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COUNCIL RESUMES WORK ON COMMON TRANSPORT POLICY

Debates Rate Brackets, Subsides, Social Provisions

THE COUNCIL OF MINISTERS of the European Economic Community resumed work on the common transport policy July 28 in the wake of a highway accident which killed 49 Belgian school children in Germany.

Before opening the meeting, Council Chairman S. A. Posthumus and Lambert Schaus, member of the EEC Commission in charge of transport matters, expressed the Council's and the Commission's deepest sympathies to the Belgian delegation. Alfred Bertrand, Belgian representative, thanked the Community and asked the Council and the Commission to take immediate steps to study measures to improve safety on highways in the Community.

Mr. Schaus said that the proposal the Commission had submitted to the Council for harmonizing working conditions and operating requirements for drivers of heavy automotive vehicles would improve road safety. In the fall, Mr. Schaus said, the Commission would propose further improvements.

The Council agreed to refer that proposal to the European Parliament, together with the Commission's proposals for harmonizing subsidies to transport and for harmonizing duty-free fuel allowances. It adopted the Commission's proposal for introducing common rules for busses transporting passengers from one member state to another.

The Council also reviewed the Commission's amended proposal of May 10, 1963, concerning rate brackets to be applied in the common market for the transport of goods. The Commission submitted the proposal to the Council on Oct. 29, 1965, after amending it in accordance with the Council's decision of June 22, 1965.

June 22, 1965, Decision Drew Outline

The June 22, 1965, decision of the Council of Ministers ended a stalemate over the Commission's proposals for organizing the common market for the transport of goods. The decision drew a general outline for the common transport market.

The outline provided for:

- The establishment of upper and lower reference rates, published but only serving as guides, alongside the compulsory rate brackets.
- The publication of rates and conditions of transport applied outside the brackets.
- The creation of a market supervisory committee to report on the evolution of the market and to assist the Commission in supervising tariff rates.
- The establishment of safeguard measures.

The decision further provided for two transitional stages of three years each. During the first stage, the common market organization would apply only to transport between the member states. As from Jan. 1, 1970, the organization would be extended to the member states' internal transport. Community authorities would work out the system to be applied after 1973.

Amended Proposal Fills in Outline

The Commission's amended proposal of Oct. 29, 1965, addressed each of these major points. In addition, it contained provisions to "make the new system as economically coherent as possible" on points which the Council's decision, being a general policy statement, had not explicitly mentioned.

These provisions dealt with procedures involved in running the transport market, making exceptions to the general rules, applying safeguard measures, and other technical details. It specified procedures for applying rates to road and rail transport different from those to govern transport by inland waterways.

On Oct. 29, 1965, the Commission also submitted to the Council a proposal for a regulation to eliminate, in transport rates and other conditions affecting shipping costs, all discriminatory treatment based on the nationality of the

IN THIS ISSUE

shipper, manufacturer or consignee. This proposal has not yet been taken up by the Council.

Council Regulation 11/60 of June 27, 1960, prohibited rate discrimination by carriers. This Regulation, supplemented by the member states' joint action in 1964, eliminated more than four hundred discriminatory rates. Still other instances of discriminatory rates persist. The Commission indicated that its proposal was intended to give joint action a legal basis and to cover areas which Regulation 11/60, narrow in scope, left intact.

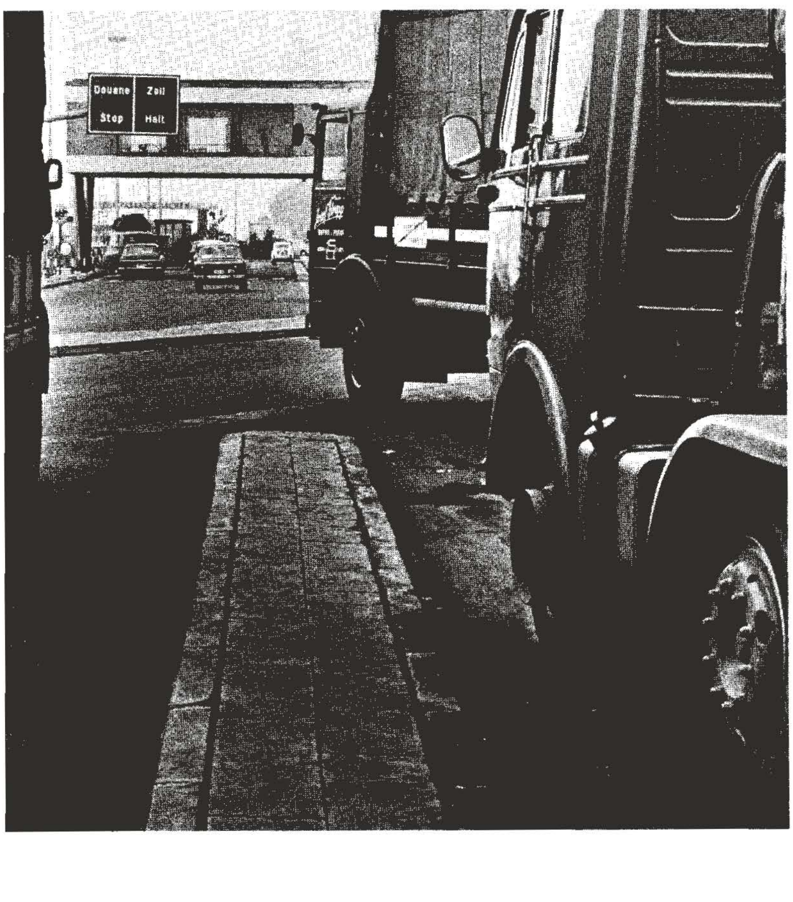
Additionally, some activities contingent to the shipment of goods are not considered "transport" activities in all member states. Parts of Regulation 11/60 apply now in some member states but not others. The proposal is also intended to rectify this situation, and to outlaw artificial routings of goods.

Most Time Spent on Rate Brackets

The Council, at the July 28 meeting, spent the most time discussing the Commission's amended proposal for the transport of goods. The most contentious points were what criteria should be used in establishing the brackets and how much detail should be made available in publishing the rates.

The Council appeared optimistic about achieving early agreement on these and other points. It set Oct. 19-20 for its next meeting, and Dec. 6 for the meeting to complete the common transport policy before the year-end.

The Council adopted a regulation concerning the introduction of common rules for international transport of passengers in busses.The regulation exempts international road passenger transport services from transport license requirements of states other than the one in which the vehicle is registered. It also specifies that the Council is to draw up common rules for regular and shuttle services before Jan. 1, 1968.



Duty-free entry allowances for fuel in trucks may reduce traffic snarls at the border between the member states.

Proposed Operating Rules for Heavy Road Vehicles

The Council agreed to refer to the European Parliament the Commission's draft regulation for harmonizing operating requirements for trucks transporting goods and busses transporting passengers. The Council's decision of May 13, 1965, authorized the Commission to propose measures to harmonize working conditions for transport by rail, roads and inland waterways.

The increasing popularity of truck transport, as intra-Community trade expands, has added to highway congestion. The dual concern for safety and fair competition prompted the Commission to address its first proposal to the highway transport industry.

The draft regulation would:

- Set a minimum age of 21 for drivers of heavy vehicles. (Some circumstances would permit a minimum age of 18.)
- Require trailer trucks and semi-trailers weighing more than 20 tons to carry a minimum crew of two.
- Establish nine hours as the maximum working day for drivers transporting goods and eight hours for drivers transporting passengers. Drivers must rest for 30 minutes after driving 4.5 hours.

The draft regulation would also require drivers to keep logs of their driving times and rest periods, until the end of 1968 when the Council will devise a mechanical check instead.

Other Measures to Promote Fair Competition

The Council also agreed to seek the Parliament's opinion of two other regulations proposed by the Commission to eliminate distortions in competition. The first would harmonize the member states' subsidies to road, rail and inland waterway transport.

The other would allow fuel carried by motor vehicles for their own use on the road to enter one member state from another free of duty by Jan. 1, 1970. As a step towards the Community-wide application of this rule, the Commission proposed that France and Germany admit up to 200 liters (52.8 gallons) duty free starting on Jan. 1, 1967. Italy and the Benelux countries already allow duty-free entry.

Special Freight Rates Questioned

The German Federal Railways' special rates to benefit the economy of the Saar infringe the Rome Treaty, the EEC Commission has said.

The German Government claimed its railroads had instituted the special rates to compensate for freight losses which the projected construction of the Saar-Palatinate canal might cause. The Commission said that the German Government had not adequately demonstrated its intention of building the canal. It therefore assumed that the special rates had been designed to compensate the Saar economy for disadvantages the deepening of the Moselle river channel would cause.

The Commission viewed the special railroad tariffs as support rates. Article 80 of the Treaty prohibits support rates, unless authorized by the Commission after consultation with the interested member states.

EEC INVESTMENTS SHOW WEAKEST GROWTH SINCE 1958

EIB Extended Lending Activities to Africa in 1965

THE EUROPEAN ECONOMIC COMMUNITY'S rate of investment fell off in 1965, as the pace of economic growth slackened.

Both by value and by volume, investments grew at the slowest rate since 1958, according to the European Investment Bank (EIB) Annual Report, published in late June. Investments attained $67 billion in 1965, the Bank estimated, a 6 per cent increase over the 1964 total, $63 billion. In real terms, however, the increase amounted to 3 per cent, less than the 1965 rise in gross Community product.

The Bank noted marked differences in the member states' trade and investment patterns. It warned against the dangers of allowing these disparities to persist indefinitely.

The Bank shares responsibilities with the European Development Fund for disbursing financial assistance provided by the Community to the associated states. Thus, its Annual Report also reviewed investment activity in Greece and Turkey as well as in the 18 African and Malagasy states. During 1965 the Bank made its first industrialization loans in Africa.

EEC Investments Represent 23.3% of GCP

Investments in the Six member states expanded less rapidly than gross Community product (GCP) during 1965, but still represented 23.3 per cent of GCP. The Bank considered this share relatively high, in comparison with other industrialized countries. In 1965, investments comprised 18 per cent of the United States' gross national product, and 17 per cent of Britain's.

Industrial investments rose 4.5 per cent by value and 2 per cent by volume for the Community as a whole. Construction and public investment rose 7 per cent and 8 per cent respectively, the Bank estimated. These rates compared with 21 per cent and 15 per cent increases during 1964.

The percentages below show the uneven rates of change in in the member states' investments:

	Value		*Volume*	
	1964	*1965*	*1964*	*1965*
Germany	14.5	8.8	11.9	6.6
France	15.9	8.5	11.8	5.3
Italy	0.7	−6.8	−6.5	−8.2
Netherlands	23.6	10.0	16.5	6.0
Belgium	13.6	3.0	7.6	−1.0
Luxembourg	6.0	−11.5	1.0	−14.0
EEC TOTAL	11.9%	6.0%	7.3%	3.0%

Strong external demand enabled Italy's economic growth to continue despite a continued decline in its rate of investment. In the future, the Bank indicated, Italy, which has the least developed regions in the Community, will have to make an exceptionally strong investment effort. To a lesser extent, so will France. As French borders progressively open to trade, investments in sectors accustomed to protection will be necessary.

The Bank said that relatively low investment totals in Italy, France, and Belgium resulted in part from low rates of public investment and housing construction. However, it stressed that because these investments so greatly influence productivity, living conditions and social progress, they cannot long remain at low levels without jeopardizing economic development.

Divergent Patterns Jeopardize Long-Term Growth

Uneven growth and investment rates in the EEC member states, the Bank warned, threaten to make balanced development more difficult in the long-run. The Bank cautioned against excessive and continual reliance on intra-Community trade to alleviate demand pressures on prices. The Bank viewed the divergency of investment and trade patterns in the Community as an indication that orderly growth would require the Community to use more selective measures. These measures would have to be coordinated at Community level.

So far, coordination has been limited to stabilizing costs and prices. However, the Bank said that the member states have not consistently followed the Council's anti-inflationary recommendations of April 1964. Recalling the Development Committee's advice in July 1965, the Bank warned that unless budgetary policies reinforced monetary and credit restraints, first the expansion of investments would suffer, then overall economic growth.

Business Still Relies on Internal Financing

The Bank's examination of Community investments disclosed that self-financing remained the most important source of business financing. Medium- and long-term bank loans rose but only a small increase occurred in the number of investors seeking capital in foreign markets and in the international European market.

Medium- and long-term credits granted by banks, specialized institutions and institutional investors increased most sharply in Germany and the Netherlands where economic growth was highest. Banks and commercial lenders supplied two-thirds of all long-term and medium-term external financing in Germany and 60 per cent in Belgium and France.

Public bond issues accounted for almost all of the 10 per cent increase during 1965 in securities issued on member state's markets. Business raised $2.86 billion in 1965 by issuing securities, compared with $2.83 billion the year before.

By year-end, issuing costs in all national markets stood around 6.5 per cent, except in Germany where they were one point higher. Cost alignment, however, had nothing to do with interpenetration of the national markets. The Bank took pains to stress that the cost alignment appeared to be the result of "an accidental coincidence of various factors" including pressures exerted by large financial markets outside the Community.

True integration of the national markets would require, if not a single market, then a system linking the six currencies. It could be progressively integrated by liberalizing long-term capital movements, by harmonizing fiscal treatment of returns on placements and organizing the markets more efficiently. Although private investors may freely acquire foreign shares, administrative or regulatory measures still prevent institutional investors from adding foreign securities to their portfolios, the Bank pointed out.

European International Market Redefined

Issues on the European international market amounted to $939 million in 1965, denominated primarily in U.S. dollars and German marks. Flotation costs rose from 5.5 per cent at the end of 1964 to 6.5 per cent and above in 1965. The Bank noted, however, that some American companies had placed issues convertible into stock of the parent companies at 4.5 per cent. Principal beneficiaries of the international market were the Americans, the Scandinavians and the Community institutions in that order.

The Bank defined the European international market as including:

- Issues denominated in one currency which, because of tax considerations, could only attract residents of another country.
- Issues encumbered by special monetary clauses.
- Issues reserved for subscription by non-residents.

The definition excluded foreign borrowings in Swiss francs issued in Switzerland.

The Bank said this market had become more and more important since the European currencies returned to convertibility at the end of 1958. Its growth has been further stimulated by a general tightening of money in the principal national markets, increased demand from American investors borrowing abroad, closing of the New York market to foreign borrowers by the Interest Equalization Tax, and Swiss restrictions on foreign issues. At the same time, the supply of free, often anonymous investment capital on the international market increased. International banking improved its techniques to channel this "hot money" to demand.

The future of this market remains uncertain. Some of the factors which stimulated its development could disappear, the Bank said. The Bank believed, nevertheless, that experience acquired by the national institutions, collaborating to tap this market, might prove useful when integration produces a real European capital market.

Capital Outflow from Community

As the result of aid to the developing countries, the Governments of all member states were net exporters of development capital during 1964. These exports amounted to $1.5 billion, the same as in 1963. Private export credits supplemented this aid. These credits were guaranteed up to $500 million, of which $230 million were for more than 5 years.

During the same period, the influx of private long-term capital, especially to France and Italy, made the Community net capital importers (after deducting the official outflow). Direct investments by member states in other Community countries rose slightly over the 1963 level.

The Eighteen, with combined populations three times smaller than the Six living in ten times more land, had a combined internal product 16 times lower. This product, very unevenly distributed, averaged $100 per capita in 1965. The annual growth rates of almost half the associated African and Malagasy states did not exceed 3 per cent. Population increases in many amounted to 2 per cent per year.

The Bank reported that the 1964 improvement in prices of the commodities on which the Eighteen depend did not hold. Prices started to deteriorate at the beginning of 1965. The decline continued for the rest of the year.

Two notable exceptions to the bleak growth situation in Africa were the Ivory Coast and Cameroon. In these countries, the Bank made its first industrialization loans in Africa during 1965. In both countries, the Bank reported steady expansion in public and private investments, high growth rates, and trade surpluses.

Private investments expanded in both Greece and Turkey, the Bank said.

Greece achieved a 7 per cent growth by volume in gross national product. Private investments, primarily in housing but also in business, rose 10 per cent. Private and public capital imports were still substantial, $150 million and $160 million respectively.

In Turkey, private investments displayed remarkable growth, although the state monopolies' investments expanded less rapidly than the Turkish economic plan had projected. Gross national product increased an estimated 5 per cent. Agricultural production scarcely improved at all. Goods, services and construction registered a 6 or 7 per cent improvement.

Enlarged Sphere of Operations in 1965

The Bank was chartered to promote balanced economic development in the six member states. Gradually, as the Community welcomed new associates, the Bank's field of operation has widened.

In 1962, the Community agreed to provide $150 million to Greece over a five-year period. The EEC Convention of Association with Turkey made $175 million available to Turkey from 1964-69. In 1965, the Bank made its first disbursements of the $730 million the Six agreed to provide to the 18 African and Malagasy associates from 1964-69 from the Bank and the European Development Fund.

As the table shows, until the end of 1965, five-sixths of the Bank's loan activities had been confined to the Community, more than 60 per cent in Italy.

DISTRIBUTION OF LOANS *Position as at December 31, 1965*

By Country:	*Number of projects financed*	*Value in $ million*	*Percentage of total loans*
ORDINARY OPERATIONS			
Belgium	1	4.8	1
France	13	79.8	13
Germany	6	41.2	7
Italy	74	389.6	63
Luxembourg	1	4.0	1
Community	95	519.4	85
Greece	8	36.8	6
Cameroon	2	2.4	—
Ivory Coast	1	1.0	—
	11	40.2	6
Total	106	559.6	91
SPECIAL OPERATIONS			
Turkey	9	54.2	9
Total EIB	115	613.8	100

By Sector:			
Agriculture	6	72.8	12
Transport	12	156.2	25
Energy	14	129.6	21
Telecommunications	1	16.0	3
Industry	82	239.2	39

EXCESS CAPACITY TO PERSIST IN ALL ECSC INDUSTRIES

1966 Survey Shows Drop in Coal Mining Capacity

INVESTMENTS TO INCREASE PRODUCTIVITY in the European Coal and Steel Community industries have also resulted in excess capacity. This unused capacity will persist through 1969, according to the ECSC High Authority's 1966 Survey of Investment, published in July.

Despite a continued decline in coal mining capacity, the survey indicated that at the end of 1969, the Community's mines would still be able to produce substantially more coal than needed. Excess capacity in steel will also continue, unless more old plants are closed. Investment in iron-ore mining will continue to decline, except in the French ore-fields in Lorraine.

The survey included a report on the High Authority's lending activities during the first six months of 1966. It also contained a summary of investments declared during the first half of the year.

Changed Investment Pattern

The survey indicated that from 1954-65, the iron and steel industries' share of total ECSC capital expenditures had risen from 50 per cent in and immediately after 1954 to more than 75 per cent from 1963 on. Actual investment expenditures during that time totaled $15.4 billion, averaging $1.3 billion per year.

In 1965, the ECSC investment index, based on 1954-59 averages, fell from 100 to 64 for the coal mining industry. The index dropped to about the same level for the iron-ore mining industry, continuing a decline from the 133 high reached in 1961. The iron and steel investment index also continued to fall, from the 255 high of 1963.

Table 1 shows actual capital expenditures by the ECSC industries from 1954-64 and estimated expenditures for 1965-67.

Table 1

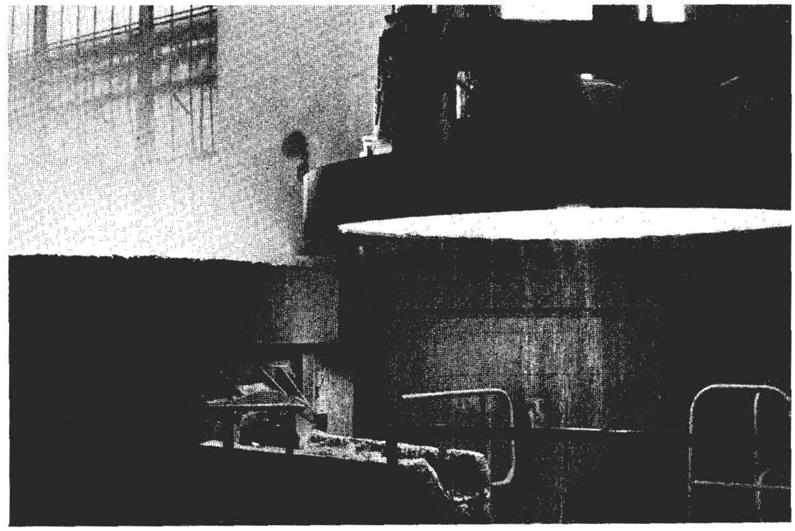
Sector	Actual Expenditure (in $ million)						Estimated Expenditure	
	1954 59 (yearly average)	1960	1961	1962	1963	1964	1965	1966
Coal mining	439	377	384	372	334	299	286	316
Iron-ore mining	39	43	52	47	28	24	26	24
Iron and steel	581	775	1123	1230	1480	1315	935	974
Total	1059	1195	1559	1649	1842	1638	1247	1314

Excess Coal Mining Capacity Will Persist

The survey forecast a capacity of 217 million metric tons for ECSC coal mining industries in 1965-69, about the same level as the actual output in 1965. The High Authority considered this capacity forecast high in relation to the target figure for production in 1970.

Mine-owned coking plants produced 44.6 million tons in 1965. The survey foresaw a decline of 3.4 million tons by 1969.

The survey indicated that capital expenditures on pithead power stations have declined since 1962, slowing the expansion of installed capacity. By 1969, only a 13 per cent expansion of capacity will occur, despite the collieries' efforts to dispose of more coal by supplying piped thermal energy for district heating and industrial uses.



By 1969, the ECSC High Authority expects 12 per cent of the Community's crude steel to be produced in electric furnaces.

Investment expenditure in iron-ore mining remained at the low level manifest since 1963. The High Authority indicated that most orefields expected output to continue to decline, under pressure from richer imported ores. Only the French producers in Lorraine expected output capacity to increase. Their forecasts led to a slight increase in the Community's estimated overall capacity in 1969.

Iron and Steel Investments Stay Higher than Average

With the completion of several investment projects, actual capital expenditure on new installations in the iron and steel industries dropped during 1965. As Table 1 indicates, however, iron and steel investments remained higher than the average in previous years.

According to the survey, ECSC sinter capacity should expand to 94 million metric tons in 1969, an 18 per cent increase over 1965. Pig iron capacity should rise 13 per cent, reaching 85 million tons in 1969.

ECSC crude steel production capacity topped 100 million tons for the first time in 1965. By 1969, it is expected to reach 118 million tons. The oxygen process will then account for 31 per cent of capacity, the Bessemer process for 30 per cent, open hearth for 27 per cent and electric furnaces for 12 per cent. The High Authority believed a 17 per cent average annual expansion likely for oxygen produced steel. It foresaw a gradual contraction in Bessemer and open hearth steels.

Major Regional Differences in Processes Exist

With different patterns of raw material supplies and markets, major regional differences in process preferences exist in the ECSC crude steel industries. North Sea and Mediterranean plants should make more than half their crude steel by the oxygen process in 1969. In plants close to the Lorraine orefield, the expected proportions range from more than 25 per cent in Luxembourg and the Saar to 10 per cent in Lorraine.

The survey reported a slowing of the tendency for major investments in flat product capacity to increase, particularly in the case of flat strip. With more rapid growth of new capacity for sections, flat products' proportion of total production is likely to remain stable up to 1969, after rising from 37 per cent in 1952 to 49 per cent in 1964. Continuous-casting installations, the survey reported, continued to increase, especially in Germany.

Excess Crude Steel Capacity May Increase

Table 2 compares the changes in actual production and in production capacity in the ECSC industries.

Table 2

	Actual Production		(in million metric tons)	Production Capacity		
Product	*1952*	*Per cent average cumulative annual change*	*1965*	*1965*	*Per cent average cumulative annual change*	*1969*
Hard coal	237.4	−0.7	217.0	238.1	−2.3	217.2
Iron ore	65.3	+1.4	78.7	90.5	+1.1	94.7
Pig-iron	34.7	+4.7	63.2	75.4	+3.1	85.2
Crude steel	42.0	+5.7	86.0	102.0	+3.7	118.0

Though intended primarily to increase productivity, most recent investments have also increased capacity. The 1966 survey indicated that despite the cutback in investment expenditure, crude steel production, at 96 per cent of capacity, will total 113 million tons in 1969. The High Authority anticipated, however, that demand for crude steel would then amount to 95 million tons. The High Authority indicated that unless more old plants close, excess capacity is likely to increase.

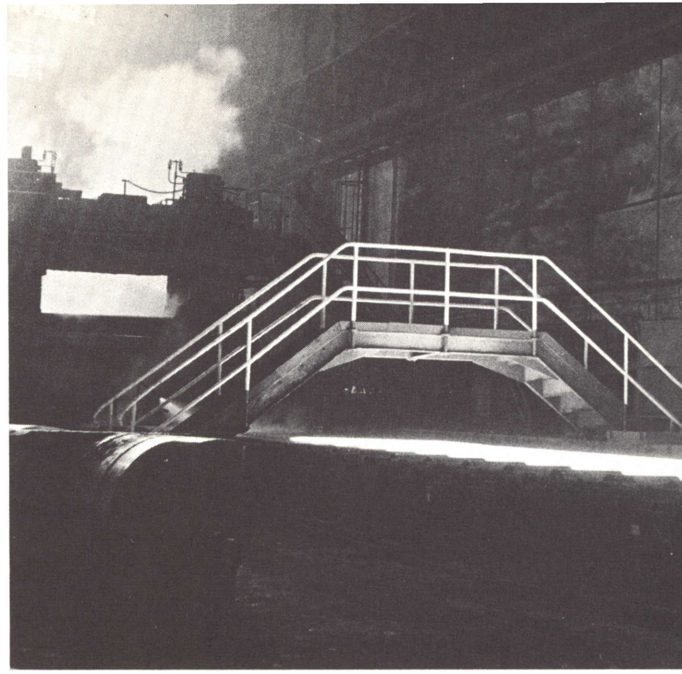
$186 Million in Projected Investments Declared

The High Authority requires firms to declare new investment projects of more than $1 million. Declarations during the first six months of 1966 amounted to $186 million, considerably lower than the $355 million six-monthly average in 1965.

The coal industry declared $17 million during the first half of 1966, as compared with $61 million at the same time in 1965. The survey attributed this decrease in projected investments to the effects projects carried over from earlier years have had on the availability of investment funds. Almost all declarations covered investments planned in the Ruhr and demonstrated the coal industry's determination to increase productivity through greater modernization and rationalization.

The iron-ore industries declared only one project. It involves ore preparation at the surface.

The $168 million projected investment in iron and steel is well below the six-monthly average for the past six years. The High Authority considered this low figure an indication of caution by the steel firms in view of the current low in business activity. After the heavy investment program in 1960-62, these firms carry a heavy financial burden which limits their means. Generally tight credit conditions in the capital markets, the High Authority believed, also influenced investment plans.



Investments in flat strip mills slowed during 1965 and will probably remain stable through 1969.

Planned investments in pig iron represent 30 per cent of the $168 million declared. The construction of a coking plant on the North Sea and a blast furnace in the Ruhr account for a large share of planned pig-iron investment. Only 8 per cent is designated to transform existing plant to the oxygen process. Of the total, 61 per cent is for rolling mills, and a tenth of this investment for continuous casting.

Since almost all the new projects are to modernize existing plant, the High Authority did not anticipate an increase in crude steel capacity beyond 100,000 tons.

High Authority Lent $59 Million in First Half of 1966

During the first six months of 1966, the High Authority lent $59 million, 70 per cent of the $83 million it had raised on the capital markets. The remaining $24 million will be available to aid industrial redevelopment in depressed mining regions in France, Germany, Italy and the Netherlands.

The High Authority lent $11.5 million for investments in the coal industry, primarily in Germany and, to a lesser extent, in France. High Authority loans to the French, German and Italian iron and steel industries amounted to $36.5 million in the first six months. Loans to assist in industrial redevelopment of coal and steel regions amounted to $11 million. These loans all bear interest at 6.25 and 7 per cent, the High Authority's cost of raising the funds by three bond issues and a bank loan.

The table below shows the distribution of High Authority loans from the beginning of its operations through July 1, 1966. It excludes loans made for workers' housing and other social investments.

Table 3

	Germany		France		Italy		Benelux Countries		Community	
Sector	*(in $ million)*	*%*	*(in $ million)*	*%*	*(in $ million)*	*%*	*(in $ million)*	*%*	*(in $ million)*	*%*
Coal industry	163.2	27.6	31.9	5.4	4.8	0.8	14.0	2.3	213.9	36.1
Iron ore	10.6	1.8	13.0	2.2	5.7	1.0	1.0	0.1	30.3	5.1
Iron and steel	123.0	20.8	59.8	10.1	111.5	18.9	12.6	2.1	306.9	51.9
Industrial redevelopment	1.0	0.1	4.9	0.8	20.8	3.5	13.9	2.5	40.6	6.9
Total	297.8	50.3	109.6	18.5	142.8	24.2	41.5	7.0	591.7	100.0

AMERICAN INVESTMENTS IN EUROPE GROW AND GROW

"Voluntary" Restraints Do Not Cramp Giants

by **MAX PEYRARD**

This view of American investment in Europe was drawn from discussions at meetings attended by businessmen, professors, bankers and ranking civil servants from Atlantic nations. It does not necessarily reflect the views or policies of European Community officials or institutions. The Business School of the University of Paris and the University Center for European Community Studies of the Paris School of Law and Economics sponsored the meetings. M. Peyrard is Assistant Professor at the latter institution.

A SHORT TIME AGO, the EEC Commission proposed measures to improve data on foreign investments in the Community. The many statistical methods currently in use set quite different values for American investments in the Community. British and German estimates of American investments in France, for example, are half as high as the U.S. Department of Commerce evaluation, which is half the French estimate. While available figures cannot be considered absolute, they at least indicate the trend of awareness of American investments in the Community.

Americans Prefer Direct Investments

The $17 billion Americans had invested in the EEC by 1964 matched European investments in the United States. Europeans held half this amount in portfolio, but Americans showed a decided preference for direct investments. Since 1957, the rate of American investments in the Community has steadily accelerated. Still, Americans made only 4 per cent of total EEC investments in 1959 and 6.3 per cent in 1964.

Direct investments are replacing license agreements with European firms. Large companies have invested most heavily in Europe, but more medium-sized firms are moving in. Formation of subsidiaries accounted for 80 per cent of American direct investments in the six member states. Purchases of controlling interest in European companies and takeovers constituted the remaining 20 per cent.

The growth industries have attracted the most American business investors. Difficult to estimate, the American share of EEC production probably totals 24 per cent in the automotive industry. Americans probably manufacture 8 per cent of the utility vehicles and 20 per cent of the electrical goods produced in the Community, 55 to 60 per cent of the carbon black production, and 15 per cent of the EEC-produced synthetic rubber.

Americans Seized Opportunity for Profit

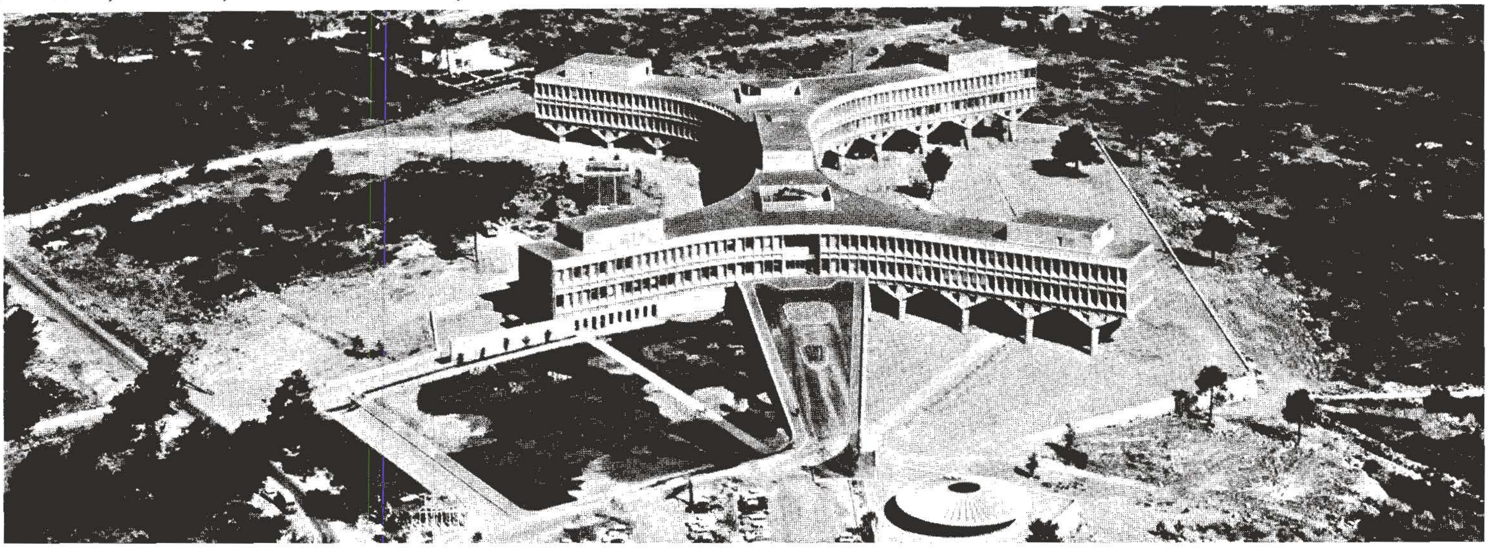
Steady and rapid economic growth in the EEC, the second largest market after the U.S., offered an opportunity to make a good profit. American business, perhaps also viewing investment in Europe as a way to expand without running afoul of the U.S. antitrust laws, accepted. Accustomed to doing business in a vast market, from the beginning the Americans treated the Six as a single unit, comparable in size to the American market, and proceeded to use their considerable financial resources as they would at home.

Besides their sizeable financial resources, American management techniques cannot be over-emphasized as an asset. American concern for profitability, in factories and offices alike, is developed to such an extent that it sometimes provokes European reactions against the brutal decisions it entails, especially personnel decisions. In the United States, shareholders' influence, a simpler tax structure and remarkable price stability require and allow tighter financial management. The Americans refine the economic calculations underlying their management systems more highly in direct proportion to the size of the investment, and in inverse proportion to the proximity of the parent company.

The methodical quest for the lowest cost explains the tight control Americans exercise over their subsidiaries in every country, but especially in Europe where such stringent financial management is a relatively new technique. Most of these companies staff with Europeans, demonstrating the American desire to become a part of the host country, and illustrating the opportunities open to Europeans who can adapt to rigorous and precise private planning.

Because better planned, American subsidiaries' marketing strategy is more effective. Long-term, up-to-date market studies, covering from seven to 20 years, allow American subsidiaries to gear quality and price to European and even

American companies have treated the EEC as a "common market" from the beginning. International Business Machines' installation, La Gaude, France Photo: Courtesy of France Actuelle

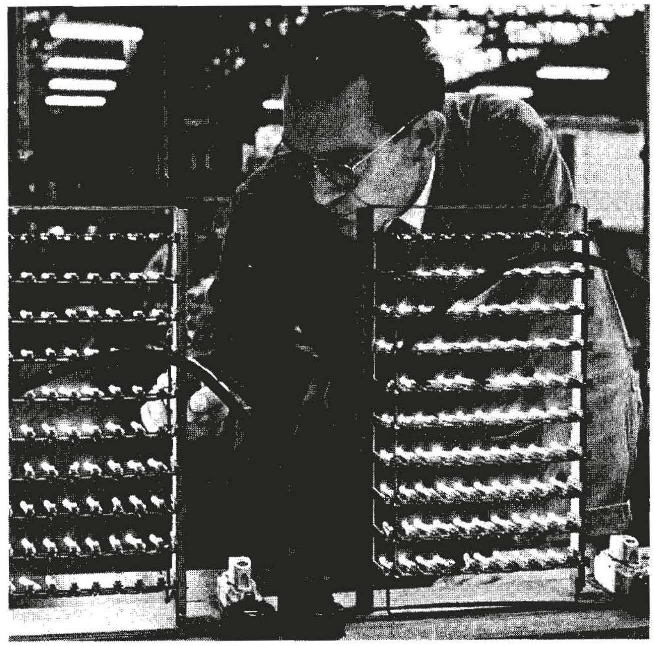


world competition, as they export a good part of their production. Long-term planning enables them to build today highly automated, excess-capacity plants at a high cost. Tomorrow, their European competitors will lack the necessary production equipment and space, and will bear higher wage costs.

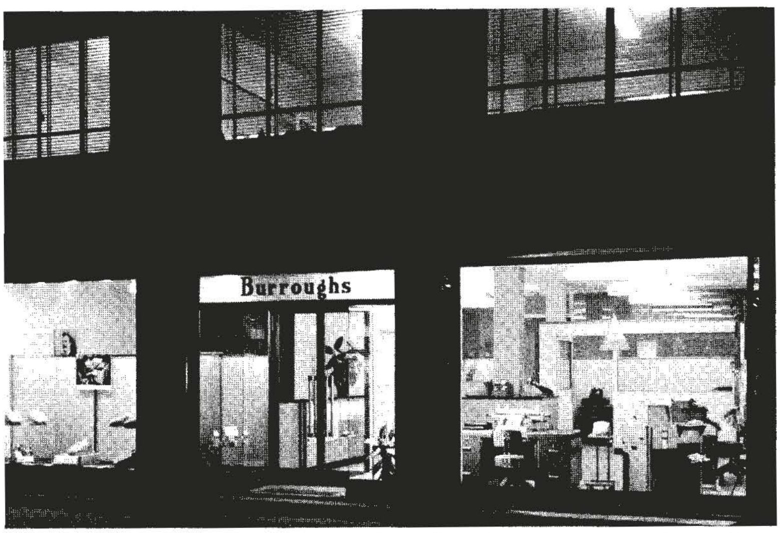
Good service facilities and courteous personnel reinforce American subsidiaries' more strictly production advantages. However, mistaken ideas of European tastes, bad public relations and mistakes in the social field have on occasion upset American plans for expansion.

Dollars Bypass "Voluntary" Controls

Paradoxically, American investments in Europe have given the American economy the most trouble by increasing the U.S. balance-of-payments deficit. Actually, since less than 25 per cent of the dollars invested in the Community came directly from the U.S., their impact on the balance of payments is limited. Furthermore, American investments in Europe bring substantially more dollars into the U.S. than they take out.



American direct investments in the EEC are expected to total $4.8 billion by the end of 1966. A worker at the Bell Telephone plant, Anvers, Belgium



Customer service completes American resources and experience in selling in a large market. A Burroughs showroom in Paris
Photo: Courtesy of France Actuelle

Because of the difficulty of reducing other types of dollar outflows and the desire to placate Europe by slowing down direct investments, the Administration introduced a series of "voluntary" restraints, of dubious effectiveness. Limiting capital outflows to developed countries to 90 per cent of the 1962-64 average becomes relatively easy, by repatriating short-term foreign dollar holdings. These controls only affect small and middle-sized companies which had no European subsidiaries during the base years.

Nevertheless, total American investments in Community subsidiaries rose from $2.3 billion in 1963 to $3.6 billion in 1965. They are expected to total $4.8 billion by the end of 1966. The figures show that the resources of the large, multinational firms are relatively independent of national monetary controls.

Only Large Firms Can Tap the Euro-currency Market

Manufacturing industries alone invested $2.85 billion in Europe during 1964. The parent company provided less than 30 per cent, self-financing 40 per cent and the European capital markets 30 per cent. American investments continued to grow despite decreasing contributions by the parent company, so the European capital markets must supply the difference. In the second half of 1965, American subsidiaries raised more than $360 million on the European markets. In 1966, American investors will marshall an estimated $800 million to $1 billion.

Convertibility into the parent company's shares provides the main attraction of such placements, but only the large company can offer this incentive and go through the necessary formalities. Tax considerations usually lead the large company to create a subsidiary in Luxembourg. Issues, usually through a Swiss bank, average $20 million. This confirms that "Euro-currency" markets are reserved for the 700 or 800 large international companies, American-owned except for a bare dozen.

To those who fear the European market will run dry, American firms reply that they are only calling on funds European companies would not have been able to attract. In any case, they say, the European market is far from saturated.

To organize this growing European capital market, a number of American banks have had to set up branches or subsidiaries. European banks, despite their efforts, are often too small or tradition-bound to satisfy business accustomed to greater dynamism on the other side of the Atlantic.

Europeans React in Two Ways to the Invasion

Two European reactions greeted increased sales and financial competition. Most European firms accepted the challenge, using planning, specialization, concentration and every other formula to increase productivity. Slowly, they are narrowing their initial disadvantage.

Backward sectors tried to restrict the Americans, but under continued pressure, quickly sold their businesses or sought help from the public authorities. Governments adopted different controls. While the total amount of American investment did not constitute a problem, concentration in a few sectors had to be prevented. The investment was examined for its effects on the balance of payments and for its technical contribution.

Progressively, an "Atlantic market" is developing, wherein the number of participants will be relatively reduced, either in real terms, or in money terms.

"International Marketing" Approach Evolving

Several hundred firms now purchase, invest and finance in an environment broader than the traditional national economy or its international extensions. In this decentralized structure, does thinking in terms of price competition make sense? Do the interests of large firms coincide or conflict with national interests and the good of the Community? How does the present Gold Exchange Standard or traditional monetary system fit in?

Some think answers to these questions are easy. Traditional economic analysis observes that the U.S. has long known and effectively contained oligopoly. Europeans just have to learn to think differently. Technological incompetence on the part of the Europeans prevents prices from influencing competition. European firms are too small and unambitious to require American competitors to watch prices. What is good for a gigantic firm, as determined by systematic market research, does not conflict with consumers' interests. The dollar, carrying the burdens of a reserve currency, naturally benefits a little from this role, they say.

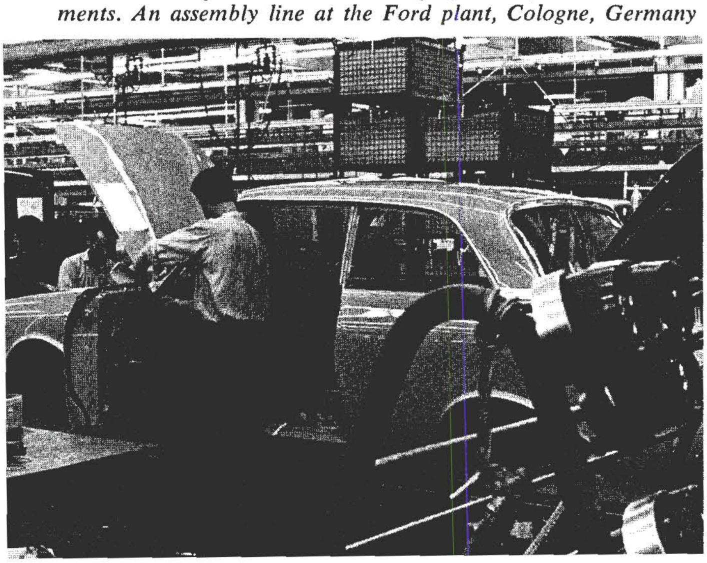
Others believe the importance of large firms' decisions, the relative ease with which they escape public control and take advantage of the present monetary system demonstrate irrefutably that the large firms' best interests have nothing in common with the interests of private citizens. Ignoring the difficulties involved in adapting the European economy to "big business" in a large market promises economic and social frustrations. This approach, they say, even jeopardizes the effort to build a larger Europe.

American Investments—A Federative Force?

No one agrees on the volume, cause, or economic effects of American investments in Europe, but there is a consensus that the lack of a foreign investment code is unfortunate. The code should define the duty of a "good foreign investor" as working with the host country's society and economy to achieve national objectives. The right to do business in a country imposes the duty of accepting national economic policy. The host country should not discriminate against a business because of its nationality, and should provide a climate in which business can develop. Such a code, like European company law, can be defined only on the international level.

Europe realizes common policies on competition, business and medium-term economic growth have been delayed long enough. American business may even have furthered EEC interests if, accepting the American challenge, the Community creates the political and economic instruments it must acquire to meet the U.S. challenge on equal terms.

American companies have shown a preference for direct investments. An assembly line at the Ford plant, Cologne, Germany



Recent Books on Community Topics

EUROPEAN COMMUNITY *will periodically list books dealing with Community and Atlantic topics. This presentation does not indicate approval or recommendation of the publications.*

Trans-Atlantic Investment. By Christopher Layton. Atlantic Institute, Boulogne-sur-Seine, France. 141 pages and Statistical Appendix.

A re-interpretation of data on American investments in Europe and European investments in the United States. Comparisons of European and American companies often exaggerate the size of American companies, the author maintains, adding that an effective antitrust policy would protect against unfair competition resulting from size. He urges a "European technological pool" to build on American research discoveries, instead of duplicating them. To compete with the New York financial market, the author recommends removing fiscal and legal barriers between the European capital markets, relaxing controls on institutional investors, reducing government calls on the market, and creating a European Stock Exchange and Securities Commission to regulate European stock and bond trading.

The author proposes accelerated European unification as the counterpoise to U.S. commercial, technological and financial power. Increased European aid to the developing countries, he suggests, would alleviate the "imbalance in payments" between the U.S. and Europe.

L'Industrie Européenne Face à la Concurrence Internationale. By Alessandro Silj. Centre de Recherches Européennes, Lausanne, Switzerland. 131 pages

An examination of the new world market and Europe's position in it. The author's opinions, as expressed in this study, do not necessarily reflect the policies of the European Atomic Energy Community (EURATOM) to which he belongs.

The European reaction against U.S. investments and the European stand in international monetary reform are symptomatic of a deeper problem, according to the author. Europe thought it could quickly close its technological gap with the U.S. Europe forgot that EEC totals represented the product, not of one, but of several countries, separated by numerous borders, several markets and different, often contradictory, policies.

The rhythm of economic development has changed in post-war years, the author maintains. Having reached its growth limits at home, U.S. business expanded by making direct investments abroad, rather than by exporting more domestically produced goods in the classical tradition. These business activities typify operations in the new world market.

The author situates Europe mid-way between the developing world and the elite, in an era characterized by the systematic application of science and technology to business. Europe lacks the two essential instruments to close the technological gap: a common commercial policy and a common scientific policy. Uniting against American business will waste European resources, the author believes. Europe must adopt positive policies, based on current realities of the European market and its place in the new world market.

A EUROPEAN VIEWS AMERICAN-SELLING-PRICE

by **PIERRE MILLET,** *vice president, French Union of Chemical Industries*

CHEMICAL EXPORTS contribute substantially to the EEC economy and trade balance. They represent more than 10 per cent of the EEC's total exports and provide a $1 billion export surplus.

The Community's trade with the United States in chemicals, however, is much less favorable. Here, the EEC deficit is widening, especially for the dyes, plastics and organic compounds listed in chapters 29, 32 and 39 of the common external tariff.

EEC DEFICIT ON TRADE WITH THE U.S.A. IN CHEMICAL PRODUCTS *(in $ million)*

	1958	*1961*	*1964*
Total chemical products	240	295	380
Products in chapters 29, 32, 39	115	180	255

Unequal levels of protection distort competition and cause this imbalance. In general, American tariffs on chemical products do not appear unusually high, averaging 16.2 per cent on the basis of comparable tariff nomenclature.

American Tariff Has Many Highs and Lows

Compared with the common external tariff, however, American tariffs vary considerably more from the average. The process of establishing the common external tariff evened out the highs and lows in the six national tariffs and created quite a homogenous level of protection. Whereas almost all duties fall below 20 per cent and only a few exceed 25 per cent, almost a quarter of the American tariffs exceed 25 per cent. Several of these are between 50 and 100 per cent. This disparate tariff structure assures more effective protection. Furthermore, its lack of explanatory notes sometimes occasions arbitrary changes in product classifications.

In addition, unlike the common external tariff or the British tariff, the American tariff includes numerous specific or mixed duties. Even when these duties total a seemingly modest 3.5 cents per pound, for example, they could prove insurmountable for low-cost products. Their protective effects are increasingly strengthened by the built-in tendency of chemical prices to fall.

Finally, some American methods of customs appraisal deviate strikingly from the principles contained in the General Agreement on Tariffs and Trade (GATT), accepted by the other contracting parties.

ASP Precludes Long-Term Marketing Plans

The American-selling-price system (ASP) applies to a whole list of organic chemical products. It amounts to using the domestic selling price of a comparable product of U.S. origin as the basis for calculating ad valorem duties, or the ad valorem portion of the mixed duties. This system naturally causes such uncertainty about the actual total duties that it effectively prevents any systematic effort to sell imported products on the American market.

To improve his competitive position, the foreign producer must grant a cleared-through-customs discount, all the larger because there is no corresponding reduction in duties. The local manufacturer can actually influence customs duties by manipulating his own prices. When he raises them $1.00, duty on a foreign competitive product subject to 45 per cent increases $0.45. When he lowers prices $1.00, duties on the foreign product only decrease $0.45.

The "Standard of Strength," used to calculate specific duties on certain products, compounds the difficulties a foreign producer encounters. Computed on the weight a

The views expressed in this article are the author's and do not necessarily reflect those of the Community's institutions or officials.

Two American Views of "ASP"

Christian A. Herter, U.S. special representative for trade negotiations, explained the ASP problem at a House Foreign Affairs subcommittee hearing on "The Foreign Policy Aspects of the Kennedy Round." The following are excerpts from Governor Herter's answers to questions committee members asked on Aug. 10.

"We determined some time ago from a legal point of view that we couldn't change the American-selling-price, that that was not a part of our authority under the Trade Expansion Act . . . any change . . . would have to be sent to the Congress for its approval. . . .

"The determination of the American selling price . . . is up to the Customs officials entirely. It is one of the worst headaches that any human being can have wished on him because nobody knows what the American selling price is. . . .

"I think there are only two really effective Customs appraisers who know the chemical business in this country. They are in New York. If something comes in in San Francisco or New Orleans they have to consult with New York. . . .

"American-selling-price is one of our great headaches in our negotiations . . . it is a variable levy of the worst kind. Nobody ever knows what the tariff is going to be."

The following are excerpts from U.S. Tariff Commission Publication 181, published July 25, 1966.

"It should be understood that because of the very nature of the ASP system of valuation, no schedule of converted rates could be devised which would provide for future imports 'protection' equivalent to that afforded by the ASP system.

"A unique feature of the ASP system in actual operation is that ASP valuation is used only when a domestically made product is competitive with a given import. . . . ASP, in effect, gives to the domestic industry the opportunity of achieving a duty increase by going into competition with the imported product. Also, under ASP, the amount of duty collected automatically responds to price changes by American producers . . . a change in the export price by a foreign supplier has no effect on the duty."

chemical would have if diluted to standard strength, it actually increases listed duties by an average of 80 per cent, and sometimes triples or quadruples them. It is irrelevant that 1964 imports subject to this duty system only amounted to $53 million. In many instances, the level of protection completely prohibits importation.

U.S. Has Offered Nothing New

When the Community filed its exceptions' list on Nov. 16, 1964, it stated that it would not make any reductions in products listed in chapters 29, 32 and 39 of the common external tariff unless the barriers caused by the ASP and the Standard of Strength were removed, or unless the effects were eliminated or reduced by some other method. The British Government made a similar statement.

The U.S. responded on May 3, 1966, with an offer to eliminate ASP and incorporate its protective effects in specific duties. Ad valorem tariffs at equivalent levels would replace ASP.

This substitution would add nothing to earlier offers. Specifying duties would eliminate an element of uncertainty, but it would do nothing more than conform with the GATT principles on customs evaluation by fulfilling the obligation to consolidate negotiated tariff reductions. The substitution would allow differences, substantiated by the U.S. Tariff Commission's calculations, to persist in the relative levels of protection.

COMPARATIVE TARIFF LEVELS

	U.S. Tariffs %	*EEC External Tariff %*
Styrene monomer	55	8
Plasticizers	35-86	14
Pharmaceuticals	32-112	9-25
Synthetic tannins	91	10
Pesticides	34-49	16
Photographic materials	53-61	12

The level of these levies, which American manufacturers, represented at the hearings described as inadequate, explains the Community's stand on disparities. Kennedy Round tariff reductions would be meaningless if one partner retained excessively high protective levels, while the others eliminated protection which was only moderate in the first place. Relative tariff levels must be considered to assure satisfactory balance in concessions.

MARJOLIN EXPLAINS WHAT RECENT DECISIONS MEAN

Why European Integration Must Succeed

On a Europe 1 radio program late last spring, Robert Marjolin, vice president of the EEC Commission responsible for economic affairs, answered questions telephoned by listeners in France and Belgium.

The following excerpts from the transcript of the broadcast relate the Council's May decisions to the ordinary citizen's daily life in the Common Market, as it is now, and as it will develop tomorrow. Mr. Marjolin's remarks concerning the May agricultural decisions also apply to the July decisions on common market organizations for most of the remaining commodities.

"The Common Market is a commercial and technical enterprise, but it is much more than that . . . the means by which the young and the adults of today can operate within a framework scaled to the modern world." Robert Marjolin during a Europe 1 broadcast

QUESTION: What new ground have the Six cleared in the latest Brussels agreements?

M. MARJOLIN: It amounts to this: first the Common Market partners have set firm dates for the Common Market to become fully operational, for industrial and agricultural products alike. By July 1, 1968, at the latest, there will be free movement of goods within the Community.

Secondly, the agreements finally settled one of the thorniest problems facing the six Common Market countries, one on which they have clashed for a long time, namely the financial responsibilities the various members will have to shoulder to cover the expenses agricultural production at relatively high prices will impose on the Community as a whole.

QUESTION: What advantages can a French farmer or industrialist derive from this agreement?

M. MARJOLIN: For the French farmers, the essential point is that as from 1967 and, progressively up to 1968, they will be able to sell their produce, not at the rock-bottom prices prevailing on the international market, but at current French prices which will then be European prices. They will be able to sell to the Italians, to the Germans and to the others at prices considerably higher than those they have been getting up to now .

As for the industrialists, they will have access to a market of 180 million consumers, whereas up to now there was a market of less than 50 million for their goods.

QUESTION: What are the disadvantages of the agreements?

M. MARJOLIN: I wouldn't say that there are any disadvantages; I would put it this way—there are risks. There are no real disadvantages because even if one group of producers is at a disadvantage on one point or another, the general benefits outweigh particular disadvantages to the extent that one may safely say the balance is favorable.

Still, competition is or will be somewhat tougher for the farmers, for example, where products such as eggs, poultry, fruit and vegetables are concerned, and for industry in general. Farmers and industrialists will have to face this competition. It will sometimes be difficult, especially because in the past two years French industry has lagged in productive investment. Nevertheless French contractors, French workmen, French engineers and French technicians are just as good as the technicians, engineers and workmen of the other countries. If the necessary effort is made, the problem is not insurmountable.

QUESTION: It seems that according to the terms of the Brussels agreement, each member of the Common Market buying agricultural produce from outside will have to pay the sum of money saved on the transaction to the Common Market Commission. What is the Commission going to do with the billions of francs that will accumulate as a result?

M. MARJOLIN: I wish you were right. The prospect of a river of gold flowing into the coffers of the Common Market would be a very pleasant one. Unfortunately, the actual situation is very different. The member countries already collect levies on some imported agricultural products. This money goes into the national coffers. Moreover, the member states defray the expenses of the Common Market, and in particular, the expenses arising from agriculture; they give the Common Market the funds needed to finance agricultural policy. By 1970, the agricultural policy of the Common Market will cost at least $1.5 billion. Levies on incoming agricultural produce will amount at the very most to $700 million. Instead of a surplus, there will be a deficit which must be eliminated in some other way.

QUESTION: Isn't there a danger that the new arrangements will lead to a rise in prices?

M. MARJOLIN: In the case of agricultural produce, you are quite right. On the whole, price adjustments will be made to bring prices into line, if not with the highest prices in Europe, at least with prices considerably higher than the current price French farmers receive. Undoubtedly, pooling European agricultural markets will, in many cases, mean a rise in prices in France.

QUESTION: Do you think French businesses at their present size are ready to face competition in the European Community?

M. MARJOLIN: I think that the German industrial structure is probably slightly superior to the French industrial structure. But on the whole, there is not such a marked difference within the Common Market that France need fear disastrous competition. This has been proven, moreover. Since the Common Market came into being French and Italian industry have benefited the most; their industrial exports have increased the most. But there is also the question of competing with the rest of the world. From that point of view, it must be admitted that there is a considerable disparity between the size of European and American firms.

QUESTION: What future is there for small and medium-sized concerns in the Common Market?

M. MARJOLIN: To answer that question, we must compare what is happening in Europe with what is happening in America. America is a country of giant concerns—Dupont de Nemours, United States Steel, General Motors, etc. In spite of this, however, there are proportionally just as many small and medium-sized concerns as in Europe. Why? Well, they are either subcontractors or specialists. The future for small concerns in Europe lies in specialization and the manufacture of one product or a small range of products. There is no reason why any enterprise, small or medium-sized, should not succeed in keeping up with larger concerns in that field. This does not just apply to consumer goods but also to parts for complicated machinery assembled by large firms but which small or medium-sized concerns can manufacture very economically.

QUESTION: Won't this mean that the small firms will lose their independence?

M. MARJOLIN: It doesn't mean a loss of independence. In any case, if the small firms do not adapt to the modern world, they are doomed to disappear. On the contrary, it guarantees their survivial as independent concerns. If they make the high-quality products big firms need, there is no reason why the large firms should stop buying from them. In any case, it is not just a question of relations between large firms and small firms; but also the question of manufacturing specialized products, finished articles which go directly to the consumer.

QUESTION: On what terms could England come into the Common Market?

M. MARJOLIN: England will come into the Common Market through her vocation which is that of a European country. Her problems are the same as ours, and if Europe must be united in order to face up to the problems of the modern world, then England will naturally find her place in that United Europe. It is obvious, however, that England's entry cannot be allowed to cause a radical upheaval of all we have achieved to date. A certain number of measures must be taken to facilitate England's entry into the Common Market. For example, it probably will be necessary to make special arrangements for New Zealand. It exports nearly all its agricultural produce to England and must, therefore, continue to export it to Europe. Secondly, provision would have to be made for a transition period. England would have to accept what we have already done, but after an adjustment period.

QUESTION: What do you think of American investments in Europe?

M. MARJOLIN: This is a complex subject which should be dealt with at great length. Generally speaking, American capital is welcome in Europe. We need capital; we are short of capital. When Americans set up factories, they provide work for European labor; they bring us new techniques, so, we have no reason to discourage them.

But there is always the question of keeping this within bounds. What is good in principle is not necessarily good if carried to extremes. It would, for instance, undoubtedly be a bad thing if American enterprises gained control of whole sectors of European industry through their investments in Europe. We must resist temptations of this kind. They are not political temptations but solely economic and commercial temptations.

QUESTION: What concrete measures can the Community take to limit these investments? Don't they also threaten to turn these concerns into subordinate branches of an American firm, performing activities which merely supplement the parent firms'?

M. MARJOLIN: The Commission has tackled this problem. We have asked the governments of the six countries to inform us, and to keep each other informed, about what is happening in their countries regarding foreign investments. Secondly, we have asked them to compare their respective policies and to try to work out a common policy. If these proposals are accepted, we shall have set in motion a process that could lead to a joint European attitude towards investments from the outside world which would be both an open policy and a considered policy.

QUESTION: Do the different European countries' political relations with the United States affect the commercial aspect of these various countries?

M. MARJOLIN: Not appreciably. Since the end of the war, no country has used such enormous power more intelligently or more generously than the United States. The Marshall Plan is a long way behind now, but we should not forget that when the Americans came to the aid of Europe, there were no strings attached. They did not, for example, ask us to give preference to American goods. On the contrary, they urged us to form a union which would inevitably mean discrimination against—or, let us say, different treatment for the United States.

If there is an American problem, it does not reside in the political intentions of the United States. The United States is a giant in a world of normal men. When a giant moves around in a normal world, he may upset things without noticing it. The real answer to all these questions is not protection against the United States, but the unification of Europe. It is the creation of a European market, a large one like the American market, and also the creation of a European capital market where European industry can find the necessary development capital without having to seek it outside the Community.

QUESTION: Have the poorer areas like the south of Italy or the west and southwest of France anything to hope or to fear from the creation of the Common Market?

M. MARJOLIN: They have reason to hope in the sense that whatever happens, the general level of prosperity will rise within the Common Market to the advantage of all regions; but they have reason to fear that in the industrial development of the Common Market they may continue to lag behind unless special measures are taken to bring industry to the places where there is plenty of labor; in other words, to these regions which are primarily agricultural. We are keenly aware of this problem and it is what we call European regional policy. We have already proposed some interesting experiments, notably in the south of Italy, which we will try to extend to other regions on the periphery of the Community. We realize that the problems facing us are serious, but they are not insoluble.

QUESTION: The television and some newspapers have explained what difficulties the Common Market Commission faces. The general public does not seem to be aware of them. How do you think you can develop Europe and interest the public?

M. MARJOLIN: We are doing our best, through our information services, to bring home to the widest possible public the significance of what we are doing. What we are doing now will really take effect only in the next generation. That is why it is important that the youth of today realize what the Common Market really means.

The Common Market is a commercial and technical enterprise, but it is much more than that. The Common Market is the means by which the young and the adults of today can operate within a framework scaled to the modern world. If there is no Common Market, if political unification of Europe does not follow development of the Common Market by the end of the twentieth century, then Europe will be the Balkans of the world—a collection of small and medium-sized states. I would not care to minimize the risks of conflict that such divisions would bring.

That is what I want young people to understand. For them the Common Market means the chance to play their full role as citizens again, as citizens working in a state comparable in size with the Soviet Union and the United States of America. This is the guarantee of true European freedom and peace, and we will spare no efforts to make people realize that.

QUESTION: You say that economic success is possible only in a large, single state, and that the alternative to unification is Balkanization. Does that mean supranationalism?

M. MARJOLIN: I don't really care for that word "supranational" because it implies that the individual nations disappear. This is not true. The nations, as such, will survive. The important thing is that there be political institutions common to the six nations and to others. I hope that this Europe of the Six will grow bigger and have political institutions capable of making the decisions in the name of the Six, as is necessary to true sovereignty in the modern world.

EIB to Lend Turkey $29.93 Million

The European Investment Bank (EIB) will lend $29.93 million to the Republic of Turkey to finance the construction of an irrigation system, a paper mill, and the expansion of a tire, a nylon, and a glass factory.

The irrigation system is part of a program to develop the Gediz Valley. The EIB will lend Turkey $15 million of the estimated $43 million needed for the irrigation network. The Department for State Hydraulic Works (DSI) of the Turkish Ministry for Energy and Natural Resources will carry out the main civil engineering works.

The production capacity of the tire factory, near Izmit, will be increased from 140,000 to 280,000 tires per year, at a total cost of $3.84 million. The Bank will lend $500,000 for this project, to be carried out by the Türk Pirelli Lastikleri Company, a branch of the Italian Pirelli group.

The Bank will extend credit for $1.3 million of the estimated $4.93 million cost of expanding the nylon factory. Adding a caprolactum polymerization unit and new spinning units will enable the plant to raise its annual production capacity from 1,000 to 2,600 tons. Sentetik Iplik Fabrikalari Company (SIFAS) will carry out the project. The International Finance Corporation (IFC), a stockholder in SIFAS, will supplement the EIB loan with a $900,000 long-term loan.

The EIB will lend $10.3 million of the $36.11 million necessary to construct a paper pulp and Kraft paper mill at Caycuma, near the Black Sea port of Zonguldak. The factory will produce sulfate paper pulp, semi-chemical and neutral sulfite pulp and Kraft paper. It will be set up and run by a branch of Cellulose and Paper Works of Turkey, owned by the Turkish Government.

Expansion of the sheet glass factory at Cayirova near Istanbul will cost $7.89 million. EIB will lend $2.125 million towards the cost of adding a 35,000 ton furnace which will raise production capacity from 37,000 to 72,000 tons per year. Türkiye Sise ve Cam Fabrikalari A.S.-Company will carry out the project.

EIB has extended the loans for 30 years, with seven-year grace periods. EIB is charging 3 per cent interest per year on the irrigation project loan and 4.5 per cent on the loans for the industrial projects.

Statistical Improvements Recommended

The Council adopted, at its July 28 meeting, a recommendation to the member states to improve collection and analysis of economic data.

Coordination of economic policy, paralleling the member states' growing economic interdependence, requires complete, accurate and comparable statistics. Thus, the Council's recommendation first tackled improvements the member states could make quickly and which would affect essential statistics. Essential statistics include such economic indicators as production, unemployment and consumer price indices, data on changes in the working week and in the size and composition of the labor force.

The Council also recommended that the member states broaden statistical coverage to include monthly reports on new industrial orders, turnover and retail sales. As soon as possible, the recommendation stated, a system of national accounts should be established for the Community as a whole.

The second part of the recommendation dealt with improvements which would take longer to execute or which would not affect the availability of essential data. Before creating a system to enable analysis of non-salaried income, for example, lengthy preparatory studies would have to be made. The Council's less-urgently recommended improvements primarily involved refining essential data, such as breaking down unemployment statistics according to the type of labor the unemployed worker normally performed.

EEC SENT $2.8 BILLION TO DEVELOPING NATIONS IN 1965

Outflow from DAC Countries Totaled $10.15 Billion

CAPITAL OUTFLOWS from the European Economic Community to the developing African, Asian and Latin American nations amounted to $2,738.4 million in 1965, according to the Organization for Economic Cooperation and Development (OECD).

The OECD Development Assistance Committee (DAC) annual review of economic assistance programs showed that the capital outflow from the EEC to the developing countries had risen by $119.5 million since the end of 1964. The flow of financial resources from all DAC countries to these countries increased $1 billion during 1965, to a $10.15 billion total.

The developing nations rely on DAC countries for 90 per cent of their nations' external financing requirements. Private investors supplied 38 per cent of these funds in 1965. Official or government sources provided the rest in grants and loans, distributed bilaterally and through international institutions such as the European Investment Bank and the World Bank.

DAC met this year in Washington, D. C. from July 20-21. Its members are: Australia, Austria, Belgium, Canada, Denmark, France, the Federal Republic of Germany, Italy, Japan, the Netherlands, Norway, Portugal, Sweden, the United Kingdom, the United States, and the EEC Commission.

EEC Supplied 27 Per Cent of DAC Total

As the table below indicates, the total outflow of capital from the Community to the developing countries amounted to $119.5 million more in 1965 than in 1964. Private capital outflows from all EEC member states but Italy quickened, registering a $128.9 million improvement over the 1964 level.

The increase in private capital outflows from the Community offset the $9.4 million decline in the EEC member states' disbursements to the developing countries. A small increase in the official outflow from the Federal Republic of Germany and substantial increases in official outflows from Belgium, Italy and the Netherlands did not compensate for the $74.5 million drop in official French outflows.

Total capital outflows from the EEC member states represented 26.9 per cent of the developing countries' 1965 inflows from DAC members, compared with 28.7 per cent in 1964. The U.S. share rose to 54.3 per cent in 1965 from 52.4 per cent in 1964.

In both years, the EEC member states' governments provided slightly more than half of the total Community outflow towards the developing countries. U.S. Government disbursements both years accounted for not quite a third of the total U.S. outflow towards the developing countries.

Developing Countries Need More Assistance

The DAC noted an increase in international cooperation and the formation of new consultative groups during 1965, as well as a $1 billion increase in financial resources flowing into the developing countries. The Committee reported an increased awareness of the economic importance of expanding agricultural production to keep pace with population increases.

Members of the Committee also recognized the necessity of augmenting further the flow of funds to the developing countries. It reported that terms for loans to developing countries had hardened somewhat, and their debt burdens had increased during the year.

DAC CAPITAL FLOW TO THE DEVELOPING COUNTRIES

	Government		*Private*		*Total (in $ million)*	
	1964	*1964*	*1964*	*1965*	*1965*	*1965*
Belgium	83.5	121.0	93.0	119.5	176.5	240.5
France	831.2	756.7	550.3	561.9	1,381.5	1,318.6
Germany	442.9	427.1	267.9	278.2	690.8	705.3
Italy	54.1	65.9	187.7	183.8	241.8	249.7
Netherlands	48.4	60.0	79.9	164.3	128.3	224.3
TOTAL Community	1,440.1	1,430.7	1,178.8	1,307.7	2,618.9	2,738.4
U.K.	493.4	479.8	414.5	443.3	907.9	923.1
U.S.	3,462.6	3,766.0	1,297.0	1,747.8	4,759.6	5,513.8
Other DAC Members	487.2	604.0	309.2	370.7	796.4	974.7
TOTAL DAC	5,883.3	6,280.5	3,199.5	3,869.5	9,082.8	10,150.0

Energy Prices Affect Export Industries

Lower energy prices could improve the Community's export position and stimulate economic development, according to a study prepared for the EEC Commission by a group of independent experts.

"The Impact of Energy on Prices" revealed a decline in the historical influence of energy costs on the choice of new business locations. It attributed this occurrence to a narrowing of regional energy price differences and to the growing importance of processing industries in relation to basic industries. However, in a few industries where energy represents a high proportion of total production costs, the study acknowledged that energy prices may still be a significant factor.

The cost of energy has a greater impact on international competitiveness, the experts reported. Exports by industries in which energy prices constitute 10 per cent or more of production costs account for 22 per cent of the Community's exports. Industries in which energy represents 5 per cent or more of total production costs account for 39 per cent of all EEC exports.

The cumulative effects of a reduction in energy prices could stimulate economic expansion, although to a limited extent under conditions of full employment. Diverting activities from declining energy industries into manufacturing, with higher productivity, could benefit the Community in the long term, the study concluded.

NEWS BRIEFS

Common Market
Euratom
Coal & Steel Community

EEC Takes First Step Towards Postal Union

Sending postcards and letters weighing less than 20 grams (⅔ oz.) from one Community country to another now costs only as much as a domestic mailing.

The Six took the first step towards a postal union on Aug. 1, when they agreed to collect domestic, instead of international, postage on these mails. Until they harmonize national postal rates, however, the actual cost of mailing will differ.

The member states' postal authorities also regulate telephone communications. As the parallel to the classification of intra-Community mail as domestic, they are studying the possibility of billing telephone calls from point-to-point, even when made across several member states' national boundaries.

In 1956, the six Community countries, then linked institutionally only through the European Coal and Steel Community, agreed in principle that domestic postal rates should apply to intra-Community mailings of postcards and letters weighing less than 20 grams. Ten years later, the national postal authorities have acted on this decision, overcoming their reluctance to lose possibly 50 per cent of their revenues on this type mail.

In so doing, they have also become the first group of European nations to act on a recommendation unanimously adopted in 1963 by the CEPT (Conférence Européenne des Postes et Télécommunications). The CEPT, formed to eliminate distinctions between domestic and European postal rates, has 23 Western European members, including Liechtenstein, Monaco and the Vatican City.

Euratom Urges Lively Uranium Search

The Community's exploitable uranium resources, unless expanded through more energetic prospecting efforts, will not amount to the 54,000 tons the Supply Agency Consultative Committee expects the Community to need in the next decade.

The Committee, in a recent survey of the Community's uranium resources, reported that known exploitable deposits in the member states totaled 31,000 tons at the end of 1964. France had 29,500 tons; Italy, between 1,500 and 1,600 tons.

The Community may have an additional 40,000 tons of exploitable uranium, the Committee believes, though the Netherlands looks geologically unpromising and only a small area of Belgium has been surveyed. To date, the search has been piecemeal in Germany, and has stagnated in Italy, the report said. Describing only French prospecting as vigorous and systematic, the report called upon the member states to step up their efforts to find new uranium deposits.

ECSC Aids Retraining and Redevelopment

The High Authority of the European Coal and Steel Community (ECSC) will furnish $17.7 million to assist in retraining workers and attracting new industries to depressed mining regions.

Mine closings and production cutbacks have displaced many workers in areas traditionally dependent on mining and allied processing industries. These workers have proven reluctant, unwilling, or insufficiently skilled to leave their homes for work in other industries in more prosperous areas of the Community. For this reason, the High Authority undertook a two-pronged program to bring new industries into mining regions and to train displaced workers to do other jobs.

During July, the High Authority agreed to lend $14.6 million to induce new industries to establish in mining areas. Van Doorne's Automobielfabriek Limburg, the manufacturer of the "Daffodil" car, received $10 million, the largest of the new ECSC industrial redevelopment loans. The ECSC made seven other loans, totaling $3 million, to redevelop industries in Italy, mainly around Genoa. A new rubber factory will also be built in Helmstedt, Germany with the assistance of a $1.5 million loan from the High Authority.

The member states will match High Authority credits of $1.8 million, granted in June and July, to retrain and reemploy 9,000 workers. The workers were displaced by the closing of two small Ruhr coal mines and of two coking plants, one Italian and one German. The credits will also help retrain French workers affected by cutbacks and closings in the Lorraine iron-ore industry.

Compliance Date Extended for Drug Rule

The EEC Council of Ministers, at its July 28 meeting, extended the deadline for compliance with the first directive on pharmaceuticals to Dec. 31, 1966.

By then, the member states must complete any changes necessary to align their drug marketing rules and procedures with the Council's first directive on pharmaceuticals. Adopted on Jan. 26, 1965, the directive allowed the member states 18 months to harmonize all legislative, regulatory and administrative provisions affecting the sale of pharmaceutical specialties.

Upon completion of this work, the EEC member states will have a common standard to judge the safety of a new pharmaceutical product. Unlike the American system, established at federal level under the Food and Drug Administration, each member state will authorize the sale of pharmaceutical specialties in its own national territory.

The Jan. 26, 1965, directive covers all patent medicines used to prevent, diagnose or treat human or animal disorders. Veterinary medicines, however, are not subject to the marketing authorization requirements set forth in the directive.

First European Medal Awarded to Adenauer

Former German Federal Chancellor Konrad Adenauer has received the first gold medal awarded by the Association des Amis du Président Schuman for his contributions towards European unity.

The award was presented by Jean Monnet, honorary president of the Association and president of the Action Committee for a United States of Europe. Other distinguished figures at the ceremony in Montigny-les-Metz on July 2 included: Pierre Pflimlin, mayor of Strasbourg and former French premier; Alain Poher, president of the European Parliament; and Joseph Schaff, president of the Association.

PUBLICATIONS AVAILABLE

ADDRESS TO THE EUROPEAN PARLIAMENT INTRODUCING THE NINTH GENERAL REPORT OF THE EEC COMMISSION, By Professor Dr. Walter Hallstein, President of the EEC Commission, Strasbourg, June 29, 1966, 23 pages (mimeographed) . . . . free

EEC COMMISSION MAKES SECOND ANNUAL ALLOTMENT OF GRANTS FROM THE GUIDANCE SECTION OF THE EEC AGRICULTURAL FUND, EEC Commission, Brussels, July 1966, 5 pages (mimeographed) . . . . free

DECISIONS OF 24 JULY ON ORGANIZATION OF MARKETS IN SUGAR, OILS AND FATS, AND FRUIT AND VEGETABLES. EEC Commission, Brussels, July 1966. 22 pages (mimeographed) . . . . free

A summary of the Council of Ministers decisions taken during the last week of July. Includes a time-table for the implementation of the Common Agricultural Policy for various sectors as well as production and trade statistics.

SUMMARY OF THE REPORT ON SOCIAL DEVELOPMENTS IN THE COMMUNITY IN 1965. EEC Commission, Brussels, Aug. 1966. 11 pages (mimeographed) . . . . free

A summary of the EEC's ninth Report on Social Developments. In this report the Commission gives special attention to developments over the past eight years.

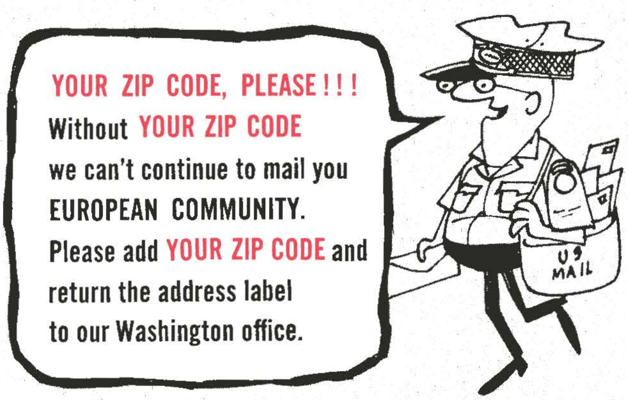
EUROPEAN NUCLEAR BUYER'S GUIDE. Euratom Commission, Brussels, 1966. 160 pages $12.00

This Guide provides a comprehensive survey of the Community firms engaged in nuclear activities and of the products offered.

The Guide is available from: Verlag Internationale Wirtschaftswerbung, Drachenseestrasse 1A, Munich, Germany (FR).

CORRECTION

Heavy water reactors installed in Euratom countries by 1990 will have an estimated electricity generation capacity of 46,000 MWe. Their estimated capacity was incorrectly shown as 4,600 MWe in the table on page 6 of the June 1966 issue of European Community.



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