european community PRESS RELEASE

EUROPEAN COMMUNITY INFORMATION SERVICE

2100 M Street Northwest, Suite 707, Washington D.C. 20037 • Telephone: (202) 296-5131

December 3, 1971

BACKGROUND INFORMATION No. 22

OUTSIDERS SURPASS COMMUNITY INDUSTRIES IN REAPING COMMON MARKET BENEFITS

WASHINGTON, D.C., December 3, 1971 -- Outsiders have taken greater advantage of the Common Market's favorable climate for economic growth than have industries inside the Community, according to recent figures released by the Commission of the European Communities.

The figures show that Community and non-Community enterprises have profited alike from the development of a single large economic unit. Yet a closer look at the decade of the sixties reveals Community enterprises have been slower to react to the stimulus of the expanded European market than many better-equipped and less-inhibited industrial interests from third countries.

Community Industries Still Border-Conscious

The restructuring of member states' industries occurs more often within a national framework than a Community-wide framework. From 1961 through 1969, there were 1,860 changes in structure (mergers, conglomerate creations, and take-overs) within individual Community countries, compared to only 257 such transactions between industries from different Community countries. The Community also reported 1,350 cases of cooperation* between industries

---

* Cooperation agreements, in this text, include reciprocal buying of shares, information sharing, standardization, joint research and development, and joint use of branch offices.

in the same country as compared to 1,000 intra-Community cooperation agreements.

One reason for this trend is the absence of a harmonized company law in the Community resulting in legal and financial obstacles to mergers posed by the individual member states. Industries try to detour these obstacles by signing far-reaching cooperation agreements. This partially explains the relatively large number of cooperation agreements.

Expansion through the Creation of Branch Offices

Member state companies generally extended their activities to other Community countries by setting up branch offices for production and distribution. There were 2,300 such cases, compared to the 1,000 cooperation agreements and 257 structural changes mentioned above.

Although it is the most frequent operation, branch office creation increased by only 26 per cent from 1961 to 1969, while Community cooperation agreements increased by 50 per cent and intra-Community structural changes by 84 per cent. These figures indicate that the creation of the Common Market has, indeed, led to a relatively faster development of expansion through cooperation and mergers rather than through the establishment of branch offices, a more traditional form of expansion.

Third Country Companies More Dynamic

Considering total investment, third country companies appear to be taking greater advantage of investment potential in the Common Market than Community firms. Below are Community figures for the 1961-69 period:

CREATION OF BRANCH OFFICES	
from member country to member country	2,300
from third country to member country	3,540
from member country to third country	1,158

COOPERATION AGREEMENTS

between two member countries	1,000
between member country and third country	2,790

MERGERS AND TAKE-OVERS

from member country to member country	257
from member country to third country	215
from third country to member country	820

This situation is partially explained by the eagerness of third country companies to locate in a Community country in order to jump the the Common Market tariff wall. Moreover, certain companies, especially US companies, are more familiar with large market operation and maintain a competitive edge over Community firms due to their advanced technology and financial superiority. Many firms also expand abroad when saturated national markets or anti-trust legislation hampers expansion at home.

Situations Differ According to Member Country

Some Community countries initiate more investment in other member countries than they receive from other member countries.

For example, the Netherlands establishes 187 companies in the Community for every 100 companies established by member countries in Dutch territory. The Netherlands also buys twice as many companies in other member countries as it sells to its Community partners.

This is also the case for Germany, where 100 Community companies set up in German territory are more than compensated by 175 Germany companies established in the Community. Moreover, Germany buys one and a half times as many companies in other member countries as it sells to other member countries.

French investors, however, have bought slightly fewer companies in the Community than member country investors have purchased in France. Likewise in Belgium, purchases of Belgian firms by member country investors have been twice as numerous as Belgian purchases of member country firms. Purchases of companies in Italy have been three times greater than Italian purchases in member countries.

Comparing Community and third country reciprocal investment patterns, the balance is negative in all Community countries. For every 100 third country companies set up in Germany, there are only 66 German companies established in third countries.

For the other Community countries, the ratio of foreign companies in the member state to member country companies in foreign nations is: France, 100 to 33; the Netherlands, 100 to 24; Italy, 100 to 22; Belgium, 100 to 6. The same ratio calculated for take-overs is: Germany and the Netherlands, 100 to 40; France, 100 to 17; Belgium and Italy, 100 to 14.

The rate of Community investments in third countries (starting from a low figure in 1960) increases faster than the rate of foreign investment in the Community. At the present rate, investment equilibrium will not be reached before 1985.

Equilibrium between Community and US investment is impaired by the fact that the Community, the preferred area of US investment, is directing its expansion and cooperation more toward Great Britain and developing countries.

US/Community Investment Levels

(in millions of dollars)

	1960	1970
US investment in the Community	2,208	11,695
Community investment in the United States	1,446	3,500

Community figures indicate that the Common Market is undergoing significant commercial penetration by foreign companies while European industries, for a variety of reasons, have remained relatively unreceptive to investment opportunities offered in their own Common Market.

The European Commission, member governments, and individuals in the business sector are working to find ways to eliminate remaining obstacles to intra-Community investment, especially those which increase the cost of intra-Community mergers and complicate relations between main and branch offices. Other problems are the absence of a Community company law, exchange rate fluctuation, and the lack of a European financial market.

# # #