

# U. N. I. C. E.

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TÉL. : 13.45.62 - ADR. TÉL. : UNINDUSEUROP

TELEX : UNICE BRU 22038

UNION DES INDUSTRIES  
DE LA COMMUNAUTÉ EUROPÉENNE

UNION DER INDUSTRIEN DER  
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UNIE VAN INDUSTRIE - FEDERATIES  
DER EUROPESE GEMEENSCHAP

March 1 1967.

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## AMERICAN INVESTMENTS IN THE COMMUNITY.

The Union of Industries of the European Community (U.N.I.C.E.) has considered it an appropriate time to examine the problem of American investments in the Community in the light of an as precise as possible analysis of the situation as it now stands in the various Member States.

This study tends to take an objective view of the development of operations effected in the course of the last few years in the Community. It relies primarily on statistics available from both American and European sources (national administrations or other institutions of either a public or private character of the Member States). In this respect, one should mention that, in spite of the imperfections which they include, American figures are, at the present moment, the only ones which may validly be used to measure the importance of American investments in the Community Countries. In fact, all other information is compiled on an incomparable basis which often includes different concepts.

Furthermore, based on recently acquired experience, the industrial federations have also sought to separate the incidence of American investment in the different economic, financial and social spheres.

Needless to say, the considerations of principle which are expanded further on, as well as the recommended methods, are valid for all foreign investment in the Common Market which would take on considerable importance.

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Industry is fundamentally tied to the principles of freedom for the movement of capital and freedom for the establishment of private enterprise. Consequently, it adopts a liberal and positive attitude towards American investment and the establishment of American enterprises within the Community.

Industry is conscious of the benefit to the European economy which such operations represent. This is notably true for economically-retarded areas where such investments would open up possibilities of promoting new industrial activities and increasing employment. These investments, which are generally accompanied by new techniques, represent a developing factor for Europe. They allow our continent to participate in the technological advance which the United States has attained in several important sectors and at various levels from research to distribution. Moreover, the presence of American enterprises in Europe is of such a nature as to stimulate competition and to exert a dynamic influence on the structural adaptation of European enterprises. Finally, the investments which derive from an influx of capital coming from the United States favour the balance of payments of the Common Market in the same way that the eventual exports, which are the fruit of these investments, improve the balance of trade.

Contrary effects are to be expected from the payment of dividends to and from purchases of finished or semi-finished products from American parent companies.

In view of the considerable attraction which the Common Market has, since its creation, exercised on foreign and, particularly, American investment, it appeared interesting to examine this situation in a detailed way in order to determine whether the scale of this trend and the forms and conditions in which it developed might possibly limit the extent of the aforementioned advantages and even to evoke a state of apprehension.

From available information, it appears that the problem of American investment in the countries of the European Economic Community did not raise difficulties on a general economic plane so long as American industry refrained from making use of the European financial market, as it appears to be doing on an ever-increasing scale, in order to raise capital. However, in any case, European industry does not envisage the necessity of taking restrictive measures of a general nature.

In this spirit, it expresses the wish that if, as a result of the proposals presented by the European Commission to the Council, measures must be taken to be better and regularly informed on the movement of capital emanating from third party countries, such measures need in no case constitute any obstacle whatsoever to the entry of foreign capital into the Community nor affect its disposition.

However, it considers that the movement of American investments within the Community deserves to be examined attentively from various aspects, as experience shows that, for the expected advantages to yield their full effect, certain conditions must be respected. One must not overlook that the characteristics of certain operations or the development thereof in specific industrial sectors of certain Member States may arouse justifiable concern.

#### QUANTITATIVE IMPORTANCE.

It therefore follows that American investments should not develop such an excessive importance that the economy of certain European countries or certain important sectors of activity become too strongly tied to decisions emanating essentially from the imperatives of United States economic policy or from the management of American enterprises. In this respect, one may emphasize that, in a general way and quantitatively speaking, the present situation, so far as it relates to the relative importance of the entirety of American investments compared to national investments and to the general economic activity of the European countries, in no way justifies the apprehensions that some have tried to generalise.

#### SECTIONAL AND REGIONAL DISTRIBUTION.

In this same order of ideas, it is necessary to avoid an intense concentration of these investments in certain industrial sectors or regions.

In respect of sectional distribution, one can say that in most of the Member States of the Community, American investments are concentrated approximately in the same sectors : the petrol, car, metal manufacturing and chemical industries. However, existing figures do not allow one to draw any precise conclusions as to the leading positions which American enterprises would have reached in certain determined sectors. Perhaps with the exception of one or the other sector in certain countries, this aspect does not give rise to any general concern.

From the point of view of regional distribution, one can say that, at the outset, American investment were directed most frequently towards the most industrialised areas. Now, because of beneficial regional policies practised by the various Member States, there is a tendency towards decentralisation. Except in certain particular cases, such an evolution is healthy. In fact, the establishment of an enterprise in an area which has been late in developing and which has a reserve of labour constitutes a completely positive element. Furthermore, foreign businesses do not, in principle, benefit from any advantages which are not equally available to national businesses.

One can therefore say that neither the size nor the disposition of investments raises any problems of a general nature. However, it is fitting to examine whether the methods adopted by American enterprises are of such a nature as to lead to any problem. Let us point out, however, that the objections mentioned are, in most cases, the result of individual experiences which became apparent with varying intensity depending on the countries or sectors concerned.

### SOCIAL ASPECTS

While in the case of Italy, at least in certain areas, the establishment of American enterprises happily contributed towards the creation of new jobs, in most of the other Member States which are experiencing more or less acute tension on the labour market, the demand for labour resulting from American investments sometimes gives rise to difficulties. In certain countries or areas, these difficulties have been aggravated by the practices implemented by the management of certain American enterprises with respect to personnel recruitment and conditions offered. Furthermore, one must point out the economic and social repercussions which can result from decisions leading to large-scale dismissals and the closure of production units. These problems arise essentially from a lack of knowledge of prevailing conditions on the local market. They could be remedied by means of better information services provided for American industrialists. In this respect, various methods may be envisaged of which we would mention :

- the establishment of close collaboration between American industrialists setting up in Europe on the one hand, and the authorities and industrial circles of the welcoming country on the other hand,

- the realisation of a better balance, particularly at the upper level, as to the European participation in the management and running of American enterprises established in Europe.

### COMMERCIAL PROBLEMS

Certain sales methods adopted by American companies give rise to objections on the part of European industrialists.

Thus it is that sometimes European enterprises taken over by American enterprises are obliged to upset their commercial networks in order to stock themselves from their parent company for their primary materials, while these are readily obtainable on the national market.

Moreover, it has become apparent that certain American parent companies were misinformed about the price structures existing in the European market and to which various continental competitors are striving to adhere. In fact, a common study of the methods applicable to the determination of cost prices sometimes allowed the establishment of rules which, while safeguarding competition, proved themselves beneficial to all the interested parties and, at the same time, in conformity with the general interest. It would therefore seem desirable to avoid a situation where, by ignorance, American enterprises could provoke a price war which might lead to serious trouble on the markets.

Doubtless, such difficulties could be equally well overcome by means of close collaboration between the management of American enterprises and European industrial circles on such questions of cost price structures.

### RESEARCH POLICY.

American penetration into the European market must constitute a stimulant to the setting-up in Europe of a policy of research which is at once dynamic, efficient and based on a concept of the broadest reciprocity.

One cannot deny that, in view of their considerable resources, American enterprises, in comparison with their European counterparts, enjoy a technological advance in important sectors of industry. For European industry to benefit from this, through American investment on our continent, our enterprises must effectively participate in such research and this research must be neither essentially nor exclusively performed in the United States, thus leaving

to European industry only the simple role of executant. In this respect, all forms of balanced associations between American and European enterprises and, in particular, joint ventures must be encouraged.

Moreover, the principles adopted for the remuneration of research should preserve a normal character and thus allow healthy competition.

Besides, it would be useful if, in the United States, the requisite conditions prevailed which would allow for the development of direct European investment in that country in order to allow us to capitalize on those techniques in which we have already reached an advanced stage of development. These investments would contribute towards the exchange of industrial experience which we are seeking on both sides of the Atlantic.

#### FINANCIAL ASPECTS.

In the course of the last months, this aspect of the problem has encountered new developments. Indeed, in April 1966, the Chase Manhattan Bank revealed that, since July 1965, 30 American companies had made issues on the European market for a total of \$ 639 million. This is a fairly new development which can be paralleled with the double objective pursued by American enterprises : to comply with the programme of voluntary co-operation recommended by President Johnson while at the same time realising their development programmes on European markets.

In the absence of sufficiently complete statistics, it is of course very difficult to determine the use made of the financial resources thus obtained. Moreover, one does not know for certain the financial sources of American investments in Europe. However, in view of the restricted financial markets in Europe and the conditions which prevail therein, one cannot fail to express certain anxieties concerning the repercussions to which an extension of current trends might lead. It is indeed to be feared that the calls of American enterprises on the European money market are effected to the disadvantage of European concerns seeking additional finance. The U.N.I.C.E. is studying various measures which could be taken to remedy this situation.

In this context, industry once again emphasizes the need to create a European money market which will provide an effective solution to the increasing needs of enterprises with a view to maintaining and increasing their mutual competition.

To summarise, industry in the European Economic Community is convinced of the advantages gained by the European economy from American investment. At the same time, while remaining alert to developments in the situation, it urges a positive and liberal policy in this field. It would therefore particularly welcome those American investments which would

- re-inforce the structure and potential of European industry while assuring it notably considerable technical or technological support,
- create new activities, notably in under-developed areas,
- give birth to a form of association which, when capital, technical, market know-how or other benefits are brought in, would result in effective collaboration.

Movement of American investments towards the Community must constitute a stimulant to the dynamic organisation of European structures in view of their adaptation to the conditions of international competition.

Nevertheless, it is necessary to be alert to the ever-increasing calls made by American industry on capital funds available on the Community's financial markets.

Finally, industry insists on the necessity of developing, in the most varied ways, a close collaboration between American and European industrial circles. It is indeed by creating such possibilities for obtaining information and making contacts, in which the industrial federations have a particularly important role to play, that American investors will more readily understand the economic and social context in which their activities are being exercised.

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