

# The European Community At Twenty-Five

By Franklin J. Vargo

Deputy Assistant Secretary of Commerce for Europe

This year the European Community (EC) marked its 25th birthday, having grown from the original six countries in 1958 to a Community that today is comprised of ten countries and 270 million people—a \$2.4 trillion market, second in size only to the United States. The EC is our largest export market, last year taking nearly \$50 billion of U.S. merchandise exports. But even more important is the enormous investment stake American firms have in the Community. Sales of U.S. affiliates in the EC are several times as large as U.S. exports to the EC.

The European Community is also extremely important to American business in that it is the largest foreign investor in the United States, our largest supplier of imports, and our major competitor in global markets. In a policy sense as well, the EC has been of tremendous importance to the United States, both in terms of being a close ally, and having been a steady supporter of global tariff reductions and other trade negotiations through most of its quarter-century of existence. So in many ways, the EC has been quite successful at increasing its economic importance.

Yet there is much that the Community has not yet accomplished, and it is far from reaching the goals envisioned by its founders. Today, 25 years after its founding, there are still ten national markets rather than one Community-wide market. True, internal tariffs among the EC countries have been eliminated. But internal non-tariff barriers still abound in terms of border delays and customs requirements, standards that have not been harmonized and still vary radically from country to country, transportation and other services that face severe internal restrictions, government procurement and other national requirements that remain discriminatory, and other barriers. This does not mean the Community is a failure, but rather that its founders underestimated the difficulty involved and the amount of time required in obtaining the requisite fusing of national interests that would lead to a single unified common market.

Clearly the EC member countries

have not had sufficient incentive in the past to take the actions necessary to forge a truly Community-wide market. Perhaps the needed extra incentive now exists in the fact that the EC faces several crises that must be overcome—and that can only be overcome by positive unified action on the part of the ten member countries.

First, the EC is facing a budget crisis. Two-thirds of the Community's budget has gone to agricultural expenditures at the expense of research and development in growth industries, of regional development programs, and of other initiatives which would have led to faster economic growth.

Second, the EC faces a growth crisis. By Community estimates, real GNP is expected to increase only 0.5 percent this year, and 1.5 percent next year. European economists see only about 2.5 percent real GNP growth per year for the EC for the rest of the decade.

Third, the EC faces an employment crisis. The Community has created virtually no new jobs over the past decade. EC unemployment has grown every year, and now stands at almost 11 percent. Young workers have borne

the brunt, and their unemployment rate is 26 percent. Just holding the unemployment rate to today's level will require the creation of nearly 7 million new EC jobs by 1990—over a million jobs per year for each of the next six years. Reducing the unemployment rate would require the creation of even more jobs. To do this, the EC must reverse the causes of high unemployment—high labor costs, insufficient return to capital investment, and slow economic growth.

Fourth, the EC faces a crisis of technology. The EC has awakened to the fact it lags the United States and Japan in the creation and application of new technologies and in the development of technologically-advanced industries that must provide tomorrow's economic growth. This can only be achieved by removing existing barriers and by fostering the conditions that would allow the most efficient Community-wide application of technology by all firms—including affiliates of American firms.

Decision-making in the Community is still a cumbersome process, and it is only recently that the EC and its member states have begun to face up to these crises. I am confident that the eventual outcome of this process will be agreement on concerted action leading to greater EC efficiency as well as to significant reductions in internal barriers to innovation, labor utilization, and production.

I expect this will be the outcome because there simply is no other effective solution to the EC's crises. Protectionism won't work. Nor can any of the ten countries solve problems individually—which is why they formed a Community in the first place.

As the EC succeeds in overcoming its problems, it will become an even more effective Community than in the past, and will present even more opportunities for trade and investment for U.S. firms. Optimism in the EC's future is why this year American companies are allocating to the EC market 50 percent of the global capital expenditures of all U.S. overseas manufacturing affiliates—and corporate plans for 1984 show the figure for the EC will rise to 55 percent of the global amount.





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## U.S. DEPARTMENT OF COMMERCE International Trade Administration

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**Lionel H. Olmer**  
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William Scouton  
Alice Gray  
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Richard Barovick  
Contributing Editor

Richard E. White  
Graphics Coordinator

A. Benefield, Jr.  
Printing Specialist

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## The European Community: Our Largest Market

The ten Western European nations that comprise the European Community together offer a consumer market of 270 million people. The EC is already the largest U.S. market, and is expected to expand its imports of American products as economic growth rates rise in 1984 and beyond. Articles at left and on the following pages outline the opportunities that this challenging market offers to U.S. exporters.

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## Congress Passes Several Key Trade Laws

Congress enacted several important pieces of legislation with an impact on international trade before it recessed in late November. Contributing Editor Richard Barovick reports that the lawmakers will face another active agenda of key trade issues when they return late next month.

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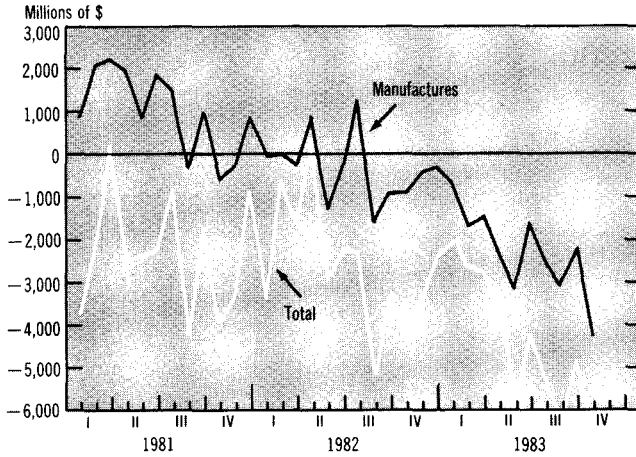
Commerce Department trade promotion events around the world.

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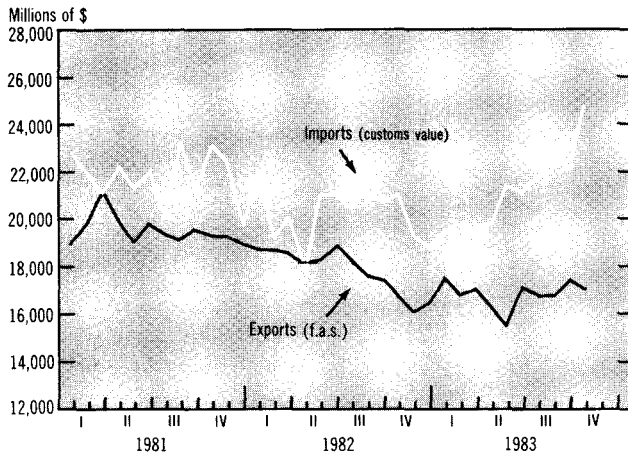
# U.S. TRADE BALANCES

*This monthly report on U.S. trade is prepared by the International Trade Administration's Office of Trade and Investment Analysis*

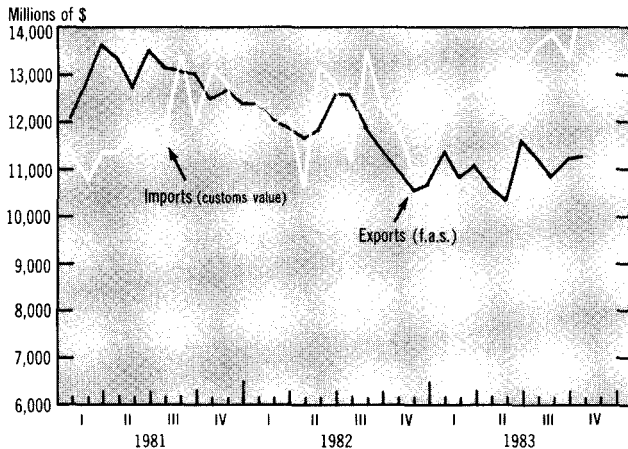
**U.S. Trade Balances**



**Total U.S. Trade**



**U.S. Manufactures Trade**



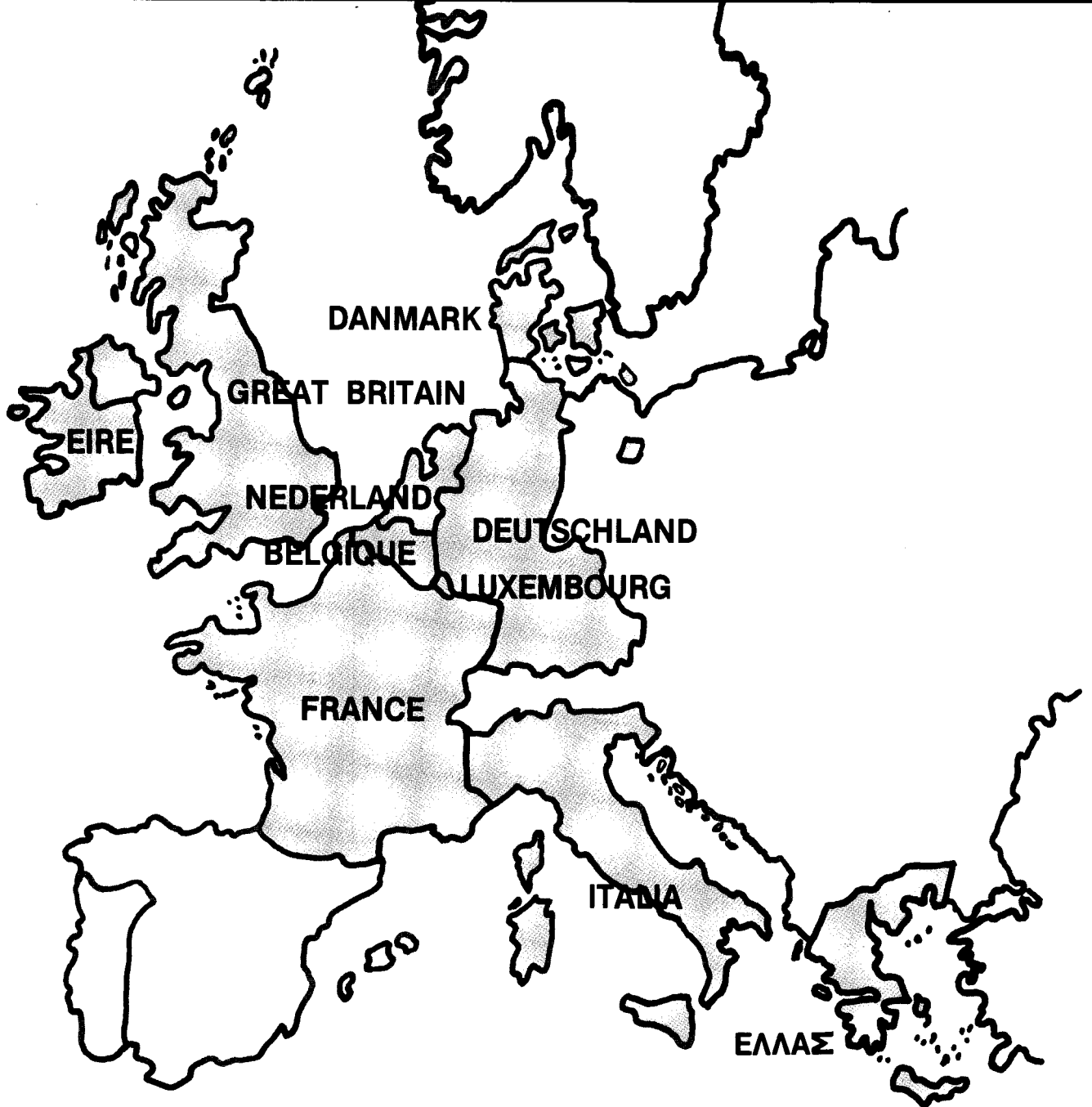
Note: All data seasonally adjusted.

The U.S. merchandise trade deficit soared to a new record high level in October 1983, exceeding by one-fourth the previous record set last August. At \$7.8 billion (based on Customs value imports) the deficit reflected a substantial increase in imports compared to the previous month, coupled with another decline in exports. Imports were at a record \$24.8 billion in October, 11.6 percent above the preceding month's level, while exports fell 2.5 percent to \$17.0 billion.

With the inclusion of the large October imbalance, the trade deficit in January-October 1983 was running at an annual rate of \$55.0 billion, nearly double the deficit actually recorded in 1982. Given the current sluggishness of exports and buoyancy of imports it appears possible that the deficit for 1983 could equal or surpass the upper end of the \$55-60 billion range forecast earlier this year. So far this year exports, retarded by the high value of the dollar and a lackluster economic recovery abroad, have declined 7.4 percent below their level in January-October 1982, falling for the second consecutive year. Imports, on the other hand, have, with the exception of petroleum, rebounded strongly this year. Through October, imports were 3.2 percent higher than in the comparable period last year, while nonpetroleum imports, spurred by the U.S. economic recovery and the effects of the rising dollar, increased by 8.6 percent.

The sharp expansion in October reflected widespread increases among the major products, as nearly all items registered gains. Manufactured goods were particularly buoyant; the 16.2 percent rise was paced by heavy arrivals of automobiles, machinery, clothing, and various industrial supplies such as steel. Petroleum imports climbed 5.3 percent to \$5.6 billion, their highest value so far in 1983, largely as a result of greater volume, which increased to the highest level since January of 1982. The average import price of petroleum continued to edge up in October, but remained substantially below the levels of a year ago.

Much of the \$436 million drop in exports from the September level reflected lower deliveries of agricultural products, particularly soybeans. Manufactures exports were almost unchanged, as a large decline in aircraft deliveries was offset by increased shipments of chemicals and various types of machinery. After rising sharply in September, exports of military equipment fell back to more normal levels.



*By Ann K. Fields  
International Trade Specialist*

# Export Opportunities & Challenges in the **European Community**

**T**he European Community (EC) offers excellent market opportunities to first-time exporting firms as well as to more experienced exporting companies. Its highly industrialized economy, political stability, and well-developed commercial relations with the United States make the Community one of the most accessible markets for U.S. goods. Its well-established distributor and financial systems also make it one of the easiest. Our most important trading partner, the EC is the largest market for U.S. products. In 1982, it imported nearly \$50 billion worth of U.S. goods, about 22 percent of total U.S. exports.

Consisting of ten Western European nations—Belgium, Denmark, France, the Fed-

# European Community

CONTINUED

**The EC is a challenging environment for U.S. exporters.**

eral Republic of Germany, Greece, Italy, Ireland, Luxembourg, the Netherlands and the United Kingdom—the EC offers a consumer market of 270 million people, 40 million more than the United States. Yet, it has about one-sixth the area of the United States. The EC's compact, high density, and largely urban market areas favor high levels of economic activity and easy communication. In 1982, the Community held 20 percent of the world's buying power. Its gross product of \$2.4 trillion in 1982 was second only to the \$3.1 trillion economy of the United States, and far larger than the \$1.0 trillion Japanese economy.

The EC offers a market of great opportunity. Cautious optimism is beginning to spread throughout the EC. Real rates of economic growth for the Community are on the increase, with a 1.5 percent increase in gross domestic product forecasted for 1984. Lower inflation, restoration of business confidence, a pickup in business orders and an upturn in construction will contribute to this growth. With this will come increased purchases of U.S. goods in the EC markets.

The EC, however, is a challenging environ-

ment for U.S. exporters—particularly today. One of the greatest challenges for companies is to overcome the difficulties imposed by the high value of the dollar, which in the last two years has appreciated as much as 50 percent against some of the major EC currencies. This has resulted in declining U.S. exports of some lower technology and agricultural products. However, the high quality and technical sophistication of many U.S. goods, coupled with an aggressive market strategy tailored to fit the needs of European importers, still make U.S. goods attractive and competitive in many EC markets. Last year's leading sales to the EC included computers, sophisticated electronic products of all types and industrial machinery.

The European Community presents a diversity of individual country markets, and market prospects will vary by country. Market size, economic growth rates, employment and other relevant trade and economic variables may differ considerably from country to country. Exporters may therefore want to look at individual EC country conditions to find the best markets for their goods. A summary of present economic conditions and an outlook for 1984 for the EC countries is given on pages 18-19. A country-by-country review of trade prospects in the individual member states is provided on pages 20-25.

## U.S. TRADE WITH THE EUROPEAN COMMUNITY COUNTRIES, 1982 AND JANUARY TO SEPTEMBER 1982 AND 1983

(in millions of dollars)

	U.S. Exports including Reexports					U.S. General Imports				
	1982	Percent Change	1982 Jan-Sept	1983 Jan-Sept	Percent Change	1982	Percent Change	1982 Jan-Sept	1983 Jan-Sept	Percent Change
Total of Western Europe	60,054.3	-8.1	45,743.8	42,056.4	-8.1	52,345.5	+0.9	39,248.2	40,097.6	+2.2
Percent of World Grand Total	28.0	+0.3	28.1	28.2	+0.1	21.0	+1.7	21.2	21.3	+0.1
European Communities (EC)	47,932.3	-8.5	36,431.9	33,311.2	-8.6	42,509.0	+2.1	31,678.2	32,623.0	+3.0
Belgium-Luxembourg	5,229.2	-9.3	3,999.4	3,677.0	-8.1	2,396.2	+4.3	1,724.3	1,854.8	+7.6
Denmark	732.0	-17.5	562.3	487.0	-13.4	904.5	+6.4	663.5	775.6	+16.9
France	7,110.4	-3.1	5,367.8	4,555.3	-15.1	5,545.3	-5.3	4,208.8	4,569.4	+8.6
Greece	721.4	+6.8	541.7	404.8	-25.3	241.8	-32.7	207.0	179.9	-13.1
Germany, Federal Republic of	9,291.3	-9.6	7,054.4	6,522.1	-7.5	11,974.8	+5.2	9,077.4	9,170.4	+1.0
Ireland	983.4	-4.0	747.3	826.8	+10.6	556.4	+11.7	409.6	381.3	-6.9
Italy	4,616.1	-13.9	3,517.0	2,970.5	-15.5	5,301.4	+2.1	4,117.3	4,110.0	-0.2
Netherlands	8,603.8	+0.1	6,461.2	5,936.3	-8.1	2,493.9	+5.2	1,877.1	2,151.2	+14.6
United Kingdom	10,644.7	-14.4	8,181.0	7,931.3	-3.1	13,094.8	+1.9	9,393.2	9,430.4	+0.4

Source: U.S. Department of Commerce, Bureau of the Census, Report FT 990  
Compiled by: Office of the European Community November, 1983  
Data include Special Category Commodities

Exports—f.a.s. value basis  
Imports—customs value basis



*From its headquarters in Brussels, left, the EC Commission proposes and implements policies and laws which apply in all member states.*

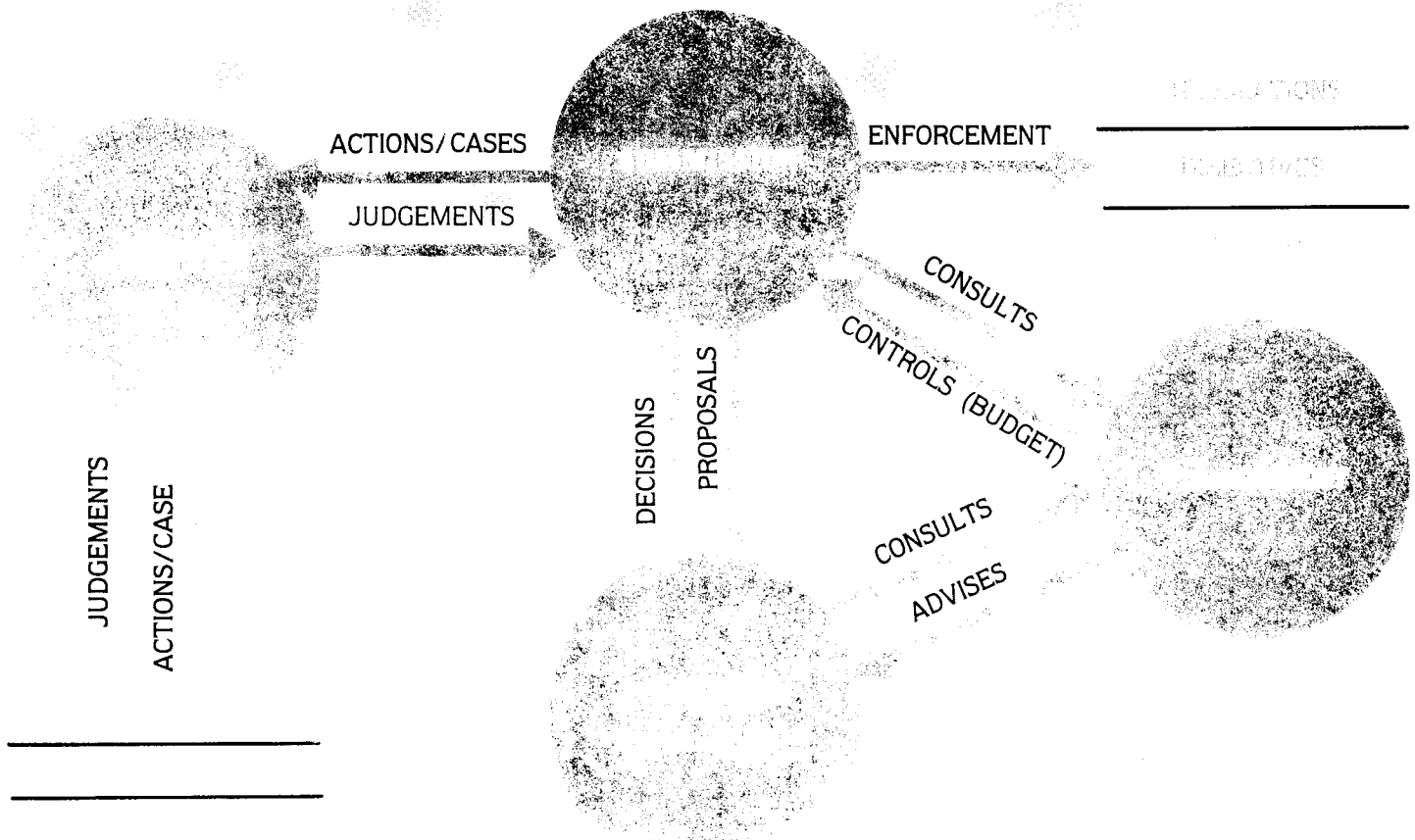
*The EC presents a diversity of individual country markets.*

*Last Year U.S. Exports to the EC:*

- \$4.4 billion of electronic computers and parts;
- \$2.5 billion of electrical machinery and components (not consumer type);
- \$1.2 billion of telephonic and other electrical apparatus;
- \$1.2 billion of machinery testing and control instruments and parts;
- \$1.0 billion of broadcasting and communications equipment.
- \$0.9 billion of industrial machinery, components and parts;
- \$0.8 billion of equipment and tools for photo and other service industries;
- \$0.7 billion of plastic and synthetic resin materials;
- \$0.7 billion of drilling and oil field equipment

(From "Highlights of U.S. Exports and Import Trade, FT 990, December 1982," U.S. Department of Commerce, Bureau of the Census)

# HOW THE EC WORKS



The Community is composed of ten member countries—Belgium, Denmark, France, the Federal Republic of Germany (FRG), Greece, Italy, Ireland, Luxembourg, the Netherlands and the United Kingdom. In most matters, these countries govern themselves quite independently of each other. However, certain matters are decided at the Community level and the Community makes policies and laws which apply in all its member states. This work is carried out by four EC institutions: Commission, Council, Parliament and Court of Justice.

The **Commission** is the largest of the Community's governing institutions. Its major responsibilities include formulating and proposing legislation, which it submits to the Council for approval, and implementing the policies once approved. It also is responsible for the day-to-day operations of the Community bureaucracy. It is comprised of 14 Commissioners (two from France, the FRG, Italy and the U.K. and one from each of the other member states), each responsible for one or more Directorates-General that oversee specific fields of activity such as energy, external relations and internal affairs. The Commissioners act for the Community as a whole, rather than on behalf of the ten national governments.

The **Council**, made up of EC cabinet representatives from each member state, decides major Community policy to be implemented by the Commission. It can issue regulations which automatically become Community law; directives which are binding, but leave to the member states the form and means of attaining the directive's objectives; and, decisions, which are binding on those to whom they are addressed (member states, businesses and individuals).

The **Parliament** advises the Commission and the Council on legislative proposals before any decisions can be made; it also exercises a measure of democratic control over the Council and the Commission. It is comprised of 434 elected members who represent international political groups (of which there are seven) rather than national groups.

Finally, the **Court of Justice** is composed of 11 judges appointed for six years by agreement among the national governments. It serves as the "Supreme" court to national courts in deciding numerous cases involving member states, Community institutions and individuals. The Court of Justice also assists judges of national courts in the member states by answering questions on the interpretation of points of Community law.

# Harmonizing EC Business Law

By Don Linville  
*International Trade Specialist*

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The gradual development of the European Community (EC) into a single market economy has necessitated the harmonization of business law in order to stimulate and protect trade and investment between the member states. A major goal of the EC is to encourage the growth and expansion of private enterprise throughout the Community. Industry has been subject to numerous and complex member state laws and regulations. To date, progress of the harmonization program has been slow due to competing economic interests, the complexities of some proposed new measures, and the lengthy EC legislative process.

## **Business Law Development**

Since 1964, the EC Commission has made a concerted effort to develop a unified code of business law in the member states by urging them to bring their national legislation into line with an EC model. It has attempted to do this through the issuance of a series of directives which set minimum standards for states in the field of business legislation.

There is a considerable time interval, in some cases up to ten years, between the initial proposal and its final implementation by state legislatures. Directives are binding on the member states and are used to achieve harmonization of laws and freedom of establishment, services and capital. Directives are first drafted by the EC Commission, reviewed by the European Parliament, which makes recommendations, and after further revision, submitted to the Council of Ministers for approval. At this point, further study and modification can take place. After approval by the Council, implementation by national legislatures is necessary before directives become Community law.

As a result of growing social concern and rising unemployment within the Community, there has been an added impetus for greater harmonization of com-

pany law. With unemployment at unprecedented levels, the Commission has been pressured to enact new and broader Community-wide legislation to protect workers' rights and provide them with greater security against dislocation in the workplace. This rising tide of social consciousness, in addition to current economic stagnation and high unemployment, has led to recommendations for stricter controls on the activities of corporations—including multinationals.

Because of their large-scale operations, the activities of these firms are of concern to some EC policy makers. The Commission is slowly developing a framework of laws which will establish a uniform code of conduct for corporations operating in Europe. This framework includes legislation covering taxation, corporate reporting, financial disclosure, employee consultation, mergers and a sharper scrutiny of large corporations in the area of antitrust.

There are currently several major proposals before EC legislative bodies which could affect the long-term operations of U.S. corporations in Europe, even though they are not addressed specifically to U.S. firms. The general thrust of these measures is to: 1) expand the scope of information which firms must disclose about their corporate affairs; 2) increase management-labor consultations; and 3) establish new guidelines governing relations between foreign corporations and their EC subsidiaries.

## **Vredeling Directive**

Because of its far-reaching implications, considerable attention and controversy has centered on the so-called Vredeling Directive. Originally put forward in 1980 by former EC Commissioner Henk Vredeling, the measure could levy broad requirements for information disclosure, and require extensive and time-consuming labor consultations for all companies operating in the EC. Specifically, the proposal would



## PROPOSED EC COMPANY LAW

DIRECTIVE		STATUS
Vredeling	<ul style="list-style-type: none"> <li>• Disclosure of corporate information.</li> <li>• Consultation with labor and major decisions.</li> </ul>	Approved by Commission
First	<ul style="list-style-type: none"> <li>• Sets basic requirements for registered firms.</li> <li>• Information disclosure, subscribed capital, names of directors.</li> </ul>	Adopted by Council
Second	<ul style="list-style-type: none"> <li>• Sets standards for formation of companies, capital requirements.</li> </ul>	Adopted by Council
Third	<ul style="list-style-type: none"> <li>• Regulates merger between firms <i>within</i> same member state.</li> </ul>	Adopted by Council
Fourth	<ul style="list-style-type: none"> <li>• Sets rules for content, publication audit of annual accounts-individual firms.</li> </ul>	Adopted by Council
Fifth	<ul style="list-style-type: none"> <li>• Establishes worker participation in management.</li> <li>• Modifies corporate structures.</li> </ul>	Approved by Commission
Sixth	<ul style="list-style-type: none"> <li>• Establishes procedures for transfer of assets of firms acquired by other companies.</li> </ul>	Adopted by Council
Seventh	<ul style="list-style-type: none"> <li>• Requires consolidated financial accounts for groups of companies.</li> </ul>	Adopted by Council
Eighth	<ul style="list-style-type: none"> <li>• Lays down qualifications for auditors.</li> </ul>	Approved by Council
Ninth	<ul style="list-style-type: none"> <li>• Regulates parent-subsidiary relations.</li> <li>• Makes parent liable for subsidiaries' action.</li> <li>• Extends legal liability to parent directors.</li> </ul>	Pre-draft stage in Commission

require companies to provide labor on a regular basis with significant corporate information (financial status, investment plans, production figures, etc.) which may include confidential and proprietary business data. At the same time, management would be obligated to advance consultations with employees on any major contemplated operational changes such as plant closings, transfers and introduction of new technologies.

The Vredeling Directive has undergone significant modification by EC consultative bodies. A revised version of the proposal was finally approved by the

Commission in June and has gone to the Council of Ministers for deliberation. Several member states have expressed reservations over Vredeling and early Council adoption is not considered likely.

### Other Proposed Directives

Other EC business laws center on corporate financial disclosure, worker participation in management and relationships between parent companies and their EC subsidiaries. For example, the Fourth Directive, adopted by the Council in 1978, was a major step towards expanded financial accounting; it prescribed the format, valuation methods and contents of the annual reports of individual companies.

The Commission is also attempting to incorporate worker participation into EC law via the Fifth Directive. In addition to actual representation on corporate boards, worker participation could also be achieved through work councils and provisions in collective bargaining agreements.

The EC is also moving towards the adoption of a directive concerning liability of defective products. The proposed measure could make a manufacturer liable for injury caused by a defective product even if scientific knowledge at the time of production was not sufficiently advanced to have enabled the producer to envisage the danger of a possible future defect.

### Antitrust

One of the most significant elements in the EC policy of regulation of business within the Commission is antitrust. The basic objective of these policies is to ensure that the integrated Community trading market is not distorted by artificial barriers such as market sharing arrangements, trade restrictions, monopolies, and abuse of power by companies which hold a dominant position in the market.

All types of companies, including third-country subsidiaries in the EC, are subject to antitrust procedures. The Commission, the EC's chief watchdog on free competition, has extensive powers to investigate antitrust abuses, make decisions and impose stiff penalties, if warranted on firms or groups of firms. EC antitrust law takes place over national antitrust laws, but does not replace them. It applies only to practices which may affect trade between member states; the law is not concerned with local violations in restraint of trade.

During the next decade, the EC is likely to move further towards development of a harmonized business code in order to speed up the integration process. American firms should keep current with these directives, as they have a significant effect on company operations.

## The Importance of Europe to American Business

By Sir Roy Denman, Head of the Delegation of the European Communities Commission, Washington, D.C.

In the United States long ago, Europe meant a distant, quaint mosaic of countries where a happy few would vacation and bring back stories of the Eiffel Tower, kings and castles and German bands. But it has not simply been two world wars which have brought Europe out of picture postcard land. Europe matters now to every American business and every American farm.



Foreign trade in general is much more important to Americans than before. For something like 100 years after the Civil War, trade did not account for more than 3-4 percent of American GNP. Then in the 1970s it took off. In the second quarter of this year trade accounted for nearly 14 percent of GNP. Some one-fifth of American industrial production and two-thirds of its wheat is exported. Four out of five manufacturing jobs created in the United States between 1977 and 1980 were linked to exports. And of all the markets for U.S. exports, the European Community is the biggest; it bought over \$53 billion\* worth of American goods in 1982.

But there is a wider consideration. The Community and the United States are the two major operators on the world trading scene. Together they account for approximately one-third of world trade. The relationship across the Atlantic is fundamental to the survival of the open world trading system on which the prosperity of the West has been based for the last 35 years.

All this means two things. It means that with this amount of trade flowing, there are bound to be points of friction. Items of contention are not lacking—specialty steel, agriculture, export controls. But this should never lead us to forget that much more unites us than divides us. Whatever the arguments we have from time to time, the United States and the European Community stand for the same things, peace in the valley in politics and in trade. In the immortal words of Benjamin Franklin, either we hang together or we hang separately.

\*This figure is based on EC statistics.

## The Customs Union Of the European Community

By Ann K. Fields  
International Trade Specialist

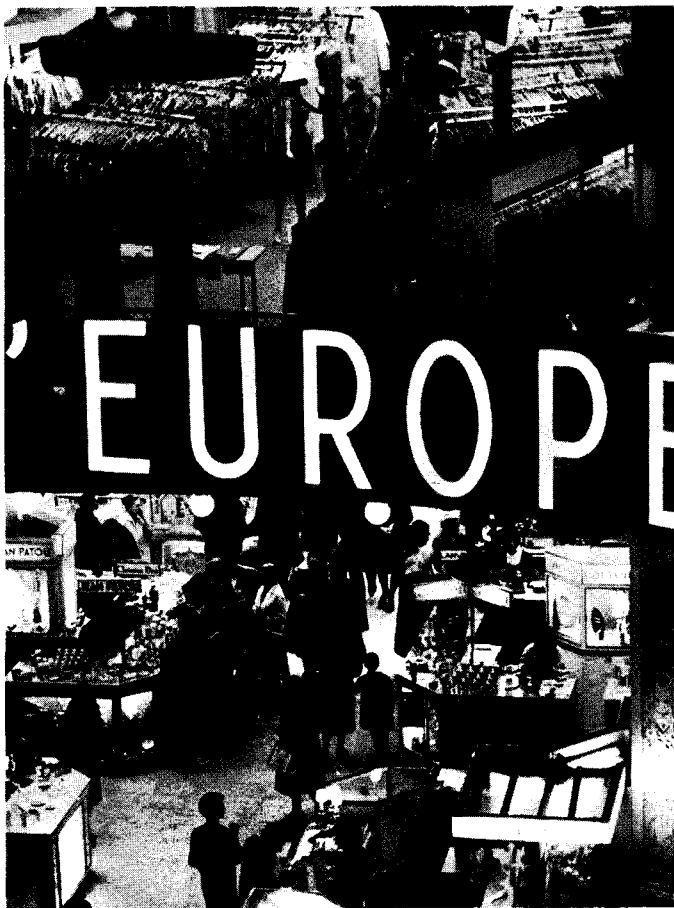
In July 1968, the six original EC members (Belgium, Luxembourg, Netherlands, France, the Federal Republic of Germany, and Italy) achieved a customs union by completely removing customs duties and quotas on internal trade. When the United Kingdom, Ireland and Denmark joined the EC in 1973, they began to realign their own tariffs. The alignment was completed in December 1977. As a result, internal duties between the six original, and three new member states, were removed completely, and the new nine-member customs union was achieved. Greece, which joined the EC in January 1981, is presently undergoing a similar alignment, which will be completed in January 1986.

The effects of such a customs union on U.S. and other non-EC firms exporting to the EC are extremely important. The EC customs union has simplified the exporting process into the EC, since companies in non-member countries no longer have to contend with tariff schedules of the individual EC countries. However, since goods of one EC country can be exported to another EC member completely free of customs duties, imports from non-EC sources are at a marked disadvantage relative to such internally traded products.

### Customs Duties

The EC Common External Tariff duty rates are applied uniformly by the member states (with the exception of Greece), to most goods imported from non-EC developed countries except those governed by the Common Agricultural Policy (CAP) of the Community. Import duties on CAP goods have been replaced by variable levies to equalize the prices of imported commodities with those produced in the EC. The goods affected include such items as pork, poultry, grains, lard, dairy products, eggs, malt, starches, vegetable oils, sugar and syrups. Duties are levied on a cost, insurance and freight (c.i.f.) basis.

## European Community CONTINUED



Rates of duty on most manufactured products fall within a range of 5 to 17 percent of c.i.f. value, with an average of 6 percent. Most raw materials enter duty-free, or at low duty rates. Under negotiated treaty terms the EC has begun further tariff reductions on many products—the first of eight annual reductions began on Jan. 1, 1980, and the last will occur on Jan. 1, 1987.

There are, with the exception of some textile and other particularly sensitive manufactured products, generally no quantitative restrictions for most goods entering the Community from industrialized countries. However, quotas do apply to some imports from Asian and developing countries, which receive lower rates of duty under the Generalized System of Preferences (GSP) agreement.

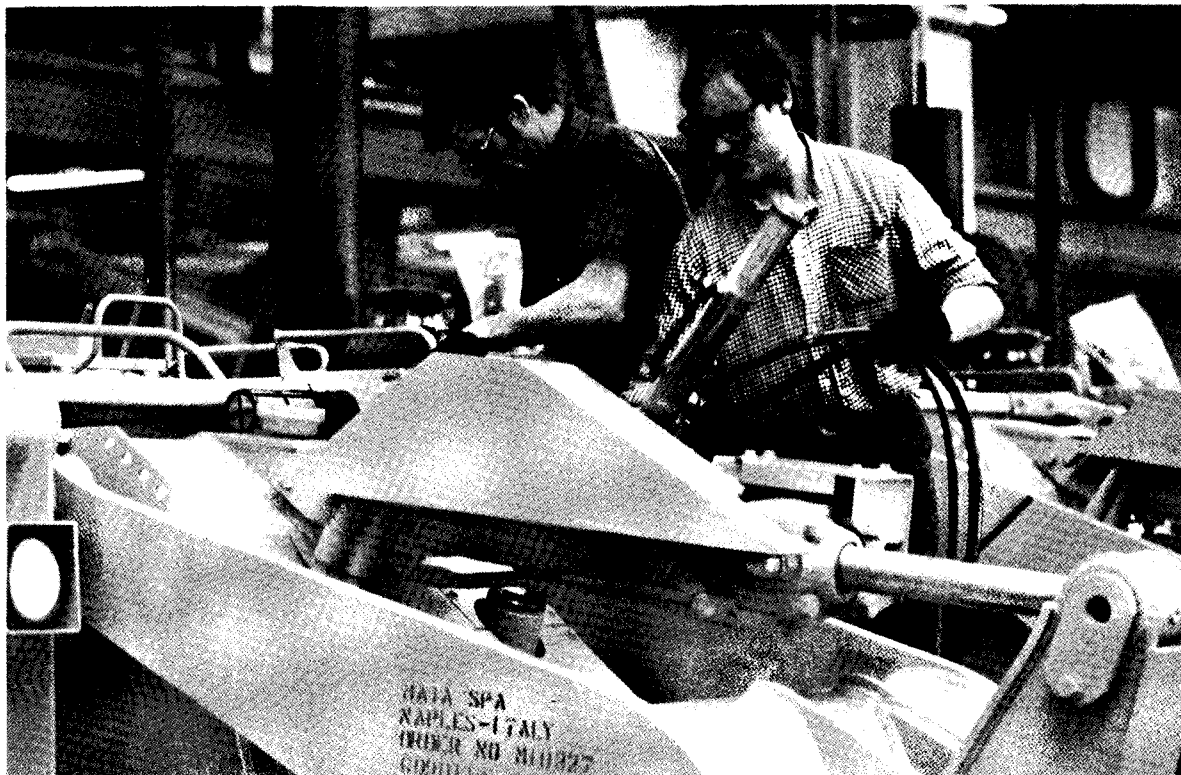
### Taxation in the Community

The harmonization of income taxes (particularly corporate income taxes) and indirect taxes, such as general consumption and excise duty taxes, is an important goal of the Community. However, progress has been slow. Thus far, the only major achievement has been the adoption of the value-added tax (VAT).

At present, all of the EC countries (with the exception of Greece) have enacted a common VAT— but

*In-store promotions are a prime means for making Europeans aware of U.S. consumer products. Here, French buyers inspect U.S. fashion apparel.*

*At a Caterpillar plant in Grenoble, two workers prepare machinery for shipment to a Caterpillar dealer in southern Italy. The European Community is a vital marketing area for Caterpillar. Independent, locally-owned European dealerships have been selling equipment made by Caterpillar for almost 70 years.*



have retained full power regarding rates and exemptions. This has facilitated trade into and within the Community by replacing the many diverse and complicated tax systems of the individual member states.

The VAT is a general tax imposed on buyers upon sale of goods, from the beginning of the production and distribution cycle to the final sale to the consumer. Like a sales tax, it is imposed as a flat rate (see table for specific country rates), but the rates are much higher than the sales taxes in the United States. Sellers in the chain collect the VAT from the buyer at the time of sale, deduct the amount of VAT they have already paid on their purchase of the good, and remit the balance to the government. The VAT, except on final sale, is always shown separately from, but included in, the sale price. While the VAT is assessed domestically in nine of the member states, the exporter shipping goods into the Community should be aware that, since the VAT is assessed on the c.i.f. value *plus* duty on the goods being sold, goods produced within the EC may have a competitive advantage over the same goods produced in most non-EC countries.

### Standards

The Community recognizes that diverse standards for the measurement of the quantity and quality of

### Value Added Tax (VAT) Rates

The VAT should be applied on the cost, insurance and freight (c.i.f.) value plus the duty charged on the particular good.

$[(c.i.f. + (c.i.f. \times \text{duty})) \text{ VAT}] = \text{Total cost to importer}$

	Standard <sup>1</sup>	Reduced <sup>2</sup>	Increased <sup>3</sup>	Other <sup>4</sup>
Belgium	19%	6%	25%	
Denmark	22%			
France	18.6%	7%	33½%	
Germany, Federal Republic of	14%	6.5%		
Ireland	30%	18%		0
Italy	18%	10%	20%, 38%	
Luxembourg	10%			
Netherlands	18%	4%		
United Kingdom	15%			0

<sup>1</sup> A standard rate applies to most goods.

<sup>2</sup> Reduced rates are levied on basic necessities, such as foodstuffs, electricity, heat, lumber, books, etc., but items affected and rates vary between countries.

<sup>3</sup> Increased rates are generally levied on luxury items including perfumes, jewelry, hi-fi and stereo equipment, cameras, private cars, etc.

<sup>4</sup> Zero rates of duty are applied by some EC countries for foodstuffs and medicines.

goods must be harmonized to further facilitate the free movement of goods. In addition, standardization helps large-scale production and the marketing of interchangeable parts, and simplifies stock control. Standardization also provides uniform protection to consumers.

In the past few years, the Community has made some progress in formulating standards for selected industrial goods, resulting in the adoption of more than 180 directives to eliminate technical barriers to international trade. The major sectors covered include automobiles, measuring instruments (relating to gas and electricity meters, water controls, measuring units, taxi meters, etc.), electricity, chemicals, textiles, and foodstuffs. Enforcing and policing standards are the responsibility of each of the member states.

Harmonized standards among the EC countries is of considerable benefit to exporters since it allows them to comply with only one set of standards instead of ten. However, it is estimated that it will take at least 20 years and considerable effort before very technical standards are completely uniform across all EC countries.

### Customs Processing Arrangements

Relief from duty and VAT is granted to goods imported into the EC to be processed, repaired or assembled (inward processing). Goods temporarily exported to third countries or to free trade zones for the same purpose (outward processing) are also not charged duties or VAT upon return. Exemption from duties and VAT may be granted either by way of suspension of payment, or repayment of a cash deposit, depending on the regulations of the particular country.

Relief may also be granted to temporary imports, goods not in accordance with contract, antiques of over 100 years old, certain educational materials, commercial samples, and some professional equipment when accompanied by appropriate temporary customs documentation papers.

The carnet, a special customs document, has been designed to simplify and streamline customs procedures for the temporary imports for up to one year. The carnet eliminates the time, effort and expense involved in temporary importation procedures. It allows the temporary exporter to make customs arrangements in advance, at a predetermined cost, and use a single document for all customs transactions.

For specific information on customs duties and trade regulations on specific products, contact the Commerce-EC Marketing Information Service, Rm. 3043, International Trade Administration, United States Department of Commerce, Washington, D.C. 20230.

## Using European Trade Fairs

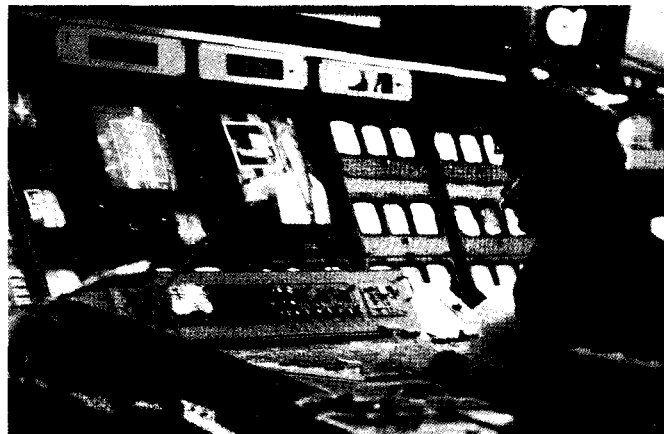
The European Community (EC) is the largest market in the world for U.S. exports. However, U.S. companies have only 8 percent of the EC import market, and there is considerable potential for more sales by more U.S. companies. One of the best ways to realize added sales in the EC or to test the market for its potential is to make use of European trade fairs to introduce products to the European market.

It is difficult to overstate the importance of trade fairs in introducing and selling U.S. exports in Europe. Participation in a trade fair is the most important step in a U.S. exporter's European marketing plan. For example, 130 U.S. firms participated in this year's Paris Air Show (May-June 1983), which was visited by 181,000 business representatives. These firms anticipate \$97 million in sales for the next 12 months as a consequence of their participation. As another example, this past October in Munich, 68 U.S. companies benefitted from Systems '83, a computer trade fair which attracted 80,000 visitors. Their projected sales for the next year are \$54.7 million, the direct result of their participation.

European trade fairs range from large "horizontal fairs" which may display as many as 25 product categories and which have broad public appeal, to "vertical" fairs which promote a single industry category to a specialized professional clientele by in-

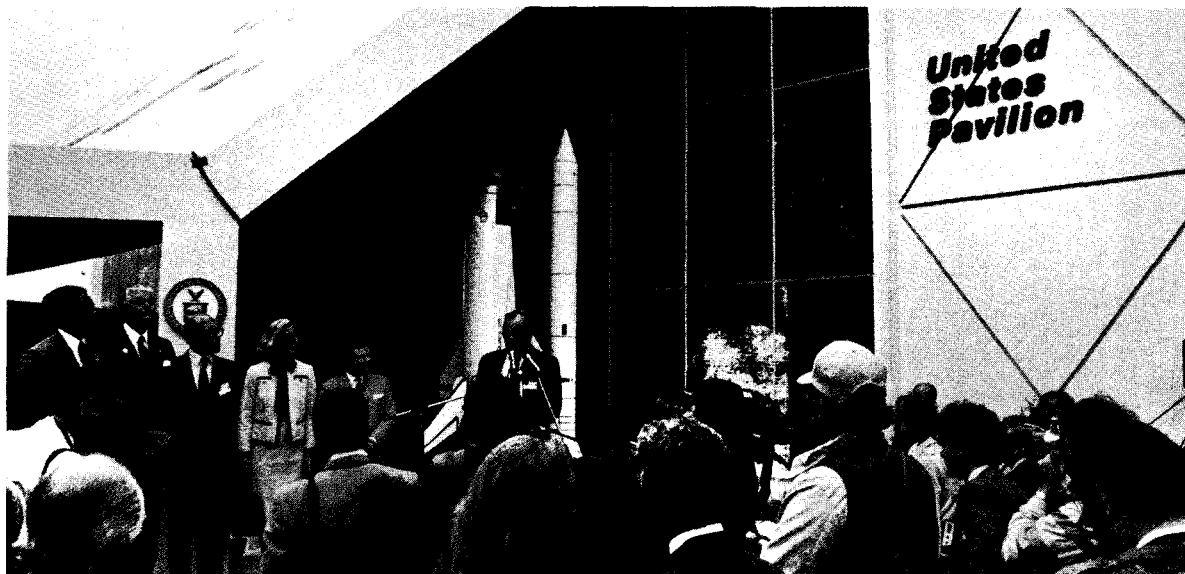
itation only. It is the specialized, vertical fair which is steadily growing in popularity as the prime marketing and promotion vehicle in Europe. Currently, over 800 vertical fairs are held in Europe each year.

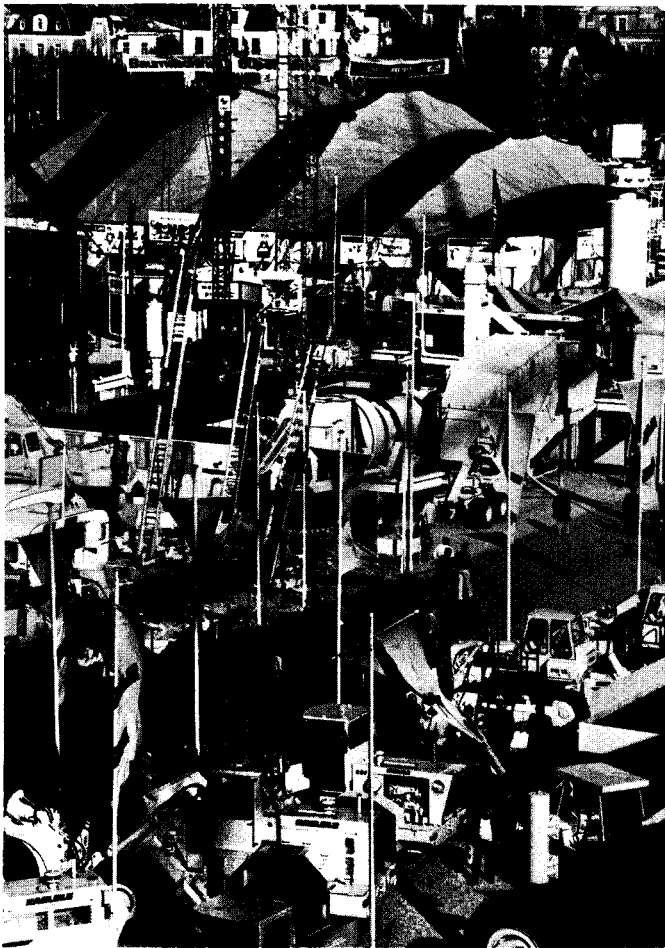
The U.S. Department of Commerce has implemented a program of "trade fair certification" to stimulate a greater private sector role in organizing



*American cable television companies view the European market as a financial opportunity just waiting to be tapped. (Europe, Magazine of the European Community.)*

*The Paris Air Show is one of the world's premier trade exhibitions. Here, Donald V. Earnshaw, Deputy Assistant Secretary of Commerce for Export Development, opens the U.S. Pavilion at the 1983 version held May 27-June 5.*





*BAUMA, the international trade fair for construction equipment and building materials, is held in Germany every three years.*

exhibitions. The Trade Fair Certification Program requires that all Commerce-approved fairs meet exacting criteria which promise exhibitors a high level of management efficiency on the part of fair organizers. Certification has been granted to fairs featuring products and services as divergent as fiber optics, computer technology, machine tools, and consumer goods. Personnel of the U.S. Foreign Commercial Service are available at all U.S. Embassies in Europe to provide counseling and information to U.S. exhibitors.

U.S. businesses interested in entering the European market by means of trade fairs should take the following steps:

(1) **Determine the product's export potential.** The Commerce Department, through its 48 District Offices in business centers throughout the United States, through its country and industry specialists in Washington, and through its Foreign Commercial Service offices overseas, can provide a wealth of detail regarding demand, competition, and economic conditions which determine how a product will fare in a market.

(2) **Choose the right fair.** By contacting the commerce Department, businesspersons can quickly determine which trade fair or fairs would best fit their product lines and marketing strategies.

(3) **Establish marketing objectives.** The plan to exhibit a product at a trade fair should be framed in an overall marketing plan with well-defined goals and objectives. An important goal of participating in a European trade fair is to sign up a local agent or distributor. Foreign Commercial Service Officers in U.S. Embassies in the EC can provide exhibitors with lists of prospective agents or distributors.

After selecting a trade fair, firms should take pains to comply with the directives of the fair organizers. It is important to pin down what services the organizers will provide for details such as shipping, customs facilitation, booth design, booth construction, and pre-exhibition promotion. Each fair organizer should provide a form, usually referred to as the "conditions of participation," to prospective exhibitors; this form lists in detail the services to be provided by the organizer. Exhibitors should bear in mind that participation in a European trade fair requires a commitment commensurate with the potential benefits. Planning for a fair should be initiated about a year in advance.

During a trade fair, it is the responsibility of exhibitors to ensure that their booths are set up for maximum effect and is competently manned at all times. As prime sources of business, European trade fairs attract serious buyers interested in working out contract terms on the spot. Exhibitors' sales personnel, therefore, must be prepared to negotiate terms, to demonstrate products' capabilities and to keep records of sales leads to be pursued during and after the fair. An adequate supply of brochures and business cards is, of course, essential. Whether brochures should be printed in translation is to a degree discretionary and depends on the national venue and nature of the buyers. The advice of the Foreign Commercial Service staff of the local U.S. Embassy on details of this type can be invaluable.

A successful U.S. exhibitor should, by fair's end, have established a business relationship with an agent or distributor, collected a substantial amount of orders and/or sales leads, been able to build a more refined concept of the requirements of end-users and the activities of competitors, and acquired some insights into useful marketing or promotional techniques which are appropriate for the particular market.

Two useful publications are *European Trade Fairs, a Guide for Exporters*, and *German Trade Fairs, a Handbook for American Exporters*, published by the International Trade Administration. Copies are available for \$5 each from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

## Two U.S. Companies Describe Their Exporting Success with the EC



*Interview with Paul R. Tucker, Vice-President, Marketing and Sales, MSI Data Corporation, Costa Mesa, Calif. MSI Data Corporation is a multinational manufacturer of portable data terminals and receivers.*

**BA:** How did MSI begin its exporting?

**Tucker:** After being in existence for three years, MSI began exporting to Canada in 1971. We wanted to expand outside North America, so we began the process by conducting market studies.

We went forward based on the premise that our products would fill the need that had been shown by our market studies in the various member states of the European Community.

**BA:** How did MSI make its first effort in the EC?

**Tucker:** First, in 1972 we established a branch office in the United Kingdom. We really chose the U.K. to start with due to the common language. In an English-speaking country, we at MSI could perform the initial work on our own using the U.K. as a base. We then expanded to the rest of the EC.

**BA:** How is MSI organized in the EC?

**Tucker:** We have wholly-owned subsidiaries in the U.K., France, the Federal Republic of Germany, Italy, and the Benelux countries. In these countries we have our greatest volume of business. In the other member states of the EC we use distributors.

**BA:** How did you know what to expect from your competitors in the European Community?

**Tucker:** We had already met several of our competitors "head on" in the United States. We had been so successful here that we had captured one-half of the market.

**BA:** Have you used any special marketing techniques in the EC?

**Tucker:** We have relied heavily on target marketing. With this method we pick a large retail or grocery company in a country and attempt to make a sale to it. By making such a large sale, we are then well-established in that country.

**BA:** Has this been successful?

**Tucker:** Yes. In fact, we now hold one-half of the European market as we do in the United States.

**BA:** Why has the growth of MSI's export business to the EC been so great?

**Tucker:** First, the business electronic data processing market itself is continuing to expand in the EC. Second, the MSI sales order entry systems have provided an economic alternative to European mail service. Third, MSI, with its own direct sales and service organizations in the EC, is positioned uniquely to meet specific customer needs.

**BA:** How do you further plan to maintain your competitive stance in the EC market?

**Tucker:** We have continued our aggressive advertising attitude through publications in several local languages, and by direct mail. We have used brochures in local languages containing product description and/or performance characteristics and their applications. We have introduced new terminals as well as communication receivers and software development tools that allow the user to "custom" tailor these products for his particular needs. These products involve application software that can be altered to meet the very specific needs of the user.

I should also add the importance of the U.S. Department of Commerce trade fairs. They have helped to make us highly visible in the EC.



*MSI Data Corporation's portable data terminals and receivers have a variety of business uses. An official describes the company's European marketing tactics in the accompanying interview.*

**BA:** Has the existence of the EC proved beneficial to your export business?

**Tucker:** Speaking with firsthand knowledge after having worked in the FRG for a number of years, I certainly feel that the existence of the Community has made a big difference. It is much easier to operate in Europe with the removal of barriers between member states.

**BA:** What are the expectations for MSI's exports to the EC in the future?

**Tucker:** The company anticipates continued strong growth revenues in the EC member states as a result of expanded product offerings aimed at both traditional and emerging markets.

**BA:** Then you don't share the widespread pessimism over the future of the European economies?

**Tucker:** No. Even though our total volume sales in the EC have not been increasing rapidly as a percentage of our total sales, our exports to the EC have jumped 30 percent over last year.

*Interview with William Dickson, President of Atlantic Antibodies, Inc., Scarborough, Maine. Atlantic Antibodies (ATAB) is a manufacturer of biochemical products used in the diagnosis and management of a variety of human diseases and conditions. Its customers include clinical and research laboratories, forensic centers, medical schools and universities, and industry worldwide.*

**BA:** When did you begin exporting into the European Community and what was your experience?

**Dickson:** We have been exporting to the EC since the mid-seventies. We began by selling directly and without effort to market our products in an organized fashion. Our products were well accepted and the increasing demand indicated that a good potential existed in these countries.

**BA:** You have now, ten years after incorporation, a distribution network throughout the EC countries. What led you to this sales strategy?

**Dickson:** Our products are sophisticated in nature. A scientist or technician in a lab needs to be specifically informed to use them in a variety of ways. This applications information can best be provided by the manufacturer. We did this to the extent that we could, but with increasing business, we had to find other ways to satisfy the needs of customers. We considered the possibilities of either establishing an ATAB subsidiary or appointing local representatives in the different countries of the EC. The second possibility seemed to be much more realistic in terms of cost, market knowledge and also customer acceptance.

**BA:** How did you find your distributors for those countries?

**Dickson:** We began the search by contacting U.S. Department of Commerce officials in the Embassy in London. This was an extremely good base from which to start since the London office has contacts with many countries and has "an ear to the ground."

The Embassy in London arranged meetings for me with the Commerce Department's Foreign Commercial Service (FCS) officers in nearly every American Embassy in Europe. I worked my way across Europe, meeting with FCS officials, who turned out to be predominantly local people who know their individual markets extremely well. I came away from these meetings with a wealth of socioeconomic and marketing data and the conclusion that the plan of having local representation would indeed be best for ATAB.

**BA:** What did you look for in establishing your distribution network?

**Dickson:** We expected, and still do expect, to find certain qualities in our distributors. A distributor



## European Community CONTINUED

has to be a legally organized entity, well established, experienced and knowledgeable in its trading area. Financial integrity is a necessity. The physical facilities must meet ATAB requirements for product handling and storage. The distributor must also be familiar with immunological products and the market and be prepared to field a knowledgeable sales force.

**BA:** Where is Atlantic Antibodies now, in terms of visibility in Europe?

**Dickson:** ATAB is now a visible company in the U.K., the FRG, Switzerland, France, Belgium, the Netherlands, Luxembourg, Austria, Italy, Spain, Portugal, Denmark, Finland, Norway and Sweden. ATAB also sells behind the Iron Curtain in East Germany, Hungary, Poland, Czechoslovakia and Yugoslavia. We have a presence in parts of Northern Africa through our French distributor and in Venezuela through our Spanish distributor in Madrid. We are also represented in Australia and New Zealand.

**BA:** Now that you have a distribution network in the EC and imminent plans to create a presence in Asia, do you foresee continuing your use of U.S. Department of Commerce services?

**Dickson:** Yes. We take advantage of the catalog exhibitions. This is a very good program, which has brought us new customers, contacts and visibility in foreign market areas.

We also subscribe to *Business America*, which is a major source of information on the business climate of various countries.

In addition, we send ATAB staff with technical

and marketing backgrounds to at least one major trade exhibition in Europe each year. We combine the trade fair with a two or three-day ATAB seminar for our European distributors. The objective is to update all distributors on current ATAB product developments, to exchange new knowledge, market data and status reports, and share problem solving measures.

**BA:** What else do you do in order to stay on top of the market?

**Dickson:** Numerous programs, including the constant development of our technology. As far as export is concerned, however, we maintain an intelligence data base of socioeconomic, legal and other information on current affairs in different countries. This information helps us to keep abreast of each market and it also creates credibility with our customers and distributors.

**BA:** How have you benefitted from the existence of the EC?

**Dickson:** One would think there would have been a lot of standardization, yet I find it just as provincial as ever. The existence of the EC does, however, ease the flow of goods across borders between member countries.

The real benefit we see in the existence of the EC comes from its size as an export market. ATAB is a small company with 75 employees and we feel we have barely scratched the surface of the EC market potential for our products.

**BA:** You sound optimistic for the future of the export market in the EC.

**Dickson:** The EC will be very important to Atlantic Antibodies in the immediate years to come since it offers market opportunities which, because of technological advances, have been met in the United States.



*William Dickson (right), President, Atlantic Antibodies, and staff display "E" Award with Paul Lyet, Chairman of the President's Export Council at White House ceremony. In the accompanying interview Dickson tells about his firm's experiences in the European market.*

# How Commerce Can Help You Market in the EC

Exporting U.S. products has become big business. Yet a frequently heard protest from some corners of the U.S. business community is that international commerce is too complex and difficult to master profitably. In fact, in the past 15 years, exporting has become an increasingly important part of U.S. economic activity, growing from 6 percent of our GNP to over 11 percent.

You don't have to be a large corporation to sell products overseas. If you've been successful domestically, chances are good you could do well in other markets. Marketing in the EC is not too different than selling in the United States. English is spoken in many of the EC countries. There is a well-established system of distributors, a sophisticated financial system much like our own, and a network of U.S. government commercial officers and U.S. companies there to help you.

Nobody knows everything about international trade—it is an ever-changing environment. But the Department of Commerce stands ready to provide you with trade promotion vehicles (trade missions, catalog shows, U.S. exhibits at international trade fairs) technical sales seminars, and up-to-date information valuable both for neophytes and experienced traders who want to verify or update their knowledge, learn new techniques, or want assistance in their exporting endeavors.

With its team of experienced commercial officers in the EC, the Commerce Department has the unique advantage of firsthand observation of the latest developments in the EC markets, EC institutions, and the individual national governments. This information is relayed quickly to Washington, and to the 48 Commerce District Offices throughout the United States.

## Market Analysis

Country reports are issued with this information to help you succeed in overseas business. Among these, the *Overseas Business Reports* (OBRs) bring you the latest marketing information on countries offering good potential as sales outlets for U.S. goods. *Foreign Economic Trends and Their Implications for U.S. Business* is another report which uses the information to provide you with current developments to help you plan and evaluate your commercial investment plans. In addition to these, there are other reports which provide information on current economic and trade developments in the EC.

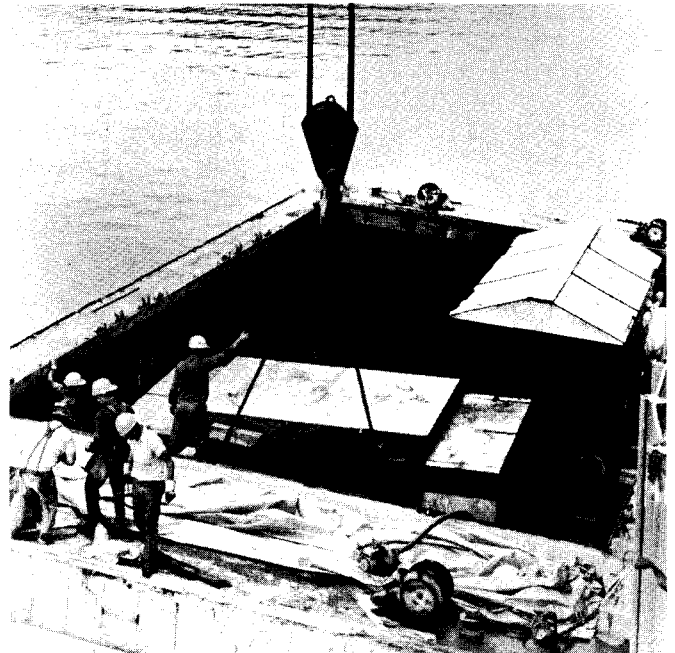
Programs are also designed and reports are issued

using this information to help you promote your products. The **Agent Distributor Service** will assist you in locating agents and distributors in the EC. The Commerce Department collects and stores data on EC firms in a master computer file. This file contains information on EC importing firms, agents, distributors, representatives, manufacturers, and potential end-users of U.S. products and services. The **Trade Opportunities Program** (TOP) delivers thousands of current export opportunities in the EC to subscribing firms each year. These leads include both foreign government calls for bids, as well as offers from private EC firms.

## Export Counseling

A team of country specialists synthesizes and analyzes the information relayed from our Foreign Commercial Service Officers in the EC. It stands ready to provide you with this vast array of information from market research to tariff and trade regulations. It is also ready to respond quickly and accurately to both written and telephone inquiries. In addition, the country specialists can provide specialized counseling for firms encountering difficulties in exporting to or investing in the EC.

This information is available to you by contacting your nearest District Office, listed on page 46, or by contacting the Commerce-EC Marketing Information Service, Rm. 3043, International Trade Administration, U.S. Department of Commerce, Washington, D.C. 20230.



*Heavy machinery is loaded onto Union Mechling Co. barge in West Virginia's Kanawha River for shipment to the Federal Republic of Germany.*

# Current Economic Situation In The EC And Outlook For 1984

*By Frances L. Hall  
Senior Economist for Europe  
International Trade Administration*

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**A**lthough it is generally conceded that the long recession in the European Economic Community had touched bottom by the turn of the year, the recovery so far in 1983 has varied widely among the member countries and is of quite modest proportions. For the year as a whole, growth is forecast in the 0.5-1.0 percent range following negative expansion in 1981 and stagnation last year.

Two of the largest countries, the United Kingdom and Germany, have reported good economic growth in the first half. British gains were about 3½ percent over the same period of 1982 and German GNP rose 1.5 percent, better performances than those envisaged at the beginning of the year. In contrast, the economies of the two other major countries, Italy and France, have deteriorated. In Italy, GDP plunged by 3½ percent in the second quarter compared to the same period in 1982, while in France, growth was practically flat in the first half and negative in the third quarter. Prospects for improvement are not bright for the remainder of the year. Both economies have deteriorated as the year progressed. In an effort to limit the growth in the government deficit, reduce inflation further and improve their trade and international payments position, these two countries instituted austerity programs which will result in negative growth this year.

Some of the smaller EC countries remain in serious recession. The Greek economy is experiencing deepening problems following two years of negative or zero growth. Imports and exports are falling, production declining, business confidence sagging, and the balance of payments is deteriorating. Belgium and the Netherlands are reporting weak recoveries at best. Industrial production in the Netherlands picked up in the first quarter, but stagnated thereafter and remained below the reduced 1982 level. Consumer spending continued to decline until after midyear,

unemployment moved steadily higher, and manufacturing investment dropped significantly in the early part of the year. A merchandise trade surplus in the first half led to a current account surplus, the major positive note. As business remains pessimistic, investment has weakened in Belgium, reinforced by continued sluggishness in consumer demand. Unemployment continues to rise and industrial activity has generally been flat, after three years of negative growth. As in the Netherlands, Belgian exports have begun to pick up and the trade deficit has been considerably reduced.

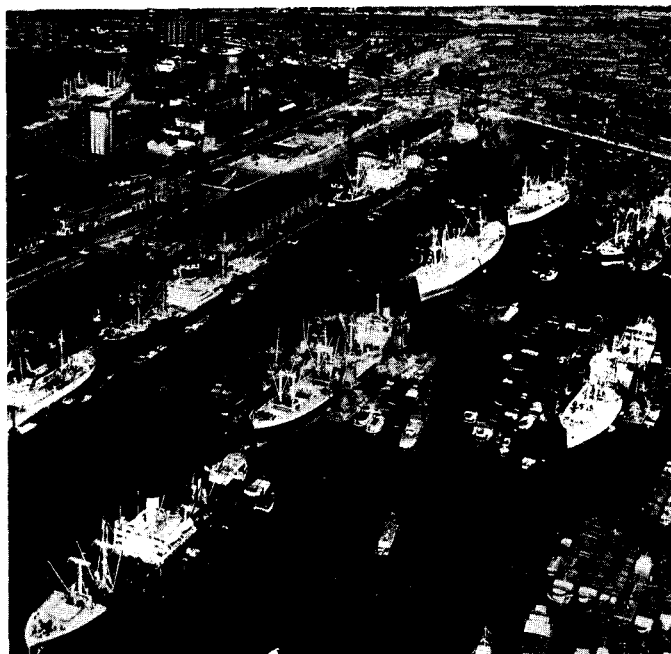
Despite this mixed picture, for the first time in many months there is confidence among the consumers, businesspersons and governments of most countries that the outlook is positive, and that 1984 will bring considerable improvement, though not a strong expansion. Several current aggregate indicators support this feeling of confidence. Industrial production in the Ten, which dropped sharply after midyear 1982, turned up again early in 1983. By August it was 2.6 percent above the same month a year earlier. Consumer prices in the Community have continued to decline. From a year-to-year growth rate of 10.7 percent in August 1982, they were reduced to 8.2 percent by August 1983. The trade balance also moved favorably. The deficit, which was 12.6 billion ECU in January-May 1982, was cut to 9.6 billion ECU in the first five months of 1983. Some of these gains occurred in the early months of the year, however, and there appeared to be a slowdown in some areas as reports came in for the summer months.

The way ahead will not necessarily be easy. In fact, the improvement in the EC economy this year has largely been brought about through tightened government budgets, inventory adjustment, and a reduction, or at best a levelling, in the standard of living as

real wages declined, taxes were increased and social benefits were reduced. To compensate in part, consumer savings rates have generally been reduced so that domestic demand has been maintained in many of the countries. International demand, in contrast, remains quite sluggish and few EC countries have been able to expand exports with vigor. The improvement in the trade balance has primarily resulted from slow demand for imports.

Unemployment, which continues as the Community's most serious economic problem, stabilized after March, and dropped a tenth of a percentage point to 10.6 percent of the civilian labor force, and remained at that rate in August. After its almost steady rapid climb from 6.1 percent in 1980, this development was good news. It is nevertheless projected that unemployment rates will climb again in the latter part of the year and continue to rise, at least through next year.

A less favorable indicator of the health of the Community's economy is the stagnation which occurred in the second quarter in the gross national product. Following an encouraging 2.1 percent real growth in the first quarter, a slight decline of 0.2 percent was recorded in April-June. Several other indicators support the expectation of only a mild recovery for the full year. Based on Commission surveys, it is clear that industrial investment will continue to be sluggish, demand for industrial exports is mixed but seems to be weakening, new orders for domestic goods are slackening and construction is not generally recovering despite improvement in certain areas, especially Germany.



*The trade-dependent nature of the Dutch economy has made Rotterdam one of the world's busiest ports.*

Averages for the Community as a whole, as indicated above, obscure wide variations among the countries. For example, industrial production in Britain rose in August by 2½ percent over a year ago, while in Italy it fell by 6.7 percent from July 1982 to July 1983. Another example pertains to foreign trade. French exports (measured in francs) have boomed this year, up 13 percent in the first nine months, as the depressed franc provided bargains for foreign buyers. Imports were also rising but at a much slower rate, resulting in a remarkable improvement in the trade deficit from last year's huge imbalance. Germany, on the other hand, reported a 1 percent decline in DM-denominated exports in this period, together with a 1 percent increase in purchases. A high proportion of that country's exports are capital equipment for which demand is seriously lagging. Germany's sizable trade surplus has thus declined by about 6 billion DM or about 16 percent.

Most analysts expect 1984 to bring a pickup in the EC economy. Looking to a considerable growth in world trade and continued expansion of the U.S. and Canadian economies, as well as those of Britain and Germany, a spur to recovery is expected to come from exports. The expansion that is occurring in 1983 owes little to demand from that source, though past recoveries have frequently been fueled by foreign demand. Also, investment, which has been extremely sluggish for the last two years, is expected to expand in 1984 if demand grows as expected and real interest rates are reduced.

Capacity utilization remained low in 1983, and much of the limited private investment went to labor-saving machinery rather than to expansion, while government investment was cut back in an effort to reduce deficits. None of the economies of the European Community members is likely to show rapid growth. They will be held back by continued declines in real wages, further reductions in government expenditures, increased unemployment, and an uncertain international environment with regard to exchange and interest rates.

The European Commission in its annual report forecasts EC growth of 1.5 percent in 1984, with considerable variation among the member countries. It expects the inflation rate to decline further—below 5 percent—and external accounts to be in balance. On the negative side, unemployment is likely to rise again, investment will recover slowly, and many structural problems will remain. Each country's economy, except that of Luxembourg, is forecast to expand in 1984 in contrast to the current year when real GDP is declining in half of the ten members. The United Kingdom and Germany are expected to expand the most rapidly, but the rate of growth will be modest, projected at only slightly more than 2 percent.

# Trade Prospects in the EC: A Country by Country Review

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## BELGIUM

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*By Boyce Fitzpatrick  
Desk Officer for Belgium*

Foreign trade is the mainstay of the Belgian economy, amounting to over 100 percent of GNP (with a large portion of imports being reexported). Belgium is the United States' fifth largest European and twelfth largest worldwide market. In 1980, U.S. exports reached a record \$6.7 billion. In 1981 and 1982, faced with a strong U.S. dollar and Belgian recession, U.S. sales to Belgium dropped to \$5.8 billion and \$5.0 billion, respectively. In 1983 and 1984, U.S. exports to Belgium are expected to be just below the 1982 level.

The Belgian government is still struggling to pull the country out of the recession which has gripped it since 1980. Austerity measures such as devaluation, wage restraints and budget cuts, while helpful, have been insufficient to restore Belgium's competitiveness and growth. Belgium will recover only when its major export markets—West Germany, France and the Netherlands—revive.

While the current economic recession has cast a cloud over short-term prospects, the long-term sales picture is attractive for U.S. firms that lay the groundwork now. Three best sales prospects for U.S. exporters to Belgium follow.

**Business equipment** is a strong sales prospect because of the new generation of efficient office machines which have been pioneered by U.S. companies now coming onto the market. The most promising market is information-handling machinery such as word processing, teletype, facsimile machines, and computer-oriented peripheral equipment. Belgium does not produce equipment in this area and a large portion of the \$140 million in office equipment imports comes from other EC countries.

Imports of **process control, analytical and scientific**

**instruments** were \$310 million in 1982, with the United States' market share at 12 percent. The import market is expected to grow by 5 percent annually in 1983 and 1984.

The Belgian **franchising** market is estimated to be 3 to 4 percent of retail sales. Except for fast foods, the franchise market offers growth potential for American firms with innovative products or management techniques. American firms are already established in the services and industrial area with good opportunities in retail sales.

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## DENMARK

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*By Maryanne B. Lyons  
Desk Officer for Denmark*

Denmark is a prosperous, highly industrialized country with a per capita income in 1982 of \$14,500, one of the highest in the world. Its economy recently has begun to expand. Total imports in 1982 were valued at \$17 billion, with \$1 billion coming from the United States. Imports are expected to expand about 5 percent annually through 1985, and the U.S. market share should continue to be about 7 percent.

Danish consumer demand will grow about 2 percent in real terms through 1985. Sales of U.S. consumer products may lag, however, due to the high value of the dollar. Non-oil investments will increase moderately in 1983, and accelerate in 1984 as business optimism improves, following a seven-year period of decline in all areas except oil and gas exploration.

Demand for services for the North Sea oil and gas development is expected to increase during the next few years. Of the 32 companies which submitted bids for new exploration this summer, 11 are U.S. companies or subsidiaries, and demand for related services from U.S. suppliers can therefore be expected to

increase sharply after licenses are awarded in the spring of 1984.

**Medical apparatus and equipment** offer good sales prospects. Health care in Denmark is publicly financed and accounts for about 10 percent of the total government budget. Expenditures for equipment and supplies are expected to be high through 1986. Imports of such goods totaled \$113 million in 1982, 17 percent of which were of U.S. origin. Products with the best sales potential include patient monitoring systems, implants, and laser surgery equipment.

Government purchases of **computers and peripherals** account for over half the market for computer equipment, and business and finance account for most of the remaining share. About one-third of such imports are from the United States, and an additional 30 to 40 percent are U.S. products manufactured in third countries. Total imports were valued at \$260 million in 1982, and are likely to grow about 10 percent annually in real terms for the next few years. Products with the best sales potential are automated office systems, intelligent terminals, and personal computers.

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## FRANCE

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*By Ken Nichols  
Desk Officer for France*

The high level of the U.S. dollar vis-a-vis the French franc is expected to have a negative effect on U.S. exports to France over the next few years. Nonetheless, many U.S. manufactured goods continue to have a consistent competitive advantage in the French market due to their quality and technical sophistication. U.S. imports play an important role as components of French production for the domestic market and for traditional export markets. French industrial equipment and installations which are exported (aerospace, motor vehicles, electronics) frequently use U.S. components and parts because of their technology, availability and worldwide after-sales service.

The sluggish French economic recovery, which lags behind that of the United States and France's principal trading partners in Western Europe, will have a negative influence on the overall level of French imports from the United States for the foreseeable future. Also hampering U.S. sales may be the general tendency of the French government to encourage nationalized French industry (which represents about 10 percent of French industrial output) to "Buy French"

and nationalized banks to provide loans to investments using French-made equipment.

French GDP is expected to show little growth in 1983 and is forecasted for less than 1 percent growth next year. The medium-term outlook is for growth in the 1-2 percent range, probably insufficient to fuel any substantial growth in imports. Persistent inflation and unemployment will remain the leading economic problems.

U.S. exports to France in 1982 were \$7.1 billion, a slight decline from the previous year. Data for the first nine months of 1983 indicate a sharper decline of 15 percent in U.S. sales to France over the same period for the previous year—a downward trend which will probably persist. The dollar has risen by over 50 percent against the franc over the past two years, cutting into U.S. exports of consumer goods and small capital equipment.

Aside from pricing considerations, U.S. exporters to France will have to give increasing attention to credit terms, product/service quality, delivery time, innovative product design, and French language literature, correspondence and instruction manuals. The top three prospects for U.S. exporters include:

**Computers and peripherals**—Rapid computerization of the small business sector is expected to lead to an average 20 percent annual growth in the mini and small computer markets through 1986. In 1982, French consumption of computer equipment reached \$4.5 billion, of which imports accounted for \$1.5 billion. French imports of U.S. computers and peripherals totaled \$809 million in 1982, accounting for 52 percent of the import market. U.S. sales are projected to grow to \$1.4 billion by 1986.

**Electronic components**—The market for electronic components in France is projected to grow from \$2.4 billion in 1982 to \$3.6 billion in 1986, representing a real growth of 7 percent yearly. Imports account for over 60 percent of the market. It is estimated that U.S. exports to France and the production of U.S. subsidiaries in France account for 35-40 percent of the French market for active components and about 16 percent of the market for components of all kinds. U.S. sales are expected to grow to \$562 million in 1986.

**Aircraft and parts**—Although French consumption of aircraft and parts is expected to grow only by an annual 2.5 percent through 1986, foreign suppliers are expected to benefit from a real growth rate in imports of 5 percent during the same period because much of the French aerospace industry's imports are reexported. The United States should remain France's leading foreign supplier, accounting for almost one-half of French imports for the foreseeable future. U.S. sales of these products totaled \$1.3 billion in 1982 and are forecast to reach \$1.8 billion by 1986.

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## FEDERAL REPUBLIC OF GERMANY

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*By Velizar Stanoyevitch  
Desk Officer for Germany*

Economic recovery is now gaining momentum in the Federal Republic of Germany. Next year should witness a somewhat accelerated rate of real growth in the economy to about 2 percent over 1983. Expectations are for an overall recovery in the West and a resultant increase in German exports of machinery and other finished goods. Wage settlements this year, which were even more restrained than in 1982, suggest that increases in productivity should largely offset increases in unit costs. Economic recovery in Germany will be bolstered by increased exports and rising capital spending. But high unemployment and weak consumer spending may bridle recovery somewhat. On balance, the outlook for the Federal Republic of Germany's export-dependent economy is encouraging, but much will depend on strong political leadership, particularly in the struggle against worldwide protectionism.

Germany is our fifth largest export market and our second most important market in Europe. Exports of U.S. products to Germany in 1982 totaled \$9.3 billion and consisted mainly of machinery, chemicals, electrical equipment, agricultural products and aircraft. The U.S. percentage share of the German import market was 7.3 percent in 1982.

Germany's exports have been rising at an annual rate of 3 percent over 1982; imports have been increasing at a slower pace of 2 percent. Nevertheless, the mix of U.S. exports to Germany, over half consisting of manufactures, is in industry sectors where import growth has consistently exceeded the overall average import growth rates. **Computers and peripherals** may be an extreme example but they illustrate convincingly the U.S. competitive strength in the German market. U.S. exports of over \$1 billion accounted for 40 percent of the import market last year and are expected to do equally well through 1986. Two other good categories for export to the Federal Republic include:

**Electronics industry production and test equipment (EIPT)**—Despite a projected drop over its 1982 performance, the United States is still by far the major foreign supplier of this equipment to Germany and can expect to continue dominating the market for

some time to come. Total imports in 1982 came to \$668 million, of which the U.S. share was \$178 million or 26.7 percent. In 1983 total imports are estimated at \$735 million and the United States share is estimated to be approximately \$187 million or 25.5 percent.

**Electronic components**—German purchases of electronic components in 1982 were valued at \$4.03 billion, with imports accounting for \$1.91 billion of the total. The U.S. share of this market was valued at \$384.9 million or 20.1 percent and estimated for 1983 at \$396.4 or 20.3 percent. The U.S. share of total imports is expected to remain at the 20 percent level for the next three to four years.

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## GREECE

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*By Ann Corro  
Desk Officer for Greece*

Greece, the newest member of the European Community, is a small but attractive market. Its economy is currently suffering slow growth, high inflation and reduced trade and investment levels. However, an economic recovery in 1984 is expected to bring the country out of its recession.

In order to face the stiff competition within the EC, Greece must modernize and diversify its industrial base. The government is emphasizing the development of technologically advanced industries as a means to achieve this objective. Biotechnology, microelectronics, informatics, ocean exploration, and waste materials processing are specific high-technology areas singled out for development. An anticipated need for such equipment and technical know-how should increase the U.S. market share in the next few years.

Although EC exporters enjoy the advantages of lower shipping costs and reduced tariffs, American suppliers willing to make persistent and aggressive marketing efforts in Greece will continue to find a preference for American goods and technology in many product categories. Best prospects for U.S. exporters include:

**Pollution control equipment**—The Greek market is at a "take off" point. Legislation providing requirements for permitted emission levels and measures to be taken to counteract air and water pollution are expected soon. Projects for the reduction of air pollution and the treatment of wastewater are planned, partly funded by the EC. The 1982 market size for pollution control equipment was

\$13.7 million, with a 7 percent U.S. share.

**Computers, peripherals and software**—An annual growth of 25-30 percent in sales is projected during the next three to four years. Both the public and private sectors are aware that advanced technology and improved productivity are necessary for Greece's industrial development as well as for effective competition with the more industrialized EC member countries. This will require increased computer utilization. Greek imports of computers, peripherals and parts rose to \$32.7 million in 1982. The United States is the main supplier, with 23 percent of the market.

**Food processing and packaging equipment**—Greece needs to modernize and update its food processing and packaging industry to attain the quality control standards prevailing in the EC. The increased export of Greek-processed food products to the Middle East and Eastern Europe, and the liberalization of imports of certain food products have also led to increased competition which necessitates the implementation of new and modern food processing and packaging methods. Total imports of food processing, packaging and bottling equipment amounted to \$48 million in 1982. The United States accounted for \$2.8 million.

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## IRELAND

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*By Boyce Fitzpatrick  
Desk Officer for Ireland*

The small, open Irish economy has developed rapidly over the past 20 years. Industrialization is encouraged by government incentives and by Ireland's convenient location within the European Economic Community. More than 360 American firms have established subsidiaries in Ireland. Although current economic expansion has slowed, Ireland has been a significant growth market for U.S. products.

From 1976 to 1982, American exports to Ireland increased more than 40 percent annually. Three best prospects for U.S. suppliers are in the following areas:

The five-year renovation of the national **telecommunications** network offers outstanding export opportunities. They include such large-scale projects as an earth satellite station and microwave transmission lines; ancillary equipment, including metering and test equipment; consulting services; and supply of specialized communications construction and on-site repair equipment.

A recent agreement to extend a **natural gas pipeline** from Dublin to Belfast will generate requirements for a wide spectrum of related services and products. The supply of natural gas is expected to spur development in other areas with the spin-off increasing sales of related equipment in the industrial and consumer areas.

The most promising sales opportunities for **business equipment** are for information-handling machinery such as word processing equipment, mail processors, teletype and facsimile machines, and computer-oriented peripheral equipment. The large U.S. business community located in Ireland should be especially receptive to American products.

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## ITALY

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*By Francine Lamoriello  
Desk Officer for Italy*

After rapid growth from 1978-80, the Italian economy has been in a phase of virtual stagnation for the past three years. The drop in GDP growth in the last half of 1982 and weak export growth extended the recession into mid-year. GDP is expected to register little, if any, improvement in 1983. While the export of goods and services is again expected to lead the recovery, much will depend on the strength of a worldwide recovery, particularly that of Italy's major trading partners. It will also rest on the ability of the Italian government to implement fiscal austerity measures—measures that will address the structural problems of a huge public sector deficit and double-digit inflation, both of which remain higher than in other major OECD countries.

Continuing economic recession and the strength of the U.S. dollar cut into U.S. exports to Italy in 1982 for the second year in a row. Major imports from the U.S. continue to be in the area of industrial goods, with the market for high-technology equipment and systems offering the greatest potential growth for U.S. firms.

After years of neglect, the Italian government is actively seeking to narrow the technological gap between Italy and other industrialized Western nations. The government has proposed heavy investments to upgrade telecommunications, EDP research and the electronics industry. Other areas of interest to U.S. exporters include security equipment and systems; alternative energy sources and systems, particularly coal and coal transport and handling equipment; aircraft and aerospace; medical equip-



## European Community CONTINUED

ment; and food processing, packaging and handling equipment.

The Italian Ten-Year Plan calls for investment of more than \$25 billion through 1992 in **telecommunications**, mainly for upgrading data transmission and telephone switching from electromechanical to electronic circuitry. To satisfy domestic requirements, both production and imports are expected to grow at a rate of 20 percent. During this period, the Italian communications industry is likely to look to American firms as a primary source for sophisticated equipment, systems modities, licensing, joint ventures and other firms of collaboration.

Italian **electronic data processing** and **office equipment** industries continue to expand, with data management and word processing systems showing the healthiest growth. Interest remains high in medium and large systems incorporating the latest technology. The finance and insurance sectors continue to lead the way in value of installed computers. Prospects for United States exports remain good, with an increase of 15 percent per year likely over the next several years.

In the area of **security equipment**, demand has been strongest for "active systems" such as bomb and fire early warning systems, closed circuit TV systems and access control systems. Sales prospects for U.S. firms, which already hold more than a third of the market, are excellent, both because of the strong reputation of U.S. equipment and the advanced technological content.

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## NETHERLANDS

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*By Robert McLaughlin  
Desk Officer for the Netherlands*

The Netherlands has consistently maintained its place as the United States' third-largest European market, and sixth largest worldwide. Through the first half of 1983, U.S. exports were off sharply from the comparable 1982 period. At \$4.07 billion, exports were down 12 percent, with most of the drop due to decreased demand for agricultural products.

The demand for U.S. merchandise should continue to grow—a prediction that is directly related to the trade-dependent nature of the Dutch economy. Imports from the United States include not only basic

agricultural goods, chemicals and coal, but also a variety of high-technology goods needed to restructure and reindustrialize the Dutch economy for the coming decade. A variety of industry sectors, most of them in the realm of high technology, provide the best export opportunities for American companies over the next few years. The best prospects include the following.

**Computer equipment**—The United States supplies 32 percent of all Dutch imports of computer equipment. In 1982, the value of U.S. exports was \$381 million, up 37 percent from \$278 million a year earlier.

**Medical equipment and supplies**—The Netherlands has one of the best equipped and technically advanced health care systems in the world. The total market for medical equipment and supplies was \$248 million in 1982. Ninety percent of domestic demand is met by imports and U.S. companies supplied \$108 million in 1982, a 30.5 percent share of total imports.

**Analytical and scientific instrumentation**—Sales turnover reached \$240 million in 1982. The United States supplied \$90 million of instruments, a 27 percent share of the import market valued at \$334 million.

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## UNITED KINGDOM

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*By Paul Norloff  
Desk Officer for the United Kingdom*

The primary barrier to increased U.S. exports to Britain is the continuing strength of the dollar. In the spring of 1983, sterling fell below \$1.45, the lowest rate ever. Currently about \$1.50, it has dropped nearly 40 percent since January 1981. Because sterling fell only about 20 percent against the currencies of Britain's other major trading partners, American products are now at a disadvantage.

American suppliers in many product sectors are able to compete successfully despite the exchange rate fluctuations. U.S. goods are still regarded highly and accepted readily at both the industrial and consumer levels.

In 1982, the United States provided 12.6 percent of British imports, down from 14 percent in 1981. U.S. sales in this market reached \$10.6 billion in 1982 and exceeded \$6.4 billion in the first seven months of this year.

There are some encouraging signs of improvement in the British economy. The increase in consumer spending is one which already has been beneficial to a

wide range of U.S. products. The 1982 rise in consumer expenditure was about 1 percent, and in 1983 it should be between 2 and 3 percent. With U.K. imports forecast to grow by 5 percent in 1983, short-term prospects for U.S. exporters should improve. Year-to-year, 1982 to 1983 growth in British GNP is expected to be 2.3 percent, slowing to 1.8 percent in 1984. The single most significant development in the British economy in 1982 was the precipitous decline in the rate of increase in retail and wholesale prices. The decline has continued in 1983, with inflation currently about 5 percent. Unemployment continues to be a major problem for the Thatcher government. The unemployment rate rose throughout 1982, ending the year at 12.7 percent. Currently 12.4 percent, it is not expected to increase beyond 13 percent by year-end 1983.

### Three Promising Market Sectors

The following are the top three U.K. market sectors affording U.S. exporters good export opportunities.

**Automotive parts and accessories**—Although the cost of motoring in the U.K. is still on the increase, the number of new car registrations has risen dramatically, giving rise as well to a big increase in the potential market for automotive parts and accessories. There is also a growing tendency for the average British motorist to turn increasingly to self maintenance and light repair jobs. The market is expected to continue to grow and provide good opportunities for U.S. firms willing to market seriously.

**Computers and peripherals**—The three-billion-dollar U.K. computer market is still growing, absorbing a greater number of units from an ever expanding number of vendors. There is no sign of saturation in the business or personal computer market sectors, though high profits from either sector have become more difficult to achieve as competition increases. Overall, the market has disclosed strong evidence of very substantial opportunities for many more U.S. firms, especially those exporting small business systems, minicomputers, output peripherals, disc storage units and packaged software.

**Electrical/electronic industrial equipment**—The increasing application of automation to traditional production processes in Britain has reinforced demand for integrated control systems. The range of products and subsystems for controls and automation includes such units as sensors and transducers; signal conditioning and transmission equipment; level, temperature, pressure and flow instrumentation; actuators; power supplies; and programmable controllers.

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