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TO THE SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY
OF THE JOINT ECONOMIC COMMITTEE

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It is a privilege to be invited to participate in the hearings of your Subcommittee and I am grateful for the honor.

A great deal of information has already been contributed to this Subcommittee by highly-qualified persons on international investments and the multinational corporation.

I shall for my part endeavour to highlight the connection existing between this modern form of industrial organization and the process of economic integration in Western Europe. Special problems do arise when multinational corporations are active in the European Community and investment flows into states which have agreed to become a single economic entity.

My views are based on my experience as Member of the Commission of the European Communities; a position which I have held until a few weeks ago. They are based largely on the findings and the proposals outlined in a memorandum on the industrial policy of the European Community which was prepared under my responsibility and presented last spring by the Commission to the Council of Ministers.

However, the opinions which I express here are my own.

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1). It is important that ideas and policies developed in Brussels should be appreciated in regard to the overall objective which we want to achieve in Europe. Members of the Subcommittee are no doubt aware of the purpose for which the process of European integration was launched twenty years ago. The aim was and still is that Europe acquire, through the gradual integration of the free and democratic nations of the continent, the strength required to bear its share of responsibility in the world.

Consistent with this design, the productive structures of the member countries should take legitimate advantage of the creation of the Community in order to meet larger and larger doses of international competition over the wide world.

Twenty years of effort have had positive results. A new reality, distinct from its national components, has come into existence. A customs union has been achieved; a network of common rules has been agreed upon and is being enforced.

2). This new reality has been beneficial to us and to our trading partners in the world.

Total trade between the Community and the United States today amounts to some $15 billion -- three times as much as in 1958.

From 1958 to 1967, the United States had a large surplus -- averaging $1.2 billion per annum -- on its trade account with the Community.

In 1968, a very rapid expansion of domestic demand in the United States led to an exceptional growth of imports. But again in 1969, the Community was in deficit with the United States in excess of $1 billion. Exports from the United States amounted to $7 billion and those from the Community to $5.8 billion.

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Direct international investment has become a very significant alternative to visible exports for producers who expand their outlets beyond the national frontiers.

Since 1958, direct investments by American firms in the Community increased nearly fivefold. The capital for these investments comes very often from issues floated in Europe and the return on these investments has become not insignificant in regard to the balance-of-payments.

Thus the Community has been, from an overall point of view, beneficial not only to ourselves but also to our trading partners. We in Europe have achieved a marked improvement in our standard of living. But the internal demand resulting from this improved situation has been available also to our external competitors.

The Community is indeed bound to pursue outward-looking trade policies because of its structural dependence on world trade in the formation of its national product. Trade accounts for nearly 20 percent of its gross national product, while in the United States the corresponding figure is only 7 percent.

3). Let me outline very briefly our current ideas and plans for the further development of the Community.

A customs union is not sufficient to secure a free circulation of all goods and services. Total freedom can be achieved only through the elimination of a number of non-tariff barriers. The removal of these barriers can be accomplished only through a complex process of harmonization of national rules and regulations. A great deal remains to be done in this respect.

May I stress that we are aware that non-tariff barriers,whether administrative rules and regulations, fees, health and safety standards, technical norms, or public procurement procedures, also affect trade with our external partners. The Community cooperates actively in the GATT to this end. Whenever possible, those solutions to our own internal non-tariff barrier problems are sought which are likely to be compatible with wider international frameworks. The elimination of these barriers at a world level will require considerable effort and good will. In the meantime, our own internal efforts of harmonization will also be beneficial to our external partners because they will be able to deal with a single set of rules and regulations, whereas at present there are six.

4). A common market, as outlined by the Rome treaties, is not only a market within which goods should circulate in total freedom; it is also an area in which productive factors can be organized by managers with a view to achieve greater efficiency, irrespective of the political boundaries separating the member states. Labor and capital should be allowed to circulate freely, and corporations should enjoy the right of establishment in any part of the Community area.

Once again this implies the harmonization of different national legislations.

5). Finally, the Community must consist not only of a common market but also of a set of common economic policies. The founders of the Community foresaw that, lacking the required degree of harmonization of national economic policies, there could be no guarantee of economic stability in the Common Market. Here again it is recognized that, with the exception of the agricultural policy, progress has been so far limited.

6). The Community is, therefore, a reality, but it is still in the process of completion. This lack of fulfilment does not, however, justify pessimism over the chances of our ultimate success. We face real and objective difficulties; we are fully aware of these, and we are determined to overcome them.

The elimination of non-tariff barriers, the establishment of a common legal, fiscal and financial framework and the harmonization of the national economic policies cannot be carried out by the application of automatic rules, such as those which have brought about the establishment of the customs union.

Every step in this direction results from a specific agreement among the governments of the Member Countries in the Council of Ministers. It is up to the Commission to submit proposals which are objective and realistic and which reflect the common interest: but it is up to the Council to take decisions on them.

Government representatives in the Council reflect the attitude of their respective countries concerning any issue under discussion. It is not surprising that these attitudes very often differ. The notion of common interest is a subjective one and likely to be influenced by local considerations and preoccupations. This Subcommittee no doubt appreciates the problems of reconciling the general and the local interest and the short and longer term interest.

It is the duty of the Commission to fight for decisions which are as consistent as possible with the common interest. Sometimes, imperfect compromises are better than none at all for they can be the stepping stones for further and better decisions.

This is the way in which I look at the common agricultural policy, an area of Community activity which is subject to serious criticism in this country and elsewhere. Special treatment for agricultural products in the customs union was an essential condition for the establishment of the Community. It was dictated by political, economic and social considerations.

The achievement of a common market for agricultural products meant the harmonization of six different national policies in support of agricultural prices. The results can be readily criticized: but this stage had to be reached in order to embark upon the next one -- the launching of the program known as the Mansholt plan, having as its objective a new common European agricultural policy less costly for the taxpayer, more evenly rewarding for the producer, and more acceptable to our trading partners in the world.

Far-reaching endeavours are inevitably subject to periods of stagnation and crisis. What matters, however, is that the sense of progress should not be lost. In our case it was not.

The Community has survived a series of crises, the last of which was concluded by the summit meeting held in The Hague last December. It was agreed in this meeting to hasten the process of internal consolidation of the Community, to set forth as a new objective the establishment of an economic and monetary union, and to open negotations with Great Britain and other applicant countries.

7). As a result the Community is now in a new phase of intensive activity along four main directions:

a) discussion of the Mansholt plan for a reform of the common agricultural policy;

b) discussion of the memorandum on a common industrial policy;

c) discussion of a program of action to achieve economic and monetary union before the end of the present decade;

d) negotations with the applicant countries.

These four groups are closely interrelated.

In order to correct the imbalances and deficiencies of the present common agricultural policy, new industrial jobs must be created. This requires the promotion of a sustained industrial development in the Community. The development must be so conceived as to permit the productive structure of the Community to face international competition in its various forms.

Since the industrial structure of the member states differs in terms of relative strength, the absence of a harmonious industrial development within the Community would hinder the achievement of an economic and monetary union, and indeed would jeopardize the very existence of the customs union.

As concerns the enlargement of the Community, it would seem that the desire of the applicants, in particular Great Britain, to join is proportional to prospects of greater vitality and internal consolidation of the Community.

The problems which the present common agricultural policy creates for Great Britain are well known: hence the importance of the Mansholt plan. The advantages entailed in the participation of Britain in the customs union offers are limited for British industry. However, British industry attaches great importance to a coherent industrial development strategy from which it could benefit widely.

8). The industrial policy which the Commission suggests consists of a gradual approach that should promote European industrial and technological development with a view to a continuation of the present expansion of international trade and investment.

The Commission regards as a first and urgent step in this direction the achievement of the common market as a common outlet for all goods and

and services. This implies *inter alia* the liberalization of public procurement policy throughout the Community. Public procurement of goods produced in other member countries is at present negligible.

Government procurement is bound to increase rapidly as a result of the explosion of social demand. It is therefore important that the *de facto* preference granted by national authorities to their own industries should come to an end. The Commission has the authority and the duty to enforce the rules of the Treaties against discrimination practices. But national public procurement procedures, particularly for certain sophisticated products, are such that the enforcement of the common rules is not always easy or even possible.

It is urgent to make a start with the products of certain technologically advanced sectors for which the procurement procedures allow the greatest degree of discretion to the public purchaser. Most of our nation states are anxious, for a variety of reasons, to promote within their boundaries industrial activities in the advanced, technology-intensive sectors. The main motivation for this attitude is the fear that otherwise their industry would be cut off from the rewards which the industrial exploitation of technological progress holds in store for those who are capable of exploiting it and are trained to do so.

In my opinion this is a legitimate preoccupation. However, the individual states of the Community do not have the size required for the emergence of productive structures capable to engage with ultimate success in lines of production requiring a large financial and managerial potential and for securing an internal outlet of the appropriate dimensions.

Governments tend to explain their restrictive attitude in regard to the admission to tenders of extra-national competitors by insisting on the need of securing at least a partial return for their investment: this investment is in the form of support given for R&D activities.

Thus the Commission suggests that the problem of liberalizing public procurement in these advanced sectors should be attacked at two levels: at the time when the support is provided and when the goods become available.

9). First of all, the Commission suggests that R&D activities in certain technologically-advanced sectors should be financed by the Community. This would limit from the outset the inclination of the national authorities to reserve their market to their own industry. Community support, granted on the basis of joint selective decisions, could also be used as an incentive for encouraging industrial firms of different member states to form joint ventures of long duration. This would be a very good way to exploit the availability of the Community as an area of continental dimensions.

The Commission suggests further that the cognizant national authorities agree to compare and dovetail their medium-term purchasing programs for certain items, with a view of transferring larger and larger portions of the consolidated program of procurement from the present restrictive practices to non-discriminatory procedures.

The response of the European firms to these proposals is still to be assessed. The choice between the short-term advantages of protectionism and the long-term advantages of free competition is always a difficult one.

Insofar as the authorities are concerned, their response appears to be generally positive but cautious; some time will be needed before reaching any conclusion.

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10). The question that arises in regard to subsidiaries of the non-European corporations active in the Community seems to be the following: 'How will they react to these suggestions; how will they use the influence which they can bring to bear on national authorities?' I feel that they have a great chance in respect to these and similar issues through the consolidation of the Community rather than in the present fragmented state of the market.

At present, the subsidiaries of non-European corporations are in a position to share, together with the national industrial activities (when these exist), the advantages of national preference in public procurement, at the same time being part of powerful multinational organizations capable of developing worldwide strategies for the production and marketing of their technology.

This notwithstanding, I hope that these organizations do not oppose the suggested course. An accepting attitude of their part would be convincing evidence that multinational corporations are willing and capable to reconcile their efforts for maximizing their opportunities with the loyalty they owe to the policies of the host countries. In our case the host countries are the members of a Community.

Another problem causing great concern to the Commission is the multiplication of state subsidies. These are granted to industrial sectors threatened by market modifications or by new technological processes, and to plants operating in areas facing difficulties, either because of underdeveloped or obsolescent industrial structures, or because their natural economic cohesion is cut across by political frontiers.

In many instances, the powers of the Commission to resist this trend and to enforce a common discipline are limited. The risks entailed are obvious: competition between national markets where industry is treated differently by the authorities could become intolerable; much needed resources are wasted in support of less rewarding activities, and the transition to more remunerative ones is discouraged.

The Commission feels that this trend will be gradually reversed; industrial reconversion and regional problems should be considered as affecting the Community as a whole and solved accordingly.

It would be very desirable if subsidiaries of multinational corporations maintained policies favoring a consolidation of the Community and against national self-interest, even though this posture could reduce bilateral bargaining power with the national and local authorities.

11). The Commission suggests also the establishment of a common policy for industrial structures. Industrial structures in highly industrialized societies tend to oligopolistic situations, as the relevant market goes beyond the national boundaries. Industry in the six countries of the Common Market could not but follow this trend, and the creation of a customs union acts as a powerful incentive in this direction.

However, in the past concentration in the Community has, as a general rule, either been restricted to firms of the same nationality or to mergers with firms having the decisional center outside the Community. Concentration between firms belonging to different member countries has been the exception rather than the rule. This trend is inconsistent with the objective of developing a competitive industrial structure in the Community.

Concentration restricted to a national area cannot lead to the optimum conditions required in certain advanced sectors. Concentration through mergers with multinational corporations based outside the Community often tends to increase the competition to which the Community is exposed, without directly reinforcing her competitive strength through the improvement of her structural conditions.

But this is not all: the emergence of national industrial empires controlling the largest share of the national production in any given field could inevitably work against the ultimate objective of the Community which is the fusion of its national components into a single political entity. The current trend would increase the danger that competition between firms irrespective of their nationality which is the basic principle on which the Community is based degenerates into competition, rivalry and potential hostility between member states.

This is the reason why the Commission stresses the urgency of joint decisions to establish a common legal, fiscal, and financial framework conceived for a common market of continental dimensions.

There is no lack of ideas in this respect. The Commission seeks the political will required to translate these ideas into concrete action. Such a common framework is indeed an essential condition for making transnational cooperations and mergers within the framework of the Community available also to the medium-sized industries, which most of all feel the need of achieving more competitive structures.

The Commission has been promoting, for years, the creation within the Community of a new "Statute of the European Commercial Corporation," which would enable companies engaged in industrial, commercial and banking activities in the six countries to be subject to identical corporation laws and also to one single jurisdiction.

The Commission recognizes, however, that the absence of a common body of laws, although an important factor, is not the only explanation for the present situation and trend. National authorities are vested with the power of deciding, on behalf of the overall national interest, whether or not a merger can take place and the conditions thereof. The Commission suggests that these discretionary powers should be gradually transferred from the national level to that of the Community.

Government are invited to start with periodical discussions on the criteria whereby they exercise these powers. The matter is not whether national authorities should have more or less discretionary powers than those which they now have in order to influence the way whereby industry can achieve more competitive structures. This is an option which is bound to remain open: policies in this respect shall be more or less liberal according to the prevailing trends in responsible public opinion.

The Commission has suggested various means to encourage transnational mergers within the Community, such as loans granted by the European Investment Bank to corporations in several different member countries -- since this type of merger is more complicated and expensive than that between corporations of the same country. These loans could be supplemented as required by guarantees financed from the budget of the Community: the Bank might even be authorized to acquire, for a limited period of time, stock of the merging corporations.

The Commission does not advocate the transfer of nationalism and protectionism to the Community level, since it is firmly against nationalism and protectionism of any kind. The task of the Commission is to persuade the member states to achieve fully Community goals according to the initial design and without reservations.

13). The Commission appreciates the invaluable contribution of non-European corporations, in particular U.S. corporations;with their investments in the Community these have, in fact, favored an expansion of our economies, an increase in our employment level, the adjustment of our regional imbalances, and finally, the enhancement of our capacity for a rational utilization of innovation and technological progress and our disposition to acquire modern managerial techniques.

But precisely because the benefits entailed in international investments, in particular American investment, are so attractive, the Commission is concerned lest they become the origin of disruptive forces within the Community.

Thus the Commission advocates that the Community and not national and local authorities be vested with whatever responsibility is entailed in the control of these investments.

14). I am aware that the approach recommended by the Commission in the memorandum on industrial policy raises practical questions as to the treatment of the subsidiaries of corporations based outside the Community.

I have mentioned a few of the points where there appears to be a connection between our proposed common industrial policy and international investments; there are others, of course, for instance in the field of finance.

It seems to me that these matters are so important in the overall context of the relations between the United States and Europe, and for the further development of the European Community, that they could very well be a particular subject of discussion between the two parties within an appropriate framework.

I would like to say at this point, as a former member of the European Commission, how much I appreciate the activities of this Subcommittee and how timely they are. But a few days ago an American newspaper published and widely read in Europe carried a headline stating that the United States and the European Community are on the brink of a trade war.

This is not pleasant reading for anyone convinced as I am that there is a fundamental and indivisible identity of long-term interests between the United States and Europe. One cannot but feel that the conflicts which are at the origin of the present situation are of limited relevance when related to the global relationship across the Atlantic. I do not mean to say that these conflicts should be disregarded because they refer to limited economic sectors in the United States and Europe, representing only a marginal factor in the creation of wealth in our respective countries.

In fact, the isolated consideration of sectorial issues may reach such a level of intensity as to create new and far more serious problems. In a climate of sophisticated interdependence, one in which highly industrialized societies must secure their evolution, all issues hang together: and this goes also for international investments.

15). I would propose that we Europeans should persuade our American friends to help redress an unbalanced situation by placing these problems in a global context.

Our industries are far more apparent on foreign markets with their visible exports than with their subsidiaries. As a result, Europe is more vulnerable to any restrictive measure of international trade which may be taken by our trading partners. This also means that we cannot, in any comparable degree, surmount tariff and non-tariff obstacles, take full advantage of public procurement, adjust our production to the specific circumstances of any given market. We cannot, in other words, benefit from the same advantages enjoyed by our American competitors.

Furthermore, earnings from international investments are a welcome contribution to the positive side of the balance-of-payments.

We are no doubt responsible for this shortcoming: we must try to correct it, making full use of our Community and without indulging in sterile protectionist practices. The final outcome would render us more competitive also at the level of international investment, thus allowing us to cooperate for a continuation of free-trade economic policies throughout the world.

We could certainly use a discussion of this kind also to exchange information and consult with each other on the problems of antitrust policies connected with international investment. In fact, the problem of political control of corporations which, because of their worldwide operation, do not fit precisely in any national legislative framework, and tend to appear -- even without justification -- at odds with national or regional economic development programs, cannot be but settled through negotiations between the two most industrialized areas on the world.

16). The outcome of these talks could be an improvement of what appears to be the most efficient instrument of development in an advanced industrial society.

Multinational enterprises were born to utilize with ever increasing efficiency resources such as raw materials, capital, management, and research. But how many of these corporations can rightly be called "multinational," and how many are instead merely large enterprises which limit themselves to operating on various markets?

An enterprise is truly multinational when not only its body of stockholders is at the international level, but -- all the more important -- when the investment and the market strategies are set forth by decision-making organs of a multinational nature.

Only an internationalization of these top-level organs can guarantee a fulfilment of the responsibilities assumed by the multinational corporations toward the countries in which they chose to operate.

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