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Loibl, Klaus-Michael

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The American Chemical Industry in the EEC

by Klaus-Michael Loibl, Hamburg *

Ever since J.-J. Servan-Schreiber's Study [1], the discussion about American investments in Europe and particularly in the member-countries of the EEC has found new nourishment. In the approach to this problem and the arguments about the advantages and disadvantages of the American activities, generalities and unproven theses have, however, frequently crept into the discussions without adequate consideration of the varying aspects of the different branches of industry. This comes to the fore particularly in the case of the chemical industry.

Increasing Engagements

All the time, the chemical industry ranked among those branches of the economy that showed particularly strong activities of American companies abroad. They extended to the EEC countries in the first place. In the period from 1960 to 1967 annual investments of the American chemical industry in the EEC have grown almost tenfold, from $ 44 mn in 1960 mn to 427 mn in 1967. In the wake of this development the chemical industry's share in total American investments in EEC manufacturing industries has risen from about 12 to nearly 30 p.c. Aside the motor industry and the engineering branches, the chemical industry has thus become the chief attraction for American investors.

Almost all leading American chemical companies —with Du Pont de Nemours, Union Carbide, Dow Chemical and Monsanto in the lead—now maintain their own production plants in one, or even several, of the EEC countries. There does not seem to be a pronounced preference for any one particular country. A certain over-proportionate activity of American companies' investments in the Benelux area coincides with the growing attraction these countries have also for the European chemical industry. Sectorally the investment activities of the American companies are in accordance with the movements of the European chemical industry. The American companies invest foremostly in the sectors with over-proportionate growth: plastics, man-made fibres, pharmaceuticals and cosmetics.

But in spite of the strong upward movement of American chemical investments in the EEC and the fact that, according to the German Association of the Chemical Industry, there were some 1350 subsidiaries and associated companies in Europe at the end of 1968, the market share of the American chemical industry is still relatively small in comparison with, for instance, the computer industry or the motor industry. There is thus no justification for such catchphrases as "Foreign Infiltration", "Americanisation" or "Sell-out of Europe", at least as far as the chemical industry is concerned. Official figures for 1965 of the turnover of the American chemical industry in Europe show a market share of no more than approximately 7 p.c. More recent French and German estimates speak of some 10 p.c. But in certain fields the Americans' share may well be considerably higher. It is for instance expected that the American share in the production of high-pressure Polyethylene, an important item of plastics, will have reached almost 18 p.c. this year.

Aspiring Expansion...

The formation of the Common Market, particularly the scaling down of tariffs within it, as well as competitive advantages of the American companies as to their size, financial strength, technology, etc., are, in discussions about American activities in Europe and the American investors' motives, often cited as decisive factors. The in-

* This article contains excerpts from a Study shortly to be published under the title "Die US-Direktinvestitionen in der EWG – das Beispiel der Chemieindustrie" (American direct investments in the EEC – the example of the chemical industry), Vandenhoeck & Ruprecht, Göttingen.

1 "Die amerikanische Herausforderung" (The American Challenge), Hamburg, 1968.

vestigation into the chemical industry, however, shows that these factors play a minor part only. Instead, two other aspects are decisive: the American companies' endeavours towards expansion and the necessity, from the point of view of competitiveness, to produce directly within the various selling markets.

The motive of expansion as a driving force behind American investment activities in the EEC stems for once from the high European growth rates and, thereagainst, the limited growth possibilities in the American market (for instance, the anti-Trust legislation). Between 1958 and 1967 the turnover of the chemical industry in the United States went up by about 83 p.c., whereas the increase in the EEC amounted to approximately 133 p.c. More recently, admittedly, there has been a certain equilibrium of growth rates. But the fact that American investments in the EEC are still increasing clearly shows that the absolute level of the European growth rate is looked upon as more important than the relation to the growth rates in the American market. Short-term profit considerations, on the other hand, have not entered the picture, which is proved by the fact that profits made by the foreign subsidiaries are, in their relation to the turnover, considerably below domestic American results.

The significance of the establishment of the EEC is brought down to the verdict of a favourable judgement of growth prospects in this economic entity. The aspects of the internal scaling down of tariffs and the going over to common external tariffs are not looked upon as being of great importance. It is more likely than not that, also without the existence of the EEC, there would have been correspondent investment activities in Europe by the American chemical industry.

... and Compulsion towards Market-near Production

In the sphere of competition between the chemical companies such factors as applied techniques and technical service play a growing part. It is possible to fulfil these functions adequately only if one has at its disposal own production plants in the various markets. Speed and efficiency in adjustment and consultation are imperative. In accordance with this, there are relatively narrow limits for expansion by means of the export.

In the consideration of these aspects the so-called over-valuation of the dollar, too, becomes less weighty. It is true that, for this reason, American companies have to provide less capital in Europe than do European companies for comparable investment projects, but after all said and done this has perhaps helped American overseas investments, but it has not induced them.

No Size-advantage of US-Companies

In many key industries, for instance the motor and the electrical industries, the American companies, measured by turnover, are considerably larger than European ones. But the chemical industry offers a different picture. Disregarding Du Pont whose 1968 turnover was still some $ 500 mn higher than that of the second largest company, there has been a certain equilibrium. Among the world's ten largest chemical companies are five American, three German companies, one British and one Italian company. A comparison of the ten largest chemical companies in America with the top ten in Europe shows that the total turnover of the European companies is exactly the same as the Americans', which is not the case in any other branch of industry. But while therefore the Americans have no advantage over the European companies as to their mere size, the own capital basis of the American companies is substantially broader also in the case of the chemical industry, which is particularly so in comparison with the German companies. This advantage of the American companies is likely to make it easier for them to carry the investment risks as well as the taking up of capital abroad.

The Technological Gap — a Prejudice?

It is often said that apart from size and financial strength there is also a superiority of the Americans in the field of technology. Everywhere one hears the catchphrase of the "technological gap". But in the chemical sector, leading as it is in American EEC investments, the argument of a so-called technological gap significantly appears to play no role at all. As far as the chemical industry is concerned one finds no general advantage in technology of the Americans. In some fields the Americans are leading, but in others the Europeans have the advantage of being further ahead. Thorough OECD investigations of the sectors of plastics, man-made fibres and pharmaceuticals prove this evidence.

Taking it, then, that at present there is probably no "technological gap" in the chemical industry, four main factors nevertheless call for the future attention of the European side: further big research endeavours by private enterprise, furtherance of basic research at higher level of education, intensification of the exchange of thoughts between higher educational institutions and industry, provisions for adequate supply of new blood among the rising generation.

Research activities in the European chemical industry are second to none compared with American conditions. In the United States as well as in Europe the chemical industry ranks among the most research-conscious branches of the economy, with research being essentially concentrated on the financially strong and large companies. A substantial part of the leading chemical companies' turnover consists of products which have been invented only during the last five or ten years.

A comparison of research expenditure by large chemical companies shows that neither in absolute terms nor in turnover relation there has been a distinct advantage of the Americans. The average expenditure for research and development is between 3 and 5 p.c. of turnover, with now and again even more than 10 p.c. in special sectors such as for instance pharmaceuticals. In comparing research expenditure in the United States with that in Europe it must moreover not be overlooked that in America no mean part of it is state-financed.

Centralisation of Research

Expenditure on research and development by American subsidiaries in Europe is relatively insignificant. By and large research is carried out centrally by the parent companies. Merely the growing importance of applied techniques and the necessity of an efficient customers' service have so far encouraged the American companies to maintain small research laboratories overseas. More recently, however, there is a tendency towards the carrying out also of basic research in some fields abroad.

The internal exchange of know-how has for the technological development within the EEC essentially the same significance as though research were carried out by subsidiary companies directly. Foreign subsidaries are after all the best media for a know-how inter-change. The effect is faster, and reaches deeper, than in the case of export or manufacture under licence.

Restraint on the European Market

There is no evidence for the thesis of a particularly aggressive attitude of American chemical companies in the European markets. Their sales policy differs little, if anything, from that of European companies. As a rule the Americans adjust themselves to the prices prevailing in Europe and hardly ever try to conquer market shares by means of an aggressive price policy, let alone „battle prices". There are also no obvious differences in respect of promotion methods, selling organisations and markets research. Neither methods nor intensity differ very much. It seems true nonetheless that intensified advertising and promotion as well as stronger market research efforts all round by the European chemical industry are partly a result of the additional American competition.

As far as the chemical industry is concerned there have only rarely been any attempts by American subsidiaries of the aimed attraction of workers from other companies, or of excessive wage offers, in order to obtain the required qualified staff. There are hardly any difficulties now in the relations between American subsidiary companies and the trade unions. Investigations have shown that the share of American managers of foreign subsidiaries is still comparatively high in the chemical industry. But there are greater efforts now to engage citizens of the European countries in question for managerial jobs. This internationalisation of the management is, however, not to be observed in the case of the parent companies in the United States. Foreigners in American top management are the exception.

Small Independence of US-Subsidiaries

The American parent companies of the chemical industry prefer a 100-per cent control over their European subsidiaries. This applies for newly established subsidiaries, who have the largest share in total overseas investments, as well as for acquired companies. Generally, more importance is attached to limiting management policies of subsidiaries locally than might, on the other hand, be gained from market knowledge and experience of local partners. The freedom to make decisions within the various subsidiaries is restricted. All long-term effective decisions are made at the top only. The control over subsidiaries' business policies is foremostly exercised through the so-called budget reports which have to be submitted to headquarters annually or quarterly.

As the result of increasing turnover of business carried out overseas, the big American chemical companies have in recent years established regional holding companies, in order thus to shorten the decision-making ways, and the ways of the carrying out of them, and to harmonise the policy of the subsidiaries.

Strong Concentration

There are varying opinions about the effect of American investments on competition and growth in the Common Market. One is divided especially on the question as to whether the movement

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Church and Development Policy

The Lutheran Church in the Federal Republic emphasises increasingly problems of development policy. At Tübingen almost 1,000 members of the Organisation of Evangelical University Men in Germany discussed the present and the future orientation of development policy. Their majority advocated aid uninfluenced by vested interests in the donor countries and a taking into account the economic and social interests of the aid receiving countries. Leftist student groups, that among other things demanded the abolition of aid in its present form and the support of revolutionary groups, remained a minority. It seems, however, that these groups are not willing to give up their partly idealistic-utopian aims. They already obtained a first success, since the Lutheran General Synod discusses in the meantime whether it should place funds at the disposal of movements that oppose racism.

Trade Unions Support Government

The German Trade Unions Federation does not join the critics of German Economic Policy. According to its Chairman, Heinz Oskar Vetter, the living standard of German employed persons improved in the first year of Social-democratic leadership more than in any of the 15 preceding years. The trade unions' recent wage talks were successful in narrowing the gap between wages and other incomes. More wage demands are to be anticipated this year still. In spite of the concerted action and the trade unions' sympathies the Federal Minister of Economics will not find it easy to comply with the demands of the labour organisations and to slow down price increases simultaneously.

Infrastructure Becomes a Bottleneck

For 20 years the promotion of the private economy was in the focus of interest and growth considerations. Now the emphasis is shifting. It becomes increasingly clear that the infrastructure has grown too slowly. Limited admissions to universities, blocked streets and highways and the continuously increasing soiling of the environment are but a few signals of a development that will demand large-scale future investments. The Society for Economic and Social Sciences—the Association for Social Policy, the most important organisation of German-speaking economists, proved at its meeting at Innsbruck that the German scientists are not willing to leave these problems to the trial and error of practical businessmen.

For four days 800 participants discussed basic problems of infrastructure planning in growing economies. Numerous papers and contributions proved that economic science makes efforts to cope with this task theoretically and politically. Although at Innsbruck no prescriptions were developed or recommendations made, in the very near future the first usable results of the increasing research work in this field will be available.

Aluminium Works Continue Expanding

VAW Vereinigte Aluminiumwerke completed the 2nd stage of their Oxyde-Works at Lünen. The production capacities of this factory increased from 240,000 tons to 340,000 tons annually. With that VAW disposes of a total annual capacity of 510,000 tons of aluminium-oxyde. A further capacity expansion of the whole enterprise by 130,000 tons a year is being planned to be reached until autumn 1971. With these higher capacities the company secures the coverage of the higher demand for oxyde of its aluminium foundries. Moreover, the increasing demand for aluminium and aluminium-hydroxyde is taken into account.

Large-Scale Enterprises Reveal Their Turnovers

The aversion of many large-scale enterprises to revealing their turnovers to the public is clearly declining. Rudolf August Oetker states his turnover to be DM 1.5 bn. The Quandt-Group calculates its concern's turnover at DM 5.85 bn. Excluding minority participations, the concern's turnover is to be estimated at DM 4.0 to 4.5 bn. Thus the Quandt-Group is not so far behind the biggest industrial "family concern", the Flick-Group, whose turnover amounted to DM 4.7 bn last year.

The reason for this voluntary revelation of turnover figures is to be found in the Publicity Law passed in the middle of 1969 obliging all large-scale enterprises to publish their annual statements of account within a period of three years. But also this way the complete truth will not be discovered, particularly due to the limitation of this obligation to the sector of German enterprises. The more the activities of German trusts are shifting to foreign countries, the more they are becoming "multinational", i.e. "world-enterprises", with a considerable part of their factories abroad, the weaker is the evidence of the firm's turnover figures in accordance with the provisions of the company law.

Teaching Programmes for Electronic Video Recorders

In 1971 the so-called Electronic Video Recorders (EVR) will be available in the German market and will mainly serve instruction programmes aiming at offering education in the widest sense. Parties interested in these programmes are supposed to be economic enterprises, public authorities, schools, universities and establishments for further education. First test films have already been finished. The German producer firm will reach its full capacity in two or three years, since until this date a considerable increase of demand for such programmes is to be anticipated.

Foreign Trade with EEC-Countries Passive Again

In the foreign trade with the other countries of the EEC the export surplus of the Federal Republic of Germany declined from DM 3.42 bn in 1967 to DM 1.8 bn in 1969. After in August 1970 even an import surplus of the FRG within the EEC of DM 153 mn had been registered, the still remaining export surplus went down to DM 100 mn in the months January to August 1970.

Peace Prize for Alva and Gunnar Myrdal

On September 27, 1970, the 21st Peace Prize of the German Book-trade was awarded to Alva and Gunnar Myrdal. The Myrdals' manifold efforts for the sake of the Third World and peace have thus been appreciated also by German book-traders and publishers. This acknowledgement seems to be late, almost too late. For, the North-South conflict between industrialised and developing countries is intensifying more and more. In contrast to the majority of other authors the Myrdals emphatically pointed out this development and its possible consequences. In their formal speeches they demanded action. Without much ado they lashed with sarcasm at the arms race between the East and the West, the ill-conceived development aid and the infection of the human environment.

Consumption of Oil Products Rising Steeply

Mineral oil consumption continues rising steeply in the Federal Republic of Germany. In the first half of 1970—including the refineries' own consumption—60.970 mn tons of mineral oil products have been consumed. This is 6.76 mn tons more than in the first half of 1969. The growth rate amounts to 12.5 p.c. and corresponds to that for the whole of 1969.

In the first half year light and heavy fuel oils alone participated with 2 mn tons each in the expansion of domestic sales by 6.2 mn tons in absolute terms. Gasoline for motors registered a consumption increase by about 620,000 tons and Diesel fuel an increase by about 400,000 tons as compared with the previous year's corresponding period. For 1970 a total consumption of approx. 122 mn tons is to be anticipated. With that consumption would surpass the advance estimates published at the end of March by 2 to 3 mn tons.

Hoechst Expanding Business in Portugal

Expending DM 12.5 mn Hoechst Portuguesa S.A. P.L. will build its new headquarters at Mem Martins near Lisbon. For this purpose an area of almost 120,000 meters square has been acquired.

According to information published by Farbwerke Hoechst, Frankfurt, on Oct. 27, 1970, the firm's present headquarters are to be moved from Porto to the new site after the completion of the new administration building. Moreover, a pharmaceutical production plant with a power station is under construction on the same area. Simultaneously the capacity of the synthetics-dispersion plant of Resiquimica Lda will be increased from 3,600 to 5,400 tons annually.

Resiquimica is a 50 p.c. affiliate of Hoechst Portuguesa. Its production facilities are already in the new area. To the north of the whole complex the construction of a perlon-wire plant with an annual capacity of 600 tons is being planned. The central store of Hoechst Portuguesa will also be enlarged considerably.

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towards concentration has directly come in the wake of American investments.

The fact remains meanwhile that particularly in the European chemical industry there is an intensified process of concentration. Large units, equalling the American ones, have emerged. Apart from horizontally orientated large-scale mergers (Italy: Montecatini-Edison; Netherlands: KZO-AKU; France: Rône-Poulence—Péchiney-Saint-Gobain), activities by the big companies of the European chemical industry in acquiring companies by purchasing them outright deserve special attention. The intenseness in this direction is greater than outright purchases by the American concerns which are, in fact, often looked upon as of negative value. Several smaller European companies, in which EEC concerns as well as American ones showed an interest, finally went over into the possession of European companies.

The factors pointing at the necessity of having large units in the chemical industry are so multifarious that it can safely be assumed that the process of concentration would have become a feature also without the emergence of supplementary American competition. Driving forces in this direction were, for instance, the necessity of far-reaching and large-scale research and development programmes, the high cost of investments, larger plants necessary technically and commercially, complimentary production, the "must" of a well organised network of distribution and service and, last not least, the very existence of the EEC.

Effects on Competition

In spite of all this, there is no denying that the American competition brought about a speeding up of the process of concentration. The competitiveness of the American companies, which had previously served the European markets by way of export only, has improved considerably as a result of direct production. It can, however, not be stated with any degree of accuracy in how far this intensity of competition has been enhanced in the chemical industry as a result.

As a rule, the European companies have considerably enlarged their production programmes as a consequence of mergers so that there is now competition in a larger number of sectors. Part-monopolies or part-oligopolies have thus become rarer.

But mention must also be made of the fact that there have been many instances of co-operation and joint ventures between European and American companies. It seems safe to assume that this sort of thing also had its repercussions in some fields on the overall situation of competition.

Directly and indirectly the activities by the Americans have resulted in a not altogether insignificant stepping-up of chemical investments in the EEC. The bulk of America's investments in Europe has to be looked upon as additional investments. It can furthermore be assumed that the European companies have increased their own investment volume also because of the American competition. This is valid for rationalisation as well as expansion investments.

The share of American investments in total chemical investments within the EEC has gone up steadily during the 'sixties and, in 1967, was nearly 18 p.c. The financing of this package of investments was managed predominantly by way of retained profits and depreciation. At the same time, the share of the taking up of capital abroad also showed an upward trend, whilst the capital flow from the parent companies lost in importance. So far, there has not been any detrimental effect on facilities for the investment financing by European chemical companies on account of the intensified taking up of capital by American companies in Europe. There is no proof of advantages for American enterprises in the field of the financing of their projects.

Foreign Investments of Europeans

In any judgement on American chemical investments in Europe it is not to be overlooked that also the leading European companies, in their turn, do invest increasingly abroad. For all domestic chemical companies in industrial countries, the foreign and overseas markets become more and more important. Turnover abroad, and production abroad, grow faster than turnover at home, and the share of foreign investments by the chemical industries in total investments goes up all the time.

Among European chemical investments outside the country of a company's domicile, the American market is becoming an ever growing target. This two-way flow of capital can be explained only by bearing in mind that the motives of foreign investments are to be found less in natural or artificial competitive advantages but rather in the aspirations for expansion and the compulsion towards market-near production. Foreign investments are, therefore, no specifically American feature but lie in the very nature of the chemical industry. Quite clearly the trend of the chemical industry leads towards an "international chemical market" with "multi-national companies".