

# INFORMATION

## COMPETITION

### CONCENTRATION OF FIRMS IN THE EUROPEAN COMMUNITY

8/72

To get an idea of the EEC competition policy and the Commission's supervisory task in this field, it is necessary to know something about the level of concentration among firms in the European Community.

The knowledge must necessarily cover the concentration trend on a country-by-country and an industry-by-industry basis; and it can only be obtained from the studies of different regions and industries which are kept continuously up-to-date. The Commission has put a number of such studies in hand, relating to the main industrial sectors, such as textiles, paper, chemicals, electrical and mechanical engineering and transport material. Some of these studies will not be completed until 1973; and even then, they will need completion after the enlargement of the Community. Meantime, however, the Commission has issued a special report on the development of the Community competition policy; and this provides for the information of economists, a sample of the information based on what has appeared in the press about concentration measures carried out in the Community over a certain period.

It has been noted that the movement began gaining pace after 1966; and it is the period since then which has accordingly been chosen for this study.

The various operations fall into three categories :

1. Setting up of direct subsidiaries by firms developing their activity outside the frontiers of their own country and setting up a producing or selling subsidiary ;
2. Acquisitions of minority or majority shareholdings, or full control of existing companies ;
3. Setting up joint subsidiaries by several companies.

The interpretation of the results calls for the following qualifications :

- The figures do not include operations carried out between companies of the same nationality, nor do they include cooperation agreements. The considerations set out later in this article thus apply only to international operations carried out within the Community, affecting firms of different nationalities in EEC countries — and in others.
- Each operation is given the same statistical value — i.e. there is no differentiation between "big" and "small" cases.
- Horizontal and vertical concentrations are included in the same totals.

The information emerging from the study thus relates less to the degree of concentration reached, than to the steps taken by firms to concentrate, to the inter-penetration of different industries and to the part played in this movement by firms in countries outside the Community.

The number of operations.

Under the three different headings there were, in 1970, 327 operations carried out by the acquisition of shareholdings, 345 by setting up joint subsidiaries and 1,199 by setting up direct subsidiaries. Reducing the totals to an index based on 1966 = 100, there was a consistent increase to 101 in 1967, 105 and 117 in the two following years and 139 in 1970 (Tables 1 and 2).

As was to be expected the picture is dominated in each year by the formation of direct subsidiaries which are a unilateral operation and have shown the quickest increase. Among the multi-lateral operations, those in which only two firms are involved have been increasing quicker than those involving larger numbers of firms; and the acquisitions of shareholdings took precedence over the joint subsidiaries.

Table 1 — Number and type of international operations in the EEC 1966-1970

Year	Shareholdings acquired	Joint subsidiaries	Direct subsidiaries
1966	254	315	781
1967	228	299	830
1968	241	292	890
1969	265	324	989
1970	327	345	1,199

Table 2 - Structure of international operations in the EEC, shown by type of operation (1966-70)

(percent)

19 %	Acquisition of shareholdings	18 %
23 %	Joint subsidiaries	18 %
58 %	Direct subsidiaries	64 %
1966		1970

58 %	Unilateral operations	64 %
34 %	Bilateral operations	31 %
8 %	Multilateral operations	5 %
1966		1970

Part played by non-member countries

Out of the 327 acquisitions of shareholdings noted in the EEC in 1970, only 35 % were cases involving only firms in Community countries. Non-member countries therefore figured in two operations out of every three. The part played by outside countries is of the same order of importance for joint subsidiaries (66 %) and for direct subsidiaries (61 %) (Table 3).

It is nevertheless noted that over the period 1966-70, the number of operations involving only Community countries grew faster (150 %) than the operations involving outside countries (132 %).

Table 3 - International operations by firms in the EEC  
Percentage of each type of operation :

A. Involving exclusively firms in EEC countries

B. Operations with firms from outside countries participating

Year	Shareholdings acquired		Joint subsidiaries		Direct subsidiaries		T o t a l	
	A	B	A	B	A	B	A	B
1966	33	67	34	66	35	65	35	65
1967	34	66	33	67	37	63	35	65
1968	32	68	41	59	42	58	40	60
1969	40	60	35	65	39	61	38	62
1970	35	65	34	66	39	61	38	62

Concentration in each country.

The analysis may be carried further by a separate count for each country, including all operations whether exclusively between Community firms or involving firms from non-member countries

	Germany	France	Italy	Netherlands	Belgium	Luxembourg	E.E.C.
Shareholdings acquired	18 %	25 %	19 %	19 %	11 %	10 %	18 %
Joint subsidiaries	11 %	22 %	17 %	21 %	20 %	26 %	18 %
Direct subsidiaries	71 %	53 %	64 %	60 %	69 %	64 %	64 %

Subject to certain reserves regarding the diversity of operation under each heading, the following conclusions emerge :

- The French economy is the most prone to concentration by acquisition of shareholdings of all origins (25 % of the national total). The figure is higher than Germany (18 %) and considerably higher than for Belgium or Luxembourg.
- Joint subsidiaries are seldom set up by German firms (11 % of the operations).
- Germany shows the most dynamic approach to setting up direct subsidiaries outside her national territory. Nearly three quarters of the concentration operations undertaken in Germany were the formation of direct subsidiaries in foreign countries.

- The proportion is also high for Belgium (69%). In France, however, it is appreciably smaller and below the Community average (53 %).

The part played by non-member countries in each EEC country

Multi-lateral operations cannot be interpreted in terms of a country-by-country statistic. These figures therefore relate only to the bi-lateral operations, including both joint subsidiaries between two firms and bi-lateral shareholding acquisitions. Both multi-lateral operations and direct subsidiaries are excluded; but the figures cover both the operation exclusively between EEC countries and those in which outside countries are involved (Table 4).

The figures confirm the expected finding that American firms predominate. They are shown in 1970 as taking part in one operation out of three in Italy (33 %), a quarter of those in France and the Netherlands (26 % and 25 %) and a fifth of those in Germany and Belgium (19 %), though only 14 % in Luxembourg.

In France the United States participation is higher than that of German firms (26 % against 21 %). In Italy it is almost as big as the total participation of all five of the other Community countries (33 % against 39 %). In the Netherlands it is as big as that of Germany (24 %); and in Belgium and Luxembourg it is as big as that of France (19 % and 14 %).

In many cases the number of operations in which the United States are involved in any individual Community country is greater than the number of operations carried out in that country with any other individual Community country.

Among the other outside countries Great Britain takes second place, with a percentage about half that of the United States. Its participation is biggest in the operations carried out in France (13 %) and in the Netherlands (12 %).

Next in order comes Switzerland, with percentages of the total varying from 17 % in Luxembourg and 12 % in Germany to 5 % in Belgium. Next are the Scandinavian countries, but the figures in this case are only small (2 or 3 %).

A feature is the recent growth of Japanese participation. In 1970 it amounted in Belgium to 3 %.

Inside the Community the inter-penetration is on its biggest scale between France and Germany. In 1970 Germany was a party to 21 % of the operations carried out in France; and for operations carried out in Germany, the French participation was 24 %.

Among the other countries, the partner accounting for the highest share of the national total in Italy is France, with 15 % of all Italian operations. For the Netherlands the top figures are those of Germany (24 %); and for Belgium, the Netherlands appear as the biggest partner (20 % of the total). Oddly enough Belgium appears as no more than a 4 % partner in the Luxembourg operations.

The Community countries as a whole do more than half their bi-lateral operations among themselves, the proportion varying between 54 % and 60 %. The only exception is Italy, where the proportion of Community participation is only 39 %.

Table 4. - Bi-lateral operations carried out by EEC countries  
(percent of total in each country)

Bi-lateral operations with the countries below:	in Germany		in France		in Italy		in Nether lands		in Belgium		in Luxembourg	
	1970	(1966)	1970	(1966)	1970	(1966)	1970	(1966)	1970	(1966)	1970	(1966)
Germany			21	(11)	7	(7)	24	(15)	12	(15)	11	(11)
France	24	(11)			15	(17)	8	(13)	19	(25)	14	(16)
Italy	3	(3)	6	(7)			3	(2)	6	(4)	14	(6)
The Netherlands	17	(14)	5	(12)	5	(7)			20	(15)	14	(22)
Belgium	8	(13)	11	(20)	7	(7)	17	(14)			4	(6)
Luxembourg	2	(1)	2	(2)	5	(1)	2	(0)	3	(5)		
<b>Total E.E.C.</b>	<b>54</b>	<b>(42)</b>	<b>45</b>	<b>(52)</b>	<b>39</b>	<b>(39)</b>	<b>54</b>	<b>(44)</b>	<b>60</b>	<b>(64)</b>	<b>57</b>	<b>(61)</b>
Great Britain	9	(10)	13	(12)	9	(9)	12	(22)	7	(5)	4	(6)
Scandinavian countries	3	(2)	2	(1)	3	(3)	2	(2)	0	(0)	4	(0)
Switzerland	12	(7)	8	(7)	9	(14)	7	(5)	5	(5)	17	(16)
U.S.A.	19	(37)	26	(25)	33	(25)	24	(25)	19	(22)	14	(11)
Japan	0	(0)	1	(0)	0	(0)	1	(1)	3	(1)	0	(0)
Other non-member countries	3	(2)	5	(3)	7	(10)	0	(1)	6	(3)	4	(6)
<b>Total non-member countries</b>	<b>46</b>	<b>(58)</b>	<b>55</b>	<b>(55)</b>	<b>61</b>	<b>(61)</b>	<b>46</b>	<b>(56)</b>	<b>40</b>	<b>(36)</b>	<b>43</b>	<b>(39)</b>

Over the period 1966-70, the respective percentages do not show any important changes nor noteworthy trends.

It is, however, significant that in such a short period the number of Franco-German operations has doubled. There is perhaps some significance, too, in the considerable shrinkage between 1966 and 1970, in the American participation in operations in Germany. In general, there has been a certain slackening in the volume of operations between the EEC and the United States, except in the case of Italy.

Concentration in different industries and sectors.

The operations were also classified for the different branches of industry and for the service trades as a whole.

Over the period 1966-70, the three types of operation — direct subsidiaries, joint subsidiaries and acquisition of shareholdings — were always at their most numerous in the metal industries, and least frequent in the energy sector and more particularly in the oil industry. Between the two extremes the order of importance in 1970 was, services, manufacturing industry, the chemical industries, food products and textiles.

If we take 1966 = 100 as the basis for each industry, or group, the number of operations per sector had risen by 1970 to the following levels :

- Energy : 62
- Chemicals : 105
- Metal industries : 116
- Textiles : 139
- Other manufacturing industry : 152
- Services : 195
- Food industries : 272

In the other manufacturing industries group, the increase in the number of operations was particularly high in publishing, paper, glass, copper, footwear and furniture (Table 5).

It must not be deduced from these figures that the industries in which there have been the greatest number of operations are necessarily those in which the highest degree of concentration has been reached. In fact a large number of operations in such a sector as the food industry, reflects only an attempt to bring together an industry which has hitherto been very dispersed; and a small number of operations in industries such as chemicals or energy, reflects the position in a sector which was already very concentrated and in which new operations are necessarily of rare occurrence.



An attempt was therefore made to weight the number of operations by reference to the number of firms in each sector.

Using the results of the industrial census of 1963, the following classification is obtained of the degree of concentration (in descending order) : metal industries, chemical industries, energy, other manufacturing industries, food industry, textiles.

It is an interesting fact, too, that the concentration movement in the food industry was at its strongest in Germany, with 26 % of the operations carried out in 1970 in the EEC for this sector, compared with only 15 % in 1966. It was at its lowest in Italy with only 14 % in 1970 against 17 % in 1966.

The manufacturing industry in France showed a high degree of concentration, with 28 % in 1970 and 21 % in 1960. The figure was lower in Italy, with only 8 % against 15 %.

In summary form, the results show that operations of concentration are diminishing in number in the metal industries, though the figure here is still high. In energy they are falling to a very low rate; and in the chemical industry they are diminishing, but in textiles they are continuing at the same tempo. In the manufacturing industries they show an increase in France, the Netherlands, Belgium and Luxembourg. In the food industry they are increasing vigorously, though the level is still low, and in the service trades the level is high.

**Table 5. - Operations in individual sectors and industries**  
(percent of operations in each EEC country in each sector)

	Germany		France		Italy		Netherlands		Belgium		Luxembourg		E.E.C.	
	1970	1966	1970	1966	1970	1966	1970	1966	1970	1966	1970	1966	1970	1966
Metal industries	42	56	38	44	40	38	34	43	30	40	17	15	36	43
Energy	2	4	1	2	2	3	1	3	1	2	0	4	1	3
Chemical industry	10	10	12	17	13	23	11	17	15	14	5	8	11	15
Textile	6	5	5	4	6	5	6	3	6	9	3	4	6	6
Other manufacturing industry	13	14	17	13	10	14	12	9	15	12	6	5	13	12
Food industry	7	2	6	4	8	5	10	4	6	3	2	4	7	3
Services	20	9	21	16	21	12	26	21	27	20	67	60	26	18
	100		100		100		100		100		100		100	

Reproduction authorised, with or without indication of origin. Voucher copies would be appreciated.