumulative inflows. If this were the extent of the variety in methods of accounting for FDI among the EC countries, the problem might still be tractable. But it is not. The IMF definition considers FDI as foreign control, without stipulating how that control is achieved. Equity and debt flows from the parent company are just one means. In this sense, FDI is a much broader concept than that captured in the balance of payments statistics. Some countries such as Denmark, Portugal, and Spain keep two sets of figures, one based on actual capital flows and the other on approvals or notifications by foreign investors. Other countries such as

the UK, Germany, and France survey foreign companies in their countries and supplement the balance of payments measures with estimates of the employment, sales, value-added, etc. generated by those foreign companies.

Motivations for FDI

Foreign direct investment differs from domestic investment because, by definition, it is located in a country different from that of the investing firm. One way of explaining FDI is to look at the attributes of the host country which attracted the investing firm. Broadly speaking, these are the size of the market, certain human or natural resources in the host country, or merely the fact that the target firm happens to be located in that country. Generally, some combination of these elements will influence each investment decision. Much of the investment in the EC by non-EC firms is designed to gain access to the EC market. Because this is the same motive for exporting by firms from these countries, we must go one step further and ask why do firms choose to invest instead of exporting? One motive is of course existing or anticipated trade barriers, but it is by no means the only one. The increasing sophistication of some goods requires that the firm establish a local presence in order to monitor and to respond more quickly to changing consumer tastes. This presence may entail local production if, for example, the customer is another company. For some services, there is little conceptual difference between trade and investment. For other forms of FDI, market access may be irrelevant or at best a secondary consideration. In these cases, the multinational enterprise (MNE) is attracted to the

host country because of some attribute of either the host country itself or some firm located in that country. Host country attributes include labour or raw materials and are typical of FDI in developing countries. Firm attributes are more diverse and may include proprietary technology owned by the target company or the fact that the target company specialises in goods which are in some way complementary to the production of the investing firm. This latter motive explains much of the current wave of intra-EC FDI though market access to individual EC markets may also play a role. Access to some attribute of the host country is a necessary condition for FDI to occur but it is still insufficient as an explanation for FDI. The investing firm must also have some competitive edge over local firms in the host country which allows it to overcome the obvious disadvantage of operating in foreign markets. Dunning has labelled these ownership advantages.⁽⁴⁾ They can arise either from possession of proprietary technology or some competitive advantage in financing, distribution, production, or marketing. With differentiated products, the investing firm is partly sheltered from the competition if the output of local firms is not a perfect substitute for its own output. To summarise, FDI will only occur if two conditions are satisfied. First, the firm must desire access either to the foreign market or to factors or firms located in that market. Second, the investing firm must have some ownership advantage which allows it to compete with local firms in their own market. Not all exporters have the choice of investing and not all investors can be exporters.

Policy issues arising from FDI

The main policy issues relate to inward FDI from outside the EC, particularly from Japan. They resemble in many respects the issues arising from trade because investment and trade represent two ways for Japanese firms to enter the EC. Investment is often a more difficult issue than trade because some countries within the EC appear to gain at the expense of others and because policy makers must ask themselves whether it is better to have an indigenous firm producing much of its output in Southeast Asia, for example, or a Japanese firm employing local labour inside the EC. At the moment this is still an extreme scenario, but it may not be so in the future.

Direct investment within the EC by non-EC MNEs has been a contentious issue since the formation of the EC. The question first emerged with respect to American investments in the late 1950s and throughout the 1960s. It has now re-emerged with the inflows of Japanese FDI in the EC. Although many of the issues are the same, the greater degree of market integration now within the EC compared to in the 1960s has altered the nature of the problem. On the one hand, the Single Market should increase the size and competitiveness of EC firms, while on the other hand, it should allow Japanese firms to expand their market share more quickly throughout the EC.

Multinational enterprises can play an important role in achieving the gains from integration. They can shift resources to take advantage of a regional division of labour, provide investment in regions which are adversely affected by restructuring, and in-

crease productive efficiency through greater economies of scale.

While efficiency gains and trade expansion are two of the obvious goals of integration, another is to increase the competitiveness of EC firms vis-a-vis their foreign rivals. Although Japanese and American firms may contribute to greater integration through their behaviour, they still represent foreign control of EC factors. To what extent is this potentially harmful?

Proponents and opponents of Japanese FDI in the EC both discuss technology in arguing their case. It is generally recognised that FDI often involves a transfer of technology. After all, if a foreign firm hopes to compete with local firms in their own market it must have some advantage. This advantage is often related to technology, either embodied in the good itself or used in the production process.

Japanese firms are highly competitive in two sectors in particular. A look at each of these sectors should illustrate the two sides of the argument. In the automobile sector, the Japanese advantage stems from the ability to produce high quality cars at low cost through what is now known as "lean production." Their investments in productive capacity in the EC have had a clear demonstration effect on local firms and their suppliers which should in time lead to an erosion of the competitive advantage of Japanese automobile producers. Few people would consider mass production techniques as an American phenomenon, for example, and yet in an earlier era American firms brought mass production to Europe through their investments.

Some European producers worry that before this demonstration effect has a

chance to improve local productivity, they will be faced with considerably diminished market shares which will further erode their ability to compete. Their reason for wanting to restrict Japanese investment is essentially an infant industry argument. Protection of domestic industries allows them sufficient time to learn Japanese production techniques so that once the protection is finally removed they will be better able to compete with the Japanese firms. Low productivity relative to Japanese producers is not the only problem for European car firms. Increasingly global competition will make it difficult for six roughly equal, large-volume producers (including two American firms) to co-exist in Europe. Will restricting Japanese investment help in this regard, especially given the already heavy reliance of certain EC firms on their domestic markets?

In the consumer electronics sector, Japanese competitiveness stems more from the technologies embodied in the product itself. In this case, the advantages of inward FDI in terms of a transfer of technology are less obvious. As long as R&D is conducted in the home country instead of being decentralised globally, critics have argued that such investment, by driving local competitors out of business, will foster technological dependence in Europe known as the "branch plant syndrome." Can we expect Japanese MNEs in the consumer electronics sector to transfer R&D facilities to Europe? As an empirical observation, it is too soon to tell. A recent survey of Japanese manufacturing companies found that of the 227 companies which responded (or roughly one half of the total number of Japanese manufacturers in Europe), 41 carried out all R&D in Japan,

93 assigned some activities to the local subsidiaries, and 93 created design centres or R&D facilities in Europe as part of the company's global business strategy.⁽⁵⁾

Japanese manufacturing in the EC is still in its infancy. If the example of American firms in Europe is any guide, there should be increased decentralisation of R&D activities over time. Few would doubt the commitment of IBM to European R&D, for example. Other large MNEs such as Ford, Procter & Gamble, Unilever, and Hewlett-Packard have a global orientation in their R&D strategies. From a strategic point of view, decentralisation makes sense. No one country holds a monopoly over ingenuity and inventiveness so as long as diverse R&D facilities can be coordinated there is a clear gain from decentralisation. One constraint on the location is that it must be able to interact with the production operations and potentially with consumers, especially in the design stages. For this reason, we would not expect to see substantial shifts of Japanese R&D overseas until foreign production has achieved a sufficient scale.

Those in favour of inward investment argue that, in addition to technology transfer, there are potential gains from an increase in employment in the EC and from a decrease in exports from the investing country as local production replaces exports. From a narrow perspective, this is of course true. If Sony replaces exports of colour televisions to the EC with local production within the EC then the Community has gained employment in television production at the expense of Japan. The mistake occurs in trying to derive aggregate trade and hence employment effects from

the cases of individual industries.

In the first place, in industries where EC firms are already producing, inward investment from outside of the EC may only serve to crowd out those domestic producers. Even when there are no domestic producers the trade effect for the particular good does not allow us to generalise about the net trade balance between the EC and Japan. After all, what are Japanese firms going to do with the capacity they have freed up by reallocating some production abroad? They are going to develop new products or move up-market to higher value-added production.

As for aggregate employment effects, a recent study of FDI into the US has argued that, almost surely has very little net effect on overall employment in the United States; this conclusion has nothing to do with the results of calculations of net job effects at the industry level, but rests on the macroeconomic point that employment in the United States is essentially determined by supply, not demand, except in the very short run.⁽⁶⁾

The foregoing discussion was concerned mostly with aggregate trade and employment effects for the EC as a whole. At a regional level, the effects may be quite different. One of the worries stemming from European integration is that it will drain resources from the countries and regions on the periphery. Without sufficient mobility of labour from that region it could lead to persistent unemployment. All countries have experienced regional problems as their economies have altered the mix of economic activities over time. Witness the case of Northern England and Wales which were once heavily dependent on coal mining, shipbuilding, and steel production.

The potential for inward FDI to alleviate regional unemployment has led to competition among regional development authorities to attract Japanese investors. Such competition may lead to overly generous incentives for investors. This is especially true if one considers that short-term incentives will not induce investment if the project is not commercially viable, and the location of investment in regionally depressed areas is likely to result as much from the abundance of labour in those regions as it does from any particular incentive. Toyota reputedly declined an offer of financial assistance in the form of UK state aid for its plant in Britain.⁽⁷⁾

The remaining issue with Japanese FDI concerns reciprocity. Does Japan discriminate against investment by EC firms? Although Japanese firms have invested over ten times as much in the EC as Japan has received from EC firms, a low degree of foreign penetration is not in itself proof of barriers in Japan. A study of FDI in Japan concluded that there were few legal barriers to investment by foreign firms, although there were important restrictions in the past. Problems encountered by European firms are primarily cultural and structural. Examples include an aversion to hostile takeovers, the difficulty of attracting employees away from Japanese firms, and the high costs of operating in Japan.⁽⁸⁾

At a broader level, the fact that both trade and investment by foreign firms are difficult in Japan suggests that there may be more general economic factors at play. Japanese exports and investment are heavily concentrated in the same few sectors, notably automobiles and consumer electronics. Because Japanese firms have both a comparative and an absolute ad-

vantage over EC firms in these sectors we would not expect to see much FDI by EC firms since, as we suggested earlier, the investing firms must have some advantage which allows it to compete with local firms. US firms such as IBM which are in a strong competitive position globally have been able to penetrate into Japan.

By this reasoning, we would expect to see EC FDI in Japan in chemicals and pharmaceuticals where EC firms are particularly competitive. Investment in the chemical sector may be constrained to some extent by the shortage of raw materials in Japan. Without a full analysis of the types of EC investment which have been successful in Japan, it is not possible to say whether cultural barriers overwhelm economic ones. A lack of symmetry between outward and inward FDI is to be expected within individual sectors, and an uneven ratio of outward to inward FDI at an aggregate level is not itself proof of barriers. Certain industries are more likely to be overseas investors, particularly those for which R&D is a relatively high share of total costs. To the extent that Japan is better endowed with these industries than Europe, we would expect an uneven bilateral balance of FDI.

The issue of reciprocity resurfaces for intra-EC FDI though in this case it is limited only to the question of takeovers. Integration and global competition entail shifts in the industrial structure of Europe. This will come about largely through a rationalising of production within the EC by local firms. Some of this will include M&As. Does the fact that some countries have tough anti-takeover laws mean that shifts in ownership will be to the benefit of the protected country?

A firm will only acquire another firm if it thinks it can make better use of it or run it better than the existing owners. As long as the investor must compete for funds with other investors, there will be some control over who buys whom. (The EC has not witnessed much financing of investment through junk bonds which was so pervasive in the US in the 1980s). The one exception may be for publicly held companies where constraints on the financing of outward expansion may not be as strict.

Liberal takeover laws often go together with a thriving stock market. This stock market might in turn ensure that local firms have easier access to equity financing than do firms from countries with more shallow stock markets. This possibility may explain why the two most active foreign direct investors in the world, the US and the UK, are also two of the greatest recipients of inward FDI. Certainly, as we shall see later, British and American firms have traditionally accounted for a high share of M&A activity in Europe.

One reason why acquisitions are so difficult in parts of Europe is simply that many small European firms are still privately-owned. Clearly these companies are in turn constrained in their outward FDI by their lack of access to the stock markets when obtaining funds.

Barriers to takeovers are not synonymous with restrictions on inward FDI. The Netherlands, for example, has one of the toughest anti-takeover provisions in Europe and yet has welcomed more inward FDI through greenfield investment than most other EC countries. Anti-takeover laws themselves do not keep foreign firms out of the market.

Global trends in FDI

Before looking at recent trends in investment in the EC, it is useful to understand the global nature of FDI flows. A recent study of FDI by the Group of Five (G-5) comprising the US, Japan, France, Germany, and the UK found that FDI outflows increased rapidly for all five countries in the last half of the 1980s after recovering from the economic downturn following the second oil shock.⁽⁹⁾ Between 1983 and 1988, real growth of outflows ranged from 15% for Germany to 37% for Japan.⁽¹⁰⁾ There is no deflator for financial flows. It was estimated that real growth in the first half of the 1990s would be roughly 10% per year.⁽¹¹⁾

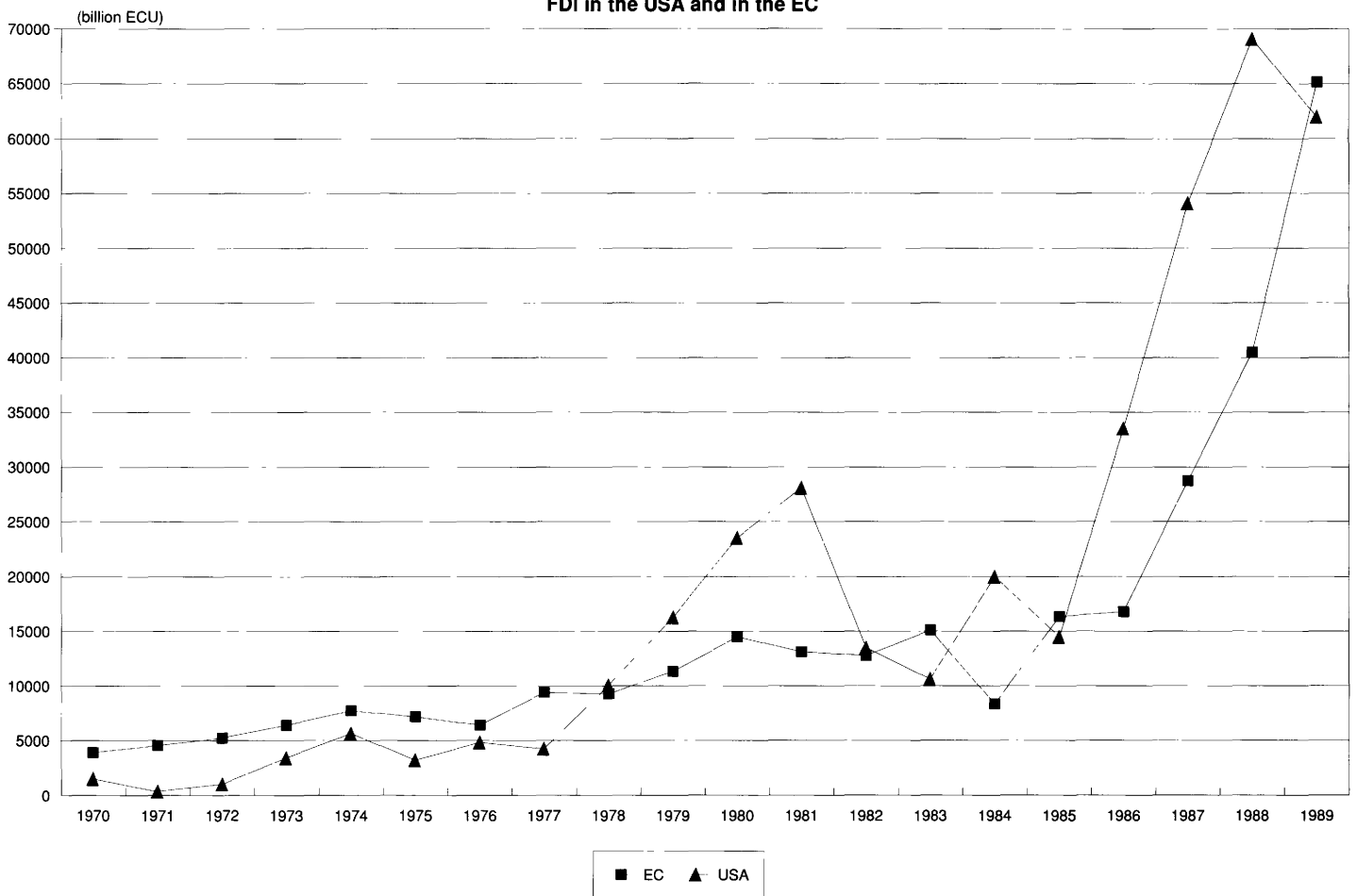
An increasing share of this investment flows within the G-5, as the European countries and the US have received more and more of the world's direct investment. Part of the explanation is the debt crisis in developing countries which has reduced FDI into those regions. But another part is the increasing economic integration of the industrialised world through trade and investment. By aggregating both G-5 GNP and FDI outflows, it was noted that real growth rates of the two have been closely related over time, with growth in FDI over three times as volatile.⁽¹²⁾

Unlike in previous decades when FDI growth was reliant on only one or two sectors such as petroleum or on only one country such as the US, growth in FDI in the 1980s encompassed a broad range of industries and countries. The share of the service sector grew as many services were deregulated or privatised.

A comparison of US and EC inflows

Because of the discrepancies across the

Figure 1
FDI in the USA and in the EC



Source: Thomsen and Nicolaidis (1991)

Table 1
Inward direct investment in EC countries

(million ECU)	1986	1987	1988	1989
EC	16 813	28 769	40 467	65 162
BLEU	644	2 028	4 225	6 146
Danmark	164	76	426	984
BR Deutschland	1 215	1 649	1 160	5 389
France	2 800	4 008	6 098	8 670
Hellas	477	591	769	N/A
Espafia	2 068	2 261	3 737	5 154
Ireland	-44	77	77	N/A
Italia	-22	3 596	5 827	1 980
Nederland	1 980	2 030	3 448	5 620
Portugal	167	379	811	2 046
United Kingdom	7 364	12 073	13 889	29 173

Source: See individual country tables.

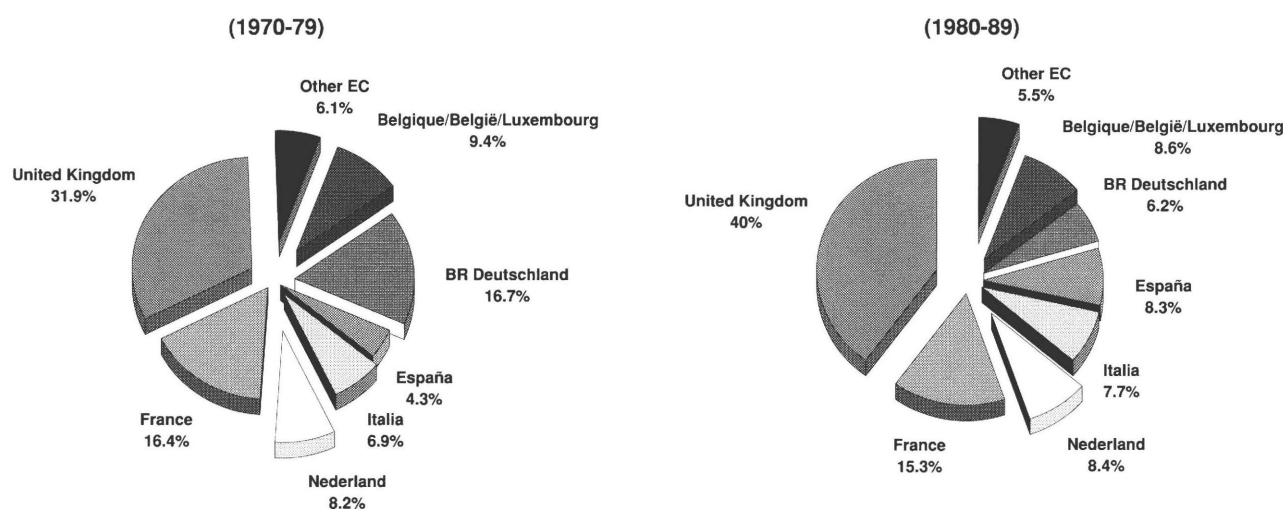
EC in defining FDI, we must be careful in our comparisons, drawing on as wide a range of sources as possible. In the first section we describe direct investment in the EC as a whole rather than in individual countries. While this is a common practice for trade flows, it is rarely done for

investment owing to the lack of sufficient or even comparable data from each country. Not only are the differences in inward investment across EC countries greater than any potential biases introduced by methodological consistencies, but these biases can be reduced simply

by comparing changes across countries over time.

Figure 1 compares inflows into the US and the EC ⁽¹³⁾ since 1970. The US and the EC have each received steadily increasing inflows since the mid-1980s at roughly the same pace as can be seen by the slopes of the two curves. Inflows into each area are also at similar levels although we must be careful not to rely too much on absolute amounts for reasons mentioned earlier. In addition, the EC total includes a good deal of intra-EC flows whereas if we were treating the EC as one economy these would have to be eliminated. The main conclusion from Figure 1 is that the EC does not appear to have attracted investment away from the US in spite of the flurry of activity surrounding

Figure 2
Comparison of distribution of total inward FDI in the EC,
1970-79 and 1980-89



Source: Thomsen and Nicolaides (1991)

1992 in the EC.

Inflows into the EC have grown steadily since 1984. This same result holds for almost all EC members, though the rates of growth have diverged across the Community. As we can see in Table 1, inflows have increased in each of the last three years for every country except Italy which saw a drop in 1989 from the record level in the previous year.

Figure 1 highlights the global nature of recent FDI trends resulting from the Japanese corporate diaspora, the 1992 process, rising trade friction, and, underlying these events, the global restructuring brought on by greater competition from the Far East and the increasing technological sophistication across all industries.

The distribution of inflows within the EC

All EC countries witnessed greater activity by foreign-owned firms in their economies in the late 1980s but there are still vast differences in the absolute levels across countries. Figure 2 shows the shares of total inward flows into the EC in the 1970s and the 1980s.

Cumulative flows since 1970 provide an idea of how the attractiveness of individual EC member countries may have shifted relative to the rest of the EC over the last two decades. They are not necessarily the best indicator of the degree of foreign participation in each country because foreign firms can invest in many ways which go unreported in the balance of payments statistics and because many American firms invested heavily in Europe in the 1950s and 1960s. Nevertheless, cumulative flows are a rough proxy for the stock of inward FDI in each country and allow for a ready comparison across countries. Very few countries provide stock figures.

Figure 2 shows that very little has changed between the 1970s and 1980s in terms of the relative attractiveness of most countries. The only notable exceptions are Spain, the UK, and Germany where increases of four and eight percentage points in the former two have been offset by an 11 percentage point decline in the German share. We suggest reasons for these shifts in the individual country sections. The shares in the 1980s can be divided

into three groups. In the first one are the four smallest EC economies (excluding Luxembourg which is included in Belgium) which together account for only six percent of total inflows. Although the absolute level of inflows into these countries is quite small, foreign participation is relatively important in Portugal, Greece, and Ireland, but not in Denmark. One reason for this is that although those countries do not offer a large domestic market, their relatively cheap labour is an attraction for firms producing labour-intensive goods. In another group in terms of absolute amounts are the Netherlands, Italy, Belgium-Luxembourg, Germany, and Spain with anywhere from 7% to 9% of the total. France has received twice as much as these five countries and the UK over four times as much.

The origin of EC inflows

It is often extremely difficult to determine the exact origin of inward flows into individual countries. The immediate investor may be an affiliate of a company located in a third country. The host country will usually attribute this investment to the immediate

Table 2
The origin of inward FDI in individual EC countries
(percentage of the total inward stock)

Recipient Country	Country of Investors									Other EC
	US	J	EC	B-L	F	D	I	NL	UK	
Belgique/België/Luxembourg ⁽¹⁾	44	3	41	1	10	11	1	11	7	0
Danmark ⁽²⁾	28	1	36	2	2	9	2	8	14	0
BR Deutschland ⁽³⁾	33	7	35	2	6	N/A	2	13	10	1
France ⁽⁴⁾	16	2	54	8	N/A	12	7	11	16	N/A
España ⁽⁵⁾	13	3	61	3	12	12	4	17	12	1
Irland ⁽⁶⁾	38	N/A	45	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Italia ⁽⁷⁾	15	1	54	9	11	9	N/A	13	12	1
Nederland ⁽⁸⁾	25	3	40	8	5	8	0	N/A	19	1
Portugal ⁽⁹⁾	16	2	48	3	11	8	0	4	21	5
United Kingdom ⁽¹⁰⁾	47	4	26	2	4	4	0	13	N/A	2

Note: The shares should be read across rather than down
⁽¹⁾ Belgium: cumulative new FDI, 1959-82 (EC-EC10)
⁽²⁾ Denmark: cumulative flows (approval basis) 1961-84
⁽³⁾ Germany: book value of primary FDI, 1988
⁽⁴⁾ France: cumulative inflows, 1976-88 (excludes banking)
⁽⁵⁾ Spain: 1959-88, excluding FDI by affiliates already in Spain
⁽⁶⁾ Ireland: cumulative inflows, 1970-85 (from EC data)
⁽⁷⁾ Italy: stock, 1989
⁽⁸⁾ Netherlands: position, 1988
⁽⁹⁾ Portugal: 1974-88 for US, J, UK, D, F (Others from 1975-84)
⁽¹⁰⁾ UK: book value, 1987 (classified according to UBO)
Source: Thomsen and Nicolaidis, "The Evolution of Japanese Investment in Europe" R.I.I.A., London, 1991.

country. This approach is consistent with the balance of payments notion of FDI as a flow of capital from one country to another regardless of where the ultimate parent is located, but it may underplay significantly the role of certain investing countries. US firms, for example, may invest in an EC country through an affiliate already located within the EC. The host country will usually record this as intra-EC FDI. Furthermore, as pointed out in the previous edition of the Panorama, much of intra-EC direct 'foreign' investment is in fact national capital, reconstituted in holdings in Luxembourg, the Netherlands or London to take advantage of fiscal and/or regulatory regimes, and then reimported to the country of origin under a new flag.⁽¹⁴⁾ It is impossible to know the exact share of "artificial FDI" in the total, and the amounts will no doubt differ according to the country involved, particularly those with exchange or capital controls. Given the tremendous increases in cross-border

investments within the EC, this type of FDI is probably not as important as suggested in the above citation, but it does exist. Of the EC countries, only the UK provides any attempt to find the ultimate parent. British statistics show that the home countries which decline most in importance as investors in the UK are Switzerland and the Netherlands. These two countries are typically exaggerated in the inflows of other countries because of their importance as locations for international holding companies. To give just two other examples: nine per cent of the stock of investment in the Netherlands is recorded as originating in the Netherlands Antilles, an amount considerably in excess of the GDP of that tiny island; in Spain, one fifth of the annual inflows over the last three years actually originated from foreign companies already in Spain and is therefore impossible to attribute to any particular country. When an affiliate is established, the par-

ent typically contributes equity capital together with loans raised either locally or in the home country. Local funding will not appear in the balance of payments. As the affiliate matures and becomes financially independent, equity capital flows will diminish in importance and will be replaced by retained earnings as the principal component of FDI in the figure for annual flows. At this stage, the transactions between the parent and its affiliates which together constitute FDI are likely to resemble portfolio flows, with the parent borrowing from the affiliate during times of economic expansion or high interest rates in the home country and vice versa. US direct investment outflows to the EC, for example, "fell" from \$18 billion in 1987 to \$4 billion in 1988. The reason for this dramatic drop was not a sudden lack of interest in the EC market but rather the fact that the reinvestment ratio of the affiliates in the EC plunged from 63% to 11% as US parent firms faced with high US interest rates decided to repatriate a much

larger share of the earnings of their affiliates. The parents may also have felt that the dollar was at its lowest point, making it a favourable occasion to transfer funds.

⁽¹⁵⁾ The decline in US investment in the EC in 1988 was therefore more of an indication of the cost of capital in the US than of a disinterest in the EC market.

Table 2 provides a matrix of inflows into each EC country by country of investor.

The EC countries can roughly be divided into three groups. In a league by itself, the UK has received almost twice as much investment from the US alone as it has from the Community. The UK is also the largest recipient of investment in the EC by a wide margin. It is interesting to note that the share of total British inflows which are accounted for by Japanese MNEs is in line with that of other EC countries and below the share of Japan in Germany. The Netherlands holds one half of the EC stake in Britain.

The next group of EC countries consists of those which receive roughly equal shares from the US and from the EC. It includes Ireland, Germany, Denmark, and Belgium-Luxembourg. Prominent EC investors in these countries are often either from the UK or from neighbouring countries. Germany receives over four fifths of its intra-EC investment from France, the UK, and the Netherlands. Belgium has accumulated three quarters of its intra-EC investment from France, Germany, and the Netherlands. Part of the reason for the importance of neighbouring states is simply the fact that these countries happen to be the largest investors in the EC, although familiarity with the host country market and well established trading links are also likely to play a role.

The third group of EC countries consists of those members bordering on the Mediterranean which receive more direct investment from fellow EC members than they do from the US. In addition to France, Italy, Spain, and Portugal, the Netherlands also appears in this group. For both the Netherlands and Portugal, the UK represents almost one half of the EC total. The high UK share in the Netherlands is partly a result of the substantial cross-investment between those two countries, in particular the Anglo-Dutch giants, Royal Dutch Shell and Unilever.

The lesser importance of US MNEs in these economies may be a statistical artifice for reasons mentioned earlier. The first investments by US firms were in the UK and in the centre of the EC. Later investments elsewhere in the EC by US MNEs may therefore have been undertaken by US-owned affiliates elsewhere in the UK.

The importance of intra-EC investment in the Iberian peninsula is consonant with the potential for a regional division of labour within an integrated market. Firms from high wage countries such as Germany have an incentive to transfer the most labour-intensive stages of production to Spain and Portugal. As we shall see in the individual country studies, however, much of the recent EC investment in those countries has been in services, just as a good deal of earlier investments in Spain were to gain market access rather than for the purposes of creating an export platform.

Intra-EC FDI

Although some mergers and acquisitions (M&As) within the EC have involved non-EC firms, a good deal of recent activity

has been between firms within the EC, either in the same country or in different EC countries. The greatest share are domestic, i.e. between two firms in the same country. Of the ten biggest takeovers of EC firms in 1988, only two were by firms located in a different country from the target company. In both cases, the acquirer was Nestle of Switzerland making combined purchases of 5 161 million ECU of a British and an Italian company.⁽¹⁶⁾

Because of a wide range of possible motives for such investments, the exact effects are likely to be difficult to assess, either in terms of the competitiveness of the firm or the market structure of the industry. In a review of the motives for M&As by the one thousand largest EC firms, the EC Commission found that strengthening of market position, expansion, complementarity, and restructuring were the dominant strategies.

Mergers and acquisitions are a quick means of achieving size. To the extent that there exist economies of scale in production, distribution, finance, management, or research and development (R&D), then there may be a case for such mergers though few would argue that size is a sufficient justification. If each firm has previously focused on different geographic markets, then the so-called "synergies" are likely to be greater and the potentially harmful effects on competition will be minimised.

Table 3 provides figures on cross-border acquisitions in Europe in 1989. Most reports on acquisitions are culled from the financial press and may vary considerably from one to the other. They also tend to be erratic over time. For these reasons it is not surprising that Table 3 differs from

Table 3
Cross-border mergers & acquisitions
involving EC companies, 1989

	Value (Mio. ECU)	no.	Avg. size
TARGETS			
United Kingdom	20 832	238	88
BR Deutschland	5 710	216	26
France	5 366	191	28
Italia	4 122	104	40
España	2 689	128	21
Nederland	1 883	96	20
Belgique/België	1 286	62	21
Sweden	762	35	22
Danmark	544	35	16
INVESTORS			
USA	13 803	185	75
France	9 674	168	58
BR Deutschland	6 647	129	52
United Kingdom	5 512	282	20
Italia	1 681	52	32
Japan	1 482	55	27
Sweden	1 382	121	11
Belgique/België	1 016	28	36
Switzerland	926	83	11

Source: Adapted from Translink's European Deal Review as reproduced in the Financial Times, 5.2.90

the results for the first half of 1989 published in the previous Panorama (Table 6, p. 86). Notably, Germany is much more important both as an investor and as a target for investment over the whole year.

Overall, the US was the most active acquirer though the EC countries as a whole were twice as active in value terms, with individual acquisitions of EC firms typically on a much smaller scale than American purchases. The Japanese share is growing though Japanese MNEs still have a preference for greenfield investments. In terms of target nations, the UK received almost as much as the rest of the EC combined, reflecting some significant purchases by foreign firms such as Ford's acquisition of Jaguar for 1 900 million ECU.

Because yearly figures tend to vary greatly, we should be cautious when looking at only one year. Preliminary figures for the first half of 1990 show that France and Sweden were the most active participant in M&As, primarily because of Re-

nault's acquisition of a minority stake in Volvo.

Furthermore, the UK is not always a net recipient of investment from the EC. In the two previous years, British companies invested more on the Continent than they received from EC firms. Overall, including all countries, British firms are also more active abroad than are foreign firms in the UK, in part because of their substantial activities in the US.

The EC Commission records each year the M&A activity of the EC's 1 000 largest industrial firms. From 1984 to 1988, two thirds of all mergers by these firms were national. Another one fourth involved firms from two EC countries, and the rest involved acquisitions of non-EC firms.⁽¹⁷⁾

Whether the current merger wave will create a more fully integrated EC market with firms more able to compete with their American and Japanese rivals, only time will tell. A certain amount of restructuring when markets become less fragmented is

to be expected and should be welcomed. The creation of pan-European companies should at least remove some of the possible advantages that some non-EC firms might enjoy through their greater size and global presence. In not all cases will expected synergies publicised by the acquiring company materialise. In some cases where EC firms are technologically behind their US and Japanese competitors, a merger will only yield a more competitive EC company to the extent that there are economies of scale in R&D. But even then, a joint venture or a merger with a more competitive non-EC rival may make more strategic sense.

One of the potential dangers from the current wave of M&As is that it might reduce competition. But as long as the most competitive firms are outside the EC, and providing that those firms have access to the EC market, then intra-EC mergers should not reduce the overall level of competition and in some cases may increase it. The degree of competition in an industry is not strictly a linear function of the number of firms. Furthermore, any attempts to abuse market power within the EC could be checked by national or EC authorities.

Market access for non-EC firms

Investment by non-EC firms in the EC has often been attributed to the various stages of integration within the EC. Econometric tests of American FDI in Europe in the 1950s and 1960s have yielded inconclusive results precisely because they cannot show what would have happened in the absence of integration, in terms of both economic growth and inward investment. A recent study has shown that US FDI in the rest of Europe, excluding the UK

which is a special case, grew faster than it did in the EC-6 in the 1960s.⁽¹⁸⁾ Although this in itself cannot refute the claims that FDI into the EC was affected by the formation of the EC, it does suggest that other factors were also at play. As economic growth has abated in the US, the expansion of inward FDI in that country which was one of the hallmarks of much of the 1980s may give way to greater investment in a rejuvenated EC. To the extent that the 1992 process has contributed to this economic renaissance then it will also indirectly affect FDI from outside of the EC. But this effect should not be exaggerated. There are clearly global trends at play such as the explosion of Japanese FDI into both the US and the EC and the worldwide industrial restructuring underway through mergers and acquisitions.

In the following three sections, we will consider direct inward investment in the EC by firms from outside the EC, specifically the EFTA countries, the US, and Japan. For the latter two countries, we will update the results given in the previous Panorama. We have added the EFTA countries because they are the most reliant on the EC market and hence the most likely to react to threats and opportunities within the EC.

Investment from the European Free Trade Association (EFTA) The EFTA countries are heavily dependent on the economies of their larger EC neighbours. Fully two thirds of extra-EFTA exports and imports go to or originate in the EC. For the Community, trade with the EFTA countries exceeds EC trade with the US and is three times as great as EC trade with Japan. These economic linkages between the two

Table 4
Destination of outward FDI by EFTA countries
(percentage of total outflows for each country)

		EFTA	EC	North America	Other
Austria	1982-85	11	37	37	14
	1986-88	12	41	36	11
Finland	1982-85	30	36	26	9
	1986-88	33	45	16	7
Iceland	1983-85	11	44	45	0
	1986-88	2	49	40	9
Norway	1982-85	17	34	18	32
	1986-88	10	43	7	41
Sweden	1982-85	11	41	31	17
	1986-88	18	53	25	5
Switzerland	1985	1	29	59	12
	1986-88	2	74	0	23
EFTA	1985	7	28	48	17
	1986-88	14	59	13	15

Adapted from "EFTA Countries' Foreign Direct Investments"
J. Leskela & S. Parviainen, EFTA, 1990

Table 5
Swedish direct investment abroad
(annual flows, 1985-89 and stock end 1988)

(million ECU)	1985	1987	1988	1989 ⁽¹⁾	Stock end-1988
EC	627	1 715	3 649	5 353	10 580
BR Deutschland	71	315	321	314	1 237
France	26	52	130	346	962
Nederland	146	213	1 335	1 593	2 473
United Kingdom	135	409	781	1 508	2 336
USA	711	649	773	1 219	3 847
Nordic area	383	870	890	1 346	2 886
World	2 188	3 365	6 283	7 917	21 023

⁽¹⁾ preliminary
Source: Swedish Central Bank and the Financial Times, 10.5.90

trading blocs are echoed in investment flows. The EFTA countries, led by Sweden and Switzerland, are the most active overseas investors of any region relative to the size of their domestic economies. Much of this investment has gone into the EC. Table 4 shows the shares of outward FDI by each EFTA country which have gone to different regions in the 1980s. All six countries show a dramatic increase in the EC share as the interest in investing in the US which prevailed in the earlier period gave

way to a greater recognition of the challenges posed by the integration of the EC market. Almost three fourths of extra-EFTA direct investment by EFTA companies now flows into the Community. These companies now employ about 700 000 workers in the EC, mostly in manufacturing which represents approximately 1.5% of industrial employment in the EC.⁽¹⁹⁾ Although EFTA FDI in services is increasing as it is from all regions, the total

Table 6
US annual flows of direct investment in the EC by country, 1986-89

(million ECU)	1986	1987	1988	1989
EC	7 137	10 257	9 103	14 503
Belgique/België	-235	1 187	524	674
Danmark	-245	-263	205	22
BR Deutschland	1 151	790	-2 011	134
France	427	1 059	1 871	635
España	425	494	695	765
Hellas	-42	18	58	20
Ireland	613	963	659	738
Italia	-439	848	608	660
Luxembourg	-1	-78	392	25
Nederland	3 399	2 051	1 356	906
Portugal	44	182	50	94
United Kingdom	2 039	3 006	4 697	9 828

Source: US Commerce Department

figures are still dominated by manufacturing. This is particularly true for the two largest investors, Sweden and Switzerland, where the industrial share in recent years has exceeded four fifths of the total.

The EFTA countries are a diverse group, often with little in common except their location on the periphery of the EC. To gain greater insights we need to look more specifically at individual countries. If we take the case of Sweden, we can get a good idea of the problems facing EFTA countries, Table 5 provides more recent and detailed figures for Swedish outward direct investment than the shares given in Table

4. The EC captured over two thirds of outward Swedish investment in 1989, particularly the Netherlands and the UK. The high Dutch share relates in part to the fact that the recent removal of foreign exchange controls allowed Swedish insurance companies to invest in foreign real estate of which the Netherlands was the main beneficiary.

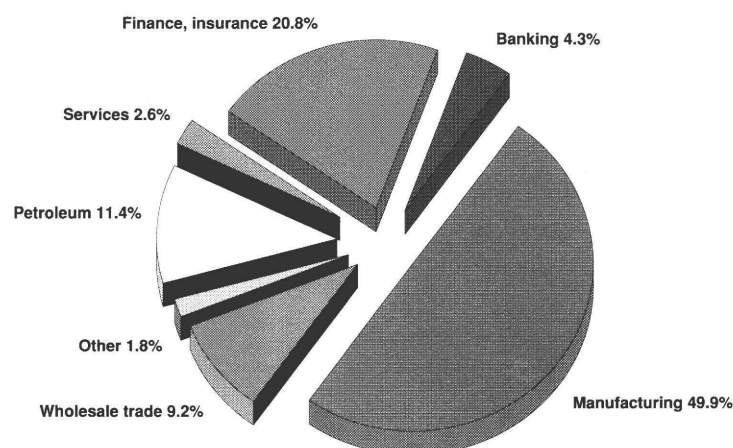
Nevertheless, much of the recent FDI has been in manufacturing. Indeed, Swedish companies have not only turned away from the US as a target for investment, they have also turned away from their own domestic market. The most outwardly

oriented Swedish companies reduced their domestic investment by 21% between 1985 and 1988 while increasing their FDI by 29%.⁽²⁰⁾ These facts are indicative of the reaction of Swedish companies towards their own domestic rigidities such as in the labour market, the global restructuring going on such as in the car industry, and the need to position themselves to take advantage of the growth opportunities arising out of the Single Market.

US investment in the EC US MNEs have traditionally been the most active investors in the EC, with some investments dating back to the nineteenth century. Recent investment activities by these firms are probably understated for the reasons mentioned earlier. Table 6 and figures 3 and 4 provide information on the stock and recent flows of US direct investment in the EC by country and by sector.

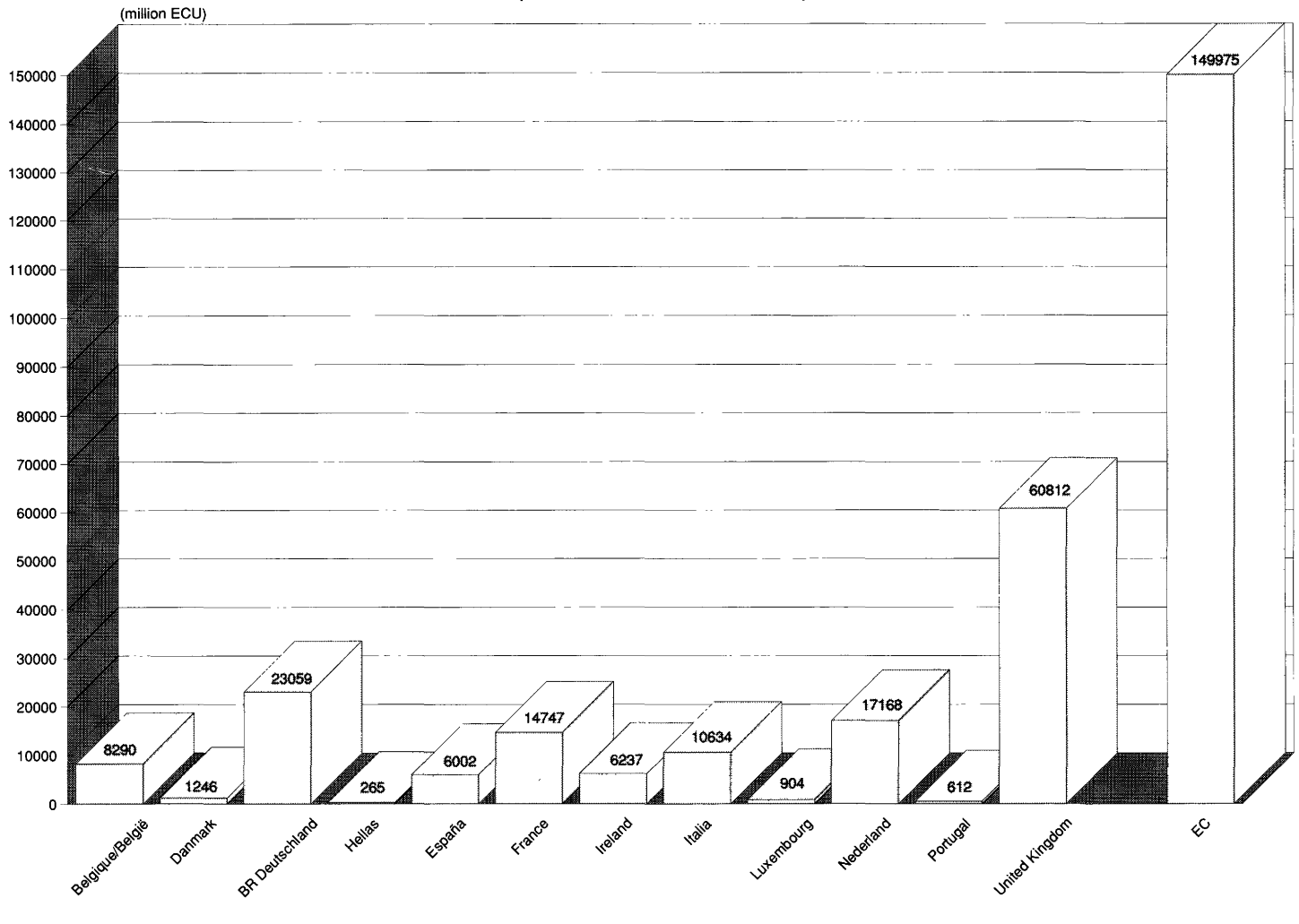
The UK has always been the preferred location for US investment with 38% of the total US stock in the EC. This share has changed little over the last 15 years since the UK joined the Community. Nor does

Figure 3
Distribution by sector of US direct investment stock
(stock end-1989: 148.2 billion ECU)



Source: US Commerce Department

Figure 4
Distribution of US FDI stock in the EC
(stock end-1989: 150 billion ECU)



Source: US Commerce Department

the share depend on any particular sector. Britain is the largest recipient by far in all the sectors in Table 7 with the exception of commerce.

Other countries which figure prominently as locations for US FDI are Germany and the Netherlands. Annual flows are usually too volatile to speak of any trend though the continuing importance of the UK is readily apparent, especially in the last two years.

By sector, one half of US FDI in the EC is in manufacturing, with another one fourth in banking, finance, and insurance. The remainder comes mostly from investments in the petroleum sector and in commerce.

Japanese investment in the EC

Japanese direct investment in the Community is increasing rapidly but still remains at negligible levels compared to the activities of American firms in Europe.

Table 2 indicated that the share of Japanese FDI in total inward FDI for individual Community member countries is never more than seven percent of the total and is usually a good deal less.

In spite of its still relatively low absolute level, the total stock of Japanese FDI in the EC is growing quickly, with a fourfold increase over the last four years. This trend is likely to continue well into the 1990s.

Where is this investment going? In terms

of the Ministry of Finance statistics, the UK is the main beneficiary with 38% of the total, followed by the Netherlands with another one fourth (Table 7). Those two countries together with Luxembourg account for three quarters of all Japanese direct investment in the EC.

Because Japanese FDI is so recent, the cumulative stock resembles closely the pattern of recent inflows. Table 7 also shows total Japanese investment in EC countries in each of the last three years. Britain and Holland have been favourites by a wide margin, with France and Germany each receiving a larger share in 1989. The other large EC country, Italy, is close to the bottom. Figure 5 compares the share of

Table 7
Japanese FDI in Europe by country
(annual flows 1987-85 and stock 1951-89)

(million ECU)	1987	1988	1989	1951-89
UK	2 143	3 347	5 178	15 610
Netherlands	718	1 996	4 494	9 955
Luxembourg	1 529	556	646	5 320
BR Deutschland	349	346	1 070	3 408
France	286	392	1 123	2 865
España	245	136	495	1 528
Belgique/België	61	139	322	1 337
Italia	51	91	310	676
Ireland	50	36	131	558
Portugal	5	6	73	113
EC-10	5 438	7 044	13 844	41 371
Switzerland	194	384	392	1 808
Europe	5 698	7 712	14 636	44 450

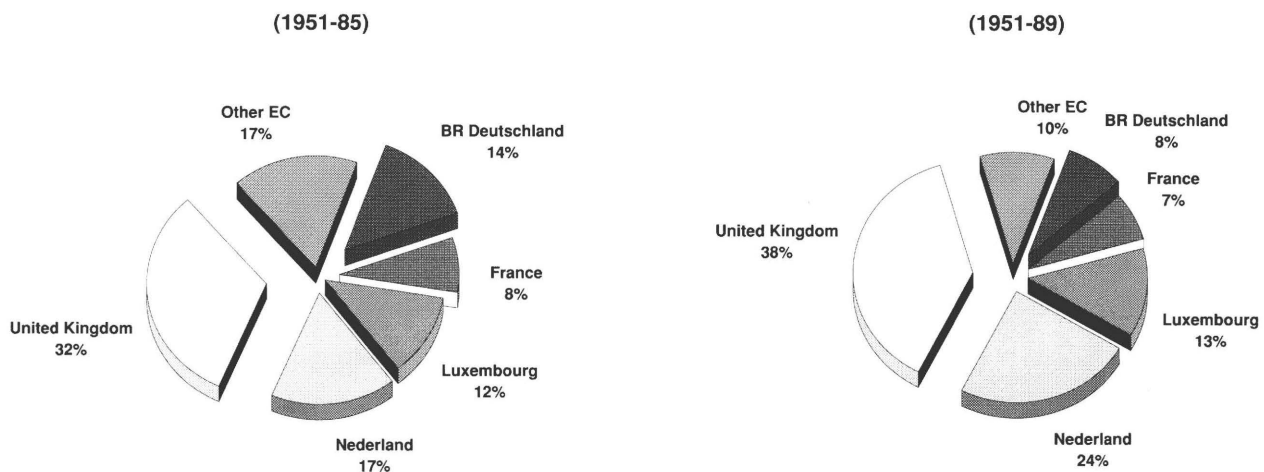
Source: Ministry of Finance

Japanese FDI in each EC country at the end of 1985 and 1989. In general there seems to be little change in the relative attractiveness of different EC countries over time. The British and Dutch shares have both grown while the German and "other EC" shares have fallen. As a result, Japanese investment has become more concentrated within the five countries depicted individually in the two figures. The aggregate statistics are dominated by the service sector as we shall see later. In manufacturing, Japanese firms are much

more evenly distributed throughout the EC. Figure 6 provides survey results from the Japan External Trade Organisation (JETRO). There are currently over 500 Japanese firms producing in the Community, with another 28 in EFTA countries. Together they employ 82 253 workers compared with the 1.8 million employed by US manufacturing firms in the EC. The UK is still the favoured location, but Germany and France are also important. With Spain those four countries represent 74% of the EC total. The Spanish share

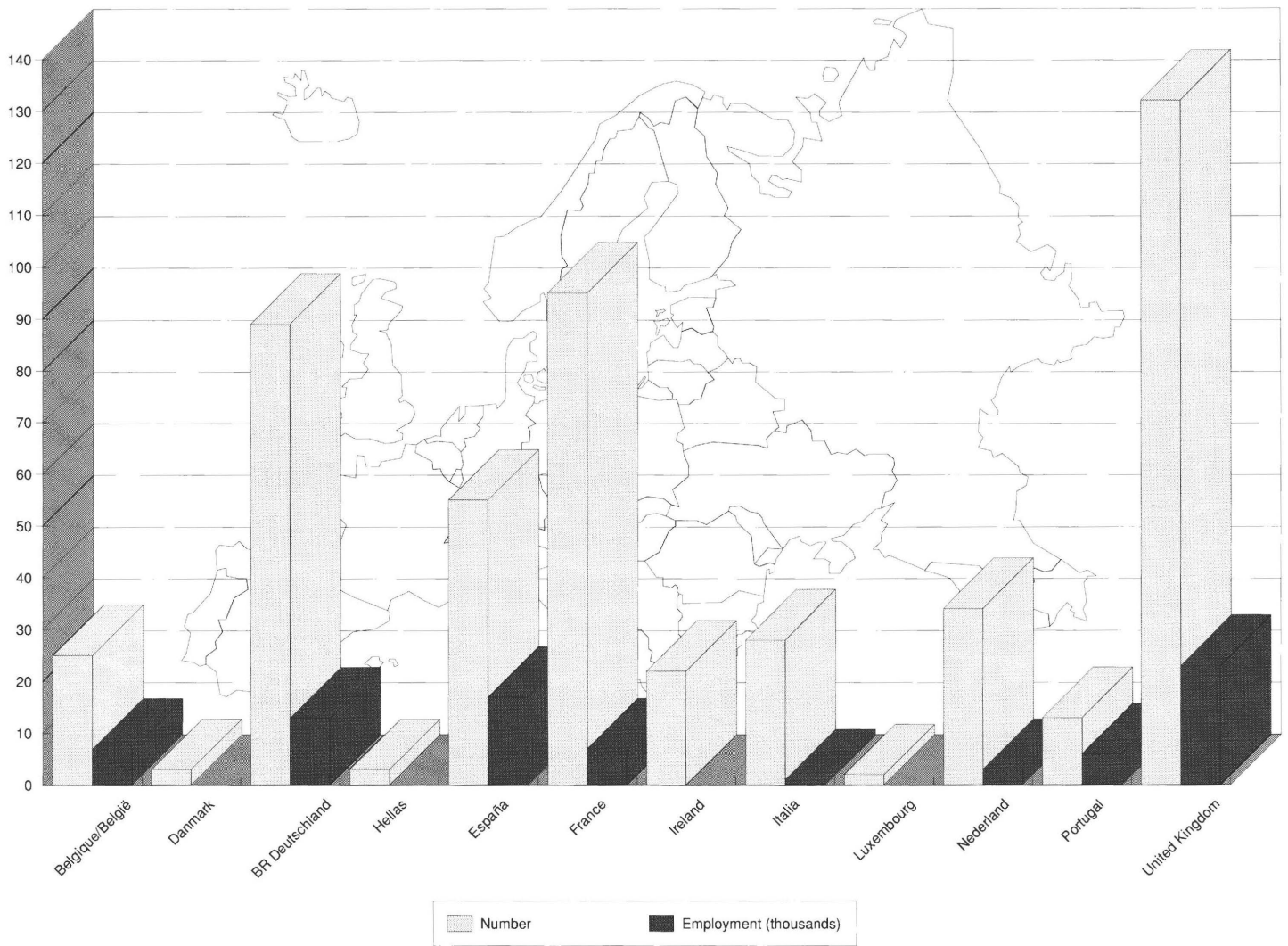
has been declining over time from 15% in 1983 to 12% by 1990. Luxembourg which was so important in the total Japanese investment in Europe has only two Japanese manufacturers in its territory. Looking at the distribution in terms of employment, Britain, Spain, and West Germany are the main beneficiaries. The high Spanish share relates in part to the fact that production in Spain is more labour-intensive than in other countries, but it is also in part a result of the fact that Japanese companies have often acquired existing enterprises with large and inefficient workforces. In addition, the Spanish figures include the sales branch of the company which is usually a separate entity in other EC countries. Although Japanese manufacturing investment frequently receives the most attention within the EC, it is actually only a small share of the total. Table 8 divides the stock of Japanese FDI into sectors. The total is dominated by the finance and insurance industries, representing almost one half of the total. Other non-manufacturing sectors which are prominent are com-

Figure 5
Comparison of distribution of Japanese FDI in the EC,
1951-89 and 1951-89



Source: Minister of Finance

Figure 6
Japanese manufacturing affiliates in Europe



EFTA: 28
Total: 529
Source: "Current situation of business operation of Japanese-manufacturing affiliates in Europe"
JETRO March 1990

merce and real estate.

In manufacturing, the electronics sector is the most important, with chemical, general machinery, and transport equipment vying for second place. These results are similar to those presented in the latest JETRO survey of Japanese manufacturing enterprises in Europe although the transport equipment sector is less important in terms of the number of plants. Given that economies of scale are so important in this sector, plant size tends to be large. The number of plants is thus a poor indica-

tor of the importance of that sector relative to others. Electronic equipment along with parts and component production, areas in which Japanese firms are particularly competitive, account for one quarter of all Japanese plants in Europe. Figures 7 compares the importance of each sector in 1985 and then in 1989. In spite of the record number of Japanese firms now manufacturing in Europe, the manufacturing share has actually fallen slightly. The only significant change in the stock figures has been a drop in the

share represented by commerce and a simultaneous increase in the financial share.

Inward investment in individual Member States

BLEU Belgium has traditionally been one of the most open countries towards inward investment in the EC, often providing investment incentives as part of its national development strategy. This, together with its central location within the Community, has guaranteed it a large share of total EC inflows particularly from US firms in the 1960s. By 1975 subsidiaries of foreign companies

Table 8
Japanese FDI in Europe by sector,
STOCK 1951-89 (million ECU)

	Value (Mio. ECU)	Shares %
Manufacturing	7 855	17.67
Food	307	0.69
Textiles	483	1.09
Lumber, pulp	17	0.04
Chemicals	1 097	2.47
Metals	390	0.88
General machinery	1 323	2.98
Electrical machinery	1 993	4.48
Transport eqpt.	1 336	3.01
Other	906	2.04
Non-manufacturing	35 143	79.06
Agriculture	8	0.02
Fisheries	18	0.04
Mining	1 400	3.15
Construction	83	0.19
Commerce	5 341	12.02
Finance, insurance	21 011	47.27
Services	2 458	5.53
Transportation	155	0.35
Real estate	3 626	8.16
Other	1 044	2.35
Other	1 451	3.26
Total	44 450	100.00

Source: Ministry of Finance

provided 33% of total employment in Belgian manufacturing and 44% of industry sales. ⁽²¹⁾ Foreign automobile companies assembled 1.25 million cars in Belgium in 1989. ⁽²²⁾ Stock figures for DFI in Belgium are available only up to 1982 at a national level.

The shares were presented in Table 2. The inward investment stock is divided between American and EC firms, with the latter share increasing over time. In spite of the high share attributed to American firms in the 1982 stock figures, investment from the US has represented only seven percent of the total since 1986 as can be seen in Table 9.

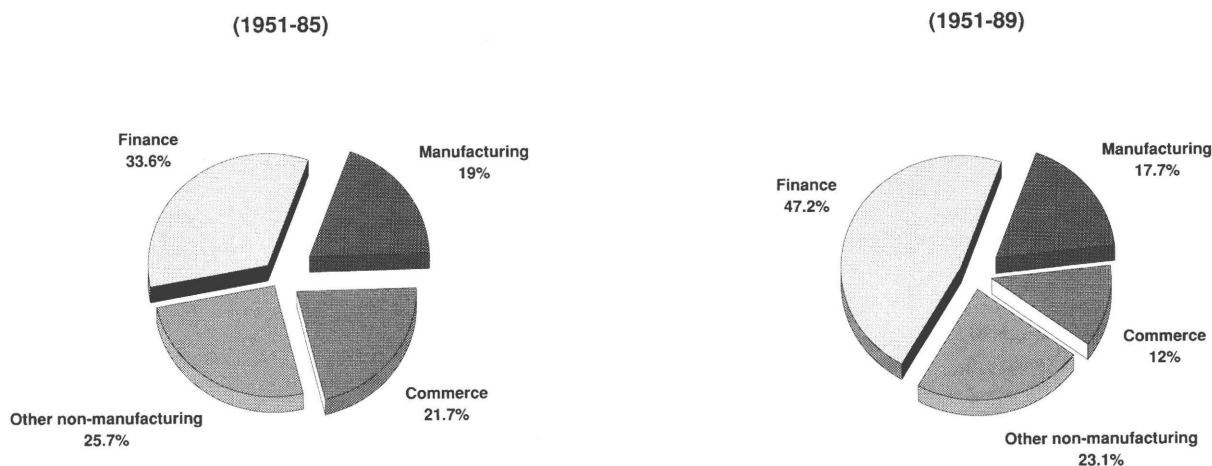
Because American investment is so much older than much of the European and Japanese presence in Belgium, present inflows are likely to be a poor indicator of the role of US firms in the BLEU. The European and Japanese investment, much of it recent in nature, is likely to be reflected better in Table 9. Investment in Belgium and Luxembourg is growing rapidly for all major European investors (except Italy) and for Japanese firms. France has been at the forefront of European expansion with one third of total inflows since 1986. Germany, Britain, and the Netherlands have each contributed another 12%. Japan's 10% share rests entirely on investments made in 1989.

In terms of the sectoral composition of in-

flows, it is vital to distinguish between Belgium and Luxembourg. The last published stock figures from 1982 are shown in Figure 8. They include only Belgium and reveal the high share of investment in the Belgian manufacturing sector. Using figures from other countries for their investments in BLEU, manufacturing is over one-half of the total for German firms in Belgium while finance holds the largest share for German firms in Luxembourg. The high financial share in Luxembourg relates to the favourable regulatory climate enjoyed by German bank subsidiaries. For US MNEs, manufacturing is equally important in each country because of investment in Luxembourg by an American tyre company. For Japanese firms, almost all of their investment in Luxembourg is in services, as is two thirds of their investment in Belgium.

Although manufacturing has historically been important in Belgium, there are certain notable examples of service investment such as the 1988 takeover of the Belgian bank Société Générale de Belgique by a French bank. Investments of

Figure 7
Comparison of distribution of Japanese FDI in Europe by sector,
1951-89 and 1951-89



Source: Minister of Finance

this type have prompted the Belgian authorities to consider subjecting certain types of takeovers to more rigorous scrutiny.

Denmark As in some other EC countries such as Spain and Portugal, there are two sources of inward FDI in Denmark. One is based on the balance of payments reporting and one on permits for investment granted by the Ministry of Industry. Investment permission is usually granted automatically.

Between 1986 and 1989, over one half of total inflows came from Sweden with Denmark serving as a bridgehead into the EC (Table 10). The Swedish share is also high because of investment by Scandinavian Airlines (SAS) in Denmark. The EC contributed another one fourth, largely on the strength of investment by the French Suez Group. The figures presented in Table 10 differ significantly from the country shares given in Table 2 which are based on older stock data. British and American investment in Denmark, though important in earlier decades, has not been noteworthy in the 1980s. As a share of total EC inflows, investment in Denmark at

Table 9
Annual flows of FDI in BLEU by country, 1986-89

(million ECU)	1986	1987	1988	1989
EC	524	1 343	3 000	4 453
BR Deutschland	345	130	334	742
France	103	795	1 768	1 596
Italia	21	72	41	3
Nederland	5	-95	274	1 413
United Kingdom	50	411	467	616
EFTA	65	344	387	449
USA	-39	249	543	102
Japan	94	33	87	1 078
World	644	2 028	4 225	6 146

Source: Banque Nationale de Belgique

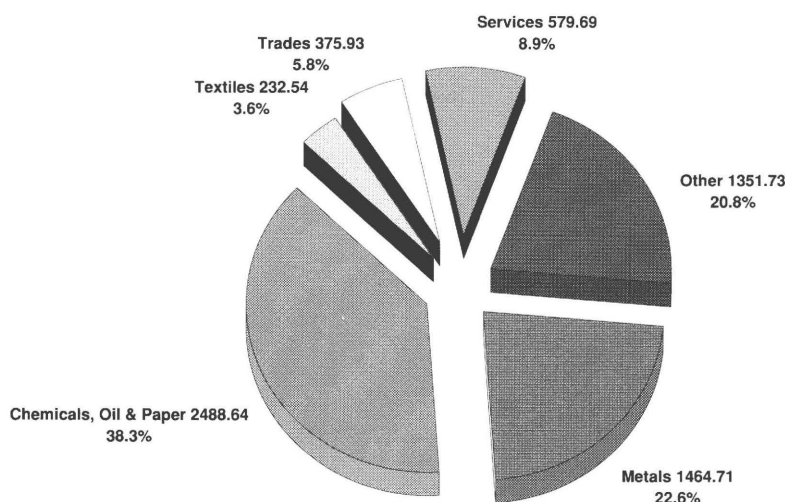
only one percent (Figure 2) is roughly in line with the Danish share of EC GNP. Table 11 reveals that in the last six years, over two thirds of the FDI in Denmark has been in services, mostly transport, commerce, and finance. The high percentage in transport related to the investment by SAS mentioned earlier.

France France has received more inward investment since 1970 than any other EC country with the exception of the UK (Figure 2), representing a fairly constant one sixth of EC inflows in the different sub-periods. Much of these investments have originated

in other EC countries, particularly Britain, the Netherlands, and Germany (Table 12). In 1988 over two thirds of the total inflow came from the EC, with all countries registering substantial increases in their activities in France. As of the end of 1988, the Japanese share was still below that of Sweden and well below investment by individual EC member countries.

In terms of sectors, both manufacturing and non-manufacturing have fluctuated between one fourth and one half of the total in the 1980s (Table 13). A high though declining share of the total has gone into

Figure 8
Distribution of FDI in Belgium by sector, 1959-82
(Stock 1959-82: 5.538 million ECU)



Source: Ministry of Economic Affairs

real estate. As reported in the last Panorama, manufacturing FDI stagnated for much of the early 1980s. This was attributed to the blurred division between State and private ownership and to a certain official hostility towards inward investment. (23) Although a more favourable attitude currently prevails, there are still cases where investment meets with resistance such as with Fuji Heavy Industries' proposed investment in France in 1989. The share of manufacturing has grown faster than services in the last three years though this owes more to increased M&A activity among EC firms than to any significant change of policy.

Figure 9 presents the results of an annual survey of foreign-owned firms manufacturing in France. In terms of the number of plants, the industrial equipment sector is the most important, with the other five sectors competing for second place. The country of origin of these manufacturing investments follow closely the results from Table 12.

The Federal Republic of Germany

In spite of being the largest economy in the EC, Germany has received a relatively small and declining share of total inward investment (Figure 2). In fact, in the last half of the 1980s, Germany received less investment than every EC country except for Luxembourg, Greece, Portugal, Ireland, and Denmark. In real terms (as a percentage of GNP), inflows peaked in 1966 and have been on a downward trend since then in spite of periodic upturns. It remains to be seen whether the turnaround in 1989 represents a reversal of this trend or merely another cyclical spurt in inflows. Which factors might explain this low rate of inward investment compared with other

Table 10
Annual flows of FDI in Denmark by country, 1986-89

(million ECU)	1986	1987	1988	1989
EC-12	1	-78	81	377
Belgique/België/Luxembourg	0	-6	37	1
BR Deutschland	30	4	31	13
España	-9	-9	-7	-1
France	-3	-8	15	357
Italia	-1	0	-1	1
Nederland	19	-45	35	58
United Kingdom	-34	-15	7	-49
Other EC	-1	0	-36	-3
Norway	176	24	17	20
Sweden	157	243	186	492
Switz. Lichtstn	-22	-50	9	7
USA	-173	-144	163	33
Japan	2	4	12	25
Total	164	76	426	984

Source: Danish Central Bank (Balance of payments basis)

Table 11
Annual flows of FDI in Denmark by sector, 1986-89

(million ECU)	1986	1987	1988	1989
Manufacturing	11	116	134	154
Food & Beverages	-18	-22	13	15
Chemicals	10	64	35	-11
Machinery	-4	55	2	14
Electronics	19	-2	36	83
Other manuf.	5	20	48	52
Agriculture, raw materials	27	-152	42	39
Trade & services	8	20	-30	141
Transport, communication	93	39	94	266
Banking	44	9	19	4
Other financial	16	56	173	244
Other	-33	-12	-5	136
Total	164	76	426	984

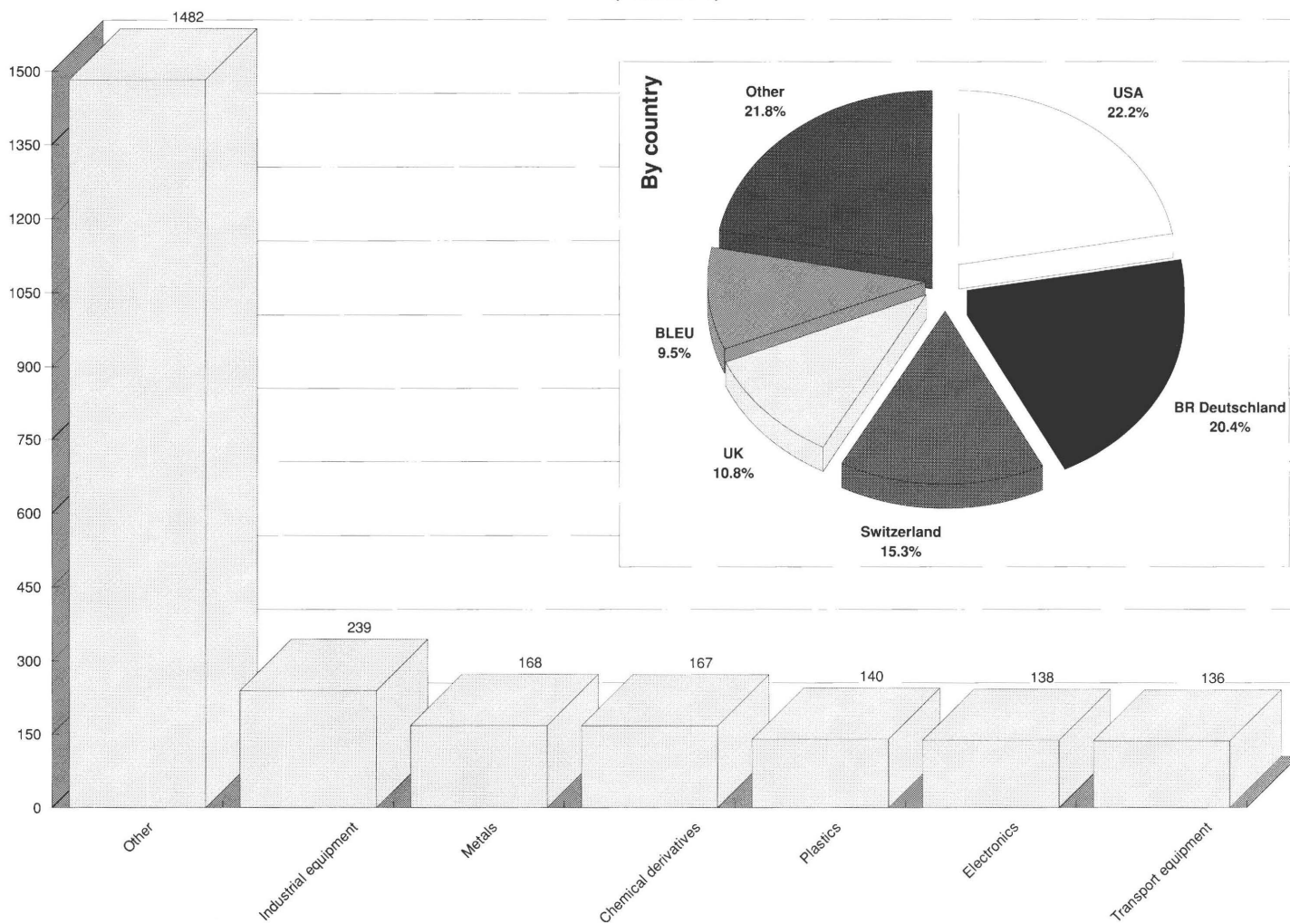
Source: Danish Central Bank (Balance of payments basis)

Table 12
Annual flows and stock of FDI in France by country, 1985-88

(million ECU)	1985	1986	1987	1988	Stock 1980-88
World	2 561	2 536	3 189	5 614	22 566
BLEU	105	186	351	543	1 692
BR Deutschland	262	210	336	527	2 530
Italia	76	239	239	702	1 638
Nederland	184	235	-48	791	2 224
United Kingdom	372	335	394	1 423	3 732
Sweden	31	82	117	237	765
Switzerland	236	258	419	303	2 494
USA	750	410	959	334	3 769
Japan	89	86	123	159	685

Source: Banque de France, Annual Report, Annexes (excludes banking)

Figure 9
Foreign-owned manufacturing plants in France,
by country and by sector, 1986
(Total 2470)



Source: "13 années d'implantation étrangère dans l'industrie française" SESSI, 1987

EC countries? High labour costs and substantial cross-holdings of shares between banks and industrial companies may be part of the answer though similar conditions in other countries have not deterred investment.

Another possibility is simply that there may exist a bias in the statistics though there is no systematic difference between what other countries record as flowing into Germany and what German source report. In a study of the degree of foreign participation in the economies of the Group of Five (Table 14), the share of German employment represented by foreign-owned firms was well below similar levels in the

UK and in France but at 1.5 million in 1988 was hardly as negligible as the FDI statistics would lead us to believe.

By country of origin, Table 15 shows the total stock of inward investment for 1988 and inflows since 1986 by major home country. The US and the EC each account for one third of total inflows, with the UK and the Netherlands making the largest contributions from within the EC. Another one fourth of inflows come from Switzerland and Japan.

These shares have remained almost constant for most investors since 1976, except for a five percentage point increase in the Japanese share and a concomitant

decrease of seven percentage points in the American share.

By sector, manufacturing represents a larger share of the total than it does in other EC countries (Table 16). While this is paradoxical given the high wage costs in Germany, it is consistent with the fact that the German economy is more heavily geared towards manufacturing than is much of the rest of the EC. This is confirmed by noting that the greatest investment in manufacturing is in the chemicals sector which looms large in the German industrial base.

The manufacturing share may be even higher than the 43% indicated by Table 16

Table 13
Annual flows of FDI in France by sector, 1985-88

(million ECU)	1985	1986	1987	1988
Manufacturing	819	761	1 745	2 723
Metals	92	39	149	79
Chemicals	127	56	598	-83
Electric and electronics	64	16	201	160
Services	1 290	1 354	1 727	2 240
Distribution	605	411	491	327
Finance	397	659	867	737
Holding companies	102	119	11	294
Insurance	30	29	16	631
Real estate	548	450	391	391
Total	2 936	2 818	4 021	6 083

Source: Banque de France, Annual Report, Annexes (includes banking)

Table 14
Share of foreign-owned manufacturing companies
in major economies, mid-1980s (1)

(%)	BRD	France	UK
Sales	19	27	20
Value-added	N/A	24	19
Employment	8	20	14
Assets	17	N/A	14
Investment	N/A	19	13
Exports	24	32	30

(1) France: manufacturing and petroleum;
Germany: non-financial corporations;
UK: manufacturing.
Source: Adapted from D. Julius and S. Thomsen,
Inward investment and foreign-owned firms in the G-5
Royal Institute of International Affairs, London, 1989

Table 15
FDI in Germany by country
(Annual flows 1986-89 and stock end-1988)

(million ECU)	86	87	88	89	Stock end-88
World	1 215	1 649	1 160	5 385	52 597
EC	1 305	391	1 397	3 127	18 465
BLEU	-57	28	27	112	1 098
Danmark	28	32	86	81	501
France	163	21	352	2 060	3 321
United Kingdom	269	183	303	133	5 421
Italia	109	-132	112	524	1 126
Nederland	785	180	506	151	6 793
Other EC	8	79	11	67	206
Other Eur.	207	544	682	196	10 288
USA	-318	519	-1,748	1 460	17 148
Japan	155	323	270	583	3 857
Switzerland	211	352	284	-111	7 744

Source: Bundesbank

if, as is likely, some of that attributed to holding companies is actually by industrial companies. Excluding these holding companies, non-manufacturing FDI in Germany accounts for one third of the total, one half of which is in the distributive trades. Financial services account for only eight percent of the total or less than one half of the equivalent share in the UK. This share may increase for Germany in the future if international banks decide that Germany is the ideal location from which to enter Eastern Europe, coupled with financial deregulation in Germany.

Looking at changes over time in the sectoral shares, the greatest increases have been in services (both distribution and finance) and in office and automatic data processing equipment. The holding company share has also increased. Offsetting these growing shares, several industrial sectors have faced significant decline although not in absolute terms. Among these are petroleum processing, iron and steel, transport equipment, and machinery.

Ireland Ireland has been actively engaged in attracting inward investment since the late 1950s as part of its strategy for industrial development. The Irish Development Authority which offers extensive incentives for foreign companies was one of the first of its kind in Europe. In the mid-1980s the government also relaxed certain restrictions on takeovers of local companies.

As a result of its liberal policies, Ireland has one of the highest levels of foreign participation in its manufacturing sector of any EC country. Foreign firms represented 41% of total manufacturing employment in 1986, two thirds of which came from non-EC companies, principally from the US.

Foreign companies also contributed 61% of

net manufacturing output. ⁽²⁴⁾ They also accounted for 80% of Irish non-food manufacturing exports in 1985. ⁽²⁵⁾

In spite of continued inducements, together with low wages and the use of the English language, FDI in Ireland has been falling in both real and nominal terms since the late 1970s. The use of Ireland as an export platform is hampered by expensive transportation costs which make the Irish Sea one of the most expensive waterways in the world. ⁽²⁶⁾ Furthermore, the Irish market offers very little potential for sales owing to its small size.

Much of the investment in manufacturing in Ireland originates in the US and in the UK. Non-EC firms represent 62% of total employment and 75% of net output of foreign companies in Ireland (Table 17). By sector, foreign manufacturers have generally been in knowledge-intensive industries performing labour-intensive stages of production in Ireland.

Italy As in most other EC countries, Italy has witnessed a rapid increase in inward investment in the late 1980s though unlike in the other EC countries, inflows in 1989 were substantially lower than in the preceding year.

Most of these investments have come from the EC with a fairly even distribution between the five principal investors. A high share is attributed to Luxembourg, Switzerland and Liechtenstein which may represent Italian capital being channelled through foreign holding companies. Distribution in 1989 was almost identical to that of the preceding year.

Given the size of the Italian economy, it receives a relatively small share of the total EC investments of other countries as seen in Figure 2. This is especially true of

Table 16
FDI in Germany by sector

(million ECU)	Stock end-1988	Stock end-1981
Mining	77	95
Manufacturing	22 815	16 956
Chemicals	4 669	2 716
Petroleum	2 897	3 219
Man-made materials & rubber	971	725
Stone, clay, ceramics, glass	461	397
Iron & steel	474	865
Machinery	1 682	1 348
Office mach.	2 172	1 470
Transp. eqpt.	2 508	1 505
Electronics	2 901	1 395
Precision machinery instruments	1 042	702
Food	1 257	1 078
Other	1 782	1 536
Non-manufacturing	29 783	12 497
Construction	113	75
Commerce	9 125	4 780
Transp., Communications	451	246
Finance	4 040	1 970
Holding co.	12 874	3 904
Other services	2 864	1 522
Other	238	181
Total	52 597	29 729

Source: Bundesbank

Table 17
Foreign companies in Ireland, 1986

	Employment (thousands)	Net output (million ECU)
EC companies	29	1 186
Non-EC companies	47	3 641
Manufacturing:		
Office and data		
Processing eqpt.	6	1 014
Pharmaceuticals	5	811
Electrical engineering	18	666
Instrument engineering	7	289
Other	6	557

Source: OECD based on Census of Industrial Production 1986, CSO

Japanese investment which is negligible in Italy and in manufacturing virtually non-existent.

The stock of inward investment is divided between manufacturing and services (Table 18). Unlike in other EC countries, investment in the wholesale and retail sector is relatively unimportant, with most service sector investment going into finance

and insurance and originating in Switzerland. In manufacturing, the chemical, machinery, and transportation equipment sectors are by far the most interesting to foreign firms.

The Netherlands The Netherlands offers at once one of the most liberal regimes for inward investors and one of the toughest anti-takeover defences in the EC. Steps are

Table 18
FDI in Italy by country and by sector, stock end-1989

(million ECU)	Stock end-1989	Net output manuf.	Services
France	4 406	1 382	2 810
BR Deutschland	3 651	2 128	1 415
United Kingdom	4 969	2 118	2 746
Nederland	5 210	3 011	2 054
Luxembourg	2 793	1 643	1 111
Switzerland	8 968	2 520	6 501
Sweden	1 175	1 031	144
España	77	32	44
Liechtenstein	764	235	518
Japan	484	124	349
USA	6 213	3 705	2 228
Canada	185	52	99
Belgique/België	825	388	296
TOTAL	41 529	19 161	21 024

Source: Banca d'Italia

Table 19
FDI in the Netherlands by country
(annual flows 1986-89, stock end-1988)

(million ECU)	1986	1987	1988	1989	Stock end-1988
EC	1 043	1 381	2 434	3 353	15 990
BLEU	14	171	733	1 680	3 053
BR Deutschland	443	166	-60	396	3 237
France	-65	49	89	152	1 837
Italia	3	-4	15	0	65
United Kingdom	636	974	1 467	957	7 396
Other EC	11	24	189	169	401
USA	-257	-45	-65	752	10 084
Japan	57	30	295	133	1 300
Switzerland	-95	67	161	776	4 747
LDCs	762	589	418	-42	5 889
Total	1 981	2 030	3 448	5 621	39 698

Source: De Nederlandsche Bank

Table 20
FDI in the Netherlands by sector
(annual flows 1986-89, stock end-1988)

(million ECU)	1986	1987	1988	1989	Stock end-1988
Manufacturing	1 502	869	1 201	3 098	21 271
Mining, oil, chemicals	1 026	325	771	1 381	12 548
Metals, elect. engineering	216	-1	77	557	3 791
Food, drink, tobacco	97	488	118	496	3 185
Other	163	57	236	664	1 747
Non-manufacturing	479	1 161	2 247	2 522	18 427
Agriculture & fishing	-5	18	2	0	71
Construction	22	30	140	203	511
Trade	381	385	475	622	6 809
Transport, communication	16	112	81	164	662
Banking, insurance	51	97	27	426	2 838
Other	15	520	1 523	1 108	7 535
Total	1 981	2 030	3 448	5 621	39 698

Source: De Nederlandsche Bank

currently being undertaken to bring the Dutch corporate merger code into line with EC practices.

Because of its central location within the EC, the Netherlands like Belgium benefits from a high share of inward investment in the EC. The Netherlands has been able to maintain a constant eight percent share of total EC inflows between the 1970s and the 1980s (Figure 2).

By country of investor, table 19 presents the stock of inward investment as of the end of 1988. The US is as usual the largest single investor but it is exceeded by the EC as a group, with the UK representing almost one half of the Community contribution. Anglo-Dutch investment flows are influenced by the bi-national companies: Royal Dutch/Shell and Unilever.

Table 19 also includes recent inflows by country of origin. As with Italy, the exact origin of the investment is often obscure, in this case because of the high share (20%) of investment from Switzerland and the Netherlands Antilles. Investment from this latter country emanates to a large degree from Dutch companies which have moved their registered office to the Antilles. ⁽²⁷⁾ In recent years, inflows have originated in the EC. In the last two years, 84% of the EC total has come from the UK and from Belgium and Luxembourg. As usual, the importance of American firms is understated because of the degree of financial autonomy achieved by their Dutch subsidiaries. Indeed, Dutch statistics reveal net disinvestment by American firms in four of the last five years.

Investment in the Dutch economy is evenly divided between services and production. This same conclusion holds whether we look at the stock figure or in-

currently being undertaken to bring the Dutch corporate merger code into line with EC practices.

flows for the 1980s (Table 20). Manufacturing is dominated by the oil and chemical industries, and services have a high level of foreign involvement in commerce and in non-financial services, principally holding companies.

Portugal "Portugal is a country where the export of manpower has prevailed over the import of capital." ⁽²⁸⁾ Since joining the Community in 1986 Portugal has enjoyed a windfall in direct investment in its economy. Community membership has entailed changes in investment restrictions to conform to the rest of the EC, liberalisation especially of the financial sector, and plans for privatisation of various industries which have been in the public domain since 1975. In addition, the availability of financial incentives through the EC as well as labour costs one third lower than in neighbouring Spain have meant that Portugal is likely to reap the potential gains from a regional division of labour within EC manufacturing industries.

Annual inflows have grown quickly in recent years and by one estimate exceeded inflows into Italy in 1989. Given the size of the Portuguese economy, these inflows translate into a high share of economic activity in the hands of foreign companies. At least 9% of total employment, between 20 and 24% of the total value of sales in the manufacturing industry, 21% of total imports and 25% of total exports accrue to firms with foreign involvement." ⁽²⁹⁾

In spite of the great potential offered by Portugal for a regional division of labour, manufacturing gains are only slowly being realised. Indeed, the principal effect of Portugal's accession to the EC appears to have been the arrival of foreign firms wishing to service the expanding Portuguese market. Investment in real estate in-

Table 21
Annual flow of FDI in Portugal by sector, 1984-88

(million ECU)	1984	1985	1986	1987	1988
Agriculture	1	4	3	12	21
Mining	10	22	7	10	12
Manufacturing	81	133	77	93	185
Construction	6	2	3	5	23
Services	118	124	79	198	314
Trade, hotels	78	40	49	60	116
Finance, insurance	40	84	30	138	198
Total	216	285	169	318	555

Source: OECD based on Bank of Portugal statistics

Table 22
Annual flows of FDI in Portugal by country, 1984-88

(in million ECU)	1984	1985	1986	1987	1988
EC	84	163	130	210	380
BR Deutschland	12	12	18	23	40
España	6	12	14	50	52
France	26	18	17	31	57
Italia	1	2	5	2	4
United Kingdom	17	87	66	70	139
Other EC	22	32	10	34	88
Switzerland	29	13	15	27	38
Other Europe	26	6	2	6	27
US	41	78	15	45	66
Japan	14	0	1	7	3
Others	22	25	6	23	41
TOTAL	216	285	169	318	555

Source: OECD based on Bank of Portugal statistics

creased from 22% of the total in 1988 to 37% by the first half of 1989, particularly for the purposes of tourism-related construction. The service sector also attracted greater interest because of the twin attractions of privatisation and liberalisation. Two insurance companies were partially privatised in 1989, with a French company acquiring a large stake in one of them. Table 21 provides a disaggregation of inflows by sector in recent years.

Although the manufacturing share has not increased, it is still part of an expanding pie. Certain investments have attracted some attention such as the investment by

Ford in 1988 to produce car stereo equipment where over one half of the total investment was met by local subsidies.

⁽³⁰⁾ General Motors and Valmet of Finland also invested in the automotive sector.

The most prominent sector has been electronics where the skills of the Portuguese in textiles are supposed to be relevant in building electronic equipment.

Unlike in other EC countries where the largest share of inward FDI comes from the US, Portugal receives the most investment from the UK (Table 22). France and Germany, as well as Spain, have also been active EC participants in the Portuguese

Table 23
FDI in Spain by country
(annual flows 1986-89 and stock 1959-89)

(million ECU)	1986	1987	1988	1989	1959-89
EC	1 479	2 512	3 374	4 964	17 072
BLEU	83	236	184	172	958
Danmark	5	74	26	27	186
France	182	352	471	1 231	3 310
BR Deutschland	760	189	457	642	3 323
Hellas	0	0	0	0	0
Ireland	2	4	2	4	37
Italia	18	472	66	295	1 098
Nederland	222	861	1 355	1 460	4 789
Portugal	2	5	10	39	61
United Kingdom	204	319	804	1 094	3 310
USA	233	282	245	390	3 556
Japan	72	234	96	180	919
Switzerland	154	429	378	696	2 994
Canada	115	39	6	2	287
España ⁽¹⁾	625	1 315	1 433	2 636	7 414
Total	2 917	5 116	6 128	9 564	35 482

(¹) Investment by foreign-owned companies in Spain
Source: Direccion General de Transacciones Exteriores

Table 24
Annual flows of FDI in Spain by sector, 1986-89

(million ECU)	1986	1987	1988	1989
Manufacturing	1 804	2 707	2 387	3 775
Energy, water	13	16	124	3
Min. & proc., chem.	408	1 453	658	1 179
Metals, prec. eqpt.	872	578	559	974
Other manuf.	511	660	1 047	1 618
Non-manufacturing	1 112	2 409	3 741	5 790
Agri., forestry, fish.	50	75	74	420
Construction	2	12	35	84
Trades, hotels	446	968	757	1 381
Trans., commun.	18	33	105	132
Fin., ins., serv.	564	1 248	2 656	3 575
Other services	31	74	114	197
Total	2 917	5 116	6 128	9 564

Source: Direccion General de Transacciones Exteriores

economy. The interest of Spanish banks in Portugal could elevate that country to become one of the most active investors, stirring fears among the Portuguese of possible domination by their larger neighbour.

Spain As in Portugal, access to the EC has increased the attractiveness of investing in Spain, but here once again, the main thrust of recent inflows has been geared to serving the local market. In this regard, Spain has considerable appeal with its large

and underdeveloped market, particularly for services, together with the rapid economic growth which followed its entry. There are two sources of statistics on inward investment in Spain, one based on approvals by the Ministerio de Economía y Comercio and the other based on balance of payments reporting by the Banco de España. The absolute amounts often differ, sometimes considerably, but they tell much the same story. They each represent an increasing share of total EC inflows over time,

reaching eight percent of the total by 1989 according to the lower Banco de España figure.

The exact origin of the FDI is often difficult to ascertain because of the investment attributed to Switzerland, Liechtenstein, Luxembourg, and the Netherlands. Another portion is attributed to Spain and is in effect the acquisitions by foreign-owned Spanish companies in Spain.

The US is the principal investor in Spain although the EC countries as a whole are three times as important. Dutch, German, British, and French companies are by far the most active from within the EC (Table 23). In terms of inflows over the last four years, European investors from those four countries have been much more alert to opportunities than have American firms, many of whom may already be well established in Spain. Almost three quarters of the cumulative total of EC FDI in Spain has occurred since 1986, compared with only one third for US FDI in Spain.

As in Portugal, much of this investment has gone into the service sector (Table 24). Investment in finance, insurance, and services matches that of all manufacturing over the last two years. Another prominent sector has been tourism-related activities. In manufacturing, the chemical sector is prominent as a magnet for investors, particularly German companies.

The United Kingdom The British economy has historically been a magnet for inward investment. Figure 2 shows that the UK share in total EC inflows has been around one third since the early 1970s. This result holds for a wide range of investing countries and sectors. Some American firms such as Singer invested over 100 years

ago. The UK is the favoured European location for both US and Japanese firms by a wide margin which, in the US case, has been constant over the last 15 years. Similarly across sectors, the UK has managed to attract foreign firms in the manufacturing, energy, and service sectors with apparently equal ease.

Table 25 depicts the stock of inward investment in the UK as of the end of 1987 as well as inflows since 1985. The stock figures are according to the country of the ultimate, rather than the immediate, parent. The negligible investment by US MNEs in 1988 related to the high dividend payout of European affiliates of US MNEs in that year in order to finance expansion in the US where the cost of capital was higher. In spite of these anomalies, the statistics reveal that recent inflows into Britain have been dominated by EC firms. Table 26 provides a similar image of the importance of each sector in total inflows. Just over one third of the total stock of inward investment is accounted for by manufacturing. Within this sector, the investments are fairly evenly distributed

Table 25
FDI in the UK by country
(annual flows 1985-88 and stock end-1987)

(million ECU)	1985	1986	1987	1988	Stock end-1987
EC-12	2 258	3 635	4 192	6 890	20 016
Belgique/België/Luxembourg	139	363	568	452	1 577
France	428	407	1 271	1 194	3 461
BR Deutschland	92	271	199	265	3 136
Nederland	1 418	2 369	1 980	4 499	10 359
Other EC	182	225	175	482	1 466
USA	2 871	1 878	2 055	14	36 180
Japan	211	64	1 128	738	2 882
Total	6 414	7 190	11 662	12 845	77 524

Source: Business Monitors MA4 and MO4, Central Statistics Office

across industries. The remaining two thirds of the stock is in the energy and service sectors, each accounting for roughly one third. In services, the prominent areas are financial services and distribution. Recent inflows tell much the same story although the figures for certain years are distorted for reasons mentioned earlier. The manufacturing sector captured less than one third of inflows in most years, with positive inflows in each year recorded by the chemical and the food, drink, and tobacco sectors. The energy sector has accounted for roughly 3 000 million ECU in

each of the last few years and has thus represented a declining share in the growing overall figures. In services, financial services has been the greatest single component of the inflows, accounting for one half of the total non-manufacturing inflows by 1987.

Table 26
FDI in the UK by sector
(annual flows 1985-88 and stock end-1987)

(million ECU)	1985	1986	1987	1988	1989	Stock end-1987
Manufacturing	1 735	1 433	4 182	5 583	N/A	28 067
Chemicals	299	323	596	187	N/A	6 005
Mech. engineering	460	103	539	322	N/A	3 589
Elect. engineering	331	674	652	614	N/A	4 625
Transport equipment	58	-152	933	-633	N/A	3 233
Food, drink, tobacco	681	421	345	2 279	N/A	4 410
Paper	-329	-144	668	1 685	N/A	1 872
Other manufacturing	234	210	448	1 128	N/A	4 333
Non-manufacturing	4 681	5 751	7 475	7 270	N/A	49 457
Energy	3 745	2 874	2 296	3 705	2 064	22 393
Distribution	628	150	644	636	N/A	7 616
Financial services	141	2 336	3 542	1 761	N/A	13 949
Other non-manuf.	165	391	993	1 172	N/A	5 499
Total	6 414	7 185	11 657	12 852	23 538	77 524

Source: Business Monitors MA4 and MO4, CSO

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The pattern of recent mergers and acquisitions

The number of corporate mergers and acquisitions in Europe increased dramatically throughout the 1980s. The UK's Central Statistical Office recorded 1,039 takeovers of UK companies in 1989, up from 469 in 1980. One statistical series in West Germany recorded 635 mergers in 1980 and 1,159 in 1988; in France, 199 mergers in 1984 had increased to 1,053 in 1988.

Not only did the number of mergers and acquisitions increase throughout the decade, but so has their value. In the UK (which has the longest and most consistent statistical record of such activity) the value of mergers increased almost twenty-fold between 1980 and 1989 compared with just more than a doubling in their number. Even though there were slightly more mergers in the UK during the boom years of 1972 and 1973 than there were in 1989, in real terms their value in 1973 was only a quarter of the value in 1989 (table 1).

Table 1
Scale of UK acquisitions, 1969-89

	Number of Acquisitions	Amount paid (£ million)
1969	846	1 069
1970	793	1 122
1971	884	911
1972	1 212	2 532
1973	1 205	1 304
1974	504	508
1975	315	291
1976	353	448
1977	482	824
1978	567	1 140
1979	534	1 656
1980	469	1 475
1981	452	1 144
1982	463	2 206
1983	447	2 343
1984	568	5 473
1985	474	7 091
1986	696	14 935
1987	1 125	15 283
1988	1 224	22 123
1989	1 039	26 104

Source: Business Monitor MQ7, Industrial and Commercial Companies.

Tracking the history of mergers and acquisitions and comparing the level in one country with that in another is fraught with difficulty. First there is the definitional problem. Even if it can be agreed that mergers and acquisitions are essentially the taking over by one company of more than 50% of another's share capital and the control of its management, what happens in the case when a company that acquired 49% of another 10 years ago now acquires an extra 2%? Is the value of the takeover the value of the 2% or of the 2% plus the 49% expressed in today's money?

Then it is not easy to track such takeovers. No nation systematically monitors all takeovers, so there are only two realistic sources: press cuttings, and regulators who may have to be informed of particular takeovers for a specific purpose. In an economy with a lot of large public companies (like the UK) press cuttings are likely to provide a more comprehensive coverage than in an economy (like West Germany's) dominated by medium-sized private companies that have no duty to inform the general public of their activities. So there are no existing statistics that provide a complete picture. In his recent paper, *The Takeover Boom: an International and Historical Perspective*, written for the David Hume Institute in London, Graham Bannock estimated that there are probably "30 000 small but significant business transfers taking place annually in the UK". He also noted that "in the Federal Republic of Germany, the Federal Cartel Office reported 876 mergers for 1988...but private counts based on Chambers of Commerce filings (which are not comprehensive) put the total at 2 206". In order to make cross-country comparisons of the level of takeover activity, takeovers have somehow to be related to the size of an economy. There are obviously more takeovers in France than there are

in Ireland. Graham Bannock reckons that for the three European economies with sufficient statistics to make the comparison (France, the UK and West Germany) there were, in 1988, 1.9 takeovers in the UK for every billion ECU of GDP; 0.87 in West Germany; and 0.8 in France. Surprisingly, all three were higher than the 0.6 of the United States.

In terms of the value of takeovers as a percentage of GDP, the UK's 5.3% just pipped the United States' 5.1%, but was way ahead of France's 1.9% (table 2). There are only two countries (the UK and the United States) with sufficient statistics to make long-term comparisons. For the UK, the present wave of takeovers is not, in relation to GDP, much higher than were the waves of the 1960s and 1970s. In the United States, however, it is much higher.

Cross-border deals

There is one very striking difference between previous takeover waves and that of the late 1980s: the late 1980s were characterised by an unprecedented number of cross-border deals. This was particularly noticeable in Europe where the EC's Internal Market programme triggered a surge in takeovers by companies in one Member State of companies in another. This trend in M&A can be explained by a number of factors that have transformed

Table 2
Numbers and value of acquisitions in selected countries and their relation to GDP, 1988 (1)

	UK	France	BRD	USA	Japan	Canada
Number	1 300	666	876	2 500	1 336	1 082
Value (million ECU)	37 036	15 406	N/A	208 968	22	N/A
Value of acquisitions as a percentage of GDP	5.3	1.9	N/A	5.1	0.9	N/A
Number of acquisitions per billion ECU of GDP	1.9	0.8	0.9	0.6	0.6	2.6

(1) Inward foreign acquisitions are included in all six countries except possibly Japan where coverage of the data are not clear. Outward foreign acquisitions are included in FRG, but not in the other countries. Partial acquisitions are included in BRD and the USA.

Source: As adapted from "The Takeover Boom: An International and Historical Perspective", Graham Bannock



EC markets in the last 4 to 5 years. On one hand there are the structural and economic adjustments brought by the Internal Market programme and on the other there is a shift in company strategies to exploit international economies of scale in face of the globalisation of competition and to concentrate in core businesses. Within the EC the removal of trade barriers and the liberalisation of markets have been the strongest stimulus for cross border expansion, fuelled by the increasing capital mobility and the removal of capital controls. For countries outside the EC, deals are much more driven by a general desire to be in EC markets in anticipation of 1992.

In a recent study of cross-border M&A ac-

tivity, the management consultants McKinsey reckoned that the volume of cross-border M&A in Europe is now equal to the volume of domestic M&A.

In the same study McKinsey found that in 1989 "EC-based companies spent three times more on acquisitions in the United States" - traditionally the favourite home of European corporate investors - "than on cross-border purchases in the Community". A growing percentage of these cross-border deals are within Europe. In the first half of 1990, McKinsey reckons that EC companies spent 6.8 billion ECU on M&A within the EC itself, compared to 13.6 billion ECU in North America and only 2.2 billion ECU in the rest of the world.

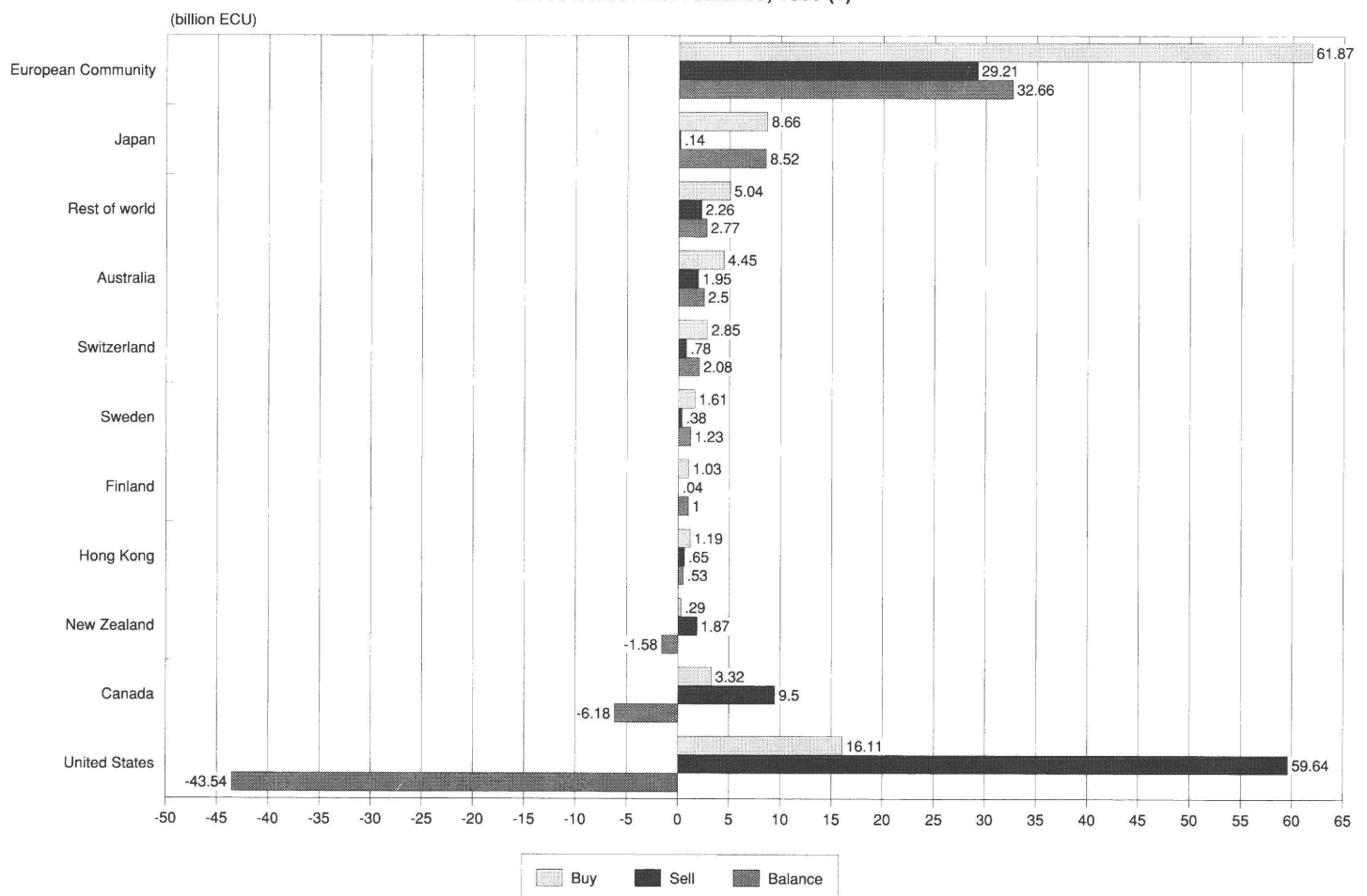
The UK's Central Statistical Office puts

the value of cross-border acquisitions by UK industrial and commercial companies in 1989 at 33.7 billion ECU, 87% of the value of domestic purchases by all companies (38.8 billion ECU) in the same year. For the UK in 1986, the value of cross-border purchases was only 60% of the value of domestic purchases.

Translink, an advisor on mergers and acquisitions, began monitoring cross-border takeovers in Europe at the beginning of 1989. Its figures inevitably underestimate the aggregate values since in many deals the values are not disclosed. McKinsey reckons that values are disclosed in less than half of all deals.

On that basis there were probably over 1 500 significant cross-border deals in

Figure 1
Mergers and acquisitions
Cross-border M&A balance, 1989 (1)



(1) For acquisitions giving acquirers majority ownership for year from October 1988 through to September 1989.
Source: Deal Watch; McKinsey analysis

Table 3
Cross-border European acquisitions (1)

The top 15 cross-border European Mergers and Acquisitions during the first half of 1990

Buyer		Target		Acquired	Price
Name (nationality) (2)	Business	Name (nationality) (3)	Business	(%)	(million ECU) (4)
1 Philip Morris (US)	Tobacco, foods	Jacobs Suchard (CH)	Confections, coffee	80	3090
2 Volvo (SWE)	Car-maker	Renault (F)	Car & truck operations holding co.	20	1867
3 Svenska Cellulosa (SWE)	Paper	Reedpack (UK)	Paper	100	1475
4 Stora (SWE)	Forest products & mining	Feldmühle Nobel (D)	Paper, steel, armaments	75	1457
5 LVMH (F)	Luxury goods	Guinness (UK)	Drinks	12	1155
6 Groupe AG (B/F)	Insurance	Amev (NL)	Insurance	50	1072
7 Renault (F)	Car-maker	Volvo (SWE)	Truck & bus operations	45	974
8 Amev (NL)	Insurance	Groupe AG (B)	Insurance	50	819
9 Volvo (SWE)	Car-maker	Renault Vehicules Industries (F)	Truck & bus maker	45	715
10 SPP (SWE)	Insurance	London & Edinburgh Trust (UK)	Property	99	672
11 Renault (F)	Car-maker	Volvo (SWE)	Car-maker, holding company	10	609
12 Renault (F)	Car-maker	Volvo Car (SWE)	Car-making unit of Volvo	25	541
13 Patricia (SWE)	Wallenberg group	Feldmühle Nobel (D)	Paper, steel, armaments	25	483
14 Gamlestaden (SWE)	Financial services	Bricom (UK)	Commercial services	100	474
15 Cogefin (B/F)	SGB/Accor holding co.	Wagons Lits (B)	Tourism, leisure	27	445

The top 30 cross-border European Mergers and Acquisitions during 1989

Buyer		Target		(%)	Price
Name (nationality) (2)	Business	Name (nationality) (3)	Business	Acq'd	(million ECU) (4)
1 Siemens/GEC (D/UK)	Electronics	Plessey (UK)	Electronics	100	2938
2 Ford (US)	Auto maker	Jaguar (UK)	Luxury car maker	85	1870
3 Victoire (F)	Insurance	Colonia Versicherung (D)	Insurance	42	1714
4 Cilva Holdings (US/B)	Consort.: GM, Avis, Lease Int.	Avis Europe (UK/F/D/I/E)	Car rental & leasing	100	1328
5 Deutsche Bank (D)	Banking	Morgan Grenfell (UK)	Merchant banking	100	1306
6 Oryx Energy (US)	Oil & Gas	some properties of BP (UK)	Oil & gas	100	1234
7 PepsiCo (US)	Soft drinks & food	Smiths/Walkers Crisps (UK)	2 snack makers resold by BSN	100	1213
8 Wasserstein/A&P (US)	Investment bank/retailing	Gateway (UK)	Food retailer	34	1038
9 Allianz (D)	Insurance	units of Navigations Mixte (F)	Insurance operations	50	934
10 Sudzucker (D)	Sugar refiner	Raffinerie Tirlémontoise (B)	Sugar refining interests	100	900
11 Scottish & Newcastle (UK)	Brewing	Center Parcs (NL)	Holiday village operator	65	775
12 Pembrige Investments (US)	Vehicle of Roland Franklin	DRG (UK)	Tape, paper & packaging	76	774
13 AT&T (US)	Telecommunications	CIR (I)	De Benedetti's indust.co.	18	770
14 Rhône-Poulenc (F)	State-controlled chemicals	RTZ Chemicals (UK)	Fine chemicals	100	752
15 Advanta (UK)	Acquisition vehicle	Philipp Holzmann (D)	Construction	10	712
16 BSN (F)	Foods	J/H & Palmer/Ritz (UK)	Biscuits	100	602
17 General Motors (US)	Car maker	Saab (SWE)	Car maker	50	527
18 BSN (F)	Foods	Galbani (I)	Cheeses	35	525
19 BSN (F)	Foods	Smiths Crisps (UK)	Snacks	100	518
20 Omni Holding (CH)	Controlled by Mr W Rey	Harpener (D)	Property and holding co.	80	486
21 Carlo de Benedetti (I)	Via Cérus (Fr holding co.)	Dumenil Leblé (F)	Financial group	72	472
22 Orkem (F)	Chemicals	Coates Brothers (UK)	Inks & resins	59	426
23 Emerson Electric (US)	Electricals	Leroy-Somer (F)	Electric drives & motors	100	419
24 BSN (F)	Foods	Walkers Crisps (UK)	Snacks	100	407
25 JMB Realty (US)	Property investment	Randsworth Trust (UK)	Property investment	100	386
26 DuPont (US)	Chemicals	Howson-Algraphy (UK)	Printing plates	100	371
27 Crédit Lyonnais (F)	Banking	Credito Bergamasco (I)	Banking	48	364
28 Metsä-Serla (FIN) (Failed)	Forest products	UK Paper (UK)	Paper maker	100	362
29 DuPont/FP (US/JPN)	Chemicals/Film	Crosfield Electronics (UK)	Prepress printing, leasing units	100	351
30 Lafarge Coppée (F)	Cement	Cementia (AUS/E/P)	Cement	60	328

(1) The list includes European targets acquired by US and Japanese firms.
(2) Nationality of buyer is based on ultimate ownership
(3) Nationality of target is based on the location of companies' assets and employees
(4) Some prices are approximate considerations or are estimates.
Source: Translink's 1992 M&A Monthly

Europe in 1989. Their combined value (including Japanese and American purchases of European companies) was probably in excess of 100 billion ECU. From the best estimates available, there were more than three times as many deals as in 1984, and about eight times the value of such deals in 1984.

Since the value of deals has risen much faster than their number, the average value of each deal is rising rapidly. The early movers across the single European market were small brave pioneers - with some notable exceptions such as the

French food group BSN and Carlo De Benedetti's various vehicles.

But the second half of 1989 saw significant cross-border shots fired by some of Europe's biggest corporate guns: Rhône

Poulenc, Philips, Allianz, Enimont, ABB and Deutsche Bank all appear on the list of biggest buyers in the period. 1990 has seen major cross-border moves by other giants: Volvo, Pirelli and Fiat, for example.

Target nations

The focus of cross-border activity in Europe definitely lies within the European Community. The seven most popular target nations in 1989 were all EC member states. Translink's figures show the UK as the recipient of over 20 billion ECU of cross-border takeovers in 1989, almost four times as much as the next most popular European recipient, West Germany (see table 4), and almost four times as much as the value of UK companies' purchases in the rest of Europe.

Figures such as these reinforce the feeling in the UK that its open financial markets leave its companies easy prey to foreign takeover. The UK government has signalled its particular objection to the take-

Table 4
Target nations: 1989/90
Cross-border acquisitions made in Europe (1)

Target nations ranked	Deals 1989 (2)		Deals first-half 1990		
	Value (million ECU)	Total number	Disclosing (million ECU) price	Value (million ECU)	Total number
EC	43 946.4	1 148	503.6	26 069.4	672
United Kingdom	20 831.8	237	150.3	10 636.9	146
FR Deutschland	5 710.3	215	59.4	2 702.9	101
France	5 366.0	191	85.9	4 091.0	120
Italia	4 121.9	104	36.1	902.0	60
España	2 689.4	128	64.6	1 704.8	77
Nederland	1 883.3	98	53.5	1 421.1	42
Belgique/België	1 285.6	61	18.9	1 288.1	44
Sweden	762.1	34	9.7	2 535.2	31
Danmark	543.8	34	9.5	255.1	17
Portugal	314.0	20	6.7	275.4	15
Hellas	263.3	7	1.0	1.4	3
Ireland	174.2	11	6.5	255.5	12
Luxembourg	.7	2	1.5	N/A	1
Austria	392.7	24	5.5	85.1	10
Finland	314.0	12	3.0	12.4	8
Norway	210.3	31	12.0	354.0	25
Switzerland	90.5	44	11.0	3 186.7	25
Monaco	N/A	3	.0	N/A	1
Europe (misc.) (3)	315.1	11	7.0	716.4	6
Total	45 301.4	1 275	542.0	30 423.8	748

(1) This table includes acquisitions made in European nations by US and Japanese companies.

(2) Not all values shown are whole numbers because they include acquisitions by companies with split national ownership

(3) Category includes businesses spread among several European nations where national allocations could not be estimated
Source: Translink's 1992 M&A Monthly

over of UK companies by French nationalised industries - on the grounds that there is not a "level playing field" for takeovers between the two countries.

But the figures should be read with caution. The number of deals recorded in the UK in 1989 (237) was not much higher than the number in West Germany (215) and in France (191). What was much higher was the number of deals where the price was disclosed (150 in the UK as against 59 in Germany and 85 in France). If all prices were disclosed, the UK would not stand out so clearly.

Moreover, the UK is particularly attractive to foreign investors because it has been in the forefront of attempts to liberalise service industries (telecoms, finance, airlines and the like) which has made those sectors vulnerable to takeover; and because it

made itself a magnet for Japanese corporations as they spread rapidly across the globe in the late 1980s.

Nevertheless, the nature of the UK's Anglo-Saxon capital markets make the rules of corporate takeovers (be they by domestic or foreign buyers) very different from what they are in continental Europe. For example, the UK stock market will not countenance two-tier equity structures where large numbers of shareholders are effectively disenfranchised. The Commission has made several proposals that would bring shareholder's rights (and, therefore, takeover practice) in the rest of the Community more in line with the UK.

Acquiring nations

The most acquisitive nation in Europe in 1989 was not even European. The United States paid almost 14 billion ECU for Euro-

Table 5
Acquiring nations, 1989/90
Cross-border acquisitions made in Europe (1)

Acquiring nations ranked	Deals 1989 (2)		Deals first-half 1990		
	Value (million ECU)	Total number	Disclosing price (million ECU)	Value (million ECU)	Total number
USA	13 803.2	185	74.2	5 084.8	89
EC	26 172.0	768	373.7	14 394.9	458
France	9 674.4	167	66.0	6 730.1	134
BR Deutschland	6 647.0	128	33.2	1 569.2	63
United Kingdom	5 512.0	281	200.2	2 937.5	139
Italia	1 681.4	52	24.4	255.8	20
Belgique/België	1 016.3	27	7.7	1 040.4	18
Nederland	618.6	47	6.5	1 240.6	47
Danmark	393.3	12	8.1	190.4	8
Ireland	305.2	21	16.6	124.9	11
España	295.1	18	8.0	306.0	14
Hellas	16.9	1	1.0	0	0
Luxembourg	11.8	10	2.0	N/A	1
Japan	1 481.6	54	28.5	759.1	26
Sweden	1 381.6	120	35.9	8 860.8	96
Switzerland	926.4	82	10.1	267.6	41
Finland	714.4	35	11.8	198.3	15
Norway	660.1	12	4.9	534.4	10
Liechtenstein	143.9	2	1.0	N/A	1
Austria	18.3	14	2.0	255.9	8
Total	45 301.4	1 275	5 420.0	30 423.8	748

(1) This table includes acquisitions made in European nations by US and Japanese companies.

(2) Not all values shown are whole numbers because they include acquisitions by companies with split national ownership
Source: Translink's 1992 M&A Monthly

pean companies in the year - over 40% more than the top European cross-border acquirer, France. This is a fact conveniently forgotten during the not infrequent bouts of hysteria in the United States over the level of foreign investment in key American industries. The US Congress is under almost constant pressure to impose legislation that would restrict or discourage foreign takeovers of American corporations. The economic cost of any retaliation by Eu-

rope would be high for both sides. Whereas the UK always used to be the American companies' first port of call in Europe, this is now changing. A recent survey of American company investment intentions in Europe showed Germany to be the most popular target, followed by the UK, France and Spain. Eastern Europe is increasingly popular, outpacing the EFTA countries by far. Indeed, EFTA seems to have fallen off the Americans' investment

map.

French companies' cross-border acquisitions have grown rapidly in recent years.

A report by the French ministry of economy and finance found that expenditure on foreign takeovers by French companies in 1989 was over 50% higher than in 1988. Almost one-third of those takeovers were by state-controlled firms, raising the speculation outside France that they were expanding with the help of indirect (if not direct) state subsidies.

UK companies would top the list of acquiring nations if the number of deals were considered. According to the UK central statistical office in 1989, 40% of the cross-border takeovers by UK industrial and commercial companies were within the European Community, compared with only 20% as recently as 1986 (table 6). Moreover, 1989 was the first year that the number of takeovers by UK companies in the EC exceeded the number in the United States - although the value of deals in the United States was still far in excess of that in the EC. In the first half of 1990, Sweden leapt to the top of the table of cross-border European acquirers. As an EFTA member, Sweden is feeling left out of the EC mainstream. Large Swedish companies such as Electrolux, Volvo and Stora have chosen to buy themselves into the European

Table 6
Cross-border acquisitions and mergers by UK companies: area analysis

	EC		USA		Canada		Other developed		Developing		World	
	Number	Value (million ECU)	Number	Value (million ECU)	Number	Value (million ECU)	Number	Value (million ECU)	Number	Value (million ECU)	Number	Value (million ECU)
1986	62	958	176	10 614	19	1 525	26	155	34	61	317	13 313
1987	124	2 292	195	12 971	19	542	52	861	41	446	431	17 112
1988	191	2 655	290	20 662	21	727	66	1 744	38	275	606	26 064
1989	274	4 230	268	25 987	27	1 439	81	1 524	25	526	675	33 704

Source: Central Statistical Office - Business Bulletin

Community in the absence of their electorate's ability to vote them in.

The Japanese do not feature high on the list of acquirers because they tend to shun takeovers and the hostility they can generate. They prefer to set up in new markets on fresh "greenfield sites". Hence they figure much more prominently in measures of foreign direct investment than they do in measures of cross-border mergers and acquisitions. Nevertheless, McKinsey reckons that Japanese companies do 20 times more cross-border M&A by value than domestic M&A - some indication of how little M&A activity there is in Japan.

The most popular sectors

The most popular sector for European cross-border deals in 1989 was food and food retailing.

French and British companies have been by far the most active, led by firms such as BSN, Hillsdown and Unilever, and dairy products, confectionery and snacks have been the most popular products, as companies were fighting for brands and market shares. The increasing market clout of the food manufacturers has led food retailers to retaliate. The partnership between three national retailers - Holland's Ahold, France's Casino and the UK's Argyl - is an attempt to pool buying power in order to balance the manufacturers' selling power.

The next most popular sector was cars. The incursion of the Japanese into the European market, the high investment costs and the economies of scale to be exploited in an open EC market after 1992, has led Europe's big car manufacturers (and car-parts manufacturers) to seek cross-border partners. Jaguar is now in the hands of Ford; Volvo has linked up

Table 7
Mergers and acquisitions
Industrial breakdown of cross-border European deals, 1989 (1)

Industry	Cross-border acquisition value (million ECU)	Number of deals (2)	Number of deals disclosing prices(2)	Average acquisition size (million ECU)	Value as a % of total acquisitions
Food & food retailing	7 032.6	101	50.5	139.3	15.5
Automotive & aircraft	5 061.9	93	33	153.4	11.2
Insurance	4 884.1	34	17.8	274.4	10.8
Banking & financial services	4 155.4	94	40.5	102.6	9.2
Electronics, electricals & computers	3 869.0	116	52.2	74.1	8.5
Paper, printing & advertising	3 126.4	101	51.7	60.5	6.9
Chemicals & plastics	2 948.9	61	25	118.0	6.5
Construction & building materials	2 149.2	62	30	71.6	4.7
Oil & gas	1 463.8	16	10	146.4	3.2
Media	1 274.9	56	22	58.0	2.8
Property	1 216.5	14	10	121.6	2.7
Leisure & hotels	1 153.5	29	20.6	56.0	2.6
Pharmaceuticals	941.4	57	20.5	46.0	2.1
Engineering	917.8	81	29	31.7	2.0
Fashion & textiles	831.1	39	18	46.2	1.8
Drinks	545.0	17	5	109.0	1.2
Airlines, shipping & freight	514.5	43	15	34.3	1.1
Mining & steel	368.5	39	6	61.4	0.8
Packaging	300.7	33	10	30.1	0.7
Services (miscellaneous)	165.6	44	14	11.8	0.4
Retailing	80.5	9	3	26.8	0.2
White goods	76.5	11	4	19.1	0.2
Tobacco	45.5	3	1	45.5	0.1
Other (miscellaneous)	2 177.8	112	53.4	40.8	4.8
Total	45 301.1	1 275.0	542.2	78.3	100.0

(1) This table includes acquisitions made in European nations by US and Japanese companies as well as acquisitions between European nations.

(2) Not all values shown are whole numbers because they include acquisitions by companies with split national operations.
Source: Translink's 1992 M&A Monthly

with Renault; and Fiat has put its parts division together with that of France's Alcatel Alstom.

Pressures have been particularly intense in sectors with a high technological content where investment in research makes economies of scale particularly hard to achieve in closed home markets.

In chemicals, concentration on core activities by companies and efforts to strengthen the position in Community markets has led to the extensive trading of assets.

The number of deals in insurance and banking give some indication of the growing pan-European strategies of service industries. Of the two, insurance is the more likely to spread rapidly across Europe. It

is cheaper to sell insurance products in another country (through local agents) than banking services, which for the most part still need expensive branch networks.

To some extent this is only the tip of the services iceberg. Many of the deals classified under "paper, printing and advertising" were in advertising and publishing reflecting the increasing globalisation of the audiovisual market. The same enthusiasm for cross-border deals is shown by accountants, management consultants and (more recently) lawyers who want to offer global services to their multinational clients.

The largest accounting firms and management consultants now have offices or affiliates in every significant European country. This is in itself providing a

stimulus to these firms' clients to follow their example - rather in the way that the mere existence of aggressive M&A firms in the United States increases M&A activity in that country.

Will the future repeat the past?

The rise in takeover activity in Europe in the 1980s is related to several phenomena, of which steady economic growth was very important. Further growth of cross-border mergers and acquisitions in Europe will depend on general economic growth in the region. (The Gulf Crisis has demonstrated how dramatically a sudden shock can slow activity down).

The increase in takeovers is also related to the growing popularity of "market" economics and the liberalisation and deregulation that go with it. The UK's "Big Bang" - a removal of many of the restrictions on financial institutions in the City of London - resulted in an extraordinary number of takeovers of stockbrokers and other financial intermediaries in the latter years of the 1980s.

Particularly important will be moves to deregulate key service industries that have grown up around "national champions" - such as airlines, telecoms and financial services. Similarly, the opening up of public procurement (forcing national and local governments to open tenders to all-comers), will encourage further restructuring of the industry.

The focus of M&A activity in Europe is likely to remain the Community, with the level of activity determined to some extent by the speed of European integration, the stability of exchange rates (through membership of the Exchange-Rate Mechanism), and early moves to a single

European currency, which would probably save companies more money in doing business across Europe than any other single act.

Eastern Europe will become an increasingly important factor in the equation, although economic change there is likely to be much slower than political change has been. The region will compete for investment capital with low labour cost economies at the extremities of Europe - such as Portugal and Greece. And the special case of East Germany is likely to slow down German firms' cross-border acquisitions in the rest of Europe.

Perhaps the biggest single deterrent to cross-border M&A lies in the very different financial markets in different European countries. M&A is a way of life in those countries that have Anglo-Saxon financial systems dominated by powerful stock markets. In countries with universal banks that hold large stakes in industry, or where there are governments with determined industrial policies, the M&A process is hindered. Hostile bids are almost unheard of in Europe outside the UK. Yet cross-border M&A (not all of it welcome to the target company) is essential for the rationalisation of European industry bringing about the pan-European economies of scale that are at the heart of the 1992 programme.

Given the rapid growth of M&A activity in Europe, it will be essential to have pan-European checks and balances to protect market competition. A key element in this is the European Community's merger regulation, which came into effect in late September 1990. This is designed to simplify procedures by, for example, providing "one-stop" control (ie, under national or Com-

munity regulation on the basis of turnover thresholds) of large mergers in the Community. It will also introduce merger controls for the first time to countries such as Italy which have not hitherto had them. The rapid growth of cross-border M&A in Europe has made European companies less national and more international. Unilever and Royal Dutch Shell long ago pioneered the way of the transnational European corporation. In more recent years, companies such as Asea Brown Boveri and Guinness/LVMH have begun to follow their example and to transcend nationalism. There will be many more, and their next challenge will be to major world markets.

Written by: Tim Hindle, editor of EuroBusiness

The internal market taking shape

The significance of the internal market

On January 1st 1993, the Community should constitute an area without inner frontiers in which people, goods, services and capital circulate freely.

At the end of 1990 and in compliance with Article 8b of the EC Treaty, the Commission carried out an evaluation of the progress made towards the creation of the internal market, in two years' time(1).

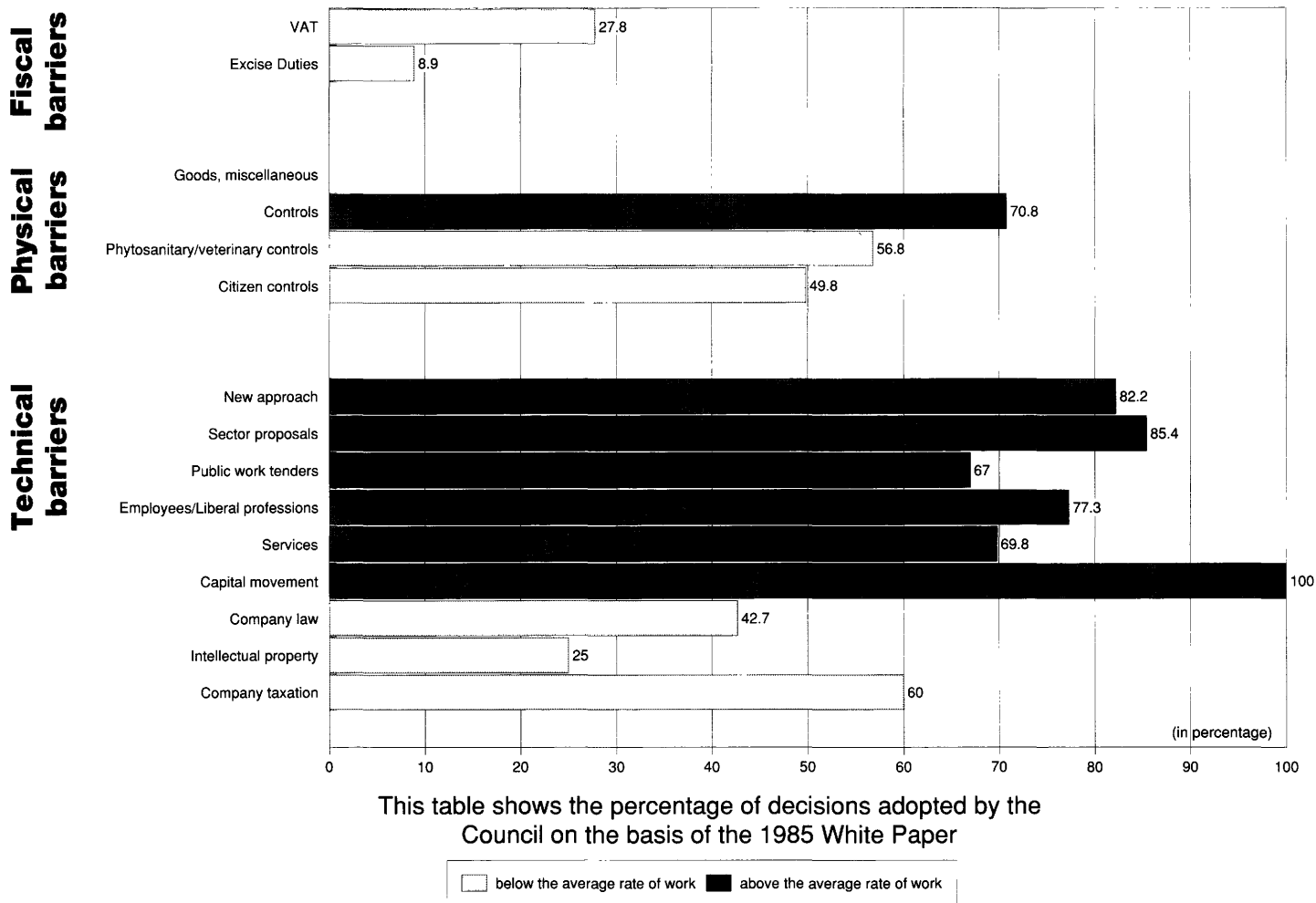
The programme from the Commission's paper of June 1985 still remains the reference programme for realising the objective, even if the Single Act has allowed for the development of legislative initiatives in areas which were not strictly in the programme. The judgement on the results obtained since 1985 cannot solely be based on a quantitative analysis of the number of decisions taken in relation to the initial programme; the political and economic impact of creating an area without frontiers will only be fully demonstrated if substantial and sufficient progress is achieved in the sectors covered by the programme.

The date of 31/12/1992 has henceforth acquired an obvious economic value amongst economic operators, public opinion and also outside countries; therefore it should be respected at all costs. Suppressing frontier controls has acquired a symbolic value and any failure on this point would effect, in the eyes of public opinion and the citizens, the impact of present gains.

The area without frontiers must give the citizen access to a new area of freedom to move and work within the Community.

This political construction constitutes the essential foundation of economic and monetary union and of political union about which, the intergovernmental conferences opened on 15th December 1990 should define the content over the forthcoming months.

Figure 1
The internal market taking shape
State of the decision process on the single market



Source: Commission of the European Community

Progress achieved

Decisions adopted and their application

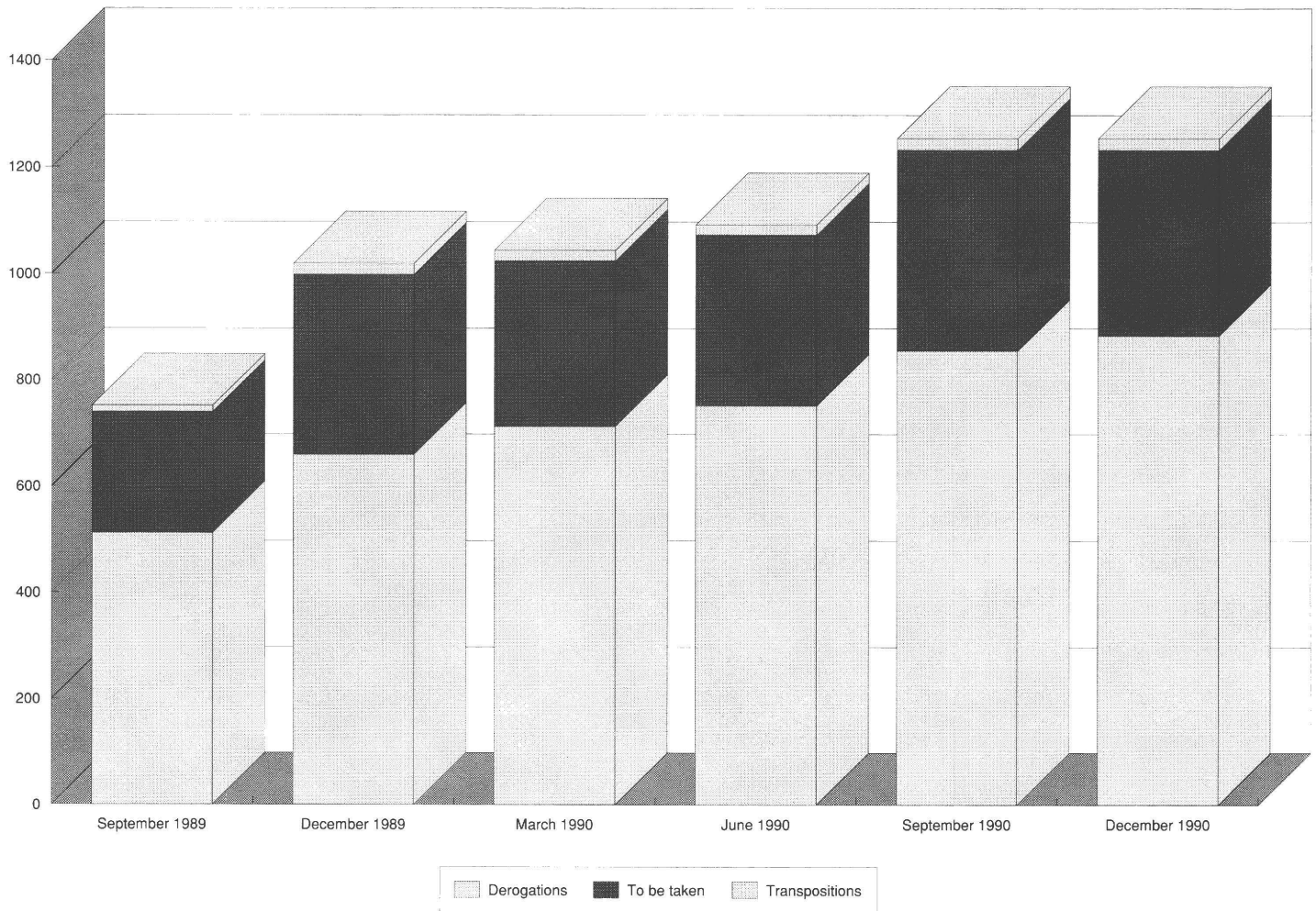
By the end of 1990, almost 200 Decisions out of the 282 foreseen by the White Paper have been adopted by the Council. A good number of these Decisions are already in application, such as the free circulation of capital, the opening of public works tenders, the free supply of non-life insurance for companies. Others will soon enter into application, such as the mutual recognition of diplomas and the opening of stock markets, whilst measures essential for certain sectors, already decided, will only be applicable from 1st January 1993: banking sector, insurance, opening of public tenders in telecommunications, energy and transport (Figure 1)

In order to ensure the timely application it is up to Member States to transpose in their national legislation the adopted Community Directives. As of today the process shows serious failings, as one realises that on the one hand only a few measures have been transposed in all the Member States and, on the other hand, certain Member States are way behind others (Figure 2 and 3). The Commission publishes half-yearly reports on the state of transposition of Directives by Member States to guarantee transparency of information and to stimulate action within the States concerned. Outside this judicial process, the correct application of the Community Decisions

must be ensured at national and regional level, by those who are called upon to physically implement them. On this point, it is essential that companies and their advisers are well acquainted with Community Law. In other respects, the Commission intends promoting information distribution both at the level of the relevant national civil servants and at that of companies, particularly small and medium ones.

The players' behaviour The speed of which the Community has shown itself capable in taking decisions necessary to achieve the area without frontiers has created a phenomenon of anticipation on the part of the players, which in itself is fuelling the dynamism of Community integration. The

Figure 2
The internal market taking shape
Evolution of the number of transpositions measures taken by the Member States (september 1989 to decembre 1990)



Source: Commission of the European Community

rate of growth since 1985, has been stimulated by the objective of 1992, leading to the creation of eight and a half million jobs in that time. The proportion of Community trade in volume within the Community itself has grown from 55% in 1982 to approximately 62% in 1988. Investment development within the Community has also attracted outside investment, whilst the dynamism of the European economy has allowed for an even greater progression of the investments by European companies outside the Community ⁽²⁾.

Decisions remaining to be taken

Despite the very satisfactory progress that has been registered, the Commission must guard against excessive optimism. If, des-

pite certain substantial difficulties, progress towards the abolition of technical frontiers is in the main satisfactory, the same cannot be said for the abolition of physical frontiers and the suppression of fiscal frontiers.

The Council has not yet been able to agree upon the indispensable Decisions covering checks on people. On the other hand, fundamental political decisions have been taken in the fields of indirect taxation and phytosanitary and veterinary controls, but these Decisions on principles will remain without effect if the Council does not define in time, in the fiscal field, concrete texts for application.

Concerning indirect taxation, a transitional

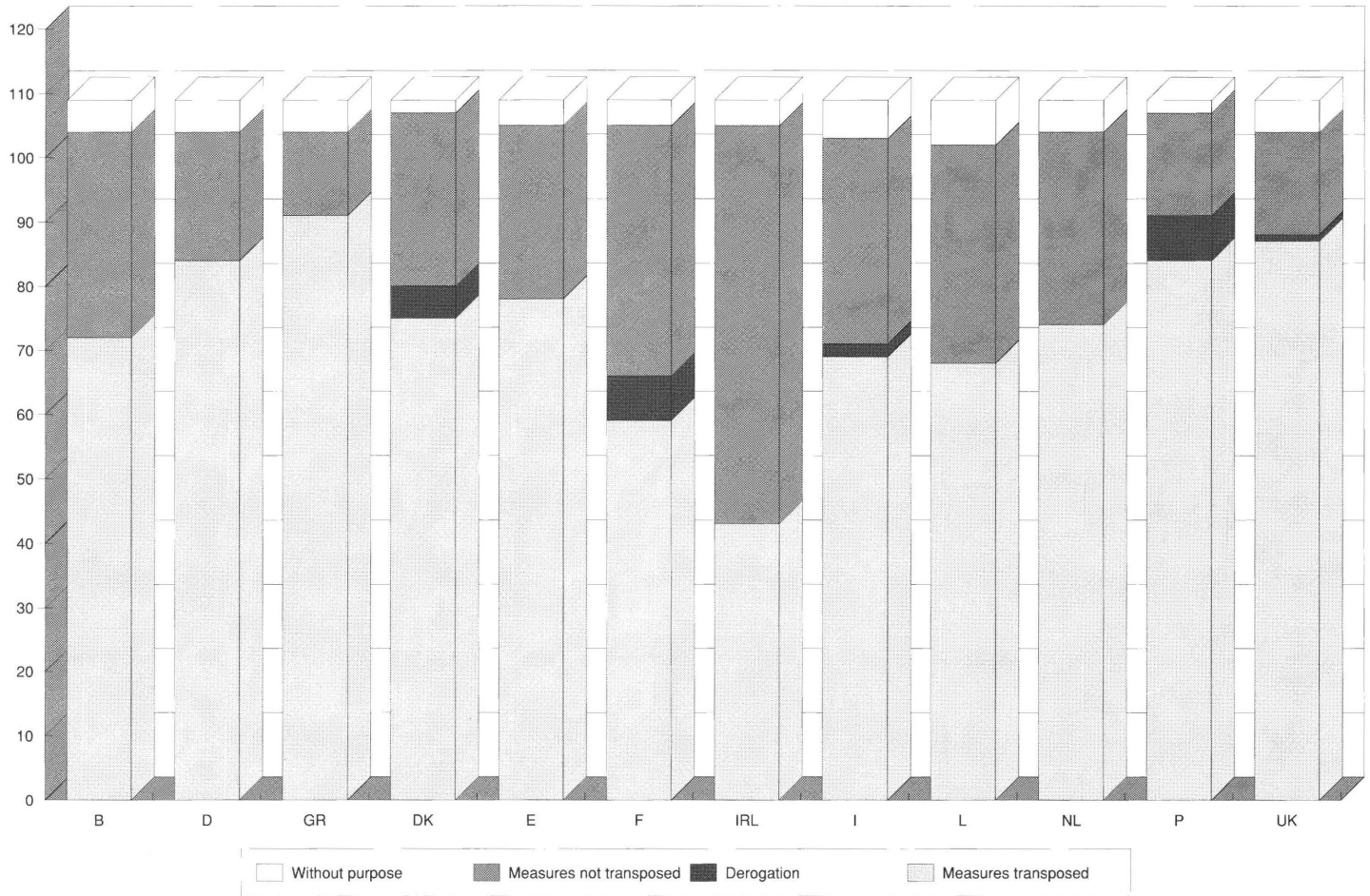
period has been envisaged after 1992, at the end of which the definitive unification of the VAT systems will come into operation. The Commission has proposed that the transitional period extends in no way later than 1996 but the Council has not yet pronounced judgement on this issue.

Setting up trans-European networks

The creation of the inner market implies that the necessary infrastructure be made available for the free movement of people, goods and services.

It is with this in mind that the Commission has, during 1990, carried out in-depth surveys with the Member States and the most interested economic sectors, on trans-

Figure 3
The internal market taking shape
Situation by Member State



Source: Commission of the European Community

European networks for transport, telecommunications, energy and industrial training. The Commission has thus submitted to the Council, a priority action programme⁽³⁾, proposing, priority projects in the four sectors in question, measures with horizontal implications which should facilitate the emergence of trans-European networks and measures with financial implications.

Conclusions

Two years away from the due date, the situation can be considered as being satisfactory, on condition that the efforts underway are not allowed to slide. The future progress towards Economic and Monetary Union depends, in the first instance, on carrying through the 1992 objective. The Commission will be vigilant to ensure that this objective is achieved but it also counts on the pressure from the economic

players in order to succeed.

⁽¹⁾ Com(90)552 final date 23/11/1990

⁽²⁾ Sec(90)494 dated 28/3/1990 "The Internal Market in three years' time: a first account of its impact.

⁽³⁾ Com(90)585 final date 10/12/1990

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The opening of Eastern Europe:

consequences for EC industry

Introduction

In the countries of the European Community, the completion of the Internal Market means that an acceleration in economic growth can be expected.

The far-reaching changes seen in the countries of Eastern Europe over the past two years have aroused expectations that the opening up of Eastern Europe and the increase in economic relations between East and West will create additional growth. This is particularly the case for the West German economy, which has gained most from the access of the GDR into the Federal Republic.

In the following, an overview on the economies of Eastern Europe, the markets and their respective structures will be traced. The reasons behind opening up and their consequences in East and West will be investigated. Different scenarios will be outlined for economic growth in Eastern Europe, as well as the modernisation requirements of different national economies. Starting points for financing will be addressed. Building on this, the initial macro-economic effects in East and West will be discussed in detail.

Particular attention will be given to showing the resulting perspectives for the external trade of EC countries and to discussing the opportunities and dangers for industries in the countries of the European Community.

Economies of Eastern Europe - an overview

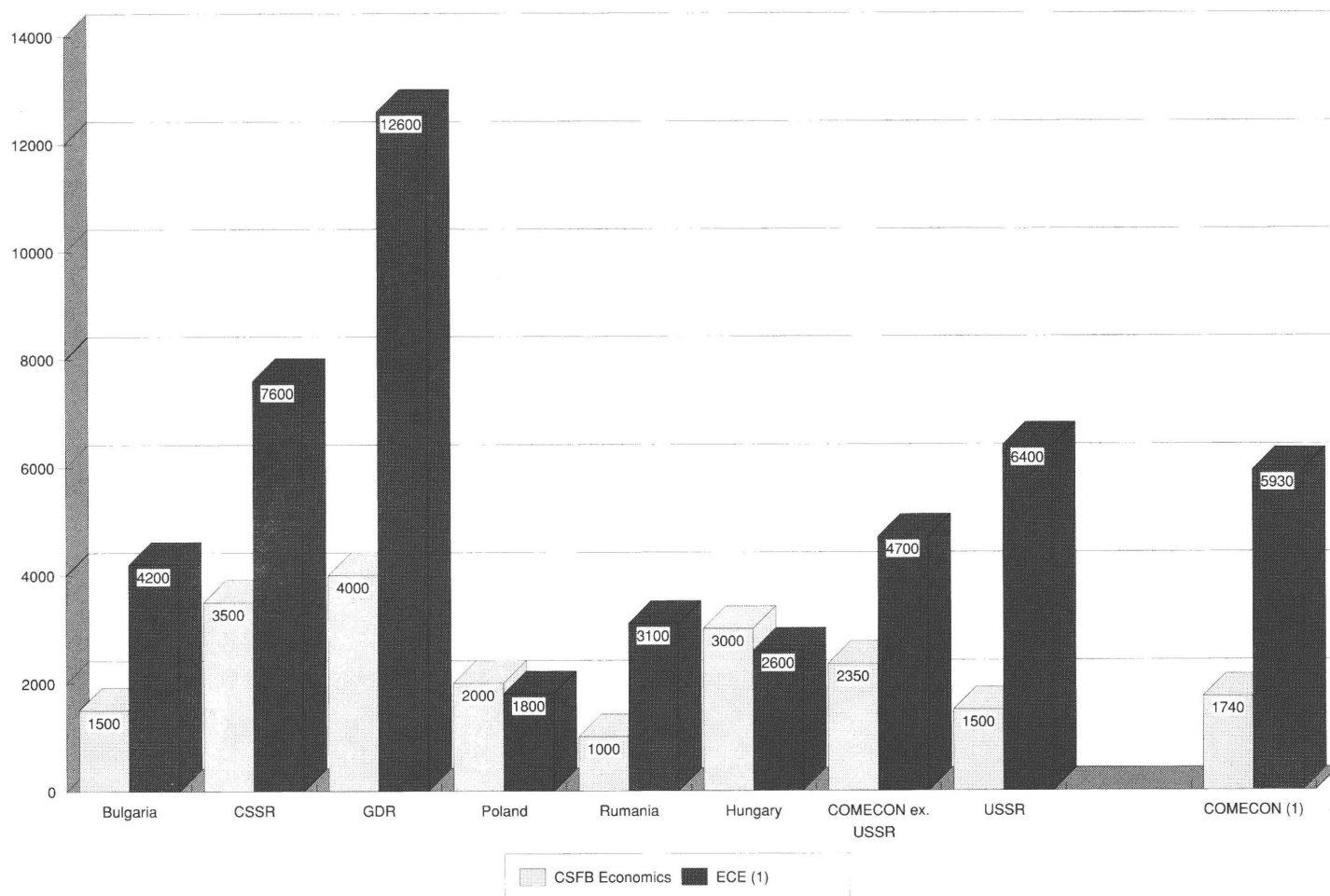
Problems in comparing East to West analysis of the macroeconomic key figures and the branch structures of the national economies in the East, as well as East-West comparisons, encounter major methodological and practical problems. In methodological terms, statistical figures in the East and West have been arranged and developed in respect of their highly disparate social and economic systems. The drawing up and implementation of plans lies at the heart of the planned economy's control mechanism. At this juncture, there are far from adequate records to show dif-

ferences and imbalances between macro-economic and branch sizes, as prices are no reflection of shortages and are ineffective in clearing the market. Therefore price structures do not reflect a market economy coordinating process with allowances for factor and goods markets, but rather planned scales. The actual results produced in the economic statistics can be adjusted to the planned figures in accordance with the "principle of self-dilution". Price changes - i.e: through high prices for new products - are an easy way to raise production value and demonstrated growth.

As the Bank for International Settlements illustrates by way of figurative examples in

its latest annual report, the economies of Eastern Europe - measured in terms of the overall economic growth demonstrated by each group of countries - would have certainly reduced or overturned the wealth gap with the West, with average annual growth of 5% between 1960 and 1989 compared to 3.3% within the EC. In contrast, key figures on living standards (such as the number of cars, colour televisions, telephones and living space) show that a large gap still remains between East and West. From this, it follows that values can only be considered if they, like external trade, are based on Western price structures. Otherwise, only quantities can be relied upon. In analysing and comparing struc-

Figure 1
Alternative estimates on income per head in COMECON countries
(1988, in US\$)



(1) Based on COMECON statistics
Source: CSFB Economics; ECE.

tures to Western countries, the distribution of employees by sector has a particularly established place throughout. Even here, however, attention should be paid to limitations. In accordance with Marxist-Leninist doctrine, only slight allowance is made for "non-productive" areas in the services sector in the material production of COMECON countries.

The assessment and determination of income per head in Eastern Europe reveals a major uncertainty. The 1988 figures which refer to official statistics and exchange rates, (of the UN Economic Commission for Europe (ECE),) reveal income per head of around \$6 000 for the countries with planned economies (see Figure 2). In contrast, Western estimates arrive at very much lower values.

A further example of the difficulty of comparison is that the numbers of employees in East European countries (table 1) does not include apprentices unlike most Western statistics. Moreover, in accordance with the different economic philosophy assistance from self-employed persons' relatives is also less important. On the other hand, there is a considerable amount of hidden unemployment in the countries of Eastern Europe. However, unemployment contradicts the centrally-planned system's guarantee of full employment and is not shown in the statistics. For this reason, the figures shown in Table 1 on employment in Eastern countries are too high and more in keeping with the concept of gainfully employed persons - unemployed numbers fully included.

Market dimensions Under the process of reform in the countries of Eastern Europe and their transition to an economic order based around the market economy, a mar-

Table 1
Population and employment levels in Eastern European countries and in the EC in 1988

	Population (1000)	Employment (1000)	Employment share (%) (%)
COMECON (*)	398 460	181 980	45.7
Bulgaria	9 000	4 100	45.6
Czechoslovakia (CSSR)	15 610	7 720	49.5
GDR	16 670	8 600	51.6
Poland	37 870	17 700	46.7
Rumania	23 050	11 000	47.7
Hungary	10 600	4 860	45.8
COMECON excl. USSR	112 800	53 980	47.9
USSR	285 660	128 000	44.8
EC States	324 840	130 285	40.1

(*) Employed/Population
Source: COMECON countries Statistical Yearbook; OECD; World Bank; national statistics; Ifo Institute surveys

ket of some 400 million people is today being opened up (see Table 1). This compares to the EC (not including East Germany) with around 325 million people, the USA (351 million in 1990) and Japan (124 million). In the supply of goods and services, the planned economies in Eastern Europe lag well behind living standards in Western Europe and other Western industrialised countries. Gross domestic production per head can, however only provide rough pointers. In addition to the general problems found in making international comparisons of these mass figures (attention should be paid here to the choice of exchange rate for conversion purposes, which is an ever recurring problem nowadays), there are the problems and particularities of calculating the material products of planned economies. It is becoming apparent just how enormous the gulf is between incomes in the countries of Western and Eastern Europe. Even in what used to be the GDR, which was the leading country in the league table of COMECON countries, the level of affluence attained was well short of the le-

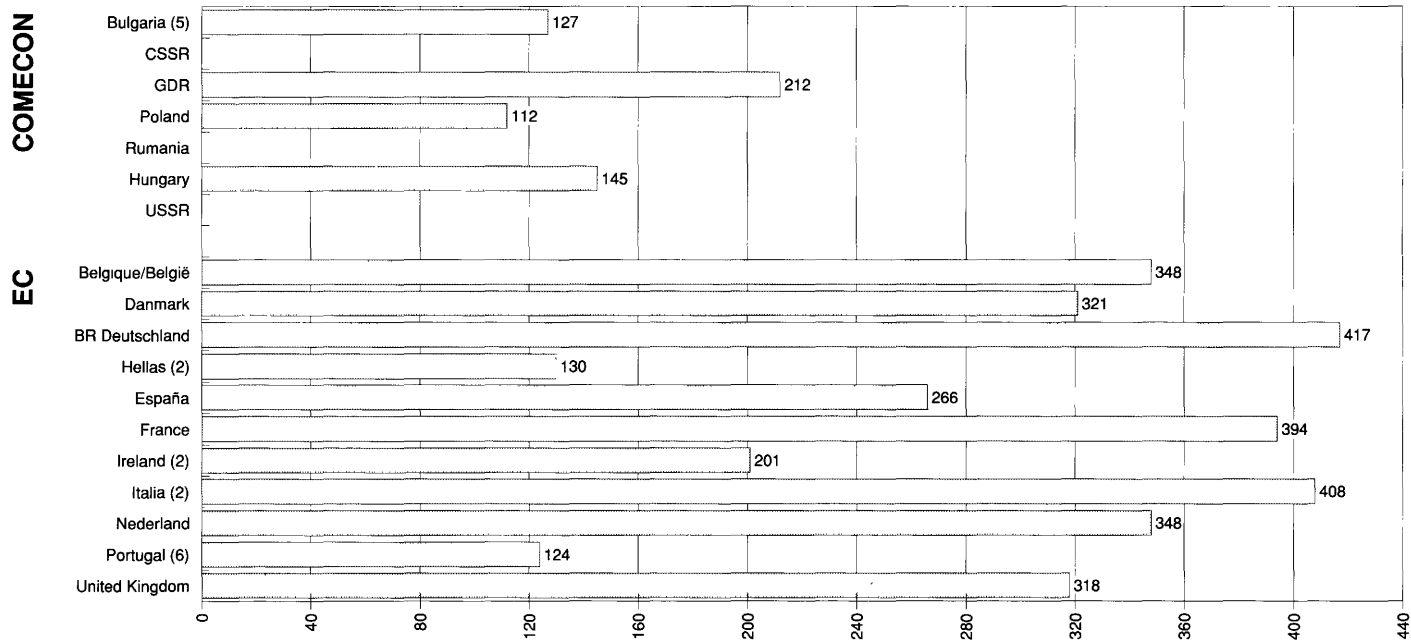
vels recorded even in the poorest EC countries.

The discrepancies in living standards between East and West are also reflected by indicators showing the supply of goods and services (see Figure 2). This gap is particularly evident in the supply of goods with high demand - quite apart from quality comparisons. Thus, the number of cars owned by people in the EC amounts to two or three times the provision in the COMECON area. An equally apparent gap concerns the number of people with telephones, shown in figure 2. In contrast, the available figures on medical provision show hardly any large differences. With the political and economic liberalisation of East European countries, the impetus has been provided for greater integration of the markets in East and West and for an intensification of trade links. With the development of growth forces in the East, a forward-looking market potential is established for firms and trading partners in the West, which can already be viewed as particularly beneficial to EC countries on account of the proximity of the market.

Figure 2
Indicators on living standards in Eastern and Western Europe

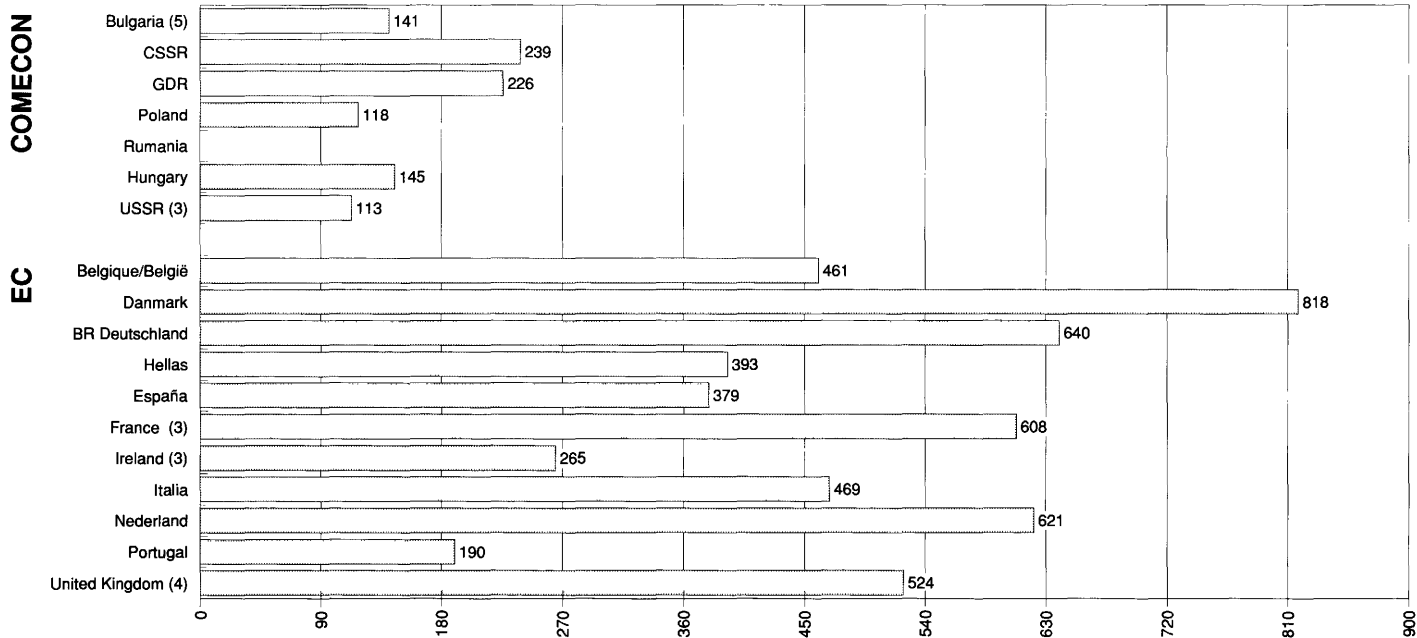
**Private cars
per 1 000 inhabitants**

1987



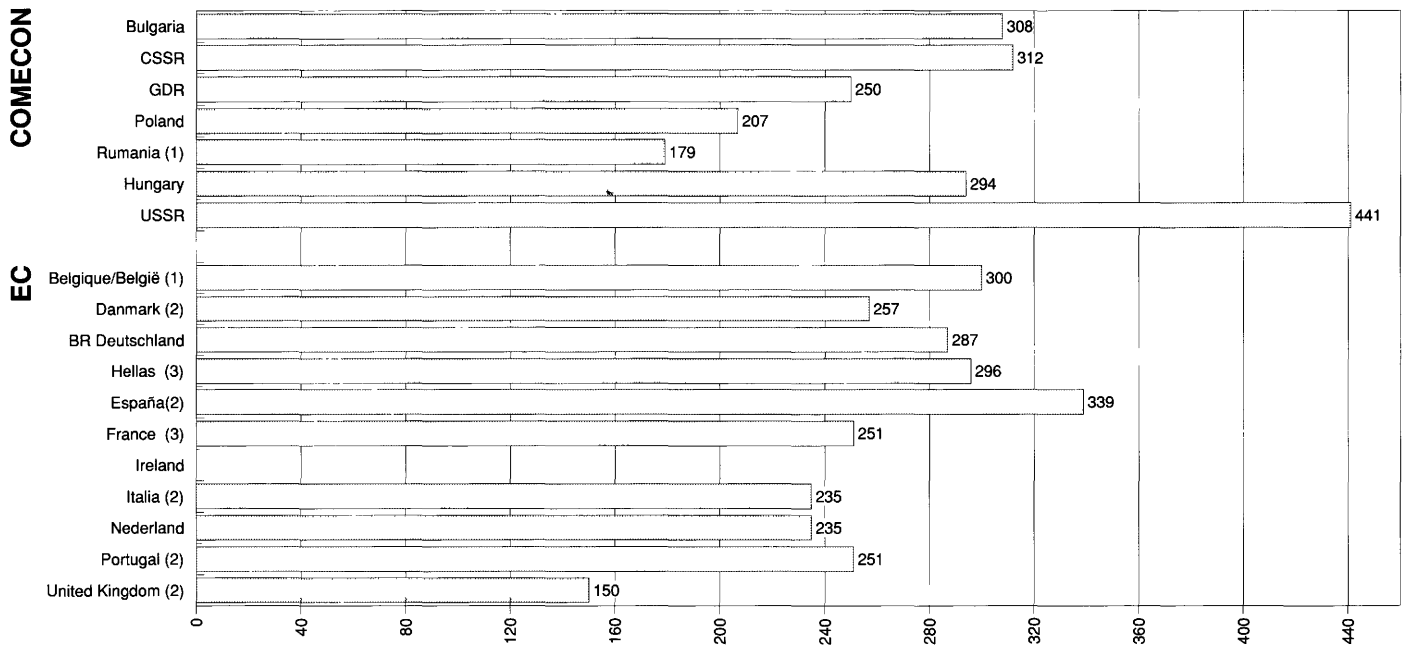
**Telephone connections
per 1 000 inhabitants**

1986



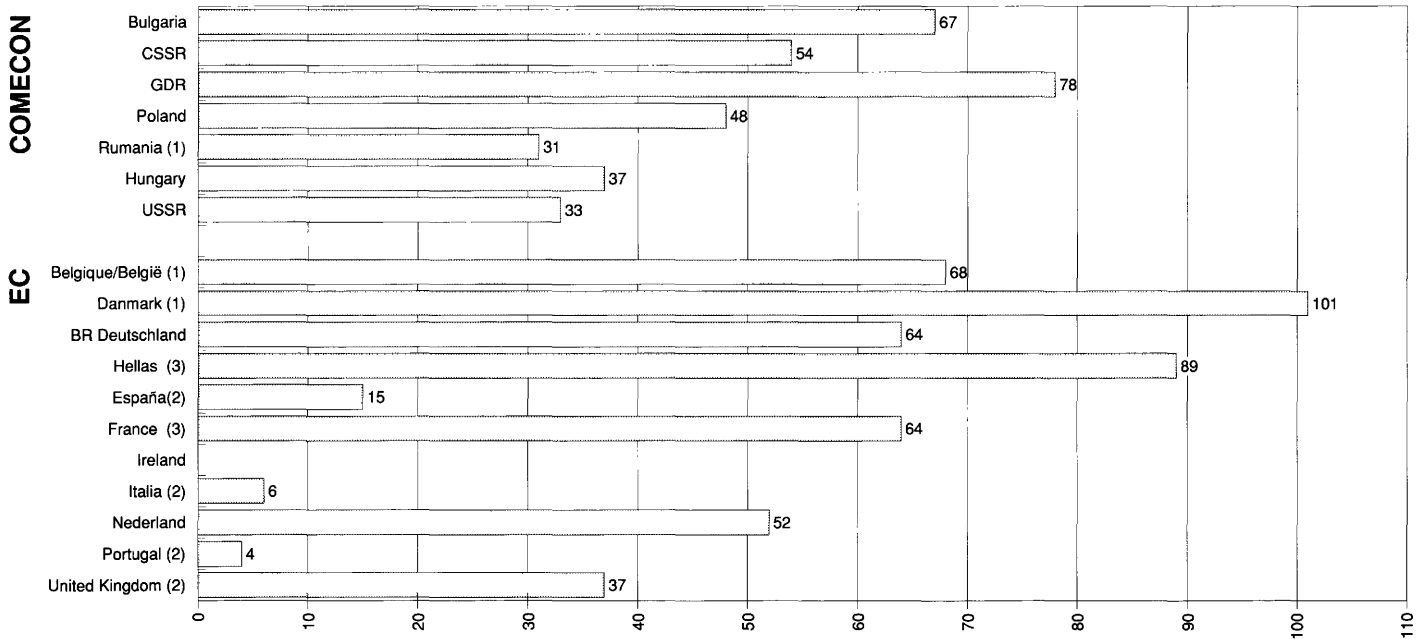
Doctors per 100 000 inhabitants

1988



Dentists per 100 000 inhabitants

1988



- 1) 1987
- 2) 1986
- 3) 1985
- 4) 1984
- 5) 1980

6) Excl. vehicles run by collectives

Source: UN (publisher), Statistical Yearbook; National Statistical Yearbooks; Ifo-Institute survey

Table 2
Comparison of the economic structure of East European countries (share in %)
with the distribution of employment per economic sector

(%)	BRD 1988	GRD 1988	CSSR 1988	Hungary 1988	Poland 1987	Bulgaria 1987	Rumania 1983	comecon excl. USSR	USSR 1987	comecon 1987	EC-10 1986
Agriculture & Forestry	5.1	10.8	11.9	18.8	28.3	20.1	29.0	21.8	18.3 2 ⁽¹⁾	19.3	8.1
Energy supply/Mining	1.9	2.9	2.2	3.3	7.4	1.8	1.9	4.1	2.0	2.6	1.6
Manufacturing	31.9	36.7	30.8	27.3	23.2	26.7	32.4	28.9	26.9	27.5	25.2
Chemicals/Related areas	3.9	3.9	2.2	2.2	1.6	2.2	2.4	2.3	3.6	3.2	2.6
Metal production	1.1	1.6	4.9	1.6	1.2	0.8	2.1	2.0	1.7	1.8	1.0
Quarrying/Earthworks	0.7	1.1	2.4	1.3	1.3	1.5	1.4	1.4	3.0	2.5	1.3
Machines/Car manufact.	11.7	11.8	10.8	8.0	9.3	6.1	12.5	10.2	12.6	11.9	7.4
Electrical/Electronics ⁽²⁾	5.6	5.7	2.4	2.2	0	1.7	0	3.1	0	0.5	3.1
Consumer goods	4.8	6.4	2.5	5.2	4.4	5.8	7.8	5.3	3.8	4.2	6.9
Textiles ⁽³⁾	1.0	2.5	2.8	2.0	1.9	2.9	3.9	2.6	0	0.8	0
Food and drink	3.1	3.8	2.8	4.8	3.5	3.6	2.4	3.3	2.3	2.6	2.8
Construction	6.7	6.6	10.3	7.1	7.6	8.8	7.5	7.8	9.9	9.3	7.5
Market services	34.5	21.5	22.5	26.0	20.7	28.4	17.0	21.4	20.2	20.5	36.0
Commerce	12.9	10.3	9.7	10.7	8.4	8.8	5.8	8.6	8.1	8.3	16.9
Tourism/Information	5.6	7.4	6.6	7.8	5.9	6.3	6.8	6.6	8.6	8.0	6.3
Other services	15.9	3.9	6.2	7.5	6.3	13.2	4.3	6.2	3.4	4.2	12.8
Non profit-making State organisations ⁽⁴⁾	20.0	21.4	22.3	17.6	12.9	14.2	12.2	16.0	22.8	20.8	21.6
All branches	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
For information: Employees in 1000	25 911	8 592	7 720	4 858	17 715	4 083	10 560	53 527	128 637	182 164	112 418

(1) USSR Agriculture + private farm economy

(2) Figures for Poland, Rumania and USSR are included in Machines/Car manufacturing

(3) Figures for USSR and the EC are included in Consumer goods

(4) In COMECON: non-productive branches

Source: Statistic Yearbook of various countries; Federal Office of Statistics;

Eurostat; Ifo Institute surveys and estimates

Economic structures in perspective

In view of the problems of price distortion, comparisons of economic structure regarding net added value contributions are of only very limited value in the national economies of Eastern Europe. The following overview of the economic structures is derived from the distribution of gainfully employed persons according to sectors of the economy and the statistics available (see Table 2).

The structure of gainfully employed persons in the countries of Eastern Europe - compared with EC countries - is characterised by the importance of agriculture, a somewhat busier industrial sector and the corresponding lesser importance of the services sector (see Table 2).

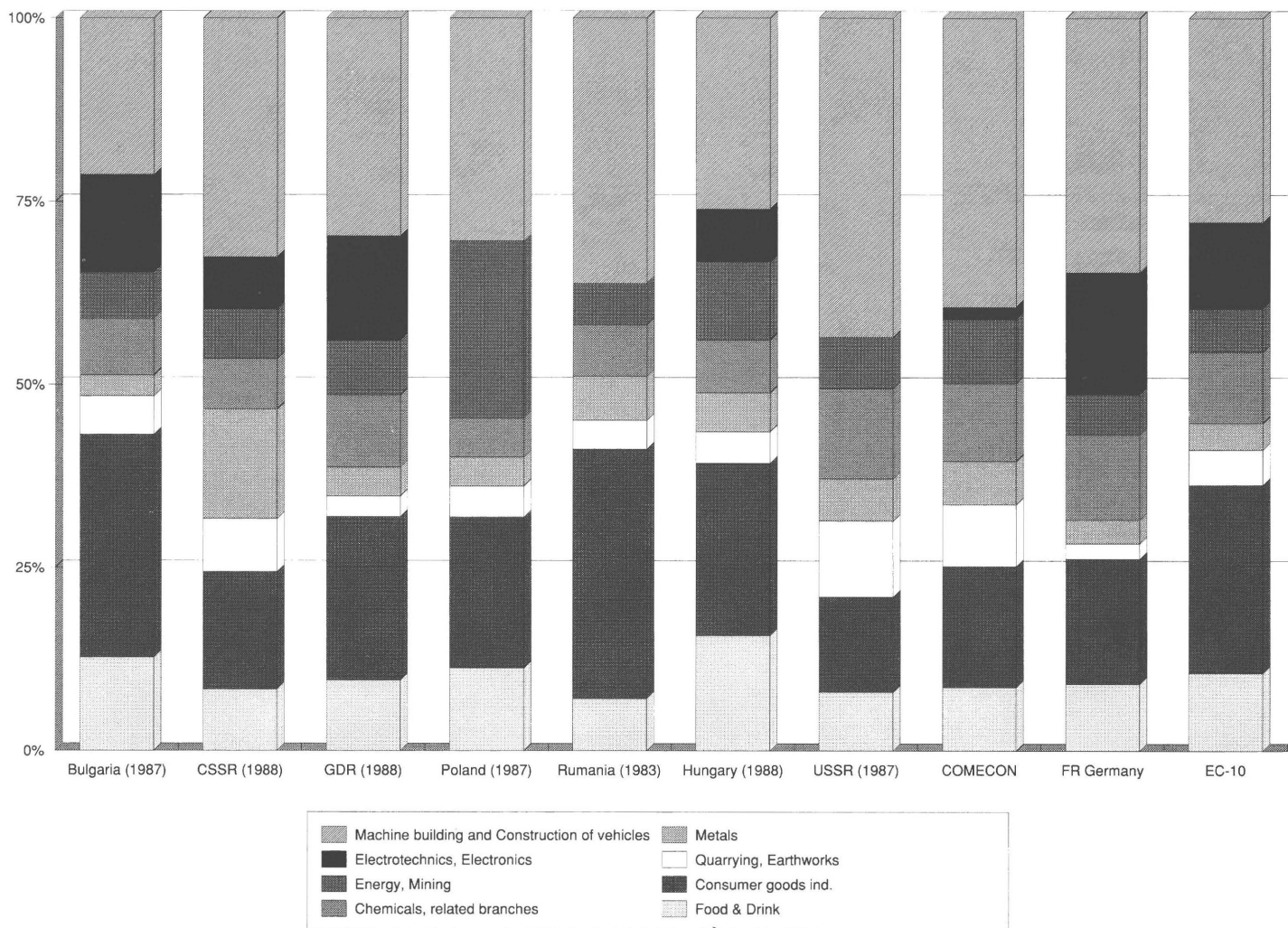
Rumania and Bulgaria are still largely agri-

cultural countries with employment shares of nearly 30% in this sector. In contrast, the process of industrialisation has made the greatest inroads in what used to be the GDR and Czechoslovakia, although even here the agricultural sector is still much larger than in Western Europe. Because of the expected international market liberalisation, structures in the industrial sector (mining and energy supply, manufacturing industry, building) are of particular interest. In these areas of the economy, highly intensive restructuring of the division of labour between Eastern and Western Europe is taking place for the first time. When measured in terms of the distribution of workers, the countries of Eastern Europe reveal markedly different centres of industrial production. The orien-

tation towards coal mining is very apparent in the Polish economy. In contrast, the capital-intensive energy and mining sector is of little importance in terms of employment in the Soviet Union itself, the USSR is one of the world's leading producers of energy and raw materials. The Soviet Union is the biggest producer of crude oil (share of world production in 1989: 20%) and natural gas (39%), and also occupies one of the top places for other important mineral raw materials. In general, the building sector is of greater importance in Eastern European countries. The structure of employment in the manufacturing and raw materials industry comparing East and West, is shown in Figure 3.

The areas of raw materials and investment goods have greater importance in the na-

Figure 3
Comparison of employment structure industry - Total: 8 760 000



Source: National Statistical Yearbooks; EC Commission; Ifo Institute surveys and estimates

tional economies of Eastern Europe than in the West, whereas there is a clear picture of a consumer goods sector which is lagging behind. Approximate conclusions can hardly be drawn from this as regards the supply of goods, since Eastern European national economies show considerable arrears in productivity compared to the West. Despite the high mobilisation of production in the investment goods sector, Eastern European countries still face problems in supplying the population with consumer goods, because the machines and equipment produced over long stretches in the past were unsuitable for light industry. In the services sector, the percentage of employees in the State sector is, at 21%,

roughly as high as in EC countries. However, whilst a large proportion of public employees are occupied with providing social services (e.g. health and care services, nursery schools), the number of employees in the public sector in Eastern Europe may well contain comparatively more workers with administrative and supervisory jobs. From experience with the GDR, it is known, however, that the existence of certain police and military personnel is not revealed. In Eastern European countries, market-specific services have much less importance than in Western Europe, with the exceptions of transport and communications in the Soviet Union, the country with the biggest surface area in

the world, as well as in Hungary and the GDR. In contrast, there is much less provision for trading services in Eastern Europe. The structural differences between East and West are greatest in the "remaining" market-specific services, above all in financial services (banking and insurance), household-orientated services (education and science as well as restaurants and tourism) and company-related services (legal and economic consulting and other). Many of these areas are a domain of Western market economies. In the countries of the EC, the "remaining" market-specific services, measured in terms of growth in production and employment, make up the economic sector expanding at the

most dynamic rate. It is expected that this sector will also expand into the countries of Eastern Europe and inject great momentum into their national economies.

Export and import structures As in the EC, external trade in the East European countries is characterised by trade within their own economic space: in 1988, the seven East European state-trading countries effected 57% of exports and imports amongst each other and 5% with other state-trading countries, that is to say around 62% with other planned economies; around 26% went on trade with industrialised countries in the West and 12% on trade with developing countries (see Table 3). The orientation towards trade with state-trading countries on a reciprocal basis reaches 67% to nearly 80% of total trade in four East European countries. A different picture can be seen in the three countries, whose economic structures are characterised particularly strongly by raw material reserves and mining (USSR and Poland) and agriculture (Rumania and Poland). These mass-produced goods can be offered more easily on the markets of EC countries and are reflected in the higher shares these countries have in world trade. In the transition to the market economy, East European countries are also having to break away from the traditional COMECON system. Trade within COMECON is fashioned in compliance with planned economy rules developed over the last four decades. Essentially, trade between COMECON countries is calculated through a system of bilateral compensation, whereby part balances are kept in turn. Both bilateral part balances and surpluses between countries within COMECON may be offset against each other. This means that the COMECON system lacks both

Table 3
Export and import structure of Eastern Europe according to region, 1988

(Shares in %)		State-commercial countries (%)	Western Indus. countries	Developing countries	Total in %	Total in billion \$
Bulgaria	X	80.5	6.9	12.6	100.0	17.4
	M	76.3	17.2	6.5	100.0	16.9
CSSR	X	75.9	18.5	5.6	100.0	24.9
	M	74.8	21.1	4.1	100.0	24.2
GDR	X	66.9	27.0	6.1	100.0	27.8
	M	66.4	29.2	4.9	100.0	26.7
Poland	X	43.7	46.7	9.6	100.0	13.5
	M	44.1	49.2	6.7	100.0	11.8
Rumania	X	55.7	32.8	11.5	100.0	13.1
	M	69.4	16.8	13.8	100.0	10.0
Hungary	X	72.1	22.6	5.8	100.0	19.0
	M	70.9	24.6	4.5	100.0	17.5
COMECON (6)	X	67.7	24.4	7.9	100.0	115.7
	M	68.4	25.4	6.2	100.0	107.0
USSR	X	55.7	24.7	19.6	100.0	110.7
	M	57.4	28.7	13.9	100.0	107.4
COMECON (7)	X	61.8	24.5	13.7	100.0	226.4
	M	62.9	27.0	10.1	100.0	214.4

(*) including the People's Republic of China (PRC)
Index: X = Exports; M = Imports (FOB).
Source: GATT (publisher), International Trade 1988-89, Vol. II, Geneva 1989;
Ifo Institute estimates

goods and currency convertibility. Countries therefore have to avoid surpluses when trading with each other. Trade flows used to be converted by using transferable roubles, in accordance with the "Bucharest formula". These were converted by referring to a sliding scale of five year world market price averages based on the official transferable rouble exchange rates. While this system tended to produce reliable clearing prices for raw materials, there were great difficulties with manufactured products and their multiple differences in quality, and state negotiating and planning mechanisms had to compromise so as to work towards balancing bilateral trade flows. In the past, the Soviet Union mainly exported energy sources and raw materials, which could easily have been sold for hard

currency on the world market at higher prices. In return, the USSR often received internationally non-competitive goods from the six other East European countries and in so doing incurred losses in trade with COMECON countries on each surplus. Products to be supplied from individual countries were laid down in specialisation agreements. With the production and export structures firmly fixed, any re-allocation of production factors in response to price warnings was out of the question. The production and external trade structures of the COMECON countries thus avoided the dynamic adjustments and competitive pressure of international markets. Particularly in the smaller COMECON countries, this structural dependence on large parts of industry and the export sector will be slow to disappear and will limit the re-

form options of these countries for years.

Impulses of liberalisation and their macro-economic effects in the East and West

Different scenarios The events in 1989 and 1990 have brought about drastic changes in the political and economic reform process in East European countries. Overall, a scale and dynamic of change has unfolded in these countries, the like of which no-one would have believed possible even two years ago. At the same time, with the reunification of the two German states, the resultant economic impulses are spreading straight into the EC and, through the initial effects unfolding there, on into other countries. Although the former GDR was a latecomer in terms of the reform process in Eastern European countries in the 1980s, the newly-federalised states (Länder) in the East have moved up to the head of the field in the race for European reform with their accession to the Federal Republic and the structural changes already brought about. With the integration of the East's five federal states, the new Federal Republic of Germany has become the economic powerhouse of Europe.

Among the other smaller East European countries, Hungary and Poland are the two in which the market economy-orientated reform process has progressed furthest. In the past two years, both countries have undertaken far-reaching reforms of their systems in order to change over to the market economy. Reforms were also introduced in 1989 and 1990 in Czechoslovakia and Bulgaria in order to develop price mechanisms and competition and to boost private enterprise, although the reform process here is making slow in-

itial progress. Rumania, which hitherto had shut the door on any reform, has only now undertaken very minor and limited steps towards relaxing its planned economic system; these measures are concerned with agriculture and small industry, in order to improve domestic supplies.

Under the policy of Perestroika introduced by Mikhail Gorbachev in the USSR in 1986/87, the political and economic re-modelling in the USSR took on a fresh look and dynamism which spread to other countries in COMECON and gave credence and impetus to their own reform efforts. However, a look back at the results obtained in the Soviet Union in the last three years shows clearly how difficult it is to adapt and improve the guiding mechanism. The measures resorted to in the last three years amid stormy debate have so far brought little success and have rather reduced the efficiency of the economic process. The decentralisation of authority over decisions has produced a tangle over responsibilities, and the supply of goods to the population is in a catastrophic state. The mixed experiences of the countries of Eastern Europe in the transition to the market economy make it virtually impossible to predict how economic development in these countries will proceed in the 1990s. In addition to this, there are a range of questions left open; will economic growth in East European countries accelerate in the future or will drastic set-backs have to be reckoned with? How will democratisation in Eastern Europe affect the armaments sector, and will there be a marked reduction worldwide in defence spending? How will the East European countries' relations with the Western industrialised countries and EC countries develop? The ability

of the market economy-orientated process of democratisation in Eastern Europe to cope will depend crucially on achieving the institutional requirements for successful structural change. For this, the following conditions are of particular relevance:

- ❖ a company charter based on private ownership, corresponding competition and decentralisation and privatisation of state concerns;
- ❖ dismantling of price controls and subsidies, allocation of supply and demand in accordance with the law of the market;
- ❖ at macroeconomic level, the building of a new system of fiscal, money and currency policy.

State activities should be revised against this framework. Major challenges and tasks stem, above all, from the renewal of the infrastructure and the elimination of environmental pollution. Also in need of reform is the social security systems, which plays an important role even in the first phase of change with the shocks of adaptation (inflationary surge, sharp rise in unemployment).

Within the framework of a study for the EC Commission, the Ifo Institute has devised two scenarios for the development of the economies in Eastern Europe. "Scenario A" is described as the "Vale of Tears"; this assumes that the planned economy-orientated structures will only be adapted with difficulty and slowly, and that the traditional deficiencies of the system will initially leave their mark on the economic process. Political problems such as the ethnic unrest in the regions of the USSR also add to the influences which are fuelling difficulties within the reform process. In this basic scenario, falling income per head is expected initially in East

European countries during the crisis of adjustment over the next few years; only in the second half of the 1990s is a small increase in incomes expected. Spurred by unfavourable economic development over the next few years, it is reckoned that there will be a further strong migratory movement to the West. The relative optimism of "Scenario B" starts from the premise of an "Early Take-off", which assumes that the institutional requirements necessary for a successful market economy steering process will be introduced speedily. Through this comes the rapid development of private economic activities at home, which are given additional impetus by direct investment from Western firms and joint ventures. The process would be supported by international credit and targeted debt remission. Under this scenario, income per head would increase more quickly and would be visible already by the beginning of the 1990s.

Under these conditions, the following annual average growth rates for real overall economic activity in the six East European countries (not including the former GDR) have been assumed in the two scenarios:

- ❖ scenario A: around -1% from 1987 to 1995; c. 3% from 1995 to 2005;
- ❖ scenario B: c. 1.5% from 1987 to 1995, c. 4% from 1995 to 2005.

Through pressing ahead with external trade between the countries of Eastern Europe and the EC, there are conclusions to be drawn on the macroeconomic and branch repercussions in the East and West. These will be addressed in the following sections.

Modernisation needs in Eastern Europe and starting points for finance

In the national economies of Eastern Eu-

Table 4
Net indebtedness of East European countries in convertible currencies

(Thousand million \$)	1985	1989
Bulgaria	1.4	7.7
Czechoslovakia	2.3	3.1
East Germany	7.1	11.1
Hungary	11.7	19.5
Poland	28.1	36.5
Rumania	6.3	-0.1
Total of the Six	56.4	77.7
USSR	18.3	36.4
Total of the Seven	74.7	114.1

Source: ECE.

rope, there is still a major need for the reconditioning and broadening of national economic capital funds. Deficiencies in capital funds and the productivity gap compared to the Western industrialized countries are reflected in the structure of external trade between East and West as well as in the tendency of East European countries to have a poor external trading position and mounting foreign debt. From 1985 until the end of 1989, the foreign debt of East European countries rose from 75 thousand million US dollars to 114 thousand million dollars (see Table 4). The re-organisation of the economic system has made the capital requirements of East European countries even more pressing. During reorganisation, many countries have slumped into a fundamental crisis of structure and adaptability, which they cannot overcome without Western assistance and loans, whose absence would threaten the liberalisation process now under way. Therefore, in international economic and political discussions, all kinds of aid programmes have been demanded, discussed and in places already put into effect. In order to illustrate the capital needs and volume of finance being talked about here, a few examples are addressed regarding the size of these figures and possible financial

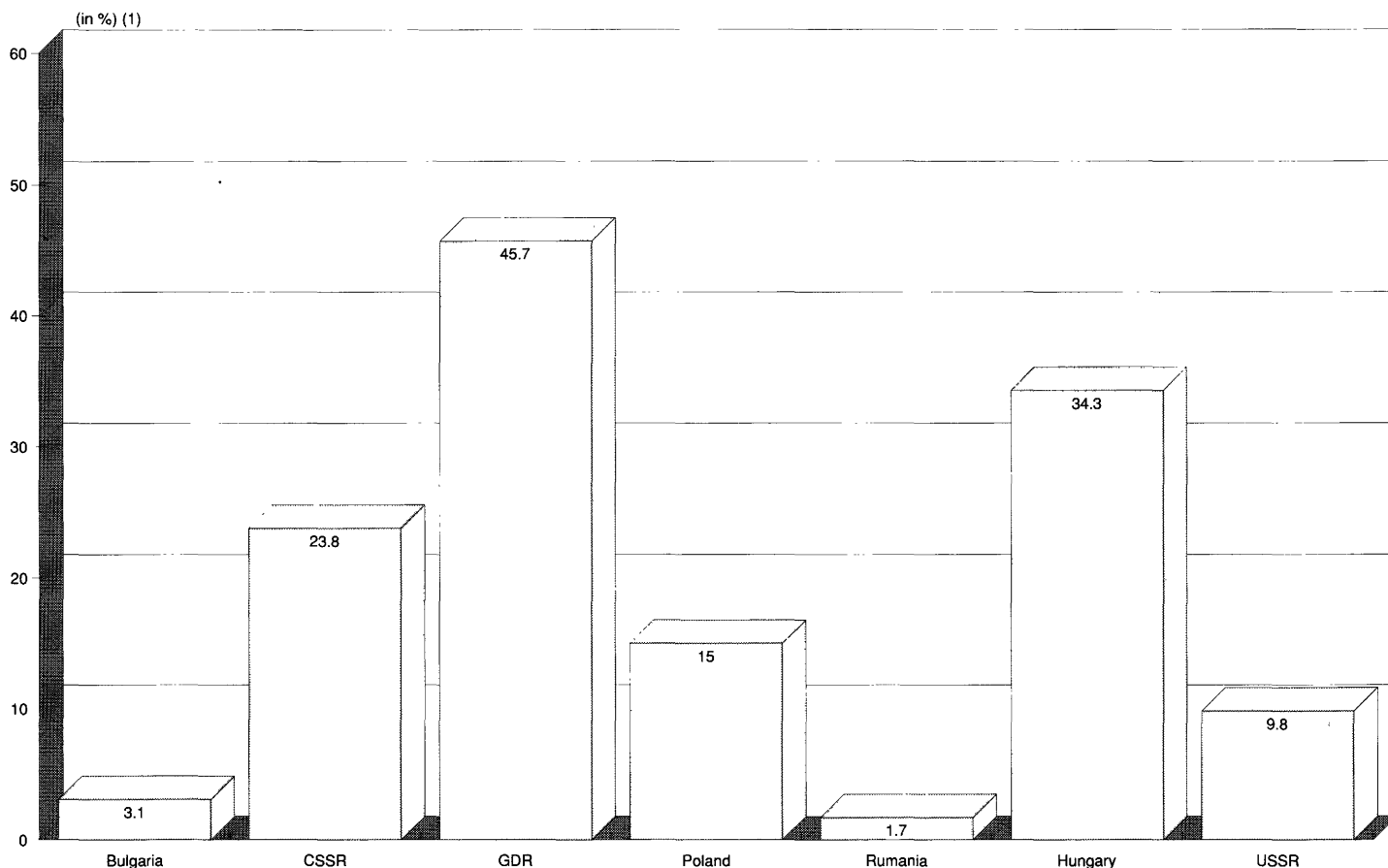
starting points.

While some are suggesting debt remission for East European countries along the lines of the path taken with developing countries, others are demanding that Western industrialised countries help Eastern Europe via a new Marshall Plan.

The President of the EC Commission submitted a proposal to the European Parliament in January 1990 which pointed in a similar direction; were the EC to give East European countries the same amount of aid as it gives to its own problem regions, this would require 14 thousand million ECU a year, applicable over a period of five to ten years - depending on the reorganisation process of the change. With the inclusion of a further 5 thousand million ECU which would be made available by the European Investment Bank, annual assistance would amount to 19 thousand million dollars a year.

However, if such assistance is to succeed, a fundamental need is the realisation of the institutional requirements listed earlier in the initial phases of adjustment. Public assistance and loans from Western industrialised countries and international organisations will, in the current situation, certainly play an important role in underpinning the process of reform introduced in the East. Ultimately, however, it will depend on guiding and encouraging private investment from East and West in the building process. Various industrialised countries have lately increased their loans to East European countries, while international bodies such as the International Monetary Fund and the World Bank have also granted new loans. In contrast, the extent of direct foreign investment in Eastern Europe has until now shown a modest

Figure 4
Attractiveness of Eastern countries as regards direct investment



(1) % of all 420 ESI participants
 Source: ESI 28, 2/1990

character; for the end of 1989, the fund was estimated to be 2 thousand million US dollars. Thus far, direct investment has occurred as a rule in the form of joint ventures, in which there was a firm stipulation on the host country to put up capital. Only from 1989 could a loosening of this rule be detected in Eastern Europe, meaning that in future a greater influx of foreign investment can be expected.

In the course of its Economic Survey International (ESI), the Ifo Institute carried out a survey in April 1990 of firms around the world, asking them how the economic liberalisation in Eastern Europe will turn out and which countries will attract the most foreign capital following this development. On average the former GDR was named in first place; Hungary, Czechoslovakia, Po-

land and the USSR then followed in the league table of attractiveness for direct foreign investment (see Table 4).

Initial macroeconomic effects in East and West Economic liberalisation in Eastern Europe will have positive effects throughout the world. Beneficial effects are being predicted in Western Europe especially. As the results of the Ifo Institute's ESI survey show, it is the West European countries in regional proximity to the countries of Eastern Europe who will especially benefit from the reforms in the East. In the EC, this above all means the Federal Republic of Germany, the Benelux countries and Italy (see Figure 5).

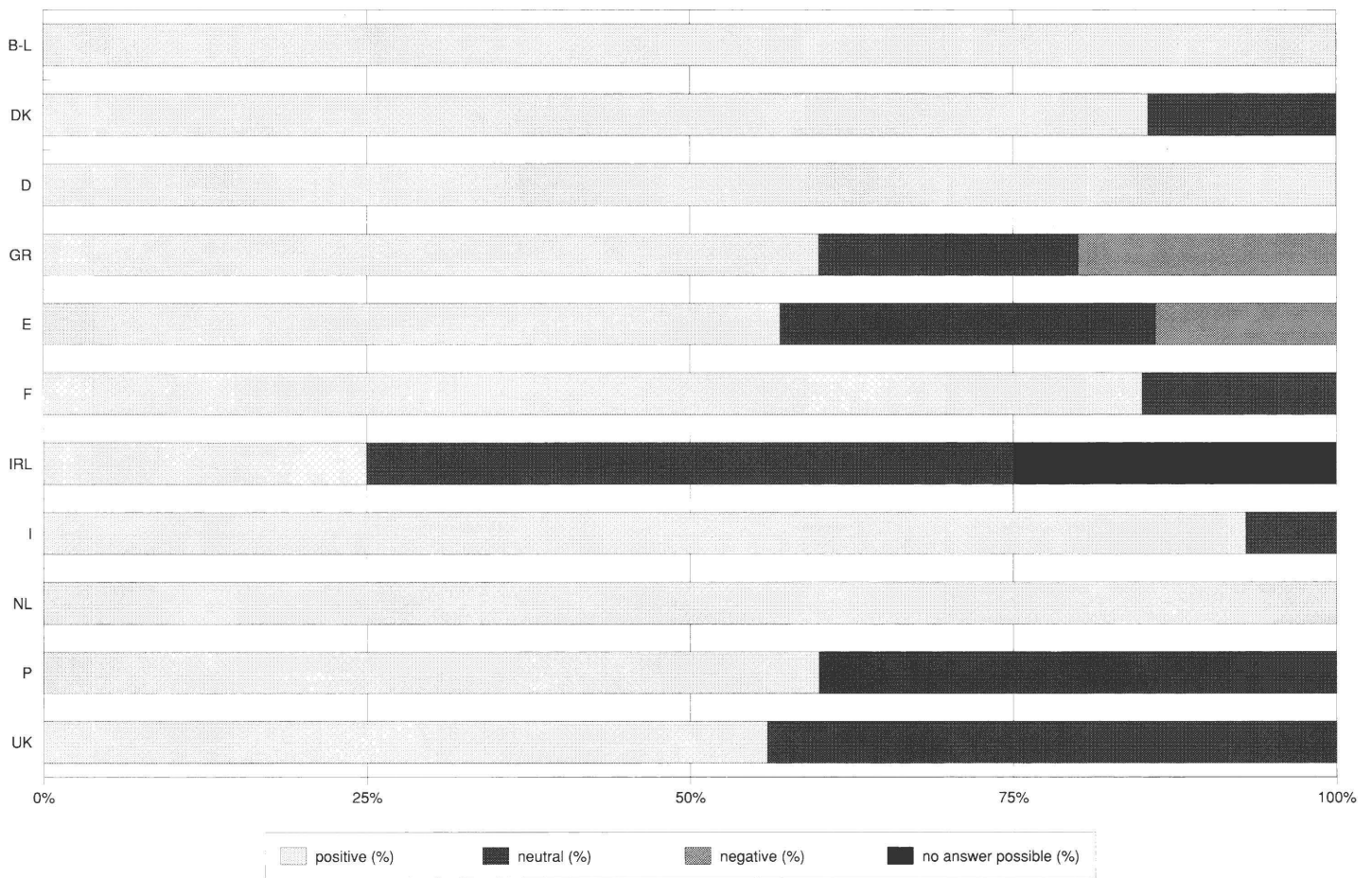
In estimating the quantitative macro-economic effects of the opening up of Eastern Europe, the GDR has been treated as a

special case (see frame).

Economic effects of German unity on the German economy

With the preliminary stage of currency, economic and social union on 1 July 1990 and the unification of the two halves of Germany on 3 October 1990, the planned economy was superseded by the market economy overnight. In the course of this integration, the social and economic gulf separating the two parts of Germany is being narrowed far more quickly than is the case for the comparative gulf with the other countries of Eastern Europe. The statistics for both parts of Germany will also grow ever closer together and show cross-regional indicators for the new area covered by the Federal Republic. The far-reaching change in the 1989/90 world economic framework condi-

Figure 5
Expected overall economic consequences for EC countries of East European liberalisation



Source: ESI Survey 28, 2/1990

tions has also prompted the Ifo Institute to revise its prediction for the trend in 1990s growth in the Federal Republic of Germany within its former borders upwards by one percentage point: the Ifo Institute is now starting from the premise of a 3% growth trend during the 1990s. This adjustment can be traced to two factors in particular; first of all, the population growth due to immigration from the East and the unification of Germany, and secondly, the impulses generated by the completion of the European Internal Market and the effects on growth expected in the latter course of the 1990s from the opening up of Eastern Europe. The growth effects of Internal Market integration and the opening up of the East can hardly be viewed separ-

ately. At a rough guess the two effects should each contribute half a percentage point to the revised upward estimate on growth.

For the Federal Republic within its new borders, the Ifo Institute is pointing to an annual rate of growth of 3% for the period 1990-1995. The major economic and scientific research institutes, in their predictions for the Community made in October 1990, have for the first time produced economic predictions for West Germany, East Germany and the Federal Republic overall. The growth rate of the gross national product in the new, larger Germany is expected by the institutes to be around 1.5% for 1991, which is of little meaning in view of the strongly divergent trends in West

and East Germany. Of particular interest in gauging changed market dimensions are the reference data on the employment market and the gross domestic product, which are reproduced in Table 5. In economic terms, it appears that East Germany will reach the low point in its economic activity in the summer of 1991. Owing to the substitution of demand from domestic to foreign goods, there will initially be a drastic rise in unemployment in East Germany and a sharp increase in imports. At the same time, far-reaching changes in the production structure and a corresponding productivity surge in East Germany will result. The changes observed in the first months after the implementation of economic, monetary and social union on 1 July

Table 5
Selected reference data on the national accounts of the
Federal Republic of Germany, 1990/91

	West Germany		East Germany		Bundesrepublik Deutschland	
	1990	1991	1990	1991	1990	1991
Reference data on job market (in 1000 persons)						
Number in employment	28 320	28 800	8 720	7 000	37 040	35 800
Unemployment	1 900	2 000	250	1 400	2 150	3 400
% unemployment rate (%)	7.0	7.0	830	17.5	6.0	9.5
Part-time	60	80	1 750	1 750	890	1 830
Migrant balance	15	280	-120	-380	-105	-100
Reference data on GDP in DM thousand million						
Private consumption	1 295.0	1 379.5	171.0	177.0	1 466.5	1 556.5
State consumption	443.0	466.5	69.5	64.5	512.0	531.0
Capital investment	517.5	571.5	63.0	75.0	580.5	646.5
Equipment	236.0	259.0	35.0	40.5	271.0	299.5
Buildings	281.5	312.5	28.5	34.5	309.5	347.0
Prov. change	24.0	25.5	- 9.0	- 9.5	15.0	16.0
External contribution	148.5	138.5	- 51.0	- 75.0	97.5	63.0
Exports	864.5	964.5	56.5	62.5	839.0	907.5
Imports	716.0	826.0	107.5	137.5	742.0	844.0
Gross domestic product	2 428.0	2 581.0	243.5	232.0	2 672.0	2 812.5
For information:						
Domestic demand	2 279.5	2 442.5	295.0	307.0	2 574.5	2 749.5
Balance of payments (VGR)	109.5	93.0	- 51.5	- 76.5	58.0	16.5

(*) Refers to total employed and unemployed

Source: Joint diagnoses made by five economic and scientific research institutes, October 1990

1990 are characteristic of this radical switch, although it remains to be seen how long the adjustment period will last. The reference data presented in Table 5 show that the productivity level in East Germany - measured in gross added value for every employee - should have reached around one-third of the West German productivity level in 1990; since the middle of the year, an intense process of restructuring and catching up has been under way. This process is set to continue. In 1991, the economic research institutes in West Germany are expecting a real increase of productivity of around 18% for working hours and of around 7% for employees. In order to include the macroeconomic effects of other East European economies on EC countries, a different path is being

followed. At the Ifo Institute (Gerstenberger 1990), within the framework of a study for the EC Commission, a macroeconomic model was developed to show the potential impulses from the East's opening up and their repercussions on the EC countries associated with East/West trade. The starting point is in the assumptions made earlier as regards scenarios A and B on development in Eastern Europe. Accordingly, the following annual average growth rates for real exports from EC countries to Eastern Europe (including the Soviet Union and the former GDR) are produced;

	Scenario A	Scenario B
- 1973 - 1988:	1.2%	1.2%
- 1988 - 1995:	9.9%	13.9%
- 1995 - 2005:	4.7%	10.3%

In this respect, exports to the East from

EC countries will clearly be higher in the 1990s than the former growth trend. When measured against the 1980s trend (around 1.2% per year), the growth rate for real exports to East European countries on average in the 1990s should expand each year by around 10% in Scenario A and by around 6% in Scenario B in round figures. Above average growth rates are expected for exports to Hungary and Czechoslovakia. The importance of exports to the East in EC trade (share of EC exports in 1988: 2.5%, excluding the GDR with 2.3%), and with it also of imports from the East, would increase accordingly and would also add impetus to overall economic growth in the EC. Nevertheless, it may be supposed that the additional growth effect (with reference to GDP) on EC countries will turn out to be

smaller than the impetus expected for growth in the Federal Republic itself from unification with the former GDR.

Risks resulting from higher oil prices

Higher oil prices will initially restrict growth in East European countries. With the break-up of COMECON, East European countries will no longer be able to import oil from the Soviet Union at favourable prices. In future they will have to pay the world market price for crude oil - at a time when oil prices have risen sharply. In 1989, the Soviet Union exported around 190 million tonnes of crude oil and oil products. At a world market price of 16.44 US dollars per barrel (120.5 US dollars per tonne), this corresponds to a theoretical market value of some 23 thousand million US dollars (theoretical, in as much as the set prices calculated until now in

COMECON countries did not reflect world market levels). Since January 1990, the USSR has been demanding that COMECON countries also pay for their supplies of oil in convertible currency and had already largely switched to this practice by the second half of 1990.

On top of this comes the shock of steeply rising oil prices on the international markets. In October 1990, the average price of each barrel of oil imported by OECD countries was around 32 US dollars (F.O.B. based), and, in due of the Gulf Crisis, there is great uncertainty over what level the oil price will reach in 1991. It is assumed that the price of crude oil on average for the year 1990 will account to 22.5 US dollars per barrel and 28 US dollars per barrel in 1991. Under these price assumptions and at a constant sales volume, the theoretical market value of Soviet oil exports would produce around

Importing country

Importing country	Million tonnes	Shares (%)	Theoretical market value (billion US \$) (*)
COMECON	99.63	52.5	12.0
Eastern Europe	83.57	44.0	9.9
- Bulgaria	12.63	6.6	1.5
- CSSR	16.86	8.9	2.0
- GDR	20.12	10.6	2.4
- Poland	15.17	8.0	1.8
- Rumania	11.00	5.8	1.3
- Hungary	7.79	4.1	0.9
Others	6.46	3.4	0.8
- Cuba	5.44	2.9	0.7
- Mongolia	0.83	0.4	0.1
- Vietnam	0.19	0.1	0.0
Yugoslavia (*)	9.60	5.1	1.2
Developing countries	9.73	5.1	1.2
OECD countries	80.38	42.4	9.7
Total	189.74	100.0	22.9

(*) converted using the average import price (FOB) of OECD countries, 1989: \$ 16.44/barrel = 120.50 \$/tonne
 (*) Observers (not members) in COMECON
 Source: Petroleum Economist 8/1990; IEA; ifo institute estimates

31 thousand million US dollars in 1990 and 39 thousand million dollars in 1991. The oil bill for oil-importing countries in East and West would, following this example, rise by a factor of 1.7 when comparing the years 1989 and 1991. These sharply rising oil prices have triggered a redistribution of revenue flows throughout the world. While oil exporters can point to positive revenue effects, oil importers are burdened with bigger payments. This can be demonstrated by the indicated price and quantity assumptions for changes in the oil bills of individual regions from 1989 to 1991: in 1991, the USSR will be able to accrue 16 thousand million US dollars in extra revenue compared to 1989. The OPEC countries, by exporting 19 million barrels per day (MBD), can expect a 82 thousand million US dollars jump in revenue from 113 thousand million dollars to 195 thousand million dollars.

In contrast, the six East European COMECON countries (including the former GDR), under changing import volumes (simply for oil imports from the USSR), would have to shoulder a price increase of 7 thousand million US dollars (from 10 to 17 thousand million US dollars). For EC countries, the oil bill rises by 23 thousand million US dollars to 80 thousand million US dollars. In view of this, growth estimates in the industrialized countries were reduced considerably. In its June 1990 Economic Outlook, the OECD was still expecting 2.7% economic growth in OECD countries. In the interim, international research institutes have lowered these estimates to 2%. The effects in the oil-importing countries of Eastern Europe will be felt more severely. While East Germany, with support from the federal states in West Germany, will be able to cope relatively well with the

oil crisis, the higher oil bills and switch over to payments in convertible currency leaves the five other East European COMECON countries in very deep financial water. For these countries, the oil bill for imports arriving almost exclusively from the USSR is rising by 5 thousand million US dollars to 13 thousand million US dollars.

The dangers from higher oil prices for East European countries mean that the additional costs are on a scale over and above the suggested financial volumes in the framework of many aid programmes. These additional costs are being encountered by the East European countries during a critical phase of the process of liberalisation and democratisation, in which they are reliant more than ever on Western support.

Opportunities and dangers facing EC industries

Specialisation of EC countries in

East-West trade East-West trade is characterised by major differences in specialisation in the different industrial branches. In keeping with their weaker level of industrialisation, foodstuffs and raw materials dominate East European exports to EC countries. Furthermore, unfinished goods and less technically sophisticated consumer goods are of relatively high importance (see Table 7). In the opposite direction, foodstuffs and raw materials are virtually inconsequential in most EC countries' exports to the East (see Tables 7 & 8). The southern EC countries of Greece, Portugal and Spain, as well as Denmark and Ireland, are exceptions to this; around one-third of their exports to the East stem from the agricultural sector.

In the range of EC exports to the East, in-

vestment goods and other products from the SITC Group of Seven are by far the most important, followed by goods categories 6 and 5 (see Table 7). In gearing their production and export structures to manufactured products, the individual EC countries show marked differences in specialisation. Chemical products show up relatively strongly in the export structures of France and the Benelux countries in particular. Great Britain places the emphasis on specialisation in multiple consumer goods, while investment goods show up relatively strongly in the EC in comparison with exports from Italy and West Germany. The Federal Republic of Germany has traditionally held a dominant position within EC trade with the East (see Table 9). In the course of East European countries' opening up to world markets, Germany will be able to extend with these ties and expand business connections.

However, the smaller EC countries also

Table 7
Structural differences in EC external trade with Eastern Europe (1)
according to categories of main goods 1989
Shares in %

Product Group (SITC)	Exports to the East		Imports from East			
	COMECON 5	USSR	COMECON 6	COMECON 5	USSR	COMECON 6
0-4 Raw materials	15.8	14.5	15.1	38.4	70.6	55.6
0 Foodstuffs	9.5	11.7	10.7	14.6	1.1	7.5
1 Drink & Tobacco	1.1	0.1	0.6	0.6	0.2	0.4
2 Indus. raw materials (excl. 3+4)	4.2	1.7	2.9	9.1	12.4	10.9
3 Energy sources	0.5	0.4	0.4	13.8	56.8	36.6
4 Plant oils & fats	0.5	0.6	0.5	0.3	0.1	0.2
5-6 Manufactured goods	84.2	84.5	84.9	61.6	29.4	44.4
5 Chemical production	17.5	17.2	17.3	8.0	4.9	6.3
6 Other pre-products	18.9	22.9	21.0	21.9	17.4	19.5
7 Investment goods	38.1	36.2	37.1	11.5	3.7	7.4
8 Consumer goods	9.4	9.1	9.3	19.2	0.9	9.5
9 Other	0.3	0.1	0.2	1.0	2.5	1.7
All goods categories	100.0	100.0	100.0	100.0	100.0	100.0
For information: all goods categories in Thousand million ECU	10.6	11.4	22.0	11.8	13.4	25.2

(1) Excluding GDR
Source: Eurostat, Ifo Institute estimates

Table 8
Differences in EC country export specialisation to Eastern Europe (1)
according to main categories of goods 1989
specialization index (2)1989
(Share of EC countries = 100)

Product Group (SITC)	B/L	DK	D	F	I	NL	UK	Others (3)
0 Foodstuffs	43	250	77	175	21	296	98	229
1 Drink & Tobacco	44	241	66	177	58	108	208	223
2 Raw materials (excl. 3 + 4)	175	58	49	160	81	226	131	425
3 Energy sources	314	522	44	110	60	247	53	344
4 Plant oils & fats	413	9	57	76	83	323	39	259
5 Chemicals	153	29	83	178	79	127	117	76
6 Other pre-products	175	32	109	76	114	38	65	126
7 Investment goods	49	128	115	55	130	55	100	50
8 Consumer goods	72	116	103	85	97	81	148	92
9 Other	61	59	71	19	39	548	288	316
All groups	100	100	100	100	100	100	100	100

(1) Exports in 6 COMECON countries (not including GDR)
(2) Share of products groups per country in exports to the East overall compared to the corresponding share for all EC countries
(3) Greece, Ireland, Portugal, Spain
Source: Eurostat; Ifo Institute estimates

have the opportunity to succeed in specialised markets in the East. This will rather depend on out manoeuvring the advantage of regional proximity held by the German federal states through better information and marketing measures. In trade with the former GDR, unification between the federal states of East and West has created entirely new framework conditions. At present, production structures need to be developed in the Eastern federal states along the lines of Western consumer structures. This break in structure will also shape the external trade of the Eastern federal states; general pressure from imported goods will be generated by the purchasing power of the population; in 1991, imports are thus expected to rise by around 28% nominally, or more than 20% in real terms (see Table 5). Structurally, high-quality consumer goods, which the population had to do without for a long time will be in demand in the building phase, as will investment goods for reconstruction. Generally, opportunities for openings will be very widespread, particularly as it is expected that the Eastern federal

states will by next year have begun to move up economically and structurally.

Subsequent effects of liberalisation on sectors The process of democratisation in Eastern Europe and the greater integration of these countries into world markets mean that positive growth effects can be expected particularly in neighbouring EC countries. The overall economic effects on Eastern Europe will initially depend on how rapidly the introduction of a market-economic order there will initiate a lasting surge in growth. Assessment of the present political and economic development strands in the East and West shows that excessive euphoria over growth would not be in order. The sharply rising oil prices are also dampening down the short-term outlook for growth throughout the world. Indeed, it will only be possible to achieve accelerated growth in the second half of the 1990s. From the point of view of demand potential, this is initiating favourable prospects for sales. What effects will stem from the opening up of Eastern Europe for different branches of industry, and what are the apparent opportunities and risks for individual areas of the economy in

EC countries? The disarmament process, with major reductions in arms expenditure in the East and West, will produce a marked drop in sales in the weapons industry. The Stockholm Institute for Peace Research, in a study produced in October 1989, assumes that arms companies will be selling 30% fewer weapons than today by the middle of the 1990s. Of the 100 biggest arms manufacturers in Western Europe, 28 British, 25 German and 17 French firms will be affected by this. The branches of industry likely to be especially affected will be electronics, aero-

Table 9
EC national exports to the East
League table according to
EC countries in 1989

	Exports to East (billion ECU)	Share (%)
EC (12)	21.97	100.0
BRDeutschland	10.69	48.7
Italia	3.48	15.8
France	2.71	12.4
United Kingdom	1.45	6.6
Nederland	1.32	6.0
Belgique/Luxembourg	0.84	3.8
España	0.51	2.3
Danmark	0.45	2.0
Hellas	0.29	1.3
Portugal	0.13	0.6
Ireland	0.10	0.5

Source: Eurostat; Ifo Institute estimates

Table 10
East/West comparison of patent
applications made worldwide
Number of discoveries
over the period 1985-1988 (1)

	No.	World Share %
COMECON (7)	5 942	2.1
Bulgaria	197	0.1
CSSR	532	0.2
GDR	2 936	1.0
Poland	215	0.1
Rumania	8	0.0
Hungary	1 055	0.4
COMECON (excluding GDR & USSR)	2 007	0.7
USSR	999	0.3
EC countries	112 186	39.1
Belgique/Luxembourg	1 902	0.7
Danmark	1 306	0.5
BR Deutschland	54 856	19.1
Hellas	67	0.0
España	1 245	0.4
France	18 503	6.4
Ireland	510	0.2
Italia	9 125	3.2
Nederland	4 747	1.7
Portugal	52	0.0
United Kingdom	19 873	6.9
USA	73 826	25.7
Japan	67 004	23.4
World	286 944	100.0

(1) Discoveries with patent applications in more than one country
 Source: INPADOC (up to 6/7/90); its patent statistics made with Eastern Europe 1)

space, vehicle manufacture, shipbuilding and machinery and engine manufacture. Large companies with a broadly diversified production programme will have relatively good chances of overcoming the process of re-organisation through non-military products. Suppliers in Western Europe will tend to be favoured by the switch in the demand structure in the East over to high-quality consumer goods. EC manufacturers have an internationally strong competitive position in technologically high-quality goods of this kind. This is shown in the comparison between the different specialist areas of EC countries and COMECON countries in mutual trade. It also becomes apparent in patent applications, which are a forward-looking early indicator of international com-

petitiveness. Measured in the number of patent applications made worldwide, EC countries generally demonstrate a major lead over COMECON countries; the ratio of patent applications from the two economic spheres amounted to 19:1 over the period 1985 to 1988 (see Table 10). When analysing patent applications worldwide in respect of the comparative specialist advantages, the superiority of EC countries in technology-intensive goods is again apparent - similar to that of trade flows. In contrast, the comparative advantages of East European countries lie above all in machinery for agriculture, mining and the construction industry, where the dominant orientation of East Europe towards the Soviet market is manifested. The limitations of statistics should, however, be emphasised here. Thus, on grounds of security, data on patents contain no details on the Soviet aerospace industry - an area in which the USSR undoubtedly plays a leading role. Overall, it can be established that EC countries, in view of their competitive strength in technology, are well-prepared for the integration of East European countries into the world economy when comparing East and West. Even in sensitive branches of the economy, like the steel industry, or in the consumer goods sector, such as the textiles and clothing industry, West European manufacturers will be able to carve themselves a successful niche. In these areas too, West European manufacturers show major leads in productivity and a leading technological position throughout the world. For example, it should be remembered here that the low-cost skein casting method in the European Community is used today to the tune of

85% in steel production, in contrast to Eastern Europe where its usage is only a meagre 20%. The European Community also demonstrates a competitive lead in the capital-intensive textile industry, whereas the chances for East European producers lie more in labour-intensive mass-produced products in the clothing industry. Even in areas of the economy such as the steel, textiles and the clothing industry, the European Community will maintain its market share. The opportunities for the international division of labour and trade between East and West in these areas lie in the comparative advantages of individual countries. Thus, Western manufactures will be able to build on their lead in technology and capital-intensive products lines, while Eastern producers should have advantages in labour-intensive products and, for local needs, goods with prohibitive transport costs. Within the scope of liberal world trade and the further dismantling of prevailing trade restrictions, industrialised countries, such as the United States and Japan, and developing countries, in particular those in South-East Asia, will also be wanting to exploit their possibilities as the markets of Eastern Europe open up. There is a challenge here for East European countries themselves, but also for industries in EC countries. In competition for East European markets, EC countries face danger above all in those market areas where they lag behind the technology of, for example, the United States and Japan. When measured in applications for patents, the key industries of information and communications technology such as electronics and news technology, precision engineering and optics, and the office

machines and ADP industries are among the sensitive areas. Measured on the specialist index of applications for patents, the EC countries show a marked weakness in these economic areas in respect to their competitive position in technology compared to the United States and especially Japan (see "Highlights" chapter). Lastly, attention should be directed to the services sector. In world trade in the 1990s, services, which are the dominant sector of the economy in industrialised countries, will catch up with and probably expand far more quickly than trade in goods. New information and communications technologies and the related dwindling of distances between countries in terms of their economic importance will stimulate the international trade in services. In Eastern Europe, given the large capital needs, the financial services and corporate services (e.g. building and engin-

earing services and consulting) of Western firms will be especially in demand. EC countries which hitherto had been more heavily committed than other Western countries to external trade with countries in Eastern Europe, will be in a position to establish their lead. In contrast, East European countries have relatively sound opportunities for greater expansion in the tourism field.

To sum up, it can be determined that the introduction of a liberal economic order in the countries of Eastern Europe will bring with it important changes for EC countries and their external trade with the East.

Nevertheless, the extent to which changes occur is being slowed down by the capacity to adapt the institutional framework conditions in Eastern Europe, which are dulling expectations of the market economy making a swift breakthrough. In the direction of structural change, the integration

of East European countries into the world economy will present EC countries with both opportunities and risks which are being fashioned in the development trends of the international division of labour. To stimulate East-West trade under the new framework conditions, it will be important to dismantle prevailing barriers to trade - in agriculture or "sensitive" branches of industry (like steel, textiles and clothing).

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The largest groups at world and Community level

The top 100 industrial groups in the world and the top 100 groups in the Community (industry and services) are classified according to their 1989 pre-tax turnover, converted into ECU (consolidated figures).

Turnover growth will be analysed as an overall picture. Within this document, it is not possible to differentiate between the internal growth of groups and external growth through the acquisition of other companies or by mergers. In some cases, mergers and acquisitions can have a major impact on the "consolidation perimeter" of groups.

A large number of groups have very diversified activities. When broken down on a sector basis, groups have been put in the sector which accounts for the largest share of their turnover.

As regards breakdown by region and country, the criterion is that of the group's origin. In a global economy, characterised by multinational companies present in several continents and with ever more diversified activities, the criteria of location loses some significance in many cases.

Comparisons over several years were carried out in constant ECU (at a constant 1989 exchange rate and at current prices).

The largest industrial groups at world level.

The Top 94 out of 100 of the largest industrial groups in the world are of American, European or Japanese origin.

The overall turnover of the Top 100 industrial groups in the world in 1989 was 2 304 billion ECU. The Top 10 alone represented nearly 30% of this total, a percentage which has remained almost unchanged for the past few years. The American industrial groups represent 40% of this global turnover, those of the European Community 35%, those of EFTA (European Free Trade Association) 4%, the Japanese groups 17% and other countries 4%.

PROGRESS OF THE COMMUNITY Figure 1 shows the reversal of American domina-

tion and the constant progress of Japan, as well as the advancement of the Community since 1986.

The United States' share of global turnover of the Top 100 still exceeds that of the Community, but the number of Community groups represented in the Top 100 now exceeds that of United States groups.

The first 37 industrial groups of the European Community in 1989 can be broken down as follows: Germany 12, France 9, United Kingdom 7, Italy 4, Netherlands 3, Belgium and Spain 1.

As regards Japan, the number of groups represented in the Top 100 increased rapidly between 1983 and 1986, but since then has remained static. Nevertheless, the share of Japanese groups in the glo-

Table 1
Numbers of groups figuring in the Top 100 of world industry

	1983	1986	1989
EC	31	30	37
EFTA	3	3	5
USA	46	40	35
Japan	9	17	17
Others	11	10	6

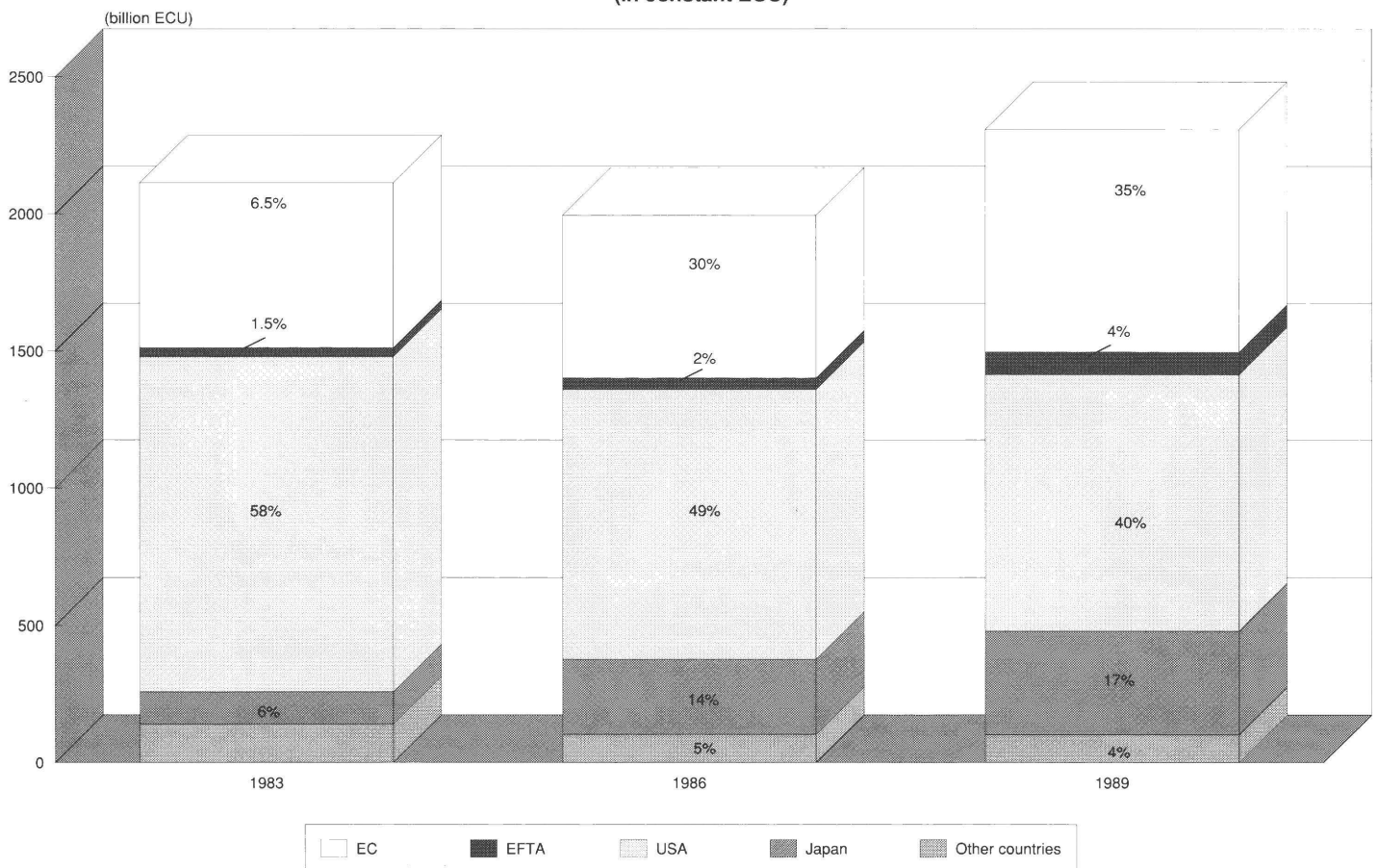
Source: DABLE

bal turnover of the Top 100 continues to increase: it almost tripled in six years, from 6% in 1983 to 17% in 1989.

The number of industrial groups at Top 100 level registering a negative result has decreased considerably during the past few years. This positive evolution reflects the general improvement in economic conditions between 1986 and 1989.

As regards the evolution of the net margin (net profit/turnover) of the foremost indus-

Figure 1
The 100 largest industrial groups in the world
Turnover evolution
(in constant ECU)



Source: DABLE

Table 2
Groups showing a loss

Year	Number
1986	7
1987	5
1988	1
1989	1

Source: DABLE

trial groups in the world, Community groups have been making constant progress since 1986. Their margin has more than doubled since 1986 and, in 1989, exceeded that of the American groups (Figure 2).

The evolution of the net margin per activity sector is represented by Figures 12, 13 and 14.

A broader analysis of the Top 500 of

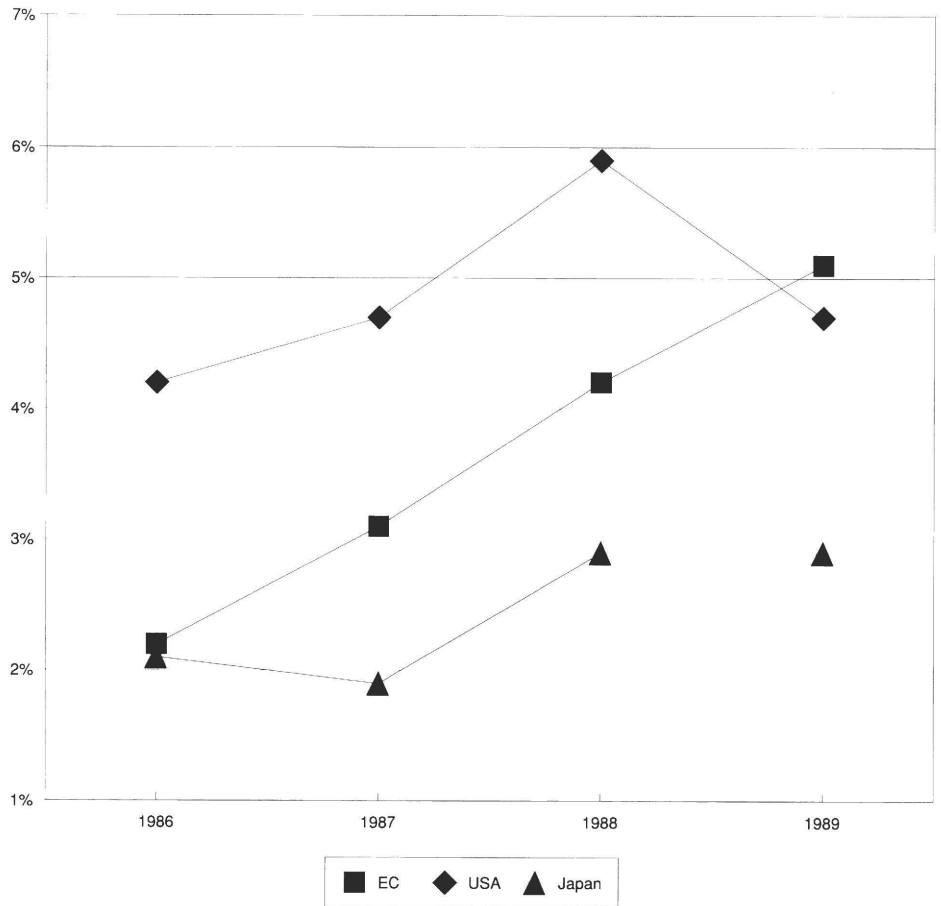
Table 3
Numbers of groups figuring in the Top 500

	1983	1986	1989
EC	135	141	142
EFTA	21	26	30
USA	224	189	153
Japan	75	99	119
Others	45	45	56

Source: DABLE

world industry shows even more strikingly the reversal of American domination.

Figure 2
The 100 largest industrial groups in the world
Net profit/turnover

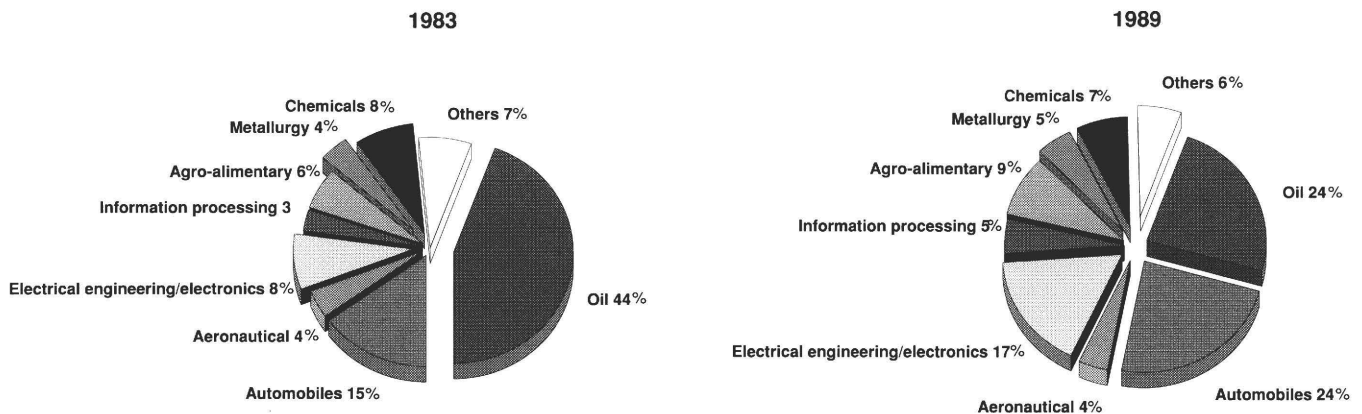


Source: DABLE

Over six years the United States has lost nearly one third of its representatives. On the other hand, the number of Japanese groups has increased by 59% and the

number from EFTA countries by 43%. The Community's relative progress is less marked in the list of the Top 500 industrial groups in the world than in that of the

Figure 3
The 100 largest industrial groups in the world
Turnover by sector



Source: DABLE

Automobiles

Figure 4.1

Turnover in 1983

(million ECU)			
GENERAL MOTORS	USA		103553
FORD	USA		61723
TOYOTA MOTOR	JPN		18786
CHRYSLER	USA		18384
FIAT	EC		18210
RENAULT	EC		16896
VOLKSWAGEN	EC		16065
DAIMLER-BENZ	EC		16032
NISSAN	JPN		15202
PEUGEOT	EC		15055
MITSUBISHI HI	JPN		11749
VOLVO	EFTA		9890
HONDA	JPN		7896

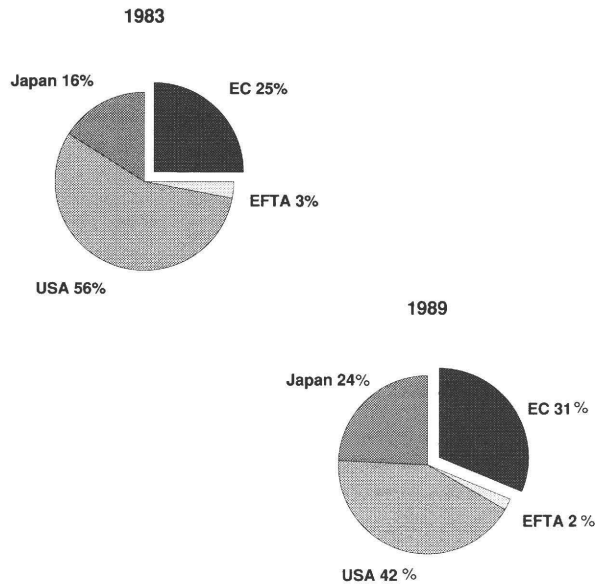


Figure 4.2

Turnover in 1989

(million ECU)			
GENERAL MOTORS	USA		115248
FORD	USA		87981
TOYOTA	JPN		54861
DAIMLER-BENZ	EC		36865
FIAT	EC		33347
CHRYSLER	USA		32817
NISSAN	JPN		31841
VOLKSWAGEN	EC		31537
RENAULT	EC		24920
HONDA	JPN		23090
PEUGEOT	EC		21865
ROBERT BOSCH	EC		14761
MITSUBISHI	JPN		14463
MAZDA	JPN		13694
VOLVO	EFTA		13285
BMW	EC		12795

Source: DABLE

Top 100. Compared to the spectacular rise of Japan and that of EFTA, the Community's progress is fairly modest.

Sector profile The outstanding factor in the past few years is the progress of the automobile, electrical engineering and electronics and information processing sectors in

the Top 100 of world industry.

AUTOMOBILES Among the largest automobile manufacturers in world industry, the United States still holds the first place. Their three representatives, General Motors, Ford Motor and Chrysler (numbers 1, 2 and 16 on the list) together account for 42% of

total turnover of automobile groups in the Top 100. Their average turnover, moreover, is three times higher than that of their Community and Japanese competitors included in this selection. FIAT and BMW have greatly improved their position in the list.

OIL The relative importance of the oil sec-

Figure 5.1

Turnover in 1983

(million ECU)			
EXXON	USA		122936
ROYAL DUTCH SHELL	EC		83149
MOBIL	USA		75819
BRITISH PETROLEUM	EC		63289
TEXACO	USA		55633
STANDARD OIL INDIANA	USA		38370
STANDARD OIL CALIFORNIA	USA		37963
GULF OIL	USA		36906
ENI	EC		36515
ATLANTIC RICHFIELD	USA		34915
OCCIDENTAL PETROLEUM	USA		26541
PEMEX	MEX		24590
PETROBRAS	BRA		24125
CFP	EC		21429
PHILLIPS PETROLEUM	USA		21172
ELF AQUITAINE	EC		20536
SUN	USA		20452
TENNECO	USA		20062
VEBA	EC		19712
PETROLEOS DE VENEZUELA	VEN		19144
GETTY OIL	USA		16106
SOHIO STANDARD OIL	USA		16105
BNOC	EC		15425
NIPPON OIL	JPN		14615
UNION OIL CALIFORNIA	USA		13976
AMERADA HESS	USA		11620
UNION PACIFIC	USA		11597
ASHLAND OIL	USA		10903
PETROFINA	EC		10777
YPF	AGO		10334
LUCKY-GOLDSTAR	KOR		5969

Oil

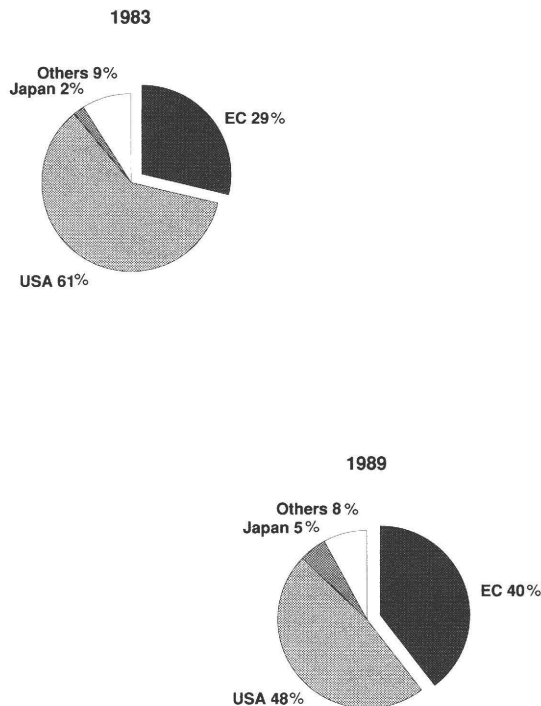


Figure 5.2

Turnover in 1989

(million ECU)			
EXXON	USA		78653
ROYAL DUTCH SHELL	EC		77901
MOBIL	USA		46268
BRITISH PETROLEUM	EC		44113
TEXACO	USA		29422
CHEVRON	USA		26724
ENI	EC		24614
VEBA	EC		23757
AMOCO	USA		22668
ELF AQUITAINE	EC		21331
OCCIDENTAL PETROLEUM	USA		18215
USX	USA		16115
TOTAL CFP	EC		15363
PETROBRAS	BRA		14849
NIPPON OIL	JPN		14844
ATLANTIC RICHFIELD	USA		14436
PEMEX	MEX		13849
PETROLEOS DE VENEZUELA	VEN		12414
PHILLIPS PETROLEUM	USA		11338
PETROFINA	EC		10228
IDEMITSU KOSAN	JPN		10210

Source: DABLE

Electrical engineering/electronics

Figure 6.1

Turnover in 1983

(million ECU)			
GENERAL ELECTRIC	USA		37206
ITT	USA		19654
PHILIPS	EC		16729
SIEMENS	EC		15818
HITACHI	JPN		15411
MATSUSHITA	JPN		14075
WESTINGHOUSE ELECTRIC	USA		13235
TOSHIBA	JPN		9912
CGE	EC		9570
GEN ELECTRIC COMP	EC		9406
SAMSUNG	KOR		5976

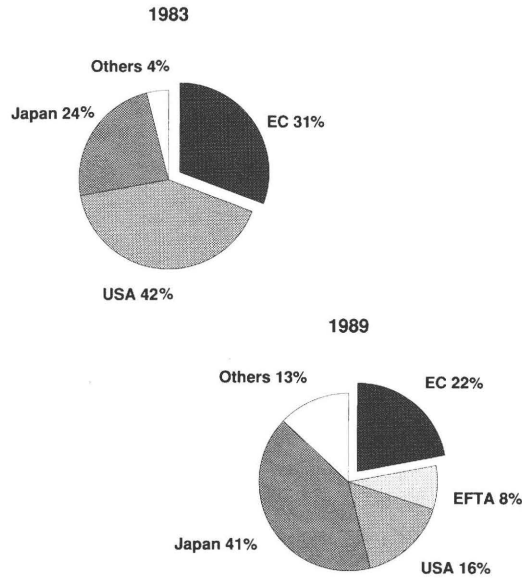


Figure 6.2

Turnover in 1989

(million ECU)			
GENERAL ELECTRIC	USA		50160
HITACHI	JPN		42361
MATSUSHITA ELECTRIC	JPN		36424
SAMSUNG	KOR		31939
SIEMENS	EC		30643
TOSHIBA	JPN		25152
PHILIPS	EC		24499
CGE	EC		20490
NEC	JPN		20400
ASEA BROWN BOVERI	EFTA		18554
DAEWOO	KOR		18136
MITSUBISHI ELECTRIC	JPN		17978
SONY	JPN		14568
ELECTROLUX	EFTA		12071
WESTINGHOUSE ELECTRIC	USA		11657
THOMSON	EC		10916

Source: DABLE

tor at the Top 100 level has decreased by almost 50% since 1983. However, its position is stabilising, as the oil companies are no longer reporting lower turnovers and lower manpower (their sales increased by 21% and their manpower by 4% in 1989). In 1983, 31 oil groups were present in the Top 100 of world industry. In 1989, there were only 21.

ELECTRICAL ENGINEERING/ELECTRONICS On the other hand, the dynamism of the electrical engineering and electronics manufacturing sector is very evident. Since 1983, the relative importance of this sector in total sales of the Top 100 has more than doubled.

The outstanding factor in this category is the Japanese breakthrough. Half the sales of the Japanese groups are carried out by Hitachi and Matsushita, respectively 11th and 16th in the overall list. Sony has made a major leap, from 100th place in 1986 to 60th in 1989. The groups of the EFTA countries and the Korean groups have also advanced. South Korea alone is responsible for 13% of the sales of this sector, made by Samsung and Daewoo. In the general breakdown of the Top 100 of world industry the Japanese and Korean expansion has been to the detri-

ment of the American and European groups, even though General Electric, 7th world industrial group, is still the no. 1 in the electronics field.

INFORMATION PROCESSING The advance of information processing is reflected in the fact that today five groups are represented among the 100 largest industrial groups in the world, whereas in 1983 there was only one (IBM). However, IBM alone (fifth in general terms), has a turnover above the total of the four others, which are American and Japanese.

Information processing

Figure 7.1

Turnover in 1983

(million ECU)		
IBM	USA	55788

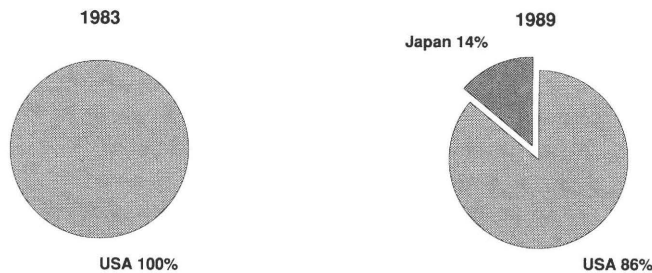


Figure 7.2

Turnover in 1989

(million ECU)			
IBM	USA		57579
XEROX	USA		16006
FUJITSU	JPN		15799
DIGITAL EQUIPMENT	USA		11677
HEWELETT-PACKARD	USA		10800

Source: DABLE

Aeronautics and Space

Figure 8.1

Turnover in 1983

(million ECU)		
UNITED TECHNOLOGIES	USA	20367
ATT TECHNOLOGIES	USA	15488
BOEING	USA	15452
MC DONNELL DOUGLAS	USA	11262
ROCKWELL INT	USA	11243
GENERAL DYNAMICS	USA	9922

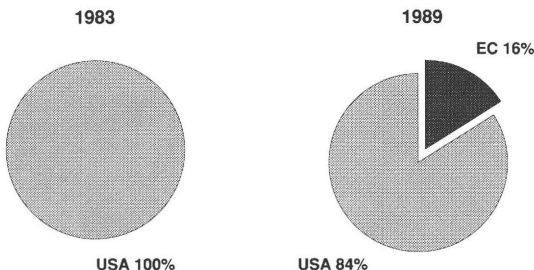


Figure 8.2

Turnover in 1989

(million ECU)		
BOEING	USA	18403
UNITED TECHNOLOGIES	USA	17940
MC DONNELL DOUGLAS	USA	13610
BRITISH AEROSPACE	EC	13519
ROCKWELL INT	USA	11849
ALLIED-SIGNAL	USA	10911

Source: DABLE

AERONAUTICAL AND SPACE American groups also dominate the aeronautics and aerospace industry. Only one European group in this sector is included in the 100 lar-

and one Japanese group in the Top 100. The American groups and the others have been eliminated from the list. In the European Community, the metallurgi-

main groups has decreased by 17%, but the average turnover has increased by 14%.

Metallurgy

Figure 9.1

Turnover in 1983

(million ECU)		
IRI	EC	30862
UNITED STATES STEEL	USA	23422
CANADIAN PACIFIC	CAN	11379
THYSSEN	EC	11368
NIPPON STEEL	JPN	9614

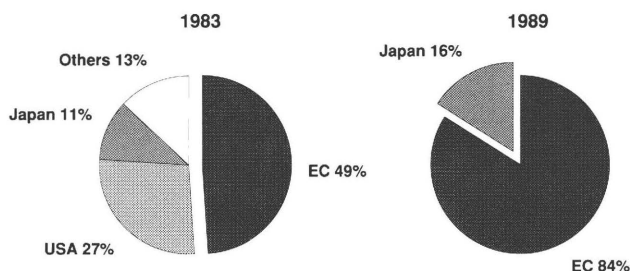


Figure 9.2

Turnover in 1989

(million ECU)		
IRI	EC	44545
NIPPON STEEL	JPN	17438
THYSSEN	EC	16617
USINOR-SACILOR	EC	14187
INI	EC	13866

Source: DABLE

gest industrial groups in the world: British Aerospace which, in 1989, was placed 70th.

METALLURGY In the metallurgical sector, there are now only five Community groups

cal industry, after years of heavy losses and considerable restructuring, has revived spectacularly over the last few years. Since 1983, the average manpower of the

AGRO-ALIMENTARY The agro-alimentary industry is dominated by American and European groups. The latter are advancing up the ranks of the industrial Top 100. The

Agro-alimentary

Figure 10.1

Turnover in 1983

(million ECU)		
BAT INDUSTRIES	EC	23102
UNILEVER	EC	21529
RJ REYNOLDS	USA	14400
NESTLE	EFTA	14392
DART AND KRAFT	USA	13487
PHILIP MORRIS	USA	13142
BEATRICE FOODS	USA	12950
GENERAL FOODS	USA	11940
PEPSICO	USA	10963

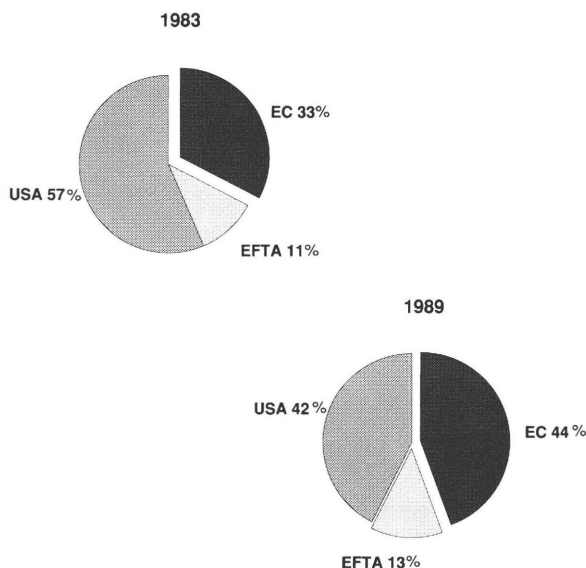


Figure 10.2

Turnover in 1989

(million ECU)		
PHILIP MORRIS	USA	35461
UNILEVER	EC	32025
NESTLE	EFTA	26631
BAT INDUSTRIES	EC	21356
PEPSICO	USA	13995
RJR NABISCO	USA	13818
GRAND METROPOLITAN	EC	12931
FERRUZZI	EC	10934
HANSON	EC	10776
SARA LEE	USA	10429
CONAGRA	USA	10292

Source: DABLE

Chemicals

Figure 11.1
Turnover in 1983

		(million ECU)	
DU PONT NEMOURS	USA	49121	
ICI	EC	16101	
DOW CHEMICAL	USA	15205	
BASF	EC	15168	
BAYER	EC	14974	
HOECHST	EC	14903	
UNION CARBIDE	USA	12497	
SAINT-GOBAIN	EC	8870	
MONTEDISON	EC	8829	
CIBA GEIGY	EFTA	7593	
DSM	EC	7162	

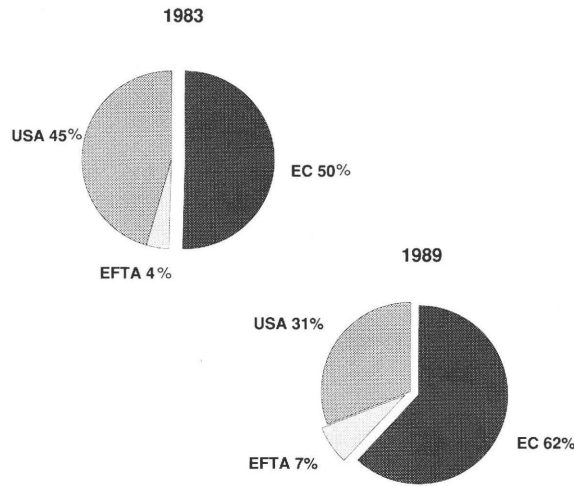


Figure 11.2
Turnover in 1989

		(million ECU)	
DU PONT NEMOURS	USA	32031	
BASF	EC	22979	
HOECHST	EC	22149	
BAYER	EC	20995	
ICI	EC	19867	
DOW CHEMICAL	USA	16092	
CIBA GEIGY	EFTA	11434	
RHONE-POLENC	EC	10404	

Source: DABLE

only other representative is Nestlé (EFTA). Unilever and BAT Industries, in the Top 100 for a long time, have been joined by Hanson in 1987, and Grand Metropolitan

and Ferruzzi in 1988. In 1987, for the first time Community groups overtook American groups in terms of turnover. Another important factor is Philip Morris' jump from 28th

place to 14th place in the general list.

CHEMICALS In the chemical sector, Community groups predominate, with five representatives in the Top 100, accounting for

Table 4
The largest industrial groups in the world in 1989

The 25 largest profit-earners Net profit (million ECU)				The 25 most profitable Net profit/turnover (as a percentage)				The 25 richest Equity capital (million ECU)			
1	Royal Dutch Shell	EC	5 884	Petroleos Venezuela	VEN	19.9	Royal Dutch Shell	EC	43 846		
2	General Motors	USA	3 834	Hanson	EC	15.7	IBM	USA	34 953		
3	General Electric	USA	3 575	Dow Chemical	USA	14.0	General Motors	USA	31 751		
4	Ford Motor	USA	3 481	Grand Metropolitan	EC	12.7	Exxon	USA	27 451		
5	IBM	USA	3 411	Atlantic Richfield	USA	12.3	Totyota Motor	JPN	23 382		
6	Exxon	USA	3 186	3M	USA	10.4	Pemex	MEX	21 965		
7	British Petroleum	EC	3 175	BTR	EC	9.4	Ford Motor	USA	20 628		
8	Daimler-Benz	EC	3 254	BAT Industries	EC	9.0	Matsushita Electric	JPN	19 095		
9	Philip Morris	USA	2 674	Daimler-Benz	EC	8.4	General Electric	USA	18 961		
10	Petroleos Venezuela	VEN	2 467	Digital Equipment	USA	8.3	British Petroleum	EC	15 804		
11	Toyota Motor	JPN	2 388	Imperial Chemical	EC	8.0	Hitachi	JPN	15 098		
12	Dow Chemical	USA	2 257	International Paper	USA	7.6	Mobil	USA	14 771		
13	El du Pont Nemours	USA	2 251	Royal Dutch Shell	EC	7.6	El du Pont Nemours	USA	14 339		
14	Texaco	USA	2 190	Ciba Geigy	CHE	7.6	Kuwait Petroleum	KWT	13 301		
15	FIAT	EC	2 188	Philip Morris	USA	7.5	Chevron	USA	12 689		
16	BAT Industries	EC	1 927	Texaco	USA	7.4	Amoco	USA	12 420		
17	Atlantic Richfield	USA	1 773	British Petroleum	EC	7.2	FIAT	EC	11 435		
18	Hanson	EC	1 690	Westinghouse Elec.	USA	7.2	Nissan Motor	JPN	10 914		
19	Mobil	USA	1 624	General Electric	USA	7.1	Elf Aquitaine	EC	9 880		
20	Grand Metropolitan	EC	1 631	El du Pont Nemours	USA	7.0	Ciba Geigy	CH	9 564		
21	Imperial Chemical	EC	1 573	Hewlett-Packard	USA	7.0	ENI	EC	9 406		
22	Unilever	EC	1 569	Usinor-Sacilor	EC	6.8	Siemens	EC	8 940		
23	Peugeot	EC	1 465	Peugeot	EC	6.7	Daimler-Benz	EC	8 813		
24	Amoco	USA	1 461	Amoco	USA	6.6	Philip Morris	USA	8 687		
25	Matsushita Electric	JPN	1 412	FIAT	EC	6.6	Texaco	USA	8 332		
Number of representatives:				Number of representatives:				Number of representatives:			
		EC	10			EC	11			EC	7
		EFTA	0			EFTA	1			EFTA	1
		USA	12			USA	12			USA	11
		Japan	2			Japan	0			Japan	4
		Others	1			Others	1			Others	2

Source: DABLE

62% of the turnover of chemical groups present. The three largest chemical groups in the Community, BASF, Hoechst and Bayer, have for years maintained their position around 35th place on the list.

For all chemical groups, return on capital and industrial profitability have developed favourably since 1986.

Increased margins for all the groups

Figures 12, 13 and 14 show the recent development of the net margin (ratio between

net profit and turnover) per sector and per economic area, for the 100 largest industrial groups at world level.

Comparisons between different countries require caution, owing to the disparity between accounting methods and earning requirements. However, the three graphs clearly show the improvement in performance of the largest Community groups in recent years. All sectors, with one exception, have shown continual improvement in

the net profit/turnover ratio.

The American groups, on the other hand, have been unable to maintain a high profit level. In 1988, the information processing and automobile industries admitted lower margins. The agro-alimentary groups and the American oil groups have seen their profitability decreasing in 1989.

The largest groups at Community level

After the introduction of the 100 largest

Figure 12
The largest Community groups net profit/turnover by sector

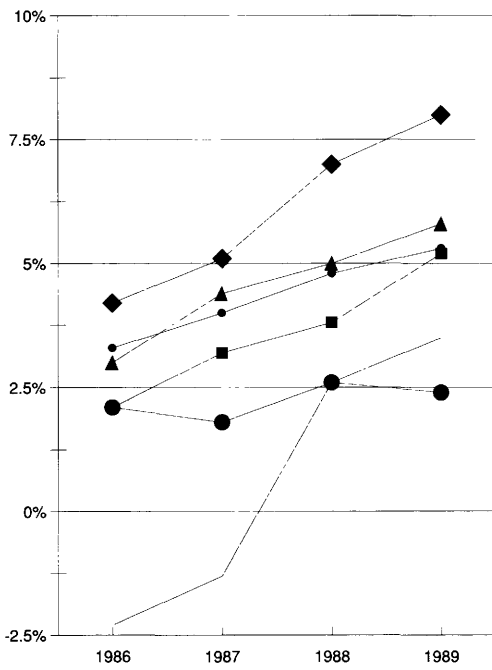


Figure 13
The largest American groups net profit/turnover by sector

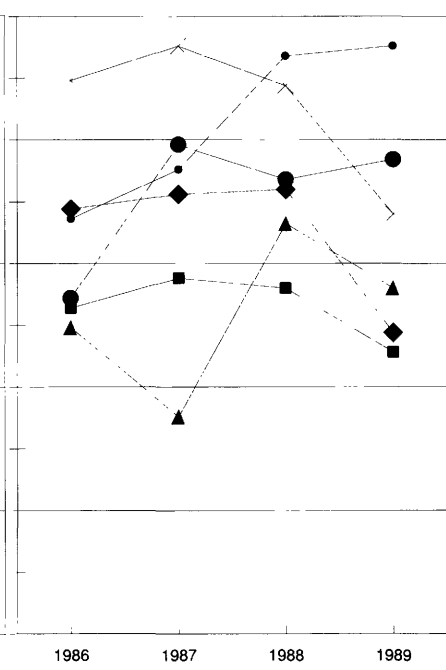
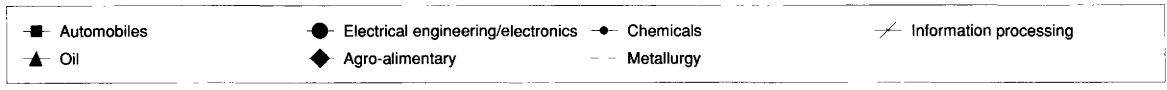
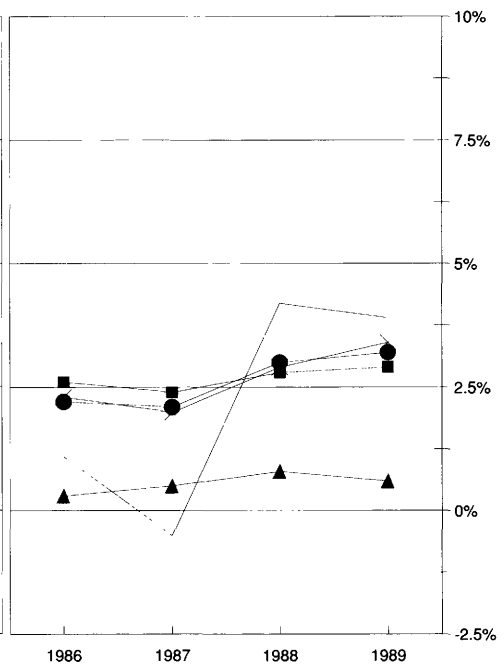


Figure 14
The largest Japanese groups net profit/turnover by sector



Source: DABLE



Table 5
The Top 100 of world industry in 1989
(in million of ECU)

Ranking	Company name	Country	Turnover (mill. ECU)	Net profit (mill. ECU)	Manpower	Sector
1	GENERAL MOTORS	USA	115 248	3 834	775 100	Automobiles
2	FORD MOTOR	USA	87 981	3 481	366 600	Automobiles
3	EXXON	USA	76 653	3 186	104 000	Oil
4	ROYAL DUTCH SHELL	NL	77 901	5 884	135 000	Oil
5	IBM	USA	57 579	3 411	383 200	Information processing
6	TOYOTA MOTOR	JPN	54 861	2 388	91 800	Automobiles
7	GENERAL ELECTRIC	USA	50 160	3 575	292 000	Electrical engineering/electronics
8	MOBIL	USA	46 268	1 642	67 900	Oil
10	BRITISH PETROLEUM	UK	44 914	3 175	119 900	Oil
9	IRI	I	44 545	1 069	416 200	*National conglomerate
11	HITACHI	JPN	42 361	1 228	204 000	Electrical engineering/electronics
12	DAIMLER-BENZ	D	36 865	3 254	368 200	Automobiles
13	MATSUSHITA ELECTRIC INDUSTRY	JPN	36 424	1 412	193 100	Electrical engineering/electronics
14	PHILIP MORRIS	USA	35 461	2 674	157 000	*Agro-alimentary
15	FIAT	I	33 348	2 188	286 300	Automobiles
16	CHRYSLER	USA	32 817	326	121 900	Automobiles
17	EI DU PONT DE NEMOURS	USA	32 031	2 251	145 800	Chemicals
18	UNILEVER	NL	32 025	1 569	300 000	Agro-alimentary
19	SAMSUNG GROUP	KOR	31 939	467	176 900	Electrical engineering/electronics
20	NISSAN MOTOR	JPN	31 841	758	108 700	Automobiles
21	VOLKSWAGEN	D	31 537	476	250 600	Automobiles
22	SIEMENS	D	30 643	714	365 000	Electrical engineering/electronics
23	TEXACO	USA	29 422	2 190	37 100	Oil
24	CHEVRON	USA	26 724	228	54 800	Oil
25	NESTLE	CHE	26 631	1 337	196 900	Agro-alimentary
26	TOSHIBA	JPN	25 152	790	125 000	Electrical engineering/electronics
27	RENAULT	F	24 921	1 322	174 600	Automobiles
28	ENI	I	24 614	1 022	82 700	*Oil
29	PHILIPS	NL	24 499	586	304 800	Electrical engineering/electronics
30	HONDA MOTOR	JPN	23 090	644	71 200	Automobiles
31	BASF	D	22 989	973	136 900	Chemicals
32	VEBA	D	22 668	647	88 600	Oil
33	HOECHST	D	22 158	931	169 300	Chemicals
34	AMOCO	USA	21 978	1 461	53 648	Oil
35	PEUGEOT SA	F	21 865	1 465	159 100	Automobiles
36	BAT INDUSTRIES	UK	21 356	1 927	312 000	*Agro-alimentary
37	ELF AQUITAINE	F	21 339	1 025	78 200	Oil
38	BAYER	D	20 904	1 006	170 200	Chemicals
39	CGE	F	20 486	702	210 300	Electrical engineering/electronics
40	NEC	JPN	20 400	427	104 000	Electrical engineering/electronics
41	ICI	UK	19 867	1 573	133 800	Chemicals
42	PROCTER & GAMBLE	USA	19 686	1 095	79 300	Parachemicals
43	ASEA BROWN BOVERI	CHE	18 554	532	189 500	Electrical engineering/electronics
44	BOEING	USA	18 403	883	159 200	Aeronautics
45	OCCIDENTAL PETROLEUM	USA	18 215	259	53 500	Oil
46	DAEWOO	KOR	18 136	104	91 100	Electrical engineering/electronics
47	MITSUBISHI ELECTRIC	JPN	17 978	352	85 700	Electrical engineering/electronics
48	UNITED TECHNOLOGIES	USA	17 940	637	201 400	Aeronautics
49	NIPPON STEEL	JPN	17 438	517	67 800	Metallurgy
50	EASTMAN KODAK	USA	16 833	480	137 800	Parachemicals
51	THYSSEN	D	16 617	370	133 800	Metallurgy
52	USX	USA	16 115	876	53 600	Oil
53	DOW CHEMICAL	USA	16 092	2 257	62 100	Chemicals
54	XEROX	USA	16 006	639	111 400	Information processing
55	FUJITSU	JPN	15 799	463	104 000	Information processing
56	TOTAL CFP	F	15 349	314	41 200	Oil
57	PETROBRAS	BRA	14 849	466	67 700	Oil
58	NIPPON OIL	JPN	14 844	186	9 700	Oil
59	ROBERT BOSCH	D	14 761	302	174 700	Automobiles
60	SONY	JPN	14 568	480	78 900	Electrical engineering/electronics
61	MITSUBISHI MOTORS	JPN	14 463	126	37 900	Automobiles
62	ATLANTIC RICHFIELD	USA	14 436	1 773	26 600	Oil
63	USINOR SACLOR	F	14 187	963	96 900	Métallurgie
64	PEPSICO	USA	13 995	818	266 000	Agro-alimentary
65	INI	E	13 866	638	151 400	*National conglomerate

66	PEMEX	MEX	13 849	290	164 700	Oil
67	RJR NABISCO	USA	13 818	-1 043	48 000	Agro-alimentary
68	MAZDA MOTOR	JPN	13 694	47	28 000	Automobiles
69	MC DONNELL DOUGLAS	USA	13 610	199	127 900	Aeronautics
70	BRITISH AEROSPACE	UK	13 519	347	125 600	Aeronautics
71	VOLVO	SWE	13 285	760	75 300	Automobiles
72	TENNECO	USA	13 105	530	90 000	Mechanics
73	GRAND METROPOLITAN	UK	12 931	1 631	152 200	*Agro-alimentary
74	BMW	D	12 795	270	66 300	Automobiles
75	PECHINEY	F	12 694	475	70 000	Non-ferrous metals
76	MITSUBISHI HEAVY INDUSTRIES	JPN	12 508	410	55 600	Mechanics
77	PETROLEOS DE VENEZUELA	VEN	12 414	2 467	46 900	Oil
78	ELECTROLUX	SWE	12 071	322	152 900	Electrical engineering/electronics
79	ROCKWELL INTERNATIONAL	USA	11 849	688	108 700	Aeronautics
80	DIGITAL EQUIPMENT	USA	11 677	973	125 800	Information processing
81	WESTINGHOUSE ELECTRIC	USA	11 657	837	122 000	Electrical engineering/electronics
82	CIBA GEIGY	CHE	11 434	864	92 600	Chemicals
83	PHILLIPS PETROLEUM	USA	11 338	199	21 800	Oil
84	RUHRKOHLE	D	11 275	27	124 800	Extraction
85	BRIDGESTONE	JPN	11 236	62	93 200	Rubber
86	HANSON	UK	10 740	1 690	89 000	*Agro-alimentary
87	FERRUZZI FINANZIARIA	I	10 934	206	44 500	Agro-alimentary
88	THOMSON	F	10 916	71	100 000	Electrical engineering/electronics
89	ALLIED-SIGNAL	USA	10 911	479	107 100	*Aeronautics
90	MINNESOTA MINING & MFG	USA	10 882	1 129	87 600	Parachemicals
91	HEWLETT-PACKARD	USA	10 800	752	95 000	Information processing
92	MANNESMANN	D	10 780	223	125 800	Mechanics
93	KUWAIT PETROLEUM	KWT	10 707	667	15 400	Extraction
94	BTR	UK	10 478	982	109 501	Mechanics
95	SARA LEE	USA	10 429	363	101 800	Agro-alimentary
96	RHONE-POULENC	F	10 404	583	86 100	Chemicals
97	INTERNATIONAL PAPER	USA	10 327	784	63 500	Paper
98	CONAGRA	USA	10 292	180	48 100	Agro-alimentary
99	PETROFINA	B	10 227	503	23 600	Oil
100	IDEMITSU KOSAN	JPN	10 210	12	5 300	Oil

* heavily diversified

This classification was established in relation to pre-tax turnover in 1989.

The financial year-end is 31st December 1989

Exceptions: Conagra 31.05.89, Toyota Motor, Procter & Gamble, and Digital Equipment,

Kuwait Petroleum and Sara Lee 30.06.89, Siemens, Thyssen,

Grand Metropolitan and Hanson 30.09.89 and Hewlett-Packard 31.10.89.

Source: DABLE

EC groups, all sectors combined, with the exception of the distribution sector, will be analysed successively:

- ❖ the Top 70 manufacturing and oil industries;
- ❖ service industries;
- ❖ distribution.

The 100 largest in the EC In 1989, the 100 largest manufacturing and service groups (excluding distribution) in the European Community achieved an overall turnover of 1 315 billion ECU. Since 1989, this has increased by an average of 5%. The first ten groups alone accounted for nearly 30% of the global turnover (same percentage as at world level).

Eight Member States are represented in the Top 100 of the Community in 1989.

In comparison to 1983, the position of the British and Dutch groups have weakened. Germany, on the other hand, has seen its

share of global sales increase considerably, with, however, the same number of groups as in 1983. The average turnover

Table 6
The Top 100 in the EC by country

	1983			1989		
	Number	Turnover (million ECU)	(%)	Number	Turnover (million ECU)	(%)
BR Deutschland	28	215 980	22.2	28	392 095	29.8
United Kingdom	34	295 817	30.4	29	301 416	22.9
France	21	191 335	19.6	24	281 105	21.4
Nederland	7	147 326	15.1	6	153 651	11.7
Italia	5	97 511	10.0	7	136 887	10.4
España	2	8 382	0.9	3	28 392	2.2
Belgique/België	3	18 182	1.9	2	16 302	1.2
Luxembourg	-	-	-	1	5 286	0.4
Total	100	974 533	100	100	1 315 135	100

Source: DABLE

Table 7
The largest groups in the European Community

The 20 largest profit-earners
(million ECU)

The 20 most profitable (*)
(as a percentage)

1	Royal Dutch Shell	NL	5 884	Hanson	UK	15.7
2	Daimler-Benz	D	3 254	RTZ	UK	13.5
3	British Petroleum	UK	3 176	Grand Metropolitan	UK	12.7
4	British Telecom	UK	2 360	British Gas	UK	11.6
5	FIAT	I	2 188	British Steel	UK	11.4
6	BAT Industries	UK	1 927	BASS	UK	11.4
7	Hanson	UK	1 690	BTR	UK	9.4
8	Grand Metropolitan	UK	1 639	BAT Industries	UK	9.0
9	Imperial Chemical	UK	1 573	Daimler-Benz	D	8.8
10	Unilever	NL	1 570	Allied-Lyons	UK	8.8
11	Deutsche Bundespost	D	1 497	Imperial Chemical	UK	7.9
12	Peugeot SA	F	1 467	Royal Dutch Shell	NL	7.6
13	British Gas	UK	1 359	Cockerill Sambre	B	7.5
14	Renault	F	1 323	British Petroleum	UK	7.1
15	RTZ	UK	1 234	Tarmac	UK	6.8
16	IRI	I	1 069	Usinor-Sacilor	F	6.8
17	Elf Aquitaine	F	1 028	Peugeot SA	F	6.7
18	ENI	I	1 022	Trafalgar House	UK	6.6
19	Bayer	D	1 005	CEA-Industrie	F	6.6
20	BTR	UK	982	FIAT	I	6.6

The 20 richest (*)
(million ECU)

The 20 biggest employers

1	Royal Dutch Shell	NL	43 846	Deutsche Bundespost	D	567 300
2	British Gas	UK	29 166	IRI	I	416 200
3	Deutsche Bundespost	D	*25 643	Daimler-Benz	D	368 200
4	Deutsche Bundesbahn	D	16 133	Siemens	D	365 000
5	British Petroleum	UK	15 804	BAT Industries	UK	311 900
6	British Telecom	UK	14 789	Philips	NL	304 800
7	FIAT	I	11 434	La Poste	F	303 100
8	ENEL	I	10 010	Unilever	NL	300 000
9	Elf Aquitaine	F	9 880	FIAT	I	286 300
10	France Télécom	F	9 698	Deutsche Bundesbahn	D	254 500
11	ENI	I	9 406	Volkswagen	D	250 600
12	Daimler-Benz	D	8 813	British Telecom	UK	244 400
13	Telefonica	E	8 726	CGE	F	210 300
14	Siemens	D	8 651	SNCF	F	206 500
15	Bayer	D	8 309	The Post Office	UK	200 000
16	Philips	NL	8 031	Robert Bosch	D	174 700
17	BASF	D	7 434	Renault	F	174 600
18	Imperial Chemical	UK	7 347	Bayer	D	170 200
19	BAT Industries	UK	6 862	Hoechst	D	169 300
20	Volkswagen	D	6 181	Peugeot SA	F	159 100

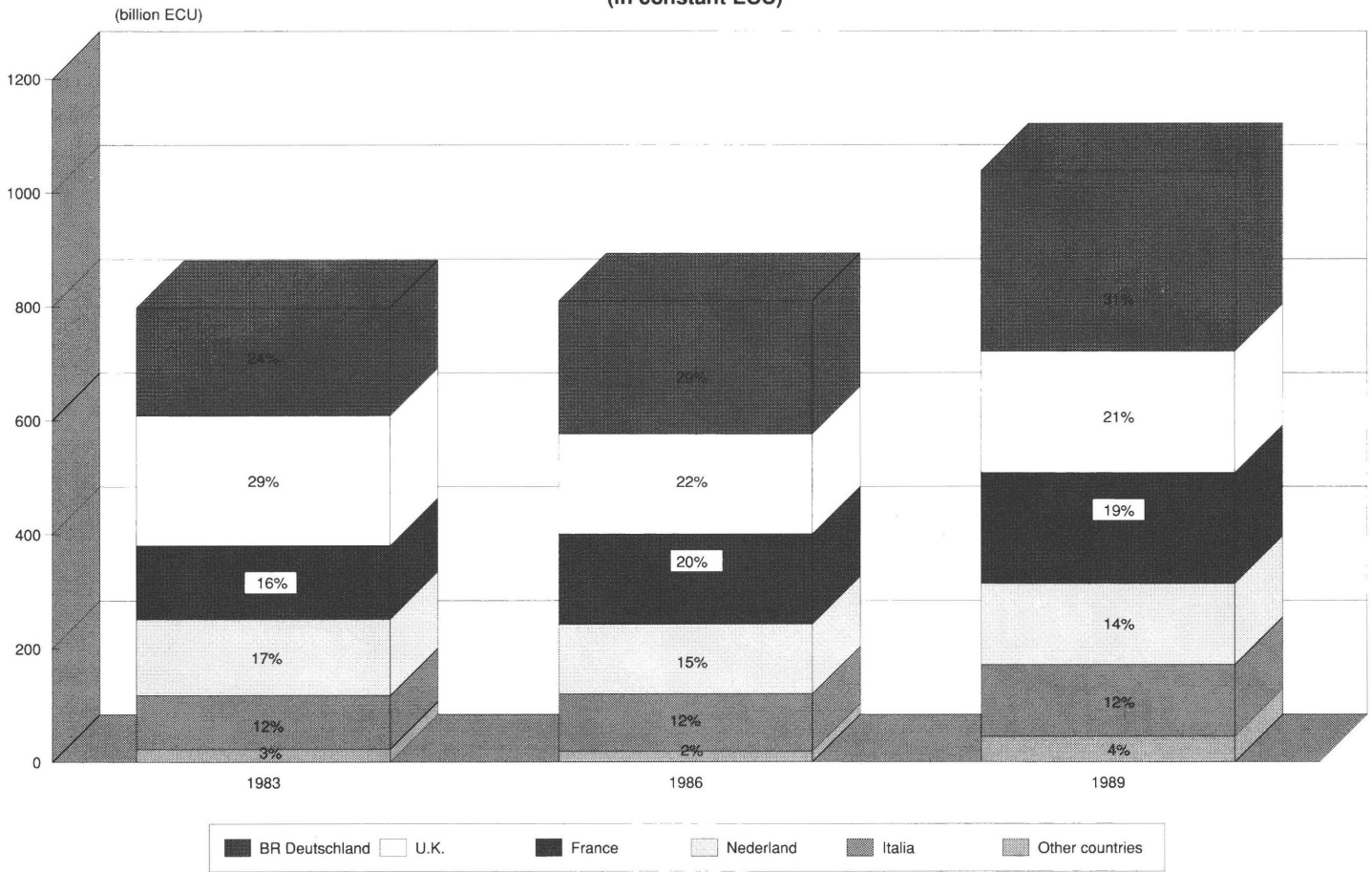
*1988 figure
(*)net profit/turnover
(*)equity capital
Source: DABLE

of the German groups represented in the European Community Top 100 has grown twice as fast as the average in the other member countries. Consequently, there

were 4 German groups in the 9 largest Community groups in 1989: Daimler-Benz, Siemens, Volkswagen and Bundespost,

whereas in 1983 the biggest German group of the time, VEBA, only held ninth place.

Figure 15
The Top 70 of the Community industry
Turnover evolution
(in constant ECU)



Source: DABLE

The largest groups in the manufacturing and oil industries: sector outline

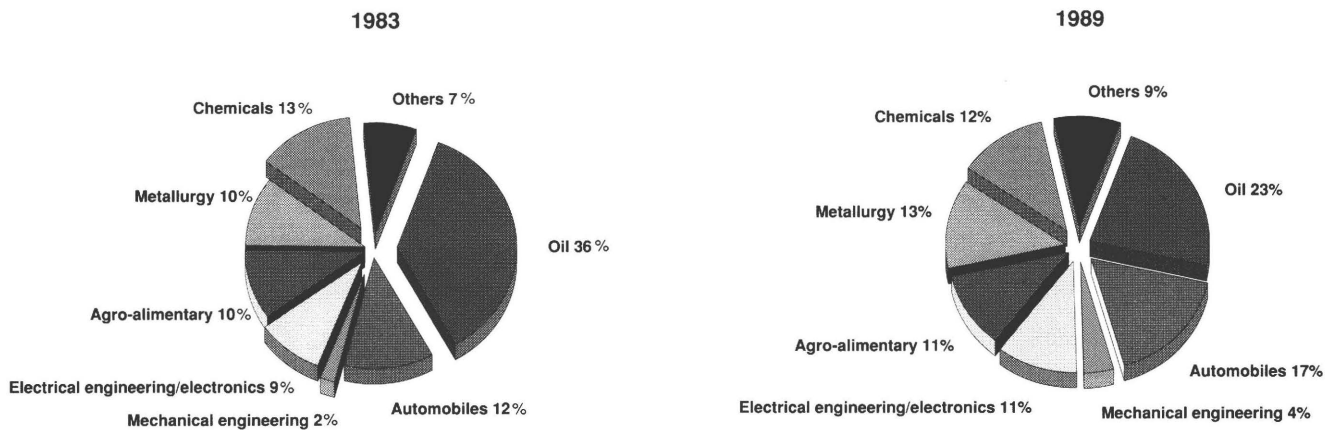
Figure 15 shows that, in constant ECU, the turnover of the 70 largest groups in the manufacturing and oil industries has in-

creased by 28% between 1986 and 1989 (an annual average of 8.5%), while during the three preceding years, it did not change overall. However, the German groups and, to a lesser extent the French groups, have im-

proved their position, while the English groups have lost ground in the Top 70.

In the following categories, the groups are classified by the sector of activity which represents the largest share of their turn-

Figure 16
The Top 70 of the Community industry
Turnover by sector



Source: DABLE

OIL The oil sector still remains the most important in terms of sales in this classification of Community industry, but its importance has considerably lessened, both in relative and in absolute terms.

In 1983, there were twelve oil groups in the Top 70, whereas in 1989 there were only nine left. Royal Dutch Shell and British Petroleum still hold the first two places.

Table 8
Oil (Turnover)

(million ECU)	1983		1989
ROYAL DUTCH SHELL	83 149	ROYAL DUTCH SHELL	77 901
BRITISH PETROLEUM	63 289	BRITISH PETROLEUM	44 914
ENI	36 515	ENI	24 614
CFP	21 429	VEBA	22 668
ELF AQUITAINE	20 536	ELF AQUITAINE	21 331
VEBA	19 712	TOTAL CFP	15 363
BNOC	15 425	PETROFINA	10 228
PETROFINA	10 777	REPSOL	9 075
PREUSSAG	5 000	PREUSSAG	8 157
EMPRESA NACIONAL DEL PETROLEO	4 856		
ULTRAMAR	4 012		
CEPSA	3 526		

Source: DABLE

Table 9
Automobiles (Turnover)

(million ECU)	1983		1989
FIAT	18 210	DAIMLER-BENZ	36 865
RENAULT	16 896	FIAT	33 347
VOLKSWAGEN	16 065	VOLKSWAGEN	31 537
DAIMLER-BENZ	16 032	RENAULT	24 920
PEUGEOT	13 055	PEUGEOT	21 865
BRITISH LEYLAND	6 671	ROBERT BOSCH	14 761
ROBERT BOSCH	5 751	BMW	12 795
BMW	4 786		

Source: DABLE

AUTOMOBILES

In terms of turnover, the major car manufacturers follow in second position, and their share in the Top 70 is continually increasing: 17% in 1989, compared with 12% in 1983. Four automobile manufacturers, Daimler-Benz, FIAT, Volkswagen and Renault, figure in the Community's 10 foremost industrial groups.

Table 10
Metallurgy (Turnover)

(million ECU)	1983		1989
IRI	30 862	IRI	44 545
THYSSEN	11 368	THYSSEN	16 617
BRITISH STEEL	6 284	USINOR-SACILOR	14 187
MANNESMANN	5 640	INI	13 866
USINOR	4 978	METALLGESELLSCHAFT	9 760
SACILOR	4 833	BRITISH STEEL	7 875
FLICK	3 987	DEGUSSA	7 138
METALLGESELLSCHAFT	3 924	ARBED	5 286
SALZGITTER	3 796	SALZGITTER	5 216
		HOESCH	5 153

Source: DABLE

METALLURGY The metallurgical groups have all recovered well and, since 1988, are all showing profits. Their results improved further in 1989.

This exceptional evolution is pictured in Figures 17 and 18.

Table 11
Chemicals (Turnover)

(million ECU)	1983		1989
ICI	16 101	BASF	22 979
BASF	15 168	HOECHST	22 149
BAYER	14 974	BAYER	20 895
HOECHST	14 903	ICI	19 867
SAINT-GOBAIN	8 870	RHONE-POULENC	10 404
MONTEDISON	8 829	SAINT-GOBAIN	9 422
DSM	7 162	AKZO	8 021
RHONE-POULENC	6 606	SOLVAY	6 074
AKZO	5 464	HENKEL	5 617
DEGUSSA	4 447		
SOLVAY	4 175		

Source: DABLE

CHEMICALS

The chemical groups are losing some ground in the Top 70. Four out of nine present in the 1989 list are German groups, representing 57% of sales.

Table 12
Agro-alimentary (Turnover)

AGRO-ALIMENTARY The British are pre-dominant in the agro-alimentary sector, with 7 groups out of 10 and 57% of the turnover. The Dutch group Unilever, sixth in the general list, accounts for 27% of the ten's overall sales. In 1986, British domination was even more pronounced: 72% of the turnover achieved by nine groups.

(million ECU)	1983		1989
BAT INDUSTRIES	23 102	UNILEVER	32 025
UNILEVER	21 529	BAT INDUSTRIES	21 355
GRAND METROPOLITAIN	8 715	GRAND METROPOLITAIN	12 931
IMPERIAL GROUP	8 545	FERRUZZI	10 934
ALLIED-LYONS	5 559	MANSON	10 740
ASS BRITISH FOODS	5 392	BSN	7 023
BASS	3 878	ALLIED-LYONS	6 236
BSN	3 813	HILLSDOWN HOLDINGS	5 488
		TATE & LYLE	5 156
		BASS	5 132

Source: DABLE

Table 13
Electrical engineering (Turnover)

(million ECU)	1983		1989
PHILIPS	16 729	SIEMENS	29 643
SIEMENS	15 818	PHILIPS	24 499
CGE	9 570	CGE	20 490
GENERAL ELECTRIC CO	9 361	THOMSON	10 916
THOMSON	7 576	GENERAL ELECTRIC CO	10 159
THORN EMI	5 296	SCHNEIDER	6 425
AEG TELEFUNKEN	4 619	BICC	5 643
BICC	3 708	THORN EMI	5 282

Source: DABLE

ELECTRICAL ENGINEERING/ELECTRONICS

World-wide, the electrical engineering/electronics manufacturing sector has grown considerably, but Community groups have lagged behind their main competitors.

MECHANICAL ENGINEERING The mechanical engineering industries have four representatives in the 1989 selection. Three are German; Mannesmann, Krupp and MAN. Since 1987 all four groups together have grown by 38%, which corresponds to an average growth rate of 17% per annum.

Table 14
Mechanical Engineering (Turnover)

(million ECU)	1983		1989
KRUPP	6 922	MANNESMANN	10 776
GUTEHOFFNUNGSHUETTE	4 938	BTR	10 478
GKN	3 851	KRUPP	8 534
BTR	3 841	MAN	8 320

Source: DABLE

OTHER SECTORS The other industrial sectors only have one or two representatives in the 1989 list. Together they generate 11% of the total turnover of the 70 largest industrial groups in the Community.

The financial performance of the largest groups of the manufacturing and oil industries. Figures 17 and 18 demonstrate the net margin and the financial performance of the top 70 Community

industries, measured by the net profit/turnover and net profit/capital ratios. Since 1986, all sectors have participated in the restored profitability of the large groups.

Figure 17
The Top 70 of the Community industry
Net profit/turnover

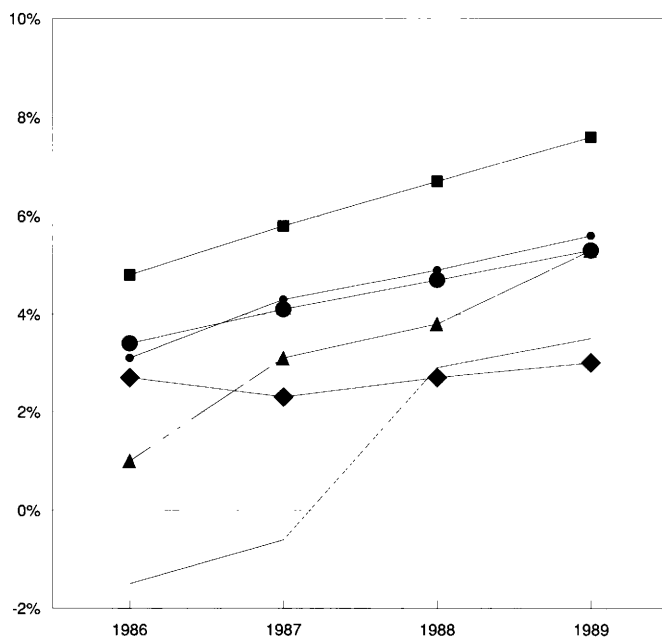
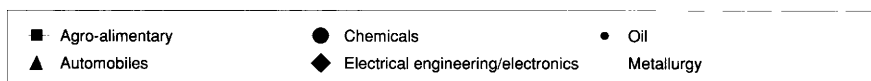
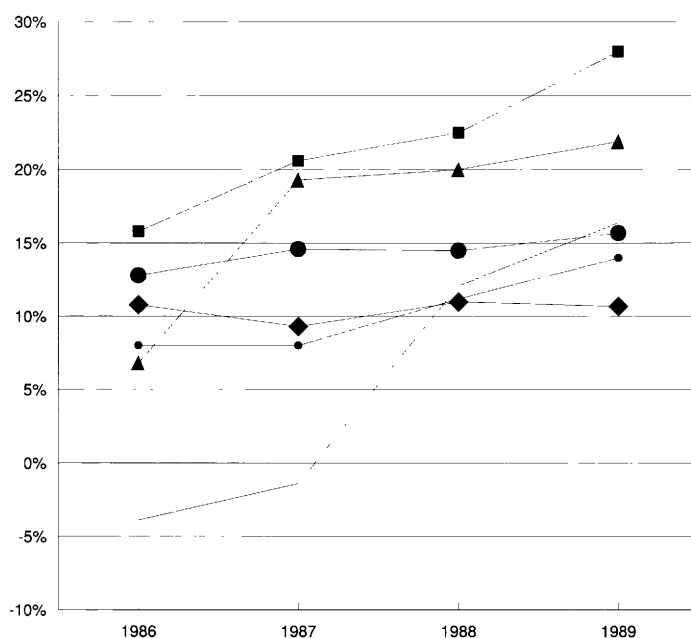


Figure 18
The Top 70 of the Community industry
Net profit/equity capital



Source: DABLE

Table 15
The 100 largest Community groups in 1989
(in millions ECU)

Ranking	Company name	Country	Turnover (mill.ECU)	Net profit (mill. ECU)	Manpower	Sector
1	ROYAL DUTCH SHELL	NL	77 901	5 884	135 000	Oil
2	BRITISH PETROLEUM	UK	44 914	3 176	119 900	Oil
3	IRI	I	44 545	1 069	416 200	*National conglomerate
4	DAIMLER-BENZ	D	36 865	3 254	368 200	Automobiles
5	FIAT	I	33 347	2 188	286 300	Automobiles
6	UNILEVER	NL	32 025	1 570	300 000	Agro-alimentary
7	VOLKSWAGEN	D	31 537	475	250 600	Automobiles
8	SIEMENS	D	29 643	714	365 000	Electrical engineering/electronics
9	DEUTSCHE BUNDESPOST	D	27 250	1 497	567 300	Services
10	RENAULT	F	24 920	1 323	174 600	Automobiles
11	ENI	I	24 614	1 022	82 800	*Oil
12	PHILIPS	NL	24 499	588	304 800	Electrical engineering/electronics
13	BASF	D	22 979	972	136 900	Chemicals
14	VEBA	D	22 668	647	94 500	Oil
15	HOECHST	D	22 149	931	169 300	Chemicals
16	PEUGEOT SA	F	21 865	1 467	159 100	Automobiles
17	BAT INDUSTRIES	UK	21 355	1 927	311 900	*Agro-alimentary
18	ELF AQUITAINE	F	21 331	1 028	78 200	Oil
19	EDF	F	20 938	- 604	122 300	Energy
20	BAYER	D	20 895	1 005	170 200	Chemicals
21	CGE	F	20 490	703	210 300	*Electrical engineering/electron-
22	ICI	UK	19 867	1 573	133 800	Chemicals
23	THE ELECTRICITY COUNCIL	UK	18 416	903	131 200	Energy
24	RWE	D	16 773	360	78 200	Energy
25	BRITISH TELECOMMUNICATION	UK	16 683	2 360	244 400	Services
26	THYSSEN	D	16 617	370	133 800	Metallurgy
27	TOTAL CFP	F	15 363	314	41 200	Oil
28	ROBERT BOSCH	D	14 761	302	174 700	Automobiles
29	USINOR-SACILOR	F	14 187	963	96 900	Metallurgy
30	GENERALE DES EAUX	F	14 041	252	154 000	Services
31	INI	E	13 866	638	151 400	*National conglomerate

32	FRANCE TELECOM	F	13 564	652	156 400	Services
33	BRITISH AEROSPACE	UK	13 519	347	125 600	Aeronautics
34	GRAND METROPOLITAN	UK	12 931	1 639	152 200	*Agro-alimentary
35	BMW	D	12 795	269	66 300	Automobiles
36	PECHINEY	F	12 694	475	70 000	Non-ferrous metals
37	BRITISH GAS	UK	11 716	1 359	80 000	Energy
38	RUHRKOHLE	D	11 275	27	124 800	Extraction
39	FERRUZZI FINANZIARIA	I	10 934	206	44 500	*Agro-alimentary
40	THOMSON	F	10 916	71	100 000	Electrical engineering/electronics
41	MANNESMANN	D	10 776	223	125 800	Metallurgy
42	HANSON	UK	10 740	1 690	89 000	*Agro-alimentary
43	ENEL	I	10 627	103	110 000	Energy
44	BTR	UK	10 478	982	109 500	Mecanics
45	RHONE POULENC	F	10 404	583	86 100	Chemicals
46	PETROFINA	B	10 228	503	23 600	Oil
47	DEUTSCHE BUNDESBAHN	D	10 189	- 1 864	254 500	Transport
48	GEC	UK	10 159	778	145 000	*Electrical engineering/electron-
49	METALLGESELLSCHAFT	D	9 760	69	24 300	Metallurgy
50	LA POSTE	F	9 667	225	303 100	Services
51	COMPAGNIE DE SAINT-GOBAIN	F	9 442	614	87 800	*Chemicals
52	RTZ	UK	9 181	1 234	77 600	Non-ferrous metals
53	REPSOL	E	9 075	494	19 200	Oil
54	KRUPP	D	8 534	- 247	63 600	Mecanics
55	MAN	D	8 320	116	62 000	Mecanics
56	PREUSSAG	D	8 157	135	65 700	Oil
57	AKZO	NL	8 021	409	70 900	Chemicals
58	BRITISH STEEL	UK	7 875	900	55 200	Metallurgy
59	MICHELIN	F	7 867	349	124 400	Rubber
60	SNCF	F	7 372	20	206 500	Transport
61	SMITHKLINE BEECHAM	UK	7 287	194	62 800	Parachemicals
62	DEGUSSA	D	7 138	85	33 700	Metallurgy
63	BSN	F	7 023	384	49 700	Agro-alimentary
64	BRITISH COAL	UK	6 894	- 326	105 000	Extraction
65	PIRELLI	I	6 845	158	69 300	Rubber
66	P & O STEAM NAVIGATION	UK	6 814	390	64 000	Transport
67	SAATCHI & SAATCHI	UK	6 698	- 56	18 300	Services
68	BOUYGUES	F	6 687	82	59 200	Construction
69	SCHNEIDER	F	6 425	125	80 700	Electrical engineering/electronics
70	BRITISH AIRWAYS	UK	6 415	264	50 200	Transport
71	LUFTHANSA	D	6 306	29	51 900	Transport
72	ALLIED-LYONS	UK	6 236	546	81 400	Agro-alimentary
73	BERTELSMANN	D	6 097	126	43 700	Edition
74	SOLVAY	B	6 074	357	45 000	Chemicals
75	OLIVETTI	I	5 977	134	56 900	Information processing
76	BRITISH POST OFFICE (1988)	UK	5 899		200 000	Services
77	NEDERLANDSE GASUNIE	NL	5 749	34	1 956	Energy
78	BICC	UK	5 643	173	46 000	Electrical engineering/electronics
79	AIR FRANCE	F	5 642	120	44 300	Transport
80	HENKEL	D	5 617	195	38 100	Chemicals
81	GAZ DE FRANCE	F	5 578	- 6	27 700	Energy
82	HILLSDOWN HOLDINGS	UK	5 488	224	40 600	Agro-alimentary
83	PTT NL	NL	5 456	625	94 500	Services
84	TELEFONICA NACIONAL DE ESPANA	E	5 451	528	71 300	Services
85	LADBROKE GROUP	UK	5 446	308	51 000	Transport
86	ARBED	L	5 286	228	54 200	Metallurgy
87	THORN EMI	UK	5 282	279	65 400	Electrical engineering/electronics
88	SALZGITTER	D	5 216	165	39 000	Metallurgy
89	AEROSPATIALE	F	5 205	18	36 900	Aeronautics
90	BRITISH RAILWAYS BOARD	UK	5 181	458	135 200	Transport
91	TATE & LYLE	UK	5 156	174	18 600	Agro-alimentary
92	HOESCH	D	5 153	35	44 500	Metallurgy
93	BASS	UK	5 132	586	90 100	*Agro-alimentary
94	TARMAC	UK	5 075	347	32 100	Construction
95	VIAG	D	5 035	120	34 700	Extraction
96	TRAFALGAR HOUSE	UK	4 956	329	27 800	Construction
97	RUHRGAS	D	4 859	257	8 600	Energy
98	CEA-INDUSTRIE	F	4 770	313	36 800	Extraction
99	FELDMUEHLE NOBEL	D	4 742	78	35 400	Paper
100	BULL	F	4 712	- 38	43 600	Information processing

* heavily diversified

This classification was compiled in relation to pre-tax turnover of 1989.

The financial year-end is 31st December 1989. Exceptions: British Telecommunications, GEC,

British Airways, British Post Office, Thorn-Emi and British Railways Board on 31.03.89,

MAN and Bertelsmann on 30.06.89 and Siemens, Thyssen, Grand Metropolitan, Hanson,

Metallgesellschaft, Degussa, Salzgitter, Tate & Lyle and BASS on 30.09.89.

Source: DABLE

The service groups Due to their more rapid growth than the manufacturing sector, service companies (excluding distribution) occupy a more and more important position in the Community's largest groups: 14% of global turnover in 1983, 19% in 1989. In 1983, 16 service groups were represented in the Top 100. In 1989, there were 25 groups, including eight transport groups. (In the same way as other comparable listings, electricity and gas distribution have been classified with other services.)

Table 16
Service groups (excluding distribution)

(million ECU)	1983		1989	
	Number in the Top 100	Turnover (in millions of ECUs)	Number in the Top 100	Turnover (in millions of ECUs)
Transport	6	32 401	8	53 365
Other services	10	100 512	17	199 365
Total	16	132 913	25	252 730

Source: DABLE

Table 17
Transport

(million ECU)	1983	1989
SNCF	7 053	10 189
DEUTSCHE BUNDESBAHN	6 833	7 372
BRITISH RAILWAYS BOARD	6 219	6 814
BRITISH AIRWAYS	4 902	6 415
AIR FRANCE	3 825	6 306
LUFTHANSA	3 569	5 642
DEUTSCHE BUNDESBAHN		5 446
SNCF		5 181
P&O STEAM NAVIGATION		
BRITISH AIRWAYS		
LUFTHANSA		
AIR FRANCE		
LADBROKE GROUP		
BRITISH RAILWAYS BOARD		

Source: DABLE

Table 18
Other services

(million ECU)	1983	1989
PTT FRANCE	18 830	27 250
ELECTRICITY COUNCIL	18 647	20 938
EDF	15 534	18 416
BRITISH GAS	12 525	16 773
NEDERLANDSE GASUNIE	9 844	
GAZ DE FRANCE	6 232	16 683
THE POST OFFICE	5 546	14 041
RUHRGAS	5 340	13 564
GENERALE DES EAUX	4 564	11 716
PTT NEDERLAND	3 448	10 627
DEUTSCHE BUNDESPOST	N/A	9 667
		6 698
		5 899
		5 749
		5 578
		5 456
		5 451
		4 859

Source: DABLE

The distribution sector The distribution sector is not represented in the preceding categories; this sector has been classified on the basis of 1989 turnover (see table 19).

The 40 groups in this list can be broken down as follows: Germany 14, United Kingdom 10, France 9, Netherlands 4, Belgium 2 and Spain 1.

The average growth in the turnover of the 40 groups was 7% between 1988 and 1989. The Belgian and Dutch groups' growth was above average (19% and 18% respectively), while the French groups' growth was below average (3%).

The distribution groups' manpower increased by an average of 5.5% between 1988 and 1989.

Table 19
The largest Community distribution groups
(million ECU)

Ranking	Company name	Country	Turnover 1989 (million ECU)	Net profit 1989	Turnover 1988 (million ECU)	Net profit
1	TENGMANN	D	18 092	150 000	16 872	145 000
2	SPAR INTERNATIONAL	NL	16 100	168 000	14 382	158 000
3	CARREFOUR	F	10 508	46 600	9 214	42 900
4	J. SAINSBURY	UK	10 171	85 000	8 906	82 000
5	MARKS & SPENCER	UK	8 230	75 200	7 711	76 300
6	TESCO	UK	7 965	54 300	7 103	53 000
7	STINNES	D	7 421	21 200	6 303	18 800
8	DALGETY	UK	7 407	22 500	6 685	22 800
9	PROMODES	F	7 377	33 200	6 564	32 100
10	AHOLD	NL	7 312	52 200	6 271	49 500
11	OTTO-VERSAND	D	6 956	34 000	6 411	28 500
12	THYSSEN HANDELSUNION	D	6 860	18 500	5 315	12 500
13	HANIEL & CIE	D	6 664	23 800	6 139	21 000
14	KAUFHOF	D	6 284	50 800	4 871	47 000
15	KARSTADT	D	6 261	66 100	5 965	60 700
16	SCHICKEDANZ	D	6 107	40 000	5 688	39 500
17	ARGYLL	UK	6 081	64 000	5 565	63 000
18	DELHAIZE LE LION	B	5 993	55 000	4 850	49 000
19	METRO	D	5 837	25 500	5 495	25 500
20	SHV	NL	5 755	30 600	5 224	27 300
21	KLÖCKNER	D	5 553	8 300	5 731	9 900
22	CO OP	D	5 225	43 200	5 544	46 000
23	CASINO	F	4 987	38 200	5 042	39 700
24	INCHCAPE	UK	4 837	45 200	3 613	46 000
25	ASKO	D	4 584	30 400	4 234	30 400
26	GB-INNO-BM	B	4 498	26 100	3 932	25 900
27	CFAO	F	4 437	31 300	3 342	24 700
28	VENDEX INTERNATIONAL	NL	4 387	55 200	4 363	55 500
29	THE BOOTS COMPANY	UK	4 342	70 000	4 072	70 000
30	ASDA	UK	4 314	70 000	4 078	50 500
31	KINGFISHER	UK	4 303	57 200	4 005	57 200
32	EL CORTES INGLES	E	4 249	33 000	3 978	28 000
33	EDEKA-ZENTRALE	D	4 248	800	5 775	700
34	GREAT UNIVERSAL	UK	4 223	33 800	5 953	32 200
35	GROUPE PRINTEMPS	F	4 035	30 000	3 610	30 200
36	SYSTEME U	F	3 986	19 200	3 553	18 200
37	RAAB KARCHER	D	3 892	15 000	3 369	10 600
38	EUROMARCHE	F	3 443	17 200	4 151	16 200
39	DOCKS DE FRANCE	F	3 439	21 100	3 280	21 200
40	OCP	F	3 307	6 100	2 948	6 100

Source: DABLE

Written by: Hubertus Kal, Dable (Data Base of Large Enterprises) a project of the General Directorate III, Internal market and industrial affairs, coordinated by ERA.

Company Size :

Significance of SMEs in the EC economy

During the last two decades, increasing attention has been given to the contribution of SMEs to economic growth and job creation. At the same time, the creation and development of SMEs has come to be regarded as a good indicator of entrepreneurship in any society.

The role of small and medium-sized enterprises

Research both in Europe and America shows that smaller businesses are more responsive to market needs, more adaptable to change and more innovative in their ability to meet customer demands. As such they play a critical role in the competitive structure of the Community. Firms competing in world markets can, for example, be dependent on SMEs to provide indigenous sub-contracting facilities. Other research shows that in areas such as the development of new technology, small and medium-sized companies play a larger role than that which has previously been attributed to them.

If SMEs are to play their full part in the Community economy, it is essential that they get appropriate attention. They need a favourable business environment and, in particular, non-bureaucratic public policy regulations. They also need sources of information, assistance and advice, which they cannot access in-house. These needs have become more important against the new and more fluid business climate created by the Internal Market. For these reasons, the Community adopted an SME Action programme in 1987 and established an SME Task Force. The Action Programme now forms part of the Community's overall Enterprise Policy while the Task Force has been integrated into Directorate-General XXIII which is responsible for the latter policy.

Development and implementation of an Enterprise Policy which can take particular account of the position of SMEs requires adequate statistics on the size distribution of enterprises. For this reason a project was initiated in 1987, in collaboration with Eurostat, aimed at supplying this information.

The national statistical offices of the Member States and other public and private institutions with access to enterprise data were invited to participate in this initiative. The aim was to analyse the state of enterprises in Europe and, in particular, of SMEs with the view to answering questions such as:

- ❖ How many enterprises are there in the EC?
- ❖ How large are they?
- ❖ How many of them can be considered as SMEs?

Data on enterprises is an area where, in general, very little harmonised information is available. In addition, certain sectors of the economy such as the service sector, where the number of SMEs is most significant, are precisely those areas for which the least data is available.

Only preliminary results are available so far, and the methodology in collecting and treating this information has still to be improved.

The results will be reviewed periodically - probably every two years. An outline of the methodology and results are given in this chapter. A more complete publication on the subject "Enterprise in the European Community" was issued by the Commission in October 1990.

Methodology The data presented in this chapter relate to 1986 (the most recent year for which data were available) and come from a variety of public and private sources. As a rule, official data sources from national statistical offices have been utilized whenever possible; and missing information has been supplemented with data from other sources when available.

No single methodology approach was used. The considerable diversity in the stat-

istical services of the Member States and their various abilities to produce information on SMEs in particular, meant that, for each country, a different approach was developed. At the outset the following principles were established:

- ❖ primary industries have not been included;
- ❖ the reporting unit is the enterprise;
- ❖ the industrial classification is the NACE;
- ❖ the two economic variables measured through time are employment and output - the concept of output used is value added and that of employment the number of employees.

A number of problems were encountered in the collection of the data conforming to the above criteria and therefore prudence is required in its interpretation. A detailed description of these problems can be found in the main publication referred to above.

Size distribution of enterprises The definition of an SME varies between Member States of the Community. Some apply criteria only on the basis of the number of employees; others included criteria for turnover or value of assets. In addition, as far as the criteria for the number of employees are concerned, there is no consistent definition applied throughout the Community.

It was therefore decided to classify SMEs according to the number of employees and to distinguish three separate categories of SME:

- ❖ micro (0-9);
- ❖ small (10-99);
- ❖ medium (100-499).

These distinctions are important from the point of view of clarity and flexibility, enabling policy measures to be focused on particular categories of need relating to each particular group.

Size dominated sectors The approaches used depend upon how the contribution of enterprises to the sector is to be measured. There are two obvious ways:

- contribution to total sector employment;
- contribution to total sector added value.

The United States in their "State of Small Business" annual report define SME dominated sectors as sectors where enterprises with less than 500 employees account for more than 60% of employment. However, one could be more precise and define an SME employment dominated sector and/or an SME output dominated sector. This study does not permit full analysis of the output and employment contributions by enterprise size. However, it does permit evaluation of the contribution to employment of the micro, small, medium and large enterprises at the NACE one-digit, or Division, level. More detailed analysis will become available in the future.

Euro-12 Summary This section is concerned with enterprises at the Community level - the combined twelve Member States. The figures shown here for the total number of enterprises and total employment, broken down by employment size class and main sectors of economic activity, are the results of adding up the individual country estimates.

The total stock of enterprises In 1986, the total number of enterprises, excluding the primary sector, in the Euro-12 countries was estimated at 13.4 million, employing some 92.4 million people. The distributions shown are approximations to the true underlying distribution of enterprises and employment at the European level for the year 1986. They are the result of the first full and systematic assessment of the structure of enterprises and employment within the Community, and as such, are the best available

estimates.

Table 1 gives at the European level for 1986, the estimated distribution of enterprises, based on available data. It shows:

- the total stock of non-primary sector enterprises: 13.4 million;
- the distribution by employment size class and economic activity.

Enterprise distribution Of the 13.4 million non-primary industry enterprises in the Community 14% were in manufacturing, 13% in construction and 73% in the service sectors. The distribution of total employment over these sectors is as follows, micro enterprises are the most common, comprising 91% of all enterprises; small enterprises represent 8%, medium enterprises 0.5% and large enterprises a mere 0.10% of the total number of enterprises.

MICRO ENTERPRISES (EMPLOYEES 0-9)

Micro enterprises comprise 91% of all enterprises. In the manufacturing sector they represent 83% of enterprises, but they range from only 60% of enterprises in the "energy & water" sector to 86% in "other manufacturing industries". For construction, micro enterprises comprise 91% of enterprises and the figure is even higher for the service sectors, where they represent 93% of enterprises and 96% in professional and personal services.

SMALL AND MEDIUM SIZE ENTERPRISES (EMPLOYEES 10-499)

SMEs (excluding micro) constitute 9% of all enterprises; they are more numerous in the manufacturing sector where they constitute on average 17% of all manufacturing enterprises; within manufacturing they represent 36% of total enterprise whereas in the "energy & water" sector and in the "extraction & processing of minerals" they represent 25%.

Table 1
Percentage of the number of enterprises by employment size, class and economic sector, Euro-12 1986
Company size

NACE	Number of enterprises	Number of employees			
		Micro 0-9 in %	Small 10-99 in %	Medium 100-499 in %	Large +500 in %
Total	13 427 925	91.34	8.02	0.54	0.1
1-4	1 890 998	82.7	15.14	1.77	0.39
5	1 784 885	91.28	8.34	0.34	0.04
6-9	9 752 237	93.03	6.58	0.34	0.06
1	2 767	60.1	28.79	7.68	3.43
2	141 037	74.1	21.52	3.29	1.08
3	520 270	79.24	17.89	2.29	0.58
4	1 226 924	85.2	13.21	1.36	0.22
5	1 784 885	91.28	8.34	0.34	0.04
6	5 550 349	92.1	7.6	0.27	0.04
7	640 301	92.54	6.9	0.47	0.1
8	1 277 642	92.78	6.61	0.5	0.11
9	2 283 751	95.57	4	0.36	0.07

Source: EC - Directorate General XXIII

In the construction sector, SMEs are 9% of all enterprises, a number very close to the overall average.

In the service sectors, SMEs are less than 10% of enterprises at the one NACE digit level, even in sectors such as "transport & communications" where their percentage is highest; in "other services" which consist mainly of personal and professional services only 4.42% of enterprises have more than 10 employees.

LARGE ENTERPRISES Large enterprises are a very small percentage of all enterprises at the Euro-12 level. They are relatively most important in manufacturing, comprising 1/2% of enterprises in that sector. Within manufacturing they are unevenly distributed, ranging from 3.5% in "energy & water" to 1/4% in "other manufacturing" which includes final-goods producing industries.

In the construction and service sectors, Large enterprises are relatively even fewer. However, the absolute number of enterprises in the service sectors is so large that, for example in the distributive

trades, the number of large enterprises is about 2 200 even though they are only 0.04% of the total in that industry. By comparison, in "energy & water" their percentage is the highest of all sectors under consideration, but there are only 100 large enterprises.

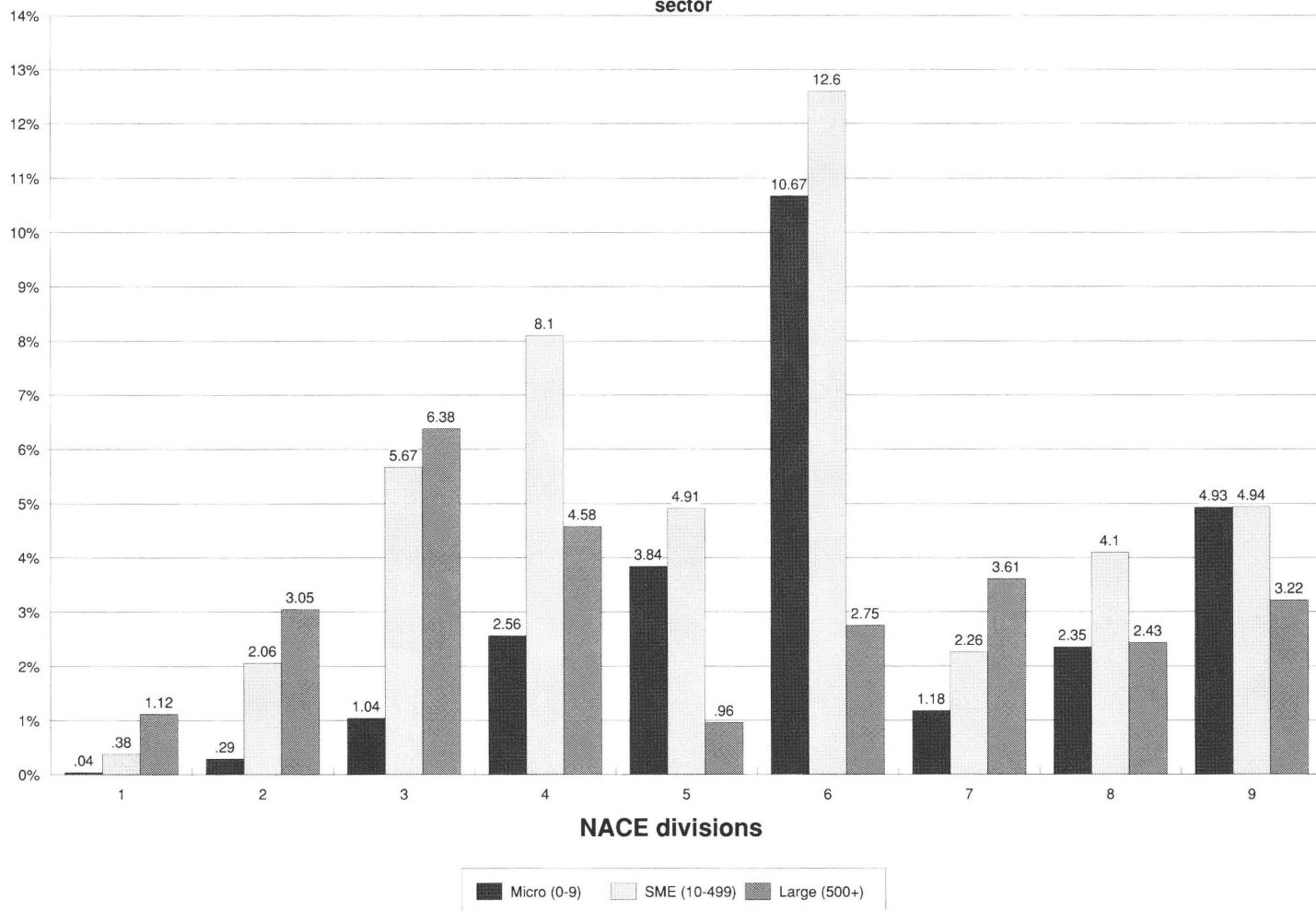
SME SIGNIFICANCE BY ECONOMIC SECTOR At the high level of industry aggregation presented in table 1, there are no "large" sectors at the Euro-12 level; ie: no single sector has 5% or more enterprises with at least 500 employees. Of the nine sectors considered, 6 are micro sectors and 3 are either small or medium sectors.

EMPLOYMENT SHARES The corresponding employment distribution data for the Community are given in figure 2 which shows:

- the distribution of total employment by size class and main sectors of economic activity;
- the contribution of SMEs to employment by main sectors of economic activity.

In 1986 it was estimated that 92.4 million people were employed in non-primary busi-

Figure 1
Small and medium sized enterprises
Distribution of employment by employment size class and NACE economic sector



Source: EEC - Directorate General XXIII

nesses throughout the Community. The manufacturing sector employs 35% of them; construction 10% and the remaining 55% are in the service sector.

Overall, micro enterprises (employing less than 10 people) provide 27% of all jobs, SMEs (employing between 10 and 499 people) 45% and large enterprises 28%. SMEs are therefore by far the largest contributors to employment. The relative employment importance of SMEs is maintained in the three main sectors of activity: 46% in manufacturing, 51% in construction and 43% in services.

Figure 1 shows the contribution to sectoral employment of each of the three main size classes. Table 2 brings out the size

Table 2
Company Size
Percentage of employment by size class and sector, Euro-12 1986
(in %)

Sector	Micro 0-9	SME's 10-500	Large 500+
Energy & Water	3	24	73
Mineral & Chemical	5	38	57
Metal Manufacture	8	43	49
Other Manufacture (*)	17	53	30
Construction (*)	39	51	10
Dist Trade & Horeca (*)	41	48	11
Transport & Communication	17	46	51
Banking, Fin, Ins & RE (*)	26	46	27
Other Services (*)	38	38	24

(*) SME-dominated industries according to the US definition
 Source: EC - Directorate General XXIII

class that is largest contributor to employment in each of the nine sectors. The salient features of this table are:

- ❖ in services, SMEs are the most important with the exception of "transport & communication" where large enterprises pro-

vide the majority of jobs; by contrast in the "other services" sector, SMEs are of equal importance;

- ❖ the contribution of micro enterprises to employment in manufacturing is, compared to the other sectors, rather low.

Applying the (US) definition of an SME-dominated sector as one where 60% of employment is provided by enterprises with less than 500 employees, we see that 5 out of the 9 European industries are SME-dominated at this level of aggregation.

ENTERPRISE AND EMPLOYMENT

SHARES - A COMPARISON Table 3 combines the information given in the employment figure 1 with the data on enterprises given in table 1 for the main sectors.

- ❖ micro - account for more than 90% of all firms, but only 27% of employment;
- ❖ other SMEs - Account for 9% of all firms and 45% of employment;
- ❖ large - account for less than 1% of the total stock of firms but provide almost 28% of employment.

Table 3 contains the information to make similar analyses corresponding to each sector. The fact remains that globally the multiplier effect of micro enterprises on employment is very small.

Key features of enterprise populations

In the following some key features of the enterprise populations in the individual Member States are presented, the chosen indicator being the distribution of total employment in key sectors on the basis of size class.

The number of direct comparisons between Member States have been deliberately limited, as it has not always been possible to ensure that the same statistical unit is used for the compilation of the statistics.

The main emphasis is therefore to analyse and compare the positions of SMEs in different sectors within the various countries, rather than comparing particular sectors between countries.

The structure of the various main sectors at the Member State level corresponds

Table 3
Company Size
Euro-12 - Comparative distribution of enterprises and employment, 1986
(Non-primary sectors)

(in %)	Micro	Other SME's	Large
Enterprises			
Total	91.34	8.56	0.1
Manufacturing	82.7	16.91	0.39
Construction	91.28	8.68	0.04
Services	93.83	6.92	0.06
Employment			
Total	26.89	45.02	28.1
Manufacturing	11.14	45.95	42.91
Construction	39.53	50.75	9.9
Services	34.75	43.44	21.82

Source: EC - Directorate General XXIII

roughly to the EC-level, which is reflected in the following key observations illustrated in Figure 2.

The 10 country graphs (Luxembourg and Ireland being excluded as the data from these two countries cannot support such tables) contain the cumulative percentages of total employment, which are employed in enterprises in a sector starting with the micro moving up to the large. The size classes are given on the horizontal axis, the cumulative percentages are given on the vertical axis and the three sectors are the manufacturing, construction and services.

A sector with a curve which runs through the upper left part of the graph is therefore more dominated by small and medium sized enterprises than one with a curve which runs through the lower right side of the graph.

The manufacturing sector is universally the most concentrated in all Member States. Enterprises with 500 employees or more account for more than half of total employment in Germany while it is around 10% in Spain. The EC average for the enter-

prises with 500 or more employees is a little more than 40%.

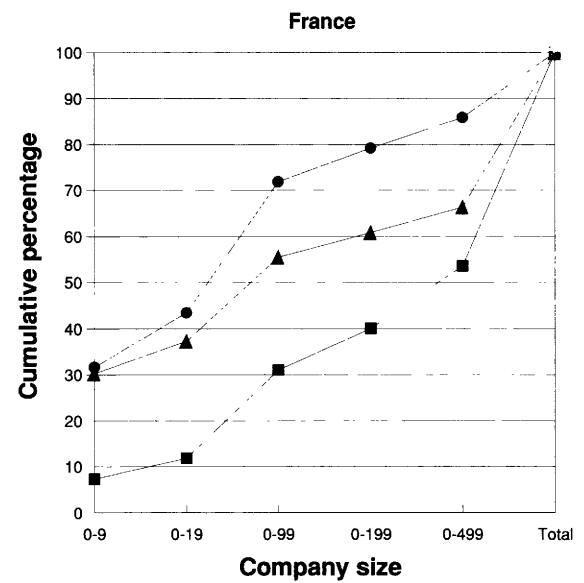
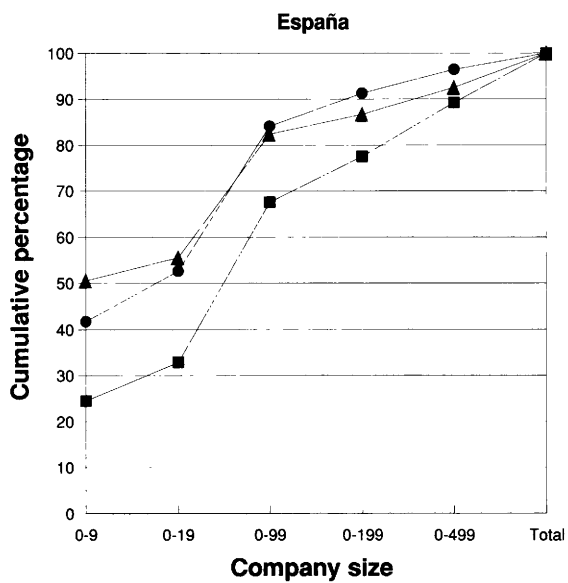
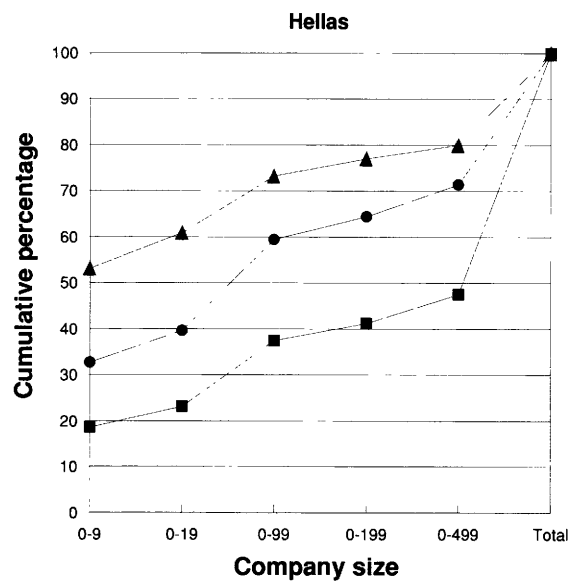
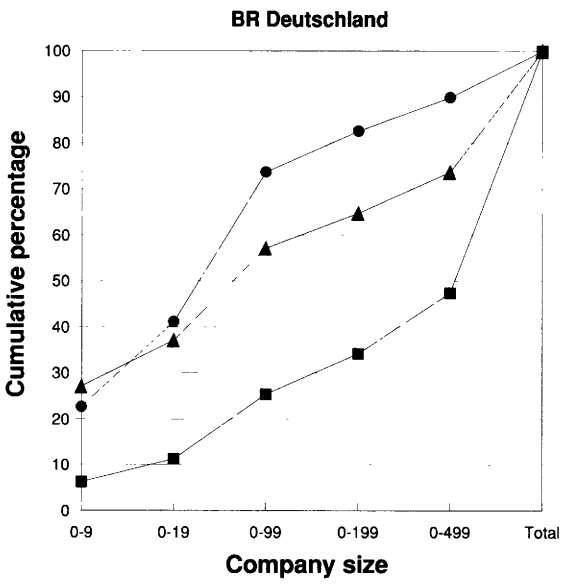
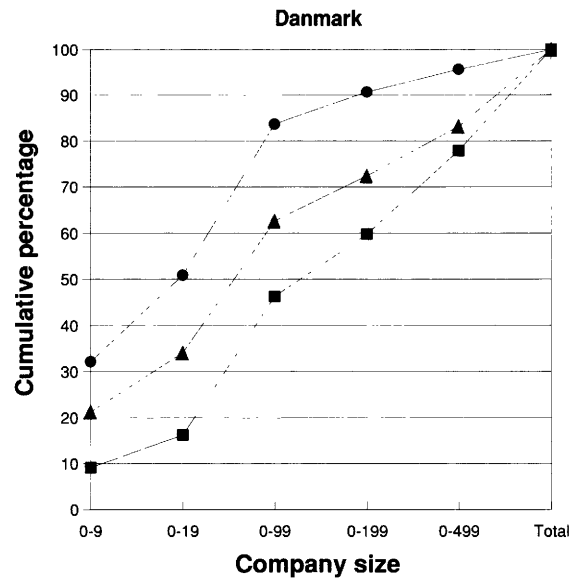
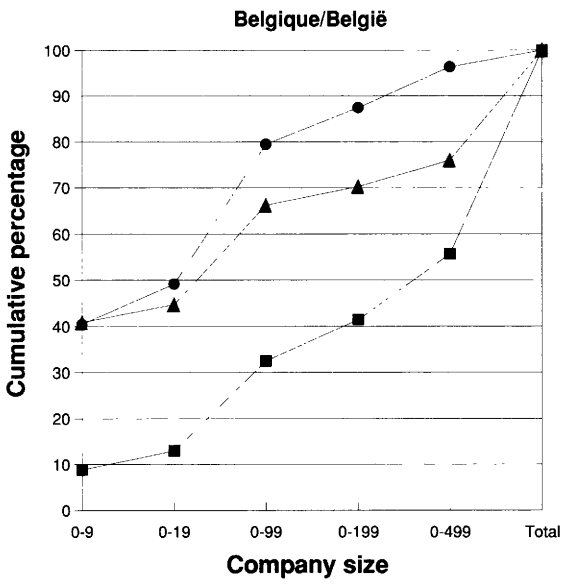
The construction sector is clearly the sector dominated by small and medium sized enterprises. This observation holds for Italy, Netherlands, Belgium, Denmark, France, UK, and Germany. Enterprises with less than 500 employees account for almost 100% of total construction employment in Italy, down to around 75% in UK, with the EC-average around 90%.

However, the distributions for services and construction are very similar in Spain, Portugal and to a certain extent the UK.

Services are therefore in a middle position in terms of degree of concentration. Service enterprises with less than 500 employees account for around 90% of total service employment in Spain, but only around 60% in the Netherlands. The Community average employment in enterprises with less than 500 employees is slightly above 20%.

Some warning should be given against too firm interpretations of the inter-country statistical differences, as these to a certain extent are influenced by different statistical

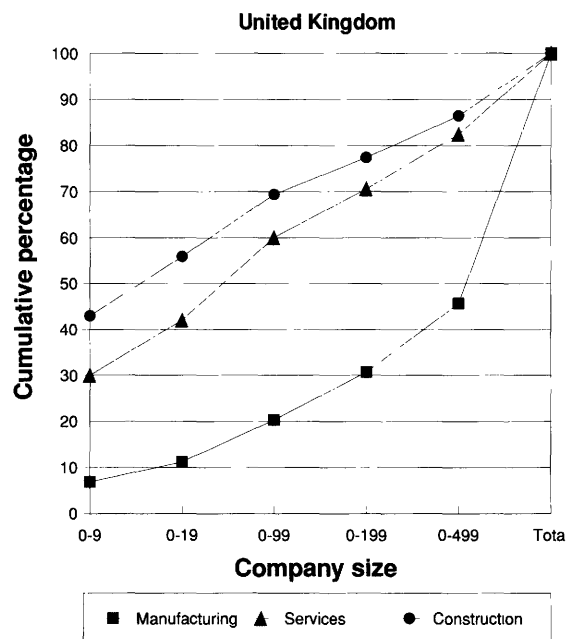
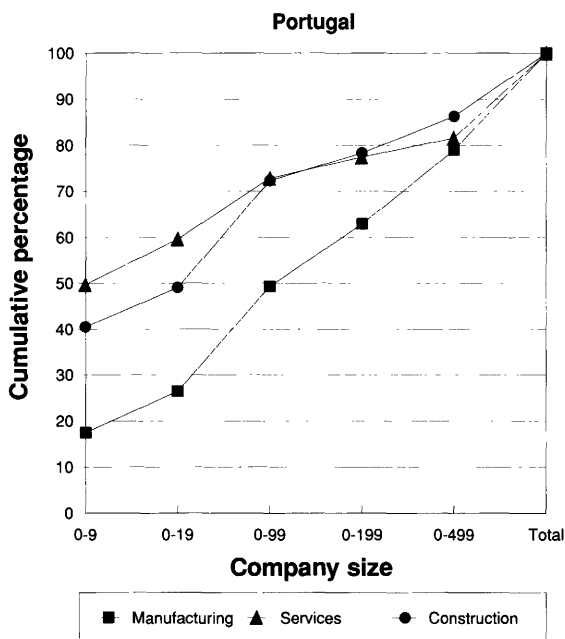
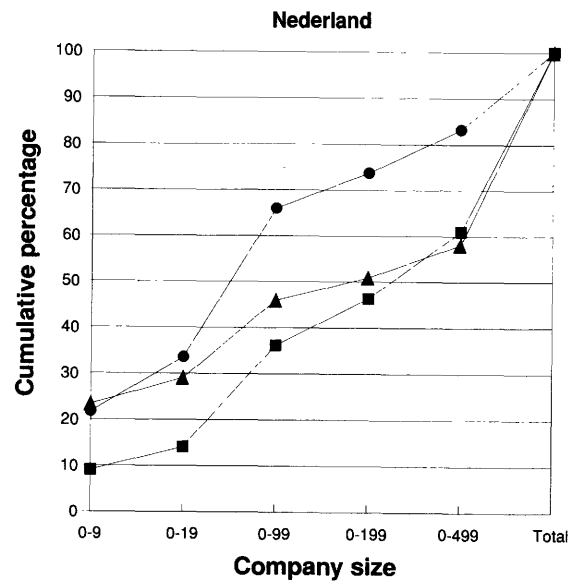
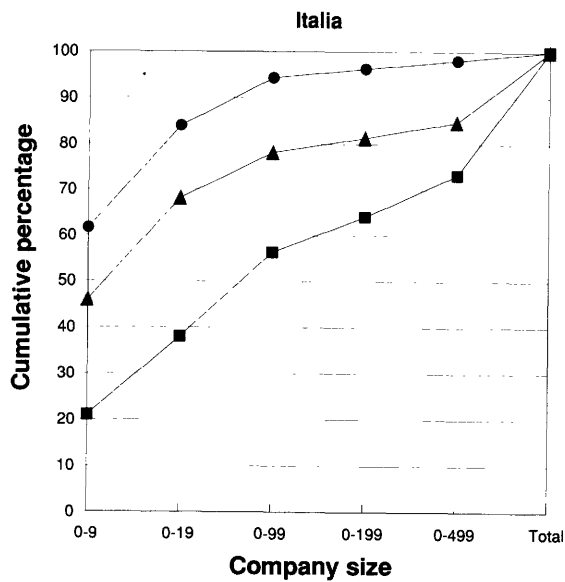
Figure 2
Cumulative employment distribution
Small and medium sized enterprises



■ Manufacturing ▲ Services ● Construction

■ Manufacturing ▲ Services ● Construction





Source: EC - Directorate General XXIII

methods and approaches. However, future statistical refinements will probably confirm the broad picture painted here.

FUTURE WORK Future efforts in the field of data-collection will allow for a refinement of the analysis.

The Commission, and in particular Directorate General XXIII and Eurostat, is currently collecting statistics from the main trading partners of the Community in order to present the enterprises of the EC in a more international context.

The Commission hopes to be able to present the results of this effort in publications in the following years.

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Cooperative, mutual and non-profit organisations

in the European Community

Introduction

Firmly rooted in the economic and social history of Europe, especially since the 19th century, cooperatives, mutual companies and associations have played a vital economic role in the Community. Together they form the sector known as "socio-economic" as in addition to their extreme diversity, they are based on specific organisational principles which distinguish them from both private financial enterprises and the economic activity of public authorities. In fact, the term "socio-economic" is used only in certain Member States (France, Spain, Belgium), but the entities it describes exist in varying degrees throughout the Community. The chief merit of the term is that it signifies that they belong to the same field of the economy and have a common social dimension.

Socio-economic enterprises belong in the economic field because they practice productive activities by allocating resources to satisfy needs. A large part of the goods and services thus produced are commercial, i.e. sold at a price designed to cover at least their cost, but others are non-commercial, i.e. supplied free of charge or at a price which bears no relation to their cost.

The "social" qualification of these enterprises is based on the aims they pursue and their modes of organisation. Their aim is to serve either their members or the general interest, whilst their modes of organisation reflect the priority of persons over capital and are based upon principles of free association, democratic management and community of interest, as well as upon the internal redistribution of profits and the indivisibility of reserves. From the legal point of view, the diversity of the frameworks of different national legislation means that the actual organisations of the socio-economy have been cast in constitutions which are in some cases very different. However, the most frequently used forms are generally the cooperative, the mutual company and the association.

Recognition of the role and place of socio-economic enterprises by European institutions has significantly advanced during the past few years with a number of initiatives by the European Parliament and the Economic and Social Committee. The creation, in 1989, of a "Socio-Economic" Division within D.G. XXIII of the Commission also represented an important milestone for the better understanding of the special features of these enterprises in Community law, and the particular problems posed for them by the framework of Europe.

First and foremost amongst these problems is the absence of an adequate legal structure for the implementation of certain types of international cooperation. Admittedly the formula of the "European Economic Interest Grouping" (EEIG) is open to all forms of companies and enables them to promote certain activities jointly. It does, however, possess considerable limita-

tions, in particular the auxiliary nature of the activities of the EEIG relative to those of its members, the unlimited and joint and several liability of members and the prohibition of encouragement for publishing. In order to go beyond these limits, the Commission has drawn up draft articles of association of a "société anonyme européenne" [European limited company), but in that draft, the only possibility open to the socio-economic enterprises is the establishment of joint subsidiaries, which rules out any mergers of socio-economic enterprises based in different Member States as well as their conversion into European companies of a cooperative, mutual or association type. Furthermore, recourse to this would cause these socio-economic enterprises to lose all their special character, since the fundamental principles according to which they conduct their activity could no longer be applied. This is why one of the priority claims of the socio-economic sector is the definition of optional European articles of association for cooperatives, mutual companies and associations.

Realisation of the single market will also require, for this sector, innovations in financial engineering. In fact, although the privileged method of funding socio-economic associations is self-financing, it is likely to prove inadequate for many of them when markets open, competition increases and changes in demand occur. Consequently, new systems must be perfected for the mobilisation of capital on the financial markets. In order to defend their interests and guarantee their representation at European level, the socio-economic enterprises have formed amalgamations based on three main legal forms, which also correspond

to what it is usually referred to as the "components" of the social economy. Thus, for the cooperative component, a Co-ordination Committee of the Associations of Cooperatives of the Community (C.C.A.C.C.) has been formed by the sectorial cooperative groups (agricultural cooperatives, cooperative banks, production cooperatives, etc.) and, for the associative component, in addition to a Liaison Committee of the NGO's concerned with development cooperation, a European Committee of Associations of General Interest (CEDAG) was set up in 1989. As for the mutualist component, its representation is taken care of both by the International Association of Friendly Societies (A.I.M.) for mutual companies of a welfare type and the Association of European Cooperative Insurers (A.C.E.I.) for insurance companies of a mutual character. As this latter Association and many other situations testify, the demarcations between the cooperative, mutualist and associative groups are far from watertight and the concept of Social Economy is not unequivocal. It is, nevertheless, this representation in three large components upon which the following description of the sectors of activity where the presence of the social economy is particularly marked is based.

The cooperatives

The cooperative banks The Group of Cooperative Banks of the European Community includes all the cooperative banks, with the exception of the Italian "Banche Popolari". Cooperative banks are present in all the Member States with the exception of Greece. Compared with the group of commercial banks and that of the savings banks, the

Group of Cooperative Banks is the only one which has increased its market share during the past twenty years in all countries, except Spain. For approximately three years now, the overall market share of the cooperative banks in the Community has been 17%. This development has been made possible by the very decentralised structure of the cooperative banks and by their evolution towards "world bank" status, offering the complete range of bank services. The Spanish cooperative banks are following the evolution seen in the other Member States with a certain procrastination. Still very tied to agriculture, they are currently passing through a phase of diversification.

In all the Member States, a process of concentration through mergers between local or regional banks is taking place: in France, for example, the 89 regional branches of the Crédit Agricole (the largest non-Japanese bank group in the world) will soon be no more than 40 to 50. The aim of these mergers is to increase the possibilities of diversification as well as the means of meeting increased competition which has new rules on solvency.

At international level, diverse forms of collaboration have been developed, particularly in the Unico Banking Group, founded in 1977 under the impetus of the main cooperative banks of France, Germany, the Netherlands, Austria and Finland. The members of this Group (which today has been extended to other countries) jointly market several common international investment funds and have perfected a system for the rapid payment of trans-frontier transfers. This system of co-operation also guarantees each of them a presence in the other countries through their partners,

and finally, it prevents them from encroaching on each other's areas of activity.

European collaborations are also developing within the framework of bilateral co-operation agreements. For instance, CERA, in Belgium, has signed an agreement with the Netherlands cooperative bank RABOBANK providing for the setting up of joint financial proceeds. CERA has also signed an agreement with the Crédit Agricole mainly dealing with reciprocal services to customers. Similarly, Crédit Agricole, in October 1990, reached an agreement with RABOBANK enabling the French customers of Crédit Agricole to benefit from the services of their own bank when they are in the Netherlands, through RABOBANK. Equally, Dutch customers can benefit from the services of RABOBANK when visiting France, through Crédit Agricole.

The cooperative banks frequently look for foreign partners of equivalent size and of a comparable level of development to themselves. If such a partner does not exist inside the Cooperative Banks Group, they sometimes set up a collaboration with a commercial bank. For instance, RABOBANK, the biggest banking entity on the Dutch market, has signed a cooperation agreement with the Spanish commercial bank Banco Popular.

For certain other international collaborations independent legal entities have been created. These have frequently adopted the structure of a limited company. Furthermore, it can be seen that the majority of the national institutes of the co-operative bank groups (D.G. Bank in Germany, Caisse Centrale des Banques Populaires and Caisse Nationale du Crédit Agricole in France) themselves are limited companies.

When it is a matter of European collaboration between regional cooperative banks, the creation of a E.E.I.G. may very well be suitable if such agreement is confined to auxiliary activities (marketing services, certain services to customers). It is the status of E.E.I.G. which has been adopted for the collaboration between the Banque Populaire de Strasbourg and some German cooperative banks in Baden-Württemberg. Finally, internationalisation of activities can also take place by the takeover of foreign companies or by acquiring a shareholding in their capital. In October 1990, by acquiring 13% of the capital of the Nuovo Banco Ambrosiano, Crédit Agricole became the principal shareholder in one of the large Italian private banks. Lastly, it can be seen that the cooperative banks are hardly experiencing the problems of capitalisation which are encountered by the majority of the other cooperative sectors. Only certain local banks are not at present able to comply as an individual basis -with the solvency ratio of 8% which is imposed on them by European banking legislation.

Production cooperatives After an initial boom at the end of the 19th and beginning of the 20th centuries, there was scarcely any further increase in the numbers of production cooperatives, otherwise known as joint labour cooperatives, in the majority of the countries of the Community. Since the second half of the 1970s a new wave of creations has been seen, which appears to have peaked between 1980 and 1985 and which mainly appears to be a combination of a reaction to the problems of unemployment and the rediscovery of the entrepreneurial spirit. The majority of these new enterprises employ less than twenty workers and are

Table 1
Cooperative banks, 1989

	B	DK	D	E	F	IRL	I	L	NL	P	UK	Total EC
1. Number of local and regional banks	396	115	3 231	140	3 249	16	728	47	882	226	109	9 139
2. Number of bank counters	1 032	311	19 090	3 450	15 936	47	1 446	118	3 240	382	3 000	48 052
3. Numbers of shareholders	425 072	139 000	11 335 000	1 043 787	12 170 000	N/A	320 000	6 781	760 000	197 402	1	26 397 043
4. Number of people employed	4 318	3 880	136 400	11 601	126 784	494	13 500	254	34 400	1 801	4 553	337 985
5. Consolidated balance sheet (*)	13 508	8 862	344 062	19 744	210 678	799	36 171	926	75 287	1 638	3 682	840 442
6. Deposits (*)	11 961	4 084	312 032	13 556	195 857	550	27 621	824	55 385	1 419	3 228	526 517
7. Credits (*)	9 650	3 827	302 879	9 378	172 611	529	11 838	268	50 482	1 172	2 661	562 295
8. Market share	5,27%	6,6%	26,8%	4,8%	28%	2,2%	6,5%	N/A	25%	5,5%	2,3%	N/A

(*) in millions of ECU

Source: Cooperative Banks Group of the EC

mainly located in local markets.

Besides creation ex nihilo by a small group of workers, various circumstances may form the origin of production cooperatives. For instance, in Italy and to a lesser extent in France, many production cooperatives have been created in order to revive businesses which were in difficulty. In addition, sometimes owners of businesses without a successor ensure their perpetuity by transforming themselves into workers' cooperatives. This latter measure has significantly spread in France over the last decade. Another, more specialised, circumstance is an exchange between a workers' cooperative and a public development agency which can be the start of "community cooperatives". This type of cooperative appeared during the 1960s in Ireland in depressed rural areas and has subsequently spread to Scotland, Wales and England. Lastly, large industrial groups may resort to forming a workers' cooperative to safeguard the existence of a subsidiary or a division and hence minimise the social damage occasioned by their redeployment. With the exception of Greece and Luxembourg, national or regional federations exist in all the countries of the European Community. But there are many

production cooperatives, especially amongst the more recently founded and smaller businesses, which are not affiliated to member organisations of the CECOP (European Committee of Worker's Cooperatives). Furthermore, the 13,800 cooperatives amalgamated in the latter represent only about a third of all the production cooperatives in the Community. Overall, the latter employ over 700,000 workers, distributed very unevenly: over 50% for the Italian cooperatives alone and almost 30% for the Spanish cooperatives. Generally speaking, production cooperatives frequently operate in traditional sectors, with a greater intensity of labour than other enterprises. In the south of the Community, they are basically orientated towards industry and construction. For instance, in Spain, over 40% of the joint labour cooperatives are in the traditional industrial sectors (manufacturing, metallurgy, engineering); in Italy, close on 40% of production cooperatives are to be found in the construction industry and their market share in this sector amounts to 20%. In the north of the Community, on the other hand, they are concentrated more on the services. This applies, for example, to over

two thirds of Belgian and British cooperatives. Production cooperatives have undergone considerable restructuring in certain sectors. For instance, in the construction industry, amalgamations of companies are taking place both at national and European levels. At national level, these amalgamations are taking place either in the form of consortiums, such as for example CONACO, which is an amalgamation of several cooperatives of services to the construction industry in Italy, or by the absorption of small units by larger ones. At European level, 25 building and public works cooperatives and consortiums in France, Italy, Spain and Portugal have amalgamated to form a single sales promotion entity, EUROOC. Created in December 1989, EUROOC is a cooperative consortium operating under Italian law. Its aim is to become a E.E.I.G. (European Economic Interest Grouping) or a European cooperative society as soon as national or European legislation permits this. By combining their skills and know-how, the European building cooperatives will be in a better position to compete for large international tenders. Another European amalgamation, EURO-

Table 2
Production cooperatives, 1989

	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK	Total EC
1. Number of cooperatives - total	270	1 200	6 000	30	13 100	1 350	110	20 800	20	300	155	16 500	44 985
- Affiliated to CECOP	35	92	N/A	N/A	2 900	1 329	N/A	8 680	N/A	38	155	580	13 809
2. Number of members - total	5 600	14 800	66 500	300	206 000	42 200	500	373 250	300	5 000	5 100	11 650	731 200
3. Turnover (in millions ECU)													
- of the cooperatives affiliated to CECOP	13.6	410.7	N/A	N/A	1 376.0	1 726.7	N/A	8 491.5	N/A	43.5	112.0	327.9	12 501.9

Source: CECOP

CONSCOOP is an initiative by consulting engineers, architects and engineers of cooperatives affiliated to member organisations of CECOP. It is a de facto association which is at present an amalgamation of Belgian, Danish, French, Dutch, Italian and Portuguese cooperatives. In the field of collective restoration, the S.A. SEER is another example of collaboration between two French and Italian cooperatives. Collaborations also exist between production cooperatives and public or private partners. This is particularly the case in Italy in the electrical energy sector and in France in the collective restoration sector. At international level, in the field of domestic electrical equipment, a E.E.I.G. (European Economic Interest Grouping) has just been formed by the Basque cooperative FAGOR which belongs to the Mondragon Group and the French Group Thomson. Together they should cover approximately 10% of the European market for sales of domestic electrical equipment. Finally, certain production cooperatives use various other methods of expansion on the European market. For example, with a view to facilitating its exchanges abroad, a transporters' cooperative in the

south of France has opened branches in towns close to the frontiers: Perpignan for Spain; Lille for Belgium, Holland and England; Nancy for the Federal Republic of Germany and Rheims for Luxembourg. The following factors must be identified as being the main obstacles on the internationalisation of certain production cooperatives: their inadequate size, a lack of training in view of the stakes of the large European market and above all their deep-rootedness at local level. Furthermore, it is obvious that the creation of a legal status of "European Cooperative" would enable production cooperatives to conduct international activities within a framework which is in accordance with their principles of organisation, especially that of democratic management.

The consumer cooperatives The consumer cooperatives, one of the oldest forms of co-operation, fall within the distribution sector, with points of sale ranging from the traditional retail shop to the hypermarket. In the beginning, they specialised basically in food; they later turned to other consumer goods and are currently trying to diversify whilst specialising in certain slots. Present in all the countries of the Community, except Ire-

land, the consumer cooperatives have amalgamated to form EURO COOP (European Community of Consumer Cooperatives). Other European countries such as Finland, Switzerland, Sweden and Norway are also represented in EURO COOP.

In certain European countries the consumer cooperative movement is marked as passing through a period of recession, but it is, on the otherhand, very dynamic in others.

For instance, in Belgium practically all the consumer cooperatives have disappeared because they were unable to adapt to the new competitive conditions. In the Netherlands half the consumer cooperatives became bankrupt in 1972 and only part of the movement has continued to exist. In France, the Société Générale des Coopératives de Consommateurs, a wholesale purchasing company, has had to cease trading and relinquish the whole of its industrial sector to its competitors, and the Fédération Nationale des Coopératives de Consommateurs (National Federation of Consumer Cooperatives), in the absence of sufficient contributions, has had to reduce its services considerably. The movement as a whole today appears to have

Table 3
Consumer cooperatives, 1989

	B	DK	D	GR	E	F	I	L	NL	P	UK	Total EC
1. Number of cooperatives	1	741	16	20	450	130	446	5	1	362	80	2 252
2. Number of points of sale	279	1 511	1 128	43	665	2 850	1 294	5	50	427	4 650	12 902
3. Number of members (in thousands)	N/A	1 147	600	36	625	1 700	2 144	20	70	374	8 192	14 908
4. Number of wage-earners	937	21 959	28 000	606	5 809	18 500	26 421	200	1 465	3 450	81 500	188 847
5. Market share (in %)												
- food sector	N/A	31	3.1	2.5	2.3	N/A	4.2	4.5	1.0	N/A	7.6	N/A
- retail	N/A	22	0.9	N/A	N/A	N/A	N/A	N/A	1	N/A	4.4	N/A

Source: EURO COOP

overcome the failures of certain regional cooperatives. Finally, in Germany, the COOP A.G. Group, the result of a merger of approximately a hundred cooperatives, has recently been taken over by the German Group R.E.W.E. and the COOP A.G. cooperatives situated in Berlin have been taken over by the Konsum Group, a former GDR cooperative group). Ten cooperatives representing Germany, with a turnover of approximately 2.7 billion ECU, are still in EURO COOP.

The consumer cooperatives are, on the other hand, very dynamic in Denmark (over 1,500 shops), in Spain (approximately 660 shops) and in Italy (nearly 1,300 sales outlets). In Greece the movement is relatively young, but very dynamic. In Great Britain the consumer cooperatives have for a long time now had a certain economic weight and possess over 4,600 points of sale. Despite their tendency towards diversification, the consumer cooperatives, above all, remain important in food distribution: 31% of the food market in Denmark, around 8% in Great Britain and 4% in Italy and Luxembourg. The consumer cooperatives must accept important challenges, especially with re-

gard to financing, because of the relative weakness of their equity capital. Some of them are proposing, as a possible solution to this problem of financing, to set up a fund supplied by the cooperative banks. EURO COOP is also trying to persuade all customers of the cooperatives to subscribe to members' shares.

In the future, it can be expected that the consumer cooperatives will increasingly turn to other consumer goods, as well as to services, as CAMIF has done in France in the mail order sector.

As in the whole of the distribution sector, the consumer cooperatives have undergone important mergers. The number of companies has considerably decreased over the years.

The recent merger, in Great Britain, of C.R.S. (Cooperative Retail Services) with the Cambridge Cooperative Society shows that the phenomenon of concentration is not over.

At international level, 21 central purchasing departments of cooperatives distributed in 18 European countries, including Denmark, France, the Federal Republic of Germany, Great Britain and Italy, as well as in Israel and Japan, amalgamated in

1971 to form INTERCOOP, its secretariat of is presently situated in Copenhagen. The aim of this organisation is to foster co-operation between the different member organisations, in order to increase their economic power on the food and non-food markets. Collaborations may, for instance, be set up in the field of joint purchasing or in order to develop a proprietary trade mark.

The agricultural cooperatives The agricultural cooperatives of the twelve member States of the European Community have amalgamated under the General Committee of Agricultural Cooperation in the EC (COGECA). COGECA defends the interests of its members by participating in the drawing up and implementation of a set of Community policies, especially the Common Agricultural Policy.

The majority of European farmers are members of several cooperatives. For instance, in 1988, 36,000 agricultural cooperatives in the EC had over 12 million members whilst there are less than 9 million farmers in the Community.

In Italy the number of agricultural cooperatives is the highest (close on 12,000). In Greece, Germany and France there are

also large numbers (between 4,000 and 7,000).

The agricultural cooperatives in the Community represent over 720,000 jobs, 271,000 of which are in Italy, 130,000 in France and 136,900 in Germany. Employment is also relatively large in the Netherlands and Denmark.

Over half of European agricultural production is harvested, processed or sold through a cooperative. This share is the largest in the milk sector: 60% to 90% in eight of the Member States. In Ireland the cooperatives take care of almost all milk collection. This share is also over 50% in several countries for the marketing of corn, purchasing of animal feed and wine production. The turnover of the agricultural cooperatives varies enormously from one country to another and even within a country. For instance, in Ireland and Denmark, where the number of agricultural cooperatives is relatively low, the turnover per cooperative exceeds 40 million ECU. On the other hand, in Italy the average turnover is only about 1 million ECU.

In several member States the agricultural cooperatives have undertaken a process of internationalisation and concentration. During the past thirty years the number of agricultural cooperatives has decreased by over half, but their volume of activity has strongly increased. This growth has even been far higher than that of the whole of the agricultural sector. This trend is basically explained by the diversification and specialisation of the agricultural cooperatives. In fact, stronger and stronger vertical integration is seen: the cooperatives endeavour to intervene at all stages of the agro-food chain in order to integrate the maximum added value. They also extend

their radius of operation by developing activities in fields not specifically in the agricultural sector (for example, ranging from gardening to do-it-yourself products).

To assert their identity and their presence, the agricultural cooperatives must establish both internal and external strategies and ensure their growth by means of mergers and international joint ventures. Some of them have already successfully embarked on the course of internationalisation, but these movements are still very weak within the Community. The following can be quoted as examples: INTRADE, an amalgamation of European, American and Canadian cooperatives on the international grain, oilseeds and animal foods market, ANIMEDICA INTERNATIONAL, an amalgamation of several European cooperatives for the joint purchasing of medicinal foods, and COLTIVA, an amalgamation of several Italian cooperative wine-cellars, which collaborates with other enterprises at international level. Recently the processing of milk, which was previously taken care of by the principal cooperative dairies of Wallonia, was integrated in the cooperative group of the Union Laitière Normande [Normandy Union of Dairies], which at the present time is an amalgamation of eight cooperatives. The latter, furthermore, has just put in a take-over bid for 45% of the capital of the Spanish group Celbasa Alto. In Germany close collaboration between different agricultural cooperatives is developing at the frontiers, in particular with France, Belgium and Italy in the dairies sector, and with the Netherlands in the horticultural sector.

International cooperation for the agricultural cooperatives is also put into concrete form by the constitution of the E.E.I.G. (Eu-

ropean Economic Interest Grouping). In November 1990, ten organisations from seven member States (Italy, France, the Netherlands, Germany, the United Kingdom, Ireland and Denmark) amalgamated to form ECORD (European Cooperatives for Agricultural and Rural Development), the main aim of which is to assist in the reconstruction of agriculture in the eastern bloc countries. Other E.E.I.G are currently being formed, in particular for promotion of the consumption and use of chips, and also for the promotion and upgrading of cork.

In order to develop through diversification, specialisation or international cooperation, the agricultural cooperatives have to make substantial investments, the financing of which is a permanent challenge. Often, in fact, their registered capital is relatively low, and above a certain threshold external financial contributions are likely to make their cooperative structure questionable.

The social pharmacies The term "social pharmacies" is frequently used to describe cooperative, mutualist or associative types of pharmacies.

In the Community, only five member States permit the establishment of social pharmacies. These are Belgium, Italy, Great Britain, Ireland, France and the Netherlands. In the other member countries, there are no social pharmacies, either because the legislation prohibits them as in Spain, Greece and Germany, or because the business capital does not exist and the licenses remain tied to the State, as in Denmark and the Grand Duchy of Luxembourg.

The social pharmacy is open either to the whole of the public, or, as in France, to

Table 4
Agricultural cooperatives, 1989

	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK	Total EC
1. Number of cooperatives	1 265	200	5 356	7 125	3 000	4 233	129	11 700	640	1 285	1 118	636	36 687
2. Number of members													
(in thousands)	398	111	1 285	855	1 500	950	174	1 480	10	425	1 500	428	9 116
3. Number of wage-earners													
(in thousands)	4.1	37.7	136.6	10.4	N/A	130.0	15.2	271.0	1.3	77.8	12.4	28.0	724.5
4. Turnover													
(in million ECU):													
- total	5 763	9 687	37 160	N/A	7 668	49 829	5 543	16 932	297	15 304	1 366	9 173	158 722
- per cooperative	5	48	7	N/A	3	12	43	1	0.5	12	1	14	4
5. Market shares:													
(in % of national turnover)													
- milk	(¹)60	(²)92	(²)78,5	60	N/A	(¹)62	(¹)100 (²)14 - 34	(²)72	90	70	N/A	N/A	N/A
- fruit and vegetables (sales)	65	N/A	N/A	N/A	N/A	30	N/A 6 - 12	N/A	N/A	N/A	30 - 35	N/A	N/A
- corn (collection)	N/A	N/A	52.5	60.0	60.0	71.0	N/A 60.0	75.0	N/A	N/A	19.0	N/A	N/A
- animal feed (purchases)	18	N/A	50 - 60	N/A	N/A	40	N/A 50	65	53	N/A	N/A	N/A	N/A
- wine	N/A	N/A	35	50	60	61	N/A 5 - 40	N/A	N/A	43	N/A	N/A	N/A

(¹) delivery
(²) collection
(³) processing and marketing
Source: COGECA

the mutual company members only. It is the property of an association of persons (consumers, co-operative society members, associations or mutual company members), the essential aim of which is to serve the general interest. Cooperative pharmacies are consumer cooperatives. The members of the cooperative society hold a share in the business and in return, at the end of the year, they are granted a refund proportional to their purchases. On their part, the mutualist or associative pharmacies grant a reduction on the contribution required from the members to ensure cover of that part of the cost of medical treatment to be paid by the insured.

Belgium, France, Great Britain, Italy and the Netherlands are, together with Switzerland, the members of the European Union of Social Pharmacies (E.U.S.P.). In these

five countries, there are some 2,500 social pharmacies out of a total of 55,000 pharmacies.

In the United Kingdom there is a tradition according to which corporate bodies are not excluded from owning pharmacies. This is also the case in Belgium, where the number of social pharmacies represents 10% of the total number of dispensaries, and pharmacies of this type supply one fifth of the national population. The growth of Belgian cooperative pharmacies has been particularly remarkable: since the post-war period, their number has increased five-fold, whereas the number of private dispensaries has doubled. Their turnover trend also illustrates this growth: in 1989 it was five times higher than in 1975. With regard to what is normally bought in the chemist's shop, the market share of Belgian cooperative pharmacies is

20%. In Italy, 8% of all dispensaries are social pharmacies (municipal pharmacies) and their market share is 10%.

In France, on the other hand, the number of mutual company pharmacies is lower (1% of the total number of dispensaries), but 5% of the national population have an interest in them. They have experienced a limited growth, probably because of the legal restrictions which characterise the sector in that country.

In the Netherlands, the importance of the social pharmacies significantly makes up for the precariousness of basic social cover for medicines and their high prices. The social pharmacies have a relatively good self-financing capability, reflecting the pharmaceutical sector as a whole. Generally, they follow the trend of the health care sector, which itself is in a period of growth. The organisational struc-

ture of the social pharmacies (economies of scale, distinction between medical management and administrative management with convergence of aims) frequently enables specific activities to be carried out in respect of the consumer (health education) and the recipients of benefits (continuous education).

The E.U.S.P. wishes to encourage the expansion of social pharmacies in countries where they already exist but where certain legal or financial obstacles are also present (for example, in Italy). It also aims to promote the creation of pharmacies of this type where none yet exist, including outside the Community (for example, in Czechoslovakia, Poland). In this connection, the E.U.S.P. is promoting the setting up of a legislative framework for the type of pharmacy open to the general public, similar to the contribution made by Directive 85/432 for the pharmacist's profession.

The social tourism organisations So that all workers and their families, particularly the most underprivileged, can enjoy a holiday, the cooperative, mutualist and associative movements have implemented a social tourism policy. Social tourism appeared at the end of the 19th century and developed considerably in 1936, after the signing of the international convention on holidays with pay. But it is above all since 1964 that it has acquired numerous facilities (holiday villages, homes, camping sites, youth hostels, sports centres). According to the European Committee for the Coordination of Social Tourism (CECOTOS, now changed to CETOS), the turnover for the whole of social tourism in the Community was estimated at 4 billion ECU in 1986. The respective shares of the cooperatives, mutual companies and associations in the

Table 5
Social pharmacies, 1990

	B	F	I	NL	UK	Total EC
1. Cooperative society or friendly society member customers:						
- in millions	2	2.9	7.0	3.7	5.5	21.0
- in % of the national population	20.0	5.2	1.3	26.4	10.0	11.0
2. Number of wage-earners (in thousands)	3.5	1.3	8.0	0.3	1.3	14.4
3. Dispensaries:						
- absolute number	560.0	211.0	1 300.0	50.0	350.0	2 471.0
- in % of the national total	10.0	1.0	8.1	3.6	3.2	4.5
4. Market share (in %)	20.0	1.3	10.0	3.0	2.5	5.5

Source: U.E.P.S.

social tourism of each country of the Community are very variable, and in some cases, difficult to determine accurately because of so many joint initiatives. Furthermore, the following figures relate to the results of all the components of the social economy.

Special legislation on social tourism exists in France, Belgium, Italy and, to a lesser extent, in Portugal, Spain and Greece. On the other hand, as far as Denmark, Ireland, the Netherlands, the Federal Republic of Germany and Great Britain are concerned the idea of social tourism is appreciated differently: here, facilities are very often to be found which have been installed by the trade union movement or by charity organisations or those associated with the Churches. For this reason it is more difficult to identify them.

It is in France that the results of social tourism are the most numerous and the most varied. They represent 12% of the overall tourist activity of the country, with approximately 12,000 holiday centres with a total of 1,700,000 beds, a turnover estimated at 1.7 billion ECU and 70,000 jobs (1985 figures of the Union Coopérative Equipements Loisirs) [Co-operative Union

of Leisure Appurtenances]. It is the association sector which represents the largest share of French social tourism.

In Belgium the social tourism associations (including the two main workers' unions) manage 48,000 beds, representing a turnover of 45 million ECU (1986). In Italy, social tourism appears to have a total of 112,000 beds for 1,893,000 holiday days. The turnover in 1986 exceeded 167 million ECU distributed more or less equally between the associations, the unions and the cooperatives. Over 6,000 people are employed in this sector.

In Portugal, INATEL and the Instituto da Juventude are the two public establishments set up under private law engaged in social tourism. With regard to accommodation, there are nine holiday centres, totally financed by the State, representing a total of 2,340 beds (1987). Alongside the public sector, the most developed at the present time, the APORTAL association, founded in 1990 by the accommodation and tourism cooperatives, has around ten tourist establishments and is currently in the process of building three holiday villages.

In Spain, social tourism is believed to rep-

represent 1.15% of the total of national tourist consumption, i.e. 140 million ECU. The total number of permanent jobs created there by social tourism is estimated at approximately 15,000.

In Greece, an official structure for social tourism has been created in the Hellenic Office of Tourism. The cooperatives which operate tourist business administer 622 beds, whilst the youth hostels, which are the only social tourism associations, for their part, represent around 2,000 beds (1985).

In Denmark, the Dansk Folke-Ferie organisation (D.F.F.), founded by the union and the cooperatives, administers a total of 12,000 beds, with a turnover of 37.5 million ECU. In Ireland, the Irish Cooperative Organisation Society Ltd., which takes care of tourist travel for the cooperatives and their members, achieves a turnover of around 2 million ECU (1986).

"Eurovillages", the brainchild of the French association V.V.F. (Villages-Vacances-Familles) [Villages-Holidays-Families] and by Loisirs et Vacances [Holidays and Leisure] in Belgium, illustrate international collaboration on social tourism. The Euro-village of Cap d'Agde in France, open since 1982, is so far the only really European achievement of social tourism. However, various projects are currently being carried out. The Port d'Albret project in les Landes, the Brussels project and the Obernai project in Alsace should soon be operational and open their gates in March 1991. Euro-village, the G.E.I.E. [European Joint Venture Group] which at the present time combines Belgium, France, Spain, Italy, Portugal, Germany, Switzerland and soon Denmark is mainly engaged in promotion of the "Euro-village" label, which is based

on very precise standards. It is also within the framework of this E.E.I.G. that the enterprises come together for the building of Euro-villages. Finally, it should be noted that existing villages can acquire the Euro-village label, provided they make certain material transformations and internationalise their management.

The "European holiday cheque" is an initiative which is currently becoming a reality. Already existing in France and Switzerland, the holiday cheque, which enables its users to obtain services at good value at certain hotels and travel agencies, is soon to be launched at European level. The Fédération internationale des Associations Touristiques de Cheminots [International Federation of Railway Workers' Tourist Associations], which is an amalgamation of two million members in the Community, is another example of European cooperation on social tourism.

Generally speaking, however, international collaboration in this sector encounters various obstacles:

- ❖ the organisations' lack of reciprocal knowledge;
- ❖ the existence of special rules prohibiting access to certain organisations to non-members;
- ❖ national regulations preventing the transfer of public or social assistance to another country.

Housing and social accommodation cooperatives The professional organisations specialising in the building and administration of social accommodation amalgamated in 1988 in a European organisation: the European Committee for the Co-ordination of the Social Habitat (CECODHAS). Today, this organisation is an amalgamation of 38 organisations originating from twelve

countries in the Community, as well as Austria, Sweden and Czechoslovakia. These organisations include in their assets over 20 million residential buildings and shelter 65 million inhabitants (60% rented, 40% home owners). Consequently, one European in five is housed by the member organisations of CECODHAS.

The whole of the social accommodation sector, however, does not come under the socio-economy. Amongst the social accommodation companies, in fact, it is necessary to differentiate between three large categories:

- ❖ Housing cooperatives;
- ❖ Communal or state enterprises (public sector);
- ❖ the foundations, and the Church organisations.

The cooperative section of CECODHAS is an amalgamation of 21 national and regional organisations. Certain of these organisations work in association with conventional private enterprises or with public enterprises.

The number of cooperative units of accommodation is the highest in the Federal Republic of Germany, Italy, Spain and Denmark. Associations are also present in numbers in this sector in the Netherlands. International collaboration between cooperative housing organisations is still rare. Nevertheless, a bilateral agreement consisting in particular of the pooling of a team of architects has been signed between two bodies in France and Germany, situated on either side of the Rhine. Agreements of this type should multiply in the frontier regions. In fact, various cooperation projects are currently being studied in these two countries, as well as in the Netherlands, Belgium and Denmark.

Table 6
Social accommodation, 1988-89 (1)

	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK	Total EC
1. Number of cooperatives enterprises	280	623	2 700	N/A	3 170	1 100	35	13 120	N/A	1 080	120	2 350	24 623
including:	19	225	1 966	N/A	3 104	190	11	13 000	N/A	N/A	120	300	19 260
public sector companies, foundations...	261	398	734	N/A	66	910	24	120	N/A	N/A	N/A	2 050	5 400
2. Total number of places of social accommodation (2)	367	500	6 700	200	1 500	4 500	6	2 500	N/A	2 000	35	700	20 400
Cooperative places of accommodation (2)	12	N/A	2 100	N/A	1 000	160	1	1 500	N/A	N/A	35	100	5 462
including:													
public sector places of accommodation, foundations, ... (2)	355	N/A	4 600	N/A	500	4 340	4	1 000	N/A	N/A	N/A	600	14 900

(1) Partially estimated figures (survey in progress)

(2) In thousands

Source: CECODHAS

Other types of international collaboration are also being outlined. For instance, the Italian and German cooperatives are considering the possibility of building holiday homes in Italy for their members.

Relations are also developing with housing cooperatives in East Europe, in order to assist them in their change towards modern, democratic structures. The Czechoslovakian cooperatives have thus been able to adapt their articles of association to make them comply with the essential principles of cooperation. Increasingly closer contacts also exist with housing cooperatives in Hungary and Poland.

The retailers' cooperative purchasing groups

The cooperative purchasing and service groups unite independent retailers at wholesale trade level.

The aim of these groups is, by a combination of energies, joint efforts and the creation of various services, to ensure the existence and development of the business of the retailers, whilst safeguarding their independence.

The purchasing groups are, above all, concerned with the various functions enabling sales to be developed. In this sense, they

aim to supply their members with the technical and material means as well as all the human skills necessary for the development of modern enterprises in the retail trade.

In Germany, cooperatives of this type represent a considerable force: over 163,000 points of sale and approximately 542,000 jobs. Comparison of these figures with those for retailers' cooperatives in the other Member States shows that Germany alone, according to the indicators, represents 62% and 73% of the total volume of the business of purchasing groups in the Community. Such groups are, however, also present in considerable numbers in Italy and France, where several co-operatives are included amongst the main distribution groups.

The crafts cooperatives No European amalgamation of crafts cooperative groups exists. Nevertheless, in France, where this movement is the most organised, around 1,000 craftsmen's groups are affiliated to the French Confederation of Cooperatives and Craftsmen's Groups (C.F.C.G.A.). They represent altogether 73,000 shareholders, employ 4,000 wage-earners and achieve a turnover

of approximately 860 million ECU. Amongst these groups, 600 have adopted the form of the cooperative society. The other groups are organised in joint venture groups or associations.

According to the functions they perform, three types of craftsmen's groups can be distinguished:

- the purchasing groups which perform the functions of classification, stocking and purchasing; they are currently enjoying a period of strong development, especially in the building, food and agricultural machinery sectors;
- the marketing groups, especially numerous in building, where businesses are amalgamating in order to offer the services of all the trades;
- the service groups which cover a large variety of activities, for example, the pooled use of equipment or the installation of joint management and administrative assistance services.

At international level, the C.F.C.G.A. has joined the Federation of Service Cooperatives of Catalonia. A European Confederation of Family Business Cooperatives could see the light of day in 1991.

Table 7
Cooperatives retailers' purchasing groups, 1988

	B	DK	D	GR	E	F	I	NL	P	Total EC
1. Number of points of sale	695	605	163 300	N/A	9 161	11 018	21 541	1 053	6 300	213 673
2. Number of retailers	650	605	134 506	N/A	8 951	9 095	21 420	1 025	6 300	182 552
3. Total jobs(*)	2 150	3 290	542 000	N/A	28 500	69 500	84 124	5 330	7 000	741 894
4. Turnover of the retail trade (in millions ECU)	141	510	43 072	N/A	2 264	6 893	15 026	915	256	69 077
5. Turnover of the wholesale trade (in millions ECU)	105	176	19 861	N/A	898	2 688	4 220	440	128	28 515

(*) including retail traders
Source: UGAL

The mutual companies

Mutual insurance (friendly societies)

Mutual insurance (friendly societies) is the most important European social movement since it combines approximately 100 million beneficiaries. It employs over 200,000 wage-earners and represents a volume of business of approximately 30 billion ECU.

The friendly societies of eleven member States of the European Community have amalgamated in the A.I.M. [International Association of Friendly Societies]. Argentina, Israel, Morocco, Switzerland, Uruguay and Burundi are also members of this association.

The friendly societies are partnerships. They aim to ensure for their members joint, participative and non-profit-making protection against social risks. Protection against the risk of sickness and its consequences constitutes their main field of activity.

Despite these common characteristics, the articles of association of the friendly societies differ greatly from one country to another. In fact, certain friendly societies administer the social protection in compulsory form, others in supplementary form and yet others in parallel or alternative

form. This diversity is the consequence of the historical and cultural evolutions specific to each country.

FRIENDLY SOCIETIES ADMINISTERING COMPULSORY SICKNESS INSURANCE
Belgium has two compulsory sickness-invalidity insurance schemes. The first applies to the whole of the population with the exception of the self-employed and their families (8,447,000 beneficiaries), whilst the second scheme concerns the latter only (1,469,000 beneficiaries). The second scheme guarantees lower protection than the first and, to make up this difference, the friendly societies have organised an optional insurance. Five national unions administer the sickness insurance: these are groups of the Christian, socialist, self-employed, professional and liberal friendly societies respectively.

In addition to the task of administration of compulsory and optional insurance, the Belgian friendly societies offer additional services and advantages to their Members. These are financed by contributions. The services allied to the supplementary insurance are varied: assistance and maintenance services at home, medical care abroad, death benefits.

In the Federal Republic of Germany the

friendly societies participate in the administration of the compulsory sickness insurance scheme. There are four types of friendly society benefit schemes for wage-earners, in addition to the 270 local health insurance offices (Allgemeinen Ortskrankenkassen) to which 47% of the insured belong. The friendly societies are subdivided into 824 industrial funds (Betriebskrankenkassen) [industrial sickness funds] which cover 12% of the workers (6,750,000 million insured persons) and 156 corporate funds (Innungskrankenkassen) [trade sickness funds] which cover 5% of compulsorily insured persons. The friendly societies also administer the substitution funds (Ersatzkrankenkassen) [substitution sickness funds], of which there are 15 (8 funds for clerical staff and 7 for workers). Clerical staff and workers can have their names removed from the fund to which they would normally belong, in order to join one of the substitution schemes. The latter insure over 30% of the workers and constitute a special feature of the German system. In addition to these four categories of friendly society funds for wage-earners, there are those of a socio-professional character for special schemes: the agricultural scheme (Landwirtschaftliche Kranken-

kassen) [agricultural sickness scheme which has approximately 1.5 million beneficiaries, the miners', officials', artists' funds, etc.

In the Netherlands compulsory sickness insurance is also administered by the friendly societies. There are 35 regional sickness funds, the co-ordination instrument of which is the Association of Friendly Societies of the Netherlands (V.N.Z.). The unemployed, handicapped workers, pensioners and wage-earners whose income does not exceed a certain annual amount are covered by this insurance scheme. They represent approximately 62% of the population of the Netherlands.

People not protected by this social sickness insurance must subscribe to private insurance with a friendly society or a private insurance company (33% of the population) or with public insurance agents for officials (5% of the population).

As from the 1st January 1991, the principle of compulsory insurance will be extended to the whole of the population for a risk basis of 85%. The friendly societies and the private insurance companies will administer the compulsory protection of the Dutch public, who will have free choice of their insurance body. The extra costs which might arise because of a concentration of bad risks as a result of this freedom of choice will be balanced out between the insuring bodies by a fund provided for that purpose.

This reform will probably give rise to an increase of the supplementary insurance business of the friendly societies. These types of insurance will enable those who so wish to be covered for the 15% of risks which are not included in the compul-

sory insurance.

FRIENDLY SOCIETIES SUPPLEMENTARY TO THE COMPULSORY SYSTEM

In Denmark, since 1973, all citizens are covered by the national health insurance scheme, which provides relatively extensive protection. The Danes can also subscribe to a complementary sickness insurance scheme offered by the friendly society Fortsaettelsessygekasse Danmark, which is entirely financed by the contributions of its members.

In the last few years the population has shown increasing interest in the advantages offered by mutual insurance. Proof of this is the increase in numbers of people insured: from 100,000 in 1973, their number has increased to over a million in 1989. The increase of mutual insurance does not therefore appear to have been retarded by the Act of 1986, which no longer permits the deduction of mutual insurance contributions from taxable income.

In Greece, there is no true mutual insurance, sickness risks being insured by a central institute (I.K.A.). Some professional schemes exist for workers excluded from the system, but the banks are practically the only organisations with a mutual insurance structure.

In Spain the friendly societies, amalgamated in 6 territorial federations, insure approximately 4 million people. These are mainly situated in Catalonia, the Basque country and the Madrid region. The members of these friendly societies have access to certain services (medical assistance, death benefit, widow's and orphan's pensions), which tend to make up for the deficiencies of the national system. In France, compulsory protection against the risk of sickness is characterised by a

socio-professional segmentation which gives rise to three types of scheme:

- ❖ the general scheme is a public service for all wage-earners. It covers 14 million regular workers.
- ❖ a series of private schemes intended for officials, those with major disability, Government workers, organized by the friendly societies;
- ❖ two independent schemes are designed for the self-employed in agriculture and other self-employed people. These people may subscribe to their compulsory insurance either with friendly societies or with private insurance companies. For instance, 75% of farmers have chosen friendly societies, mainly the Mutualité Sociale Agricole [Agricultural Social Friendly Society], which has 125,000 beneficiaries.

As far as additional cover for medical care expenses is concerned, this is mainly provided by friendly societies. The latter are amalgamated in the Fédération Nationale de la Mutualité Française (F.N.M. F.) [French National Federation of Friendly Societies], which has 26 million beneficiaries, or in the Fédération des Mutuelles de France (F.M. F.) [Federation of Mutual Companies of France], which has approximately 3 million beneficiaries.

The F.N.M. F. has some 12 million contributors distributed in 5,600 friendly societies, 1,000 of which are actual enterprises. The Mutualité Française employs approximately 60,000 wage-earners. The total amount of the extra contributions for sickness insurance by the F.N.M. F. alone is approximately 4.5 billion ECU. In Italy the national health service is administered by the Department of Public Health. The Italian friendly society has played only a marginal role during the

past ten years. This is explained, in particular, by the promulgation in 1978 of the Health Reform Act which recognises the voluntary friendly society, the objective of which is to give extra payments to the assistance provided by the national health service.

Nevertheless, the Italian friendly society is experiencing a certain renewal. At the present time there is no census of those mutual companies which make extra payments in respect of health and/or welfare matters. According to a preliminary survey carried out in the past few months, however, the total number of mutual companies could be a thousand or so, 200 of which are operating in the health sector. Of these latter, only about half are affiliated to the federative organisations, themselves members of the two large cooperative groups: LEGA (Lega Nazionale delle Cooperative e Mutue) [National Union of Cooperatives and Mutual Companies] and CONFCOOPERATIVE (Confederazione Cooperative Italiane) [Italian Confederation of Italian Cooperatives].

Furthermore, a survey by the C.I.S.L. [Italian Confederation of Workers' Unions] estimates the present number of beneficiaries of payments supplied by the mutual companies, funds or approved pay-offices at around two million. Many of them operate within the framework of the public services establishments and credit institutions.

In Luxembourg, compulsory insurance is administered by sickness funds which have public legal status and which provide a very high level of social protection. Consequently, additional insurance offered by friendly societies covers only a small part of health expenses. The friendly societies (some sixty mutual assistance societies,

recognised by the State) offer mainly death benefits and refund certain portions of treatment costs paid by the insured.

They also plan to extend their field of activity to supplementary pensions.

The Caisse Médico-Chirurgicale Mutualiste [Medico-Surgical Mutualist Bank], formed by all the friendly societies, more especially administers supplementary cover of sickness risk. The number of contributors is 240,000 people and there are 300,000 beneficiaries (i.e. almost 80% of the population), with total receipts of 2.5 million ECU in 1989.

In Portugal the friendly societies also operate as a supplement to the national health scheme. As the latter is not in a position to provide adequate services, the friendly society constitutes an essential factor for the maintenance of a satisfactory level of health.

The friendly societies are mainly concentrated in the north of the country. They are at present passing through a period of gradual upswing. In 1984, 97 of the 121 friendly societies amalgamated to form the Union of Portuguese Friendly Societies, which combines 700,000 beneficiaries. The main activities of these friendly societies relate to funeral expenses, provision to the members of the friendly societies of medical treatment and the supply of medicines. Some forty friendly societies make additional sickness payments, 23 pay death benefits in addition to funeral expenses, 18 pay invalidity pensions and 14 pay old-age pensions.

FRIENDLY SOCIETIES IN LINE WITH THE COMPULSORY SYSTEM

In Ireland the national health service includes three categories of beneficiaries according to the amount of their income.

Those with the lowest income (36% of the population) enjoy total cover, free of charge, whilst those in the middle income bracket only benefit from partial payments (50% of the population). Lastly, the better-off (14% of the population) have to meet almost all sickness expenses themselves.

The friendly society was created to insure the people in the second and third categories for payments not covered by the national health service. The society concerned is the Voluntary Health Insurance Board (V.H.I.B.). It has a virtual monopoly on private health insurance. Approximately 1,260,000 people benefit from V.H.I.B. health insurance, i.e. 31% of the national population. Certain other organisations, mainly those employing a large staff, may also administer health insurance schemes with the permission of the Department of Health, but this involves only approximately 40,000 people.

In the United Kingdom, all citizens have access to the National Health Service (N.H.S.). Nevertheless, private health insurance is increasing more and more. It constitutes an alternative to the N.H.S., although the right to use the latter is maintained in all cases. The co-existence of optional insurance and the N.H.S. is mainly explained by the deficiencies of the latter in respect of hospital treatment (long waiting lists for certain non-urgent types of treatment).

Optional health insurance is mainly organised by five friendly societies, of which there are two main ones (BUPA and P.P.P.), which receive no Government subsidy and who have approximately 4.5 million beneficiaries. The business sector is increasingly interested in this type of insurance, which already occupies about 10%

of the market.

GENERAL REMARKS

Practically throughout the whole of the Community, friendly societies are increasingly having to face up to competition from commercial insurance companies which are moving into the health insurance sector. Freedom of establishment and free rendering of service will probably have the effect of increasing the risk of "telescoping" between the concepts of insurance and community of interest.

The diversity of protection systems of a mutualist type in the Community is explained by the fact that they have developed in relation to gaps in the national systems of social protection. Harmonisation of these mutualist-type systems cannot therefore be envisaged in the short term.

Despite their specific national features, the friendly societies seek to develop certain international collaborations, particularly to improve the procedures for coordination of the national social security apparatus. For example, various problems have to be resolved at international level if the friendly societies wish to guarantee uninterrupted social protection to their members who emigrate.

In the absence of a European status of friendly society, it is above all within the framework of bilateral agreements that trans-frontier initiatives have developed until now:

- ❖ French and Spanish Catalonia is currently setting up a joint admission system in friendly society hospitals in the north and south Pyrenees;
- ❖ in 1989 and 1990 agreements were signed between the two large Italian federations of friendly societies and the

F.N.M. F. [National Federation of French Friendly Societies]. The agreements settle certain problems which arise for Italian and French migrants;

- ❖ the Mutualité du Nord [Northern Mutual Insurance] of France has close contacts with Belgian friendly societies aimed at setting up partnership agreements which they plan to extend to the Federal Republic of Germany, the Netherlands and the United Kingdom;
- ❖ for the past four years, close ties have been woven between French and Portuguese friendly societies. The F.N.M. F., for example, has organised a training course for Portuguese executives.

Lastly, friendly societies of several countries in the Community are at the present time rallying to contribute their assistance, in the form of a transfer of know-how, to the initiatives which are taking place and the reforms in progress in the countries of central and eastern Europe (assistance with restoration of the legislative apparatus of social and health protection as well as of the distribution circuits of health goods, the experimental creation of friendly societies, training of responsible administrative and professional staff in the health sector, etc.).

Cooperative and mutual types of insurance companies The insurance companies which belong to the socio-economic sector represent 14% of the insurance business in the European Community. Some of these, covering 8% of the market and insuring 26 million families, founded the [Association of European Cooperative Insurers] (AECI) in 1978. This organisation today has members in all the countries of the Community, with the exception of Portugal, and also in Sweden, Norway, Finland, Austria,

Switzerland and Iceland.

The legal form of the cooperative does not exist for insurance companies in all the Member States. Consequently, the A.E.C.I. includes members with varying legal forms (cooperative societies, mutual insurance companies, public companies) provided they comply with the basic principles inherent to cooperative and mutual companies. The members of the A.E.C.I. are specialists in the cover of risks of private persons. Only a few companies, which in particular include the Unipol Group of Italy and the Folksam Group of Sweden, hold a significant share of the market in company risks. In certain countries, such as for example France, the members of the A.E.C.I. hold over 50% of the market in automobile insurance.

Various forms of international collaboration are currently developing. For instance, four cooperative or mutual companies in Belgium (the Prévoyance Sociale), France (MACIF), Sweden (the Folksam Group) and Italy (the Unipol Group) altogether representing takings of 3,700 million ECU for 1989, in February 1990 set up a European holding company called EURESA. The latter, which could take other associates from the socio-economy, has adopted the form of a limited company under Luxembourg law. The activities of the holding company will essentially be relative to joint research and development projects and the support of initiatives of the social economy in the fields of insurance and financial services throughout Europe. It is envisaged that at the end of January 91 EURESA will establish a management structure in the form of a E.E.I.G. [European Economic Interest Grouping]. As proof of dynamism and European

Tableau 8
Cooperative and mutual type insurance societies, 1989

	B	DK	D	GR	E	F	IRL	I	L	NL	UK
1. Gross premiums collected (in thousands ECU)	746 126	158 255	4 192 933	1 949	20 311	8 738 205	8 796	688 269	7 982 720	119 026	1 388 966
Total EC	24 045 556										
2. National market (in thousands ECU)	5 871 168	5 029 836	68 128 372	52 350	7 960 590	52 745 065	2 528 318	17 591 513	N/A	17 235 195	71 528 293
Total EC	248 670 700										
3. Market share	12.70	3.10	6.10	0.37	0.30	16.50	0.34	3.91	N/A	0.69	1.90
Total EC	6.45										
4. Number of people employed	8 534	460	48	36	118	33 023	N/A	6 278	266	1 306	12 054
Total EC	110 475										
5. Number of families insured	1 500 000	1 223 000	6 600 000	20 000	35 000	(¹)1 745 1 000	N/A	600 000	20 000	826 700	3 900 000
Total EC	32 175 700										

(¹) Number of members insured
Source: A.A.C.E.

awareness, other collaboration agreements have seen the light of day or are in the process of being set up. For instance, A.B.B. of Belgium, Groupama of France, Interpolis of the Netherlands and R+V-Versicherungen of Germany signed a cooperation agreement in July 1990. These four associates are, in their respective countries, the insurance leaders in the agricultural sector. Thanks to diversification, each group occupies a share in the national insurance market of over 5%, and altogether their takings in 1989 exceeded 7 billion ECU. In an initial phase, the cooperation agreement provides for each participant to establish local subsidiaries in the countries of the other parties to the agreement; these subsidiaries will instantly be

placed at the service of their fellow-countrymen. Consequently, for example, the new subsidiaries of Interpolis will be placed at the service of their Dutch customers in Germany, Belgium and France. In addition, the cooperation agreement provides for an exchange of "know-how". Extension of this agreement to similar associates in other European countries is under discussion. In November 1990 an agreement dealing with financial cross-participations was signed between the cooperative group Alka (5th Danish insurer), the Samvirke Group (10th Norwegian insurer) and the Folksam Group (3rd Swedish insurer). These three groups will collectively hold 14% of the Scandinavian private insurance market.

Lastly, it will be noted that the members of the A.E.C.I include a European Group of Mutual Insurance Companies (GEMA) formed by French mutual insurance companies or those of a mutual character. This Group has recently admitted a Belgian company (SMAP) and a German Group (H.D.I.).

The associations

The third major component of the socio-economy, the associations, unite several tens of millions of people in the Community. To achieve their aims, which are mainly of a markedly social nature, they conduct activities of very considerable economic importance.

It is extremely difficult precisely to determine the association sector in the different

countries of the Community and at the present time no reliable statistical study exists on a European scale. The associations are not only very numerous, but they are found in sectors as varied as health, education and training, culture, sport, leisure, tourism, accommodation, the protection areas of natural beauty and monuments, development cooperation, retirement, and the fight against poverty.

This list is far from exhaustive and each sector of activity would in fact merit special analysis.

The diversity of the associative organisations is also revealed by a comparison of the national situations. For instance, the respective importance of the different branches of activity of the associations can vary considerably from one Member State to another. Furthermore, the very concept of an association does not have the same meaning, and does not apply to the same entities, throughout the whole of the Community.

Nevertheless, in order to illustrate the extent and vitality of the associative movement, some figures are given below relative to some member States and some particular sectors. The majority of these figures, however, are 'guesstimates' and should be regarded accordingly.

This quantitative viewpoint has a very reductive effect in that the special contributions of the associations are just as much, if not more, of a qualitative nature. Thus for example, the associations largely contribute to promoting the active participation of the citizen in public affairs. With their multiple services, they fulfill important needs which are unsatisfied elsewhere and, with their innovative potential, they enable original responses to be applied to

new problems. They also play a considerable role in the defence of the individual and in safeguarding the fundamental values of society.

These qualitative dimensions are obviously outside the scope of this chapter but their essential nature must be kept in view.

Some national figures In France the associative movement has grown considerably in all sectors of activity. The total number of active French associations is currently estimated at 700,000, and these include 170,000 sporting associations, 160,000 associations for the cultural, tourism and leisure sectors and 150,000 health and social associations. The turnover of the associations in France is estimated at over 14 billion ECU, of which 8.5 billion are in the health and social sector. The associations in the health and social sector represent the equivalent of over 300,000 full-time jobs. They manage 10% of the activity of the health sector and over 55% of social activity. Altogether the French associations employ around 950,000 workers (50,000 of whom are seasonal). The number of wage-earners moreover appears to have increased by 28% from 1980 to 1986.

In Belgium, the total number of non-profit-making associations (A.S.B.L.s) is estimated at 40,000. Furthermore, transposition, at national level, of the results of a recent study on the economic importance of the social economy in Wallonia, results in a total of approximately 210,000 jobs for the associative sector and an overall annual budget estimated at approximately 6 billion ECU.

In Portugal, the associative sector is very important in the field of common social interest. It is represented by 1,520 private institutions of common social interest, 363

"Misericordias", 480 foundations of common social interest and 712 associations of social action volunteers.

In Germany, the Benevolent Provident, an amalgamation of six large private health and social work associations, represents a total of 68,446 social installations and services with an overall capacity of over 2.5 million beds/places. It employs approximately 750,000 permanent paid workers, 3/4 of whom are full-time and 1/4 part-time, and enjoys the collaboration of 1.5 million voluntary workers.

In Great Britain, the number of declared charities exceeds 160,000 and the net growth is 2% per annum. The annual publication "Charity Trends" analyses the financial structure of the voluntary sector in Great Britain and identifies the main developments in the financing of charities.

❖ Financing by the public sector: The financing of benevolent organisations by the central government has considerably increased during the past ten years and now amounts to over £290 million. In the past few years, however, there has been a slowing down of this increase. The same applies to financing by non-governmental public authorities. On the other hand, the situation of the local authorities concerning financing of the voluntary sector is slightly more encouraging. Aid granted to the benevolent organisations represents only a very small proportion of the expenses of local authorities, i.e. approximately 1.5%. However, there are considerable disparities between the contributions of the different authorities. Although overall there is no change in the proportion of funds granted to the 200 top charities, there is an obvious falling off of the aid granted by the public sector to the

Table 9
The top grant-making trusts in United Kingdom

(in £)	Subsidies	Income	Capital	Year
Wellcome Trust	43 100	49 300	4 420 000	1989
Tudor Trust	12 764	16 886	110 791	1989
Royal Society	10 667	10 124	28 864	1987
Gatsby Charitable Foundation	9 187	6 952	180 862	1989
Wolfson Foundation	8 100	10 300	216 000	1989
Leverhulme Trust	7 600	8 366	214 000	1988
Henry Smith (Estates Charities)	6 000	6 039	100 000	1987
Rank Foundation	5 100	7 500	122 200	1989
Nuffield Foundation	5 000	6 000	118 000	1989
Baring Foundation	4 850	5 057	36 895	1989

Source: Charities Aid Foundation

- 210-400 top charities;
- ❖ Fees and contracts: Analysis of the financing of the voluntary sector by the public health services reveals a generalisation of payments of fees as opposed to grants. These expenses and fees are becoming increasingly important for the financing of the voluntary sector, although they constitute the largest source of revenue for only about 13% of charities. This trend provides the voluntary sector with the opportunity to take over some very important services, the danger, however, being erosion of its independence;
- ❖ Aid from the private sector: Donations by industry have regularly increased during the past few years. However, gifts in kind represent only 43% of the grants by private enterprises. Despite the growing importance of these payments in kind to the benevolent organisations, endeavours to increase the percentage of profits before tax paid to charities have not been crowned with success;
- ❖ Private donations: these represent the largest source of income for the benevolent organisations;
- ❖ The voluntary sector: In many organisations the volunteer force is on the decline. An answer to this crisis resides in extending the basis of recruitment of volunteers

and in greater access to the volunteer force within different social strata. In conclusion, stagnation or even a slight falling off of aid by the public sector to the benevolent organisations is currently being witnessed. This reduction is not sufficiently compensated for simply by financing from the private sector and private donations. Therefore, there seems to be a certain contradiction between the wish expressed by the government of Great Britain to see the role of the charities and other benevolent organisations increase in the economy, and the financial resources used to attain that objective.

There has been a perceptible reduction in the numbers of members of traditional organisations, such as the Red Cross and women's associations, but, on the other hand, these numbers have considerably increased in associations concerned with the environment. Paid employment in British associations amounts to at least 250,000 units of full-time equivalents. Their total budget is the same size as the automobile industry, and three times higher than the turnover of the agricultural sector.

In Italy, almost 30% of the population between 18 and 74 years of age is involved in at least one association, and this does

not include the political, trade union and professional organisations. The associations of the social sector include 12% of that age category, i.e. approximately 5 million people.

In Spain, the associative component of the social economy is not well-defined. According to the General Secretariat of the Home Office, the total number of Spanish associations does not appear to exceed 97,000 units, but it has not been possible to confirm this estimate with any statistical study.

Some sectorial data The associative movement is highly structured in the tourism sector. However, it is not always easy to isolate the share of the associations, only in social tourism as a whole in the different member countries of the Community (cf. in this connection the figures quoted above in the section on social tourism).

In France, however, where the associative sector represents the major share of social tourism, it is possible to put forward estimates. For instance, the volume of activity of the social tourism associations represents 21.9 million days of holiday. The associations manage 457,000 beds and their turnover is approximately 435 million ECU. In terms of jobs, counting 7 jobs per 100 beds, the resulting estimate is 32,000. But if those in the centres of business Committees, local Collectivities, Committees and associations of Ministries and public corporations and family allowance funds are included, a total of almost 50,000 jobs is arrived at, 4/5th of which are seasonal.

In the social and medico-social sector, inter alia, the activities of the associations of the Euro-Caritas network and those of the various national Red Cross organisa-

Table 10
The top ten fund-raising charities in the United Kingdom, 1989

(in £)	Donations	Total income	Costs of charity work	Costs of collection of funds	Administrative costs	Total expenditures
Oxfam	49 266	66 718	46 995	7 417	2 023	56 649
National Trust	43 418	89 122	69 932	8 469	3 468	81 869
Royal National Lifeboat Institution	40 487	47 422	24 099	4 526	1 647	30 272
Imperial Cancer Research Fund	40 295	48 637	44 770	3 420	685	48 875
Save the Children Fund	36 502	51 937	37 043	5 117	1 256	43 416
Cancer Research Campaign	31 689	38 158	36 422	2 273	717	39 412
Salvation Army	29 657	56 568	43 709	1 859	2 713	49 432
Charity Projects Ltd	27 559	27 824	7 447	-	152	7 559
Barnardos	25 778	61 349	44 984	6 220	1 649	52 853
NSPCC	22 868	28 832	22 419	2 541	1 105	26 065

Source: Charities Aid Foundation

tions can be mentioned.

Present in all the member States of the Community, except for England and Ireland, the Caritas organizations have very extensive activities. As an indication, Caritas Catholica in Belgium has over 1,000 different establishments in the Flemish part, employing 56,000 wage-earners, and over 500 institutions in the French-speaking part, the hospital sector of which represents a capacity of 14,000 beds.

The national Red Cross organisations of twelve member countries of the Community at present have over 6.5 million members in total, 4.2 million of whom are in the German Red Cross alone. They employ approximately 75,000 paid workers, but the number of volunteers is also very high: over a million people.

In the field of development cooperation, for the whole of the Community there are 700 non-governmental development organisations (N.G.O.s). Since 1976 the European Community has been cooperating with the N.G.O.s by participating in the financing of their different activities (projects in the developing countries, food or emergency aid and specific aid). This financial contribution by the Community, which has increased over the years, amounted to

279 million ECU in 1989 (80 million ECU of which went to development projects alone and 127 million ECU to food aid). Since the financial participation of the N.G.O.s in the financing of projects was 50% higher than that of the Community, the total amount managed by the N.G.O.s for development activities in the Third World is currently in the region of 200 million ECU.

Importance of the voluntary work

force Voluntary work is an essential reality of the associative sector. In fact it reflects the active participation of people who join together to carry out a project in an impartial way. This being so, it includes qualitative dimensions which matter as much as its quantitative aspects.

Even limiting discussion to the latter, it is very difficult to gain an accurate idea of the importance of voluntary work in the Community as a whole. Surveys conducted in some Member States nevertheless enable certain lines of force to be isolated.

It appears that voluntary work is particularly important in Great Britain and, more generally, in the Anglo-Saxon countries. It is estimated, for example, that 23 million Britons, i.e. 40% of the population, do vol-

untary work in associations and that the overall mass of this represents, in hours worked, the equivalent of 750,000 full-time jobs.

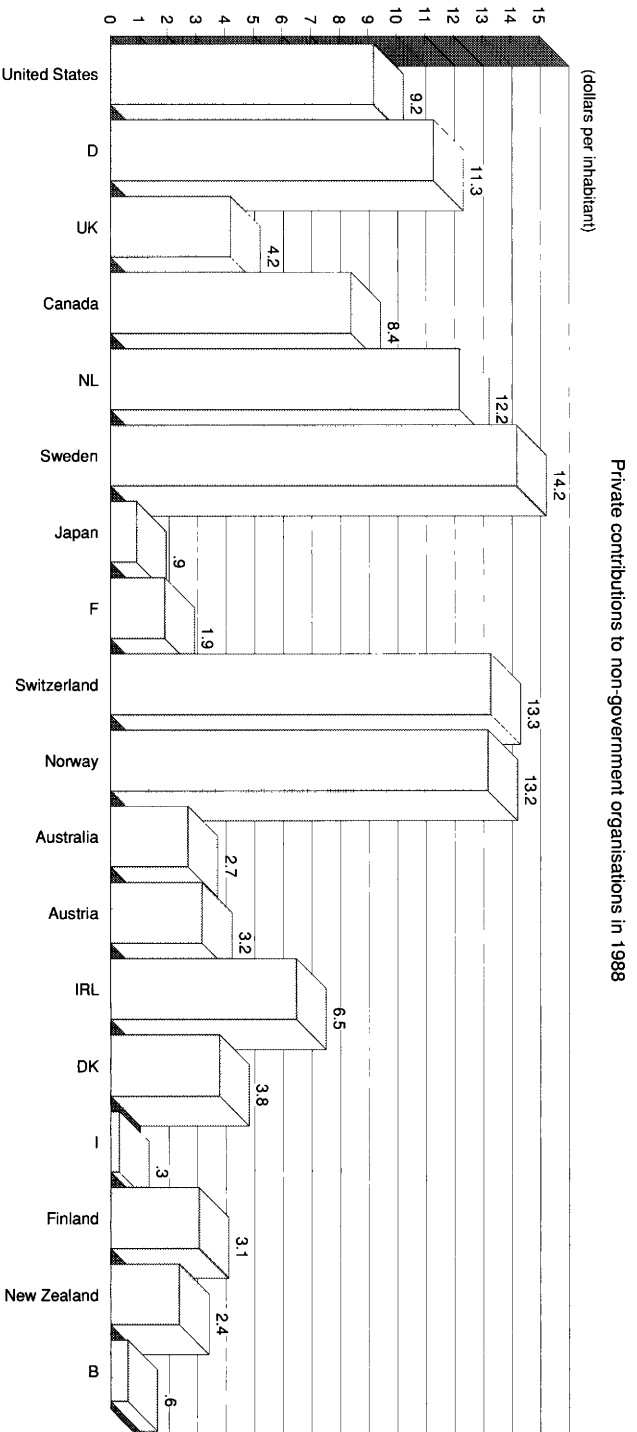
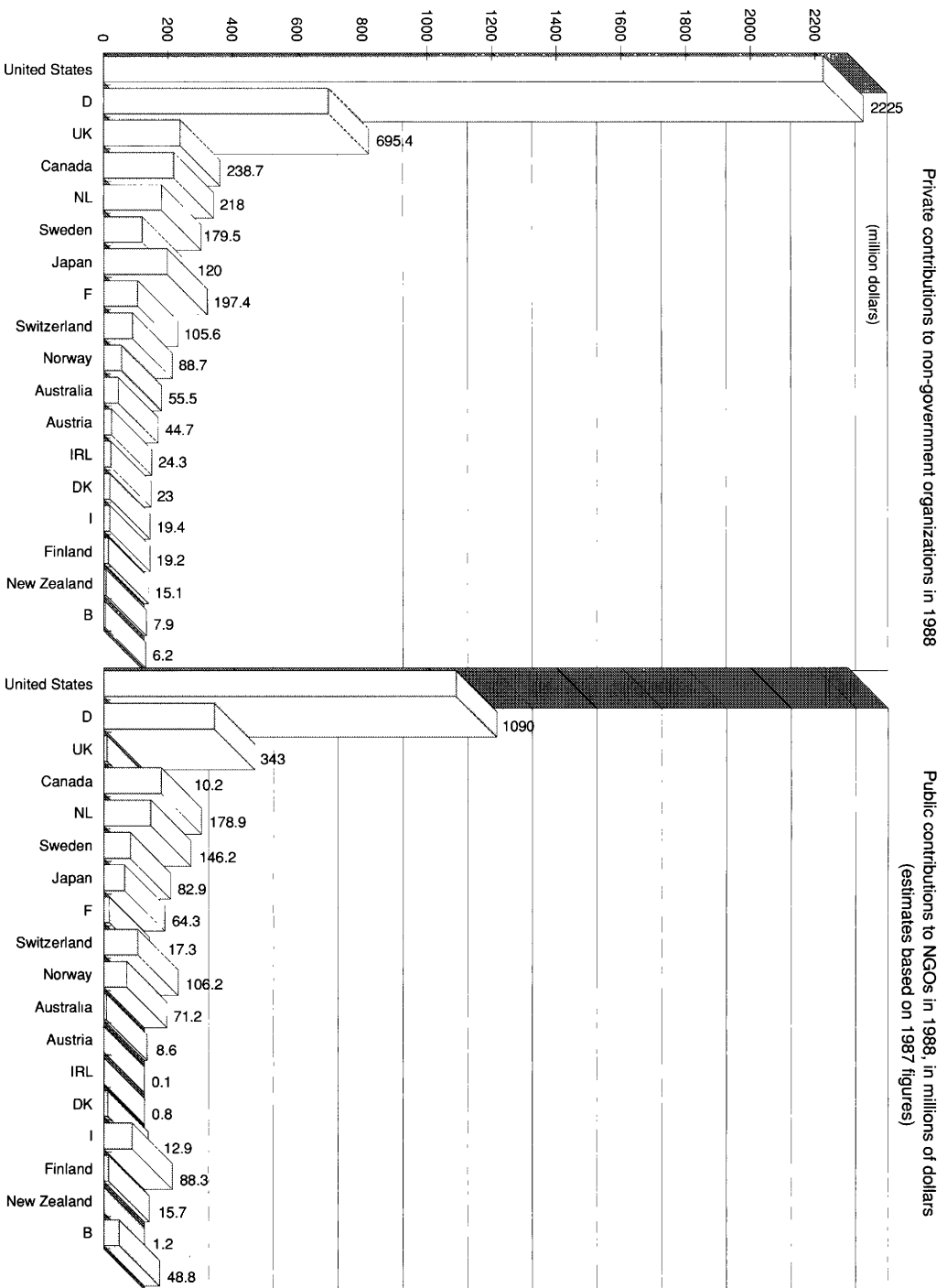
In the other countries in the Community, the number of people engaged in voluntary work within associations is also very high. It represents approximately 24% of the population in Denmark and 21% in Italy. In this latter country, the average service by volunteers appears to be about 6 hours per week, whilst the results of a survey for Belgium, in contrast, indicate a weekly average of 3 hours.

The associations and the building of Europe

A large number of major associative movements of the countries in the Community have adopted the Charter of the European Committee of Associations of General Interest (CEDAG). The main aim of CEDAG, created in 1989, is to strengthen the associations' position with the European institutions in order that the latter may, by the same right as enterprises, take part in the building of the community of Europe.

It is true that there are many obstacles at present standing in the way of this participation by the associations. For instance, in several Member States (Belgium, Spain, Greece, Italy, Luxembourg, Portugal, the

Figure 1
Analysis of funding to NGOs, 1988



Source: OCDE, CAD

Federal Republic of Germany), membership of an association by non-nationals is subject to certain restrictions. In others (Denmark, France, Ireland, the Netherlands, the United Kingdom), it is the criterion of residence which establishes the possibility of setting up associations. A set of problems also peculiar to associations - the application of the Community rules on freedom of establishment and of performance of services - gives rise to many discussions. In this connection, it would appear to be very important for the intention expressed by the Commission broadly to interpret the term "lucrative aim" of article 58, paragraph 2 of the Treaty of Rome to be confirmed by action. In fact, then, only groups of an impartial charac-

ter, which do not in any way fit into economic life, could be excluded from the field of application of the provisions of the Treaty. The associative component of the socio-economy would, in this way, avoid being artificially divided and could benefit from the Community rules concerning freedom of establishment and of services. Furthermore, they demand that a single, optional, European legal status be brought in for all associations.

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