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BUSINESS IN EUROPE

- by -

Members of the Cranfield Management Development Programme

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THE COLLEGE OF AERONAUTICS

DEPARTMENT OF PRODUCTION AND INDUSTRIAL ADMINISTRATION

BUSINESS IN EUROPE

Three Studies of European Business and the Prospects for British Companies Exporting to or Establishing Subsidiaries in Europe.

Compiled by Members of the Cranfield Management Development Programme (MDP II) - June, 1965.

Department of Production and Industrial Administration

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Preface

The Cranfield Management Development Programme is an intensive ten week course for middle management aged 28 - 38. The courses which are held twice yearly started in 1964; the second of these MDP II was held from April - June, 1965. The members of the course are drawn from a variety of businesses and have previous experience in one or more of the main fields of business activity e.g. general management, marketing, production.

As part of the course two weeks are devoted to studying business conditions in Europe. For this tour the members are formed into small groups who study particular projects.

MDP II were in Europe from 7th-17th June, 1965 during which period the following cities were visited; Paris, Milan, Zurich, Frankfurt and Brussels. In each city discussions were arranged with a representative cross-section of the business community. These included British Embassy Staff, British Chambers of Commerce, local bankers, industrial companies, advertising agents, Trade Union officials, management consultants and British subsidiaries.

On their return from Europe a meeting was held at the Institute of Directors in London where the members of the course presented their findings to a group of businessmen, and representatives of the Export Council for Europe and the Federation of British Industries.

This report is split into three parts representing the work of the three project groups who studied the effectiveness of European business, British exports and the establishment of British subsidiaries in Europe.

An assessment of some of the factors influencing the effectiveness of European business

- by -

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Introduction

This report results from an examination of a number of European businesses. An attempt has been made to assess their effectiveness in meeting the problems facing them and to see whether the methods adopted might contribute to their weakness or strength relative to their U.K. counterparts. The number of companies with which discussions were held was necessarily small in relation to the total in the countries concerned. Consequently, any attempt to generalise about the quality of business in the countries visited from this small sample would not be meaningful.

Attention, therefore, will be focussed on those areas of business activity which are most affected by outside influences, since it is here that the results of national attitudes and traditions, government action and international groupings can be seen most clearly. No attempt will be made to give a comprehensive treatment of the subject areas supported by published data, since it is considered of greater value to concentrate primarily on those aspects where significant differences from the U.K. were found.

Business objectives

Questions relating to the fundamental aims and objectives of the business were usually answered in extremely vague terms. This was not felt to be due to any lack of frankness; rather the impression was gained that little thought was given to these problems. Attention was focussed on the immediate future which was generally regarded as not extending much beyond two years. Although lip service was given to the need for long term planning, no attempt was often made to justify why it was inappropriate to the company being discussed. Diversification was frequently stated as desirable for the purpose of spreading risk but where adopted at times bore little relation to any special competence of the firm and was more likely actuated by short term opportunism. An extreme example was found in one company which was prepared to diversify into any business where a 20% return on investment could be seen, however slightly related to its existing activities.

A notable exception was the French subsidiary of an American group where the company objectives were very closely stated and detailed five year plans running to 250 pages were prepared annually.

Impact of Government policy

Government participation in industry varies greatly from virtually nil in Germany, Switzerland and Belgium to a considerable degree of nationalisation in France and Italy. In Italy state ownership was being slowly extended through I.R.I. A similar disparity exists in the degree of national economic planning.

In view of the current trend towards national economic planning in U.K. it was of interest to hear the reactions of French businessmen to the Plan. The consensus of opinion was that the direct effect upon individual business was negligible. Companies were free to follow their own policies although conditions could be made more favourable where their aims coincided with the governments; this was particularly true where new capital needed to be raised. In spite of this, the psychological effect throughout the nation when the government is firmly committed to expansion was not to be under-rated.

It was in the field of taxation that the government had the greatest impact. Great differences were noted in both the extent of company taxation and how it was applied. The method of taxation was considered to have a more significant effect upon company policy than the actual rate. This can be illustrated by reference to the turnover tax which has been applied in several of the countries visited. This favoured companies with a high degree of vertical integration in their production, thereby eliminating double taxation. As a consequence there were many cases of lowered efficiency due to insufficient specialisation, particularly in small companies. It was stated in Belgium that the turnover tax favoured imported goods since the tax was applied only once whereas the products of local companies which were not highly integrated could bear a heavier tax burden. The disadvantages of the turnover tax are now widely recognised and it is being replaced by a value added tax in a number of countries.

In Italy it was legal to value inventories on the LIFO principle. In a period of rapid inflation this enabled companies to continue to make paper profits by revaluing inventories during periods when they would otherwise have made a loss.

Recent legislation in France is designed to increase the availability of investment capital by encouraging business to distribute rather than retain profits. For example, the first Fr 500 of dividend income is free from personal income tax.

What is evident from the various tax systems encountered is their importance not only as revenue raisers but also as an influence on business policy and often on industrial efficiency and national competitiveness. These effects are often unforeseen by the government introducing a change in the taxation system. This is of added interest in view of the recent modification to U.K. company taxation.

Ownership and its effect on business

Although family ownership is diminishing it still plays a much larger part than in U.K.; in Italy, for example, there are still only about 150 companies quoted on the Milan Stock Exchange. Even in Switzerland, where private individuals hold a considerable stake in industry, it is usually through the medium of investment trusts (similar to British Unit Trusts) so

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that the individual shareholder is in no position to exert any influence on company affairs.

Apart from family interests, the pattern of business control through ownership of equity varies greatly between countries. Banks, for instance, are specifically debarred from holding industrial equity in both Italy and Belgium, whereas in Germany and Switzerland they play an important role. In Germany a recent law has been introduced limiting directorships to ten per banker. No examples of Insurance Company or Trade Union ownership of equity were found.

Nevertheless, it appears that apart from the smaller companies, a professional management is generally responsible for the running of the business relatively free from interference by the ownership. This was stated to be also true of many large Italian companies in which family ownership is still predominant. A different picture emerged in Belgium where business is largely controlled by a few large holding companies in which the influence of the 'hundred families' remains paramount. Because of the high degree of nepotism foreign companies operating in Belgium find it easier than they do elsewhere to recruit high grade management from those not in the 'inner circle'.

It was stated in Germany that the concentration of industrial power in the hands of the 'Big Three' banks enabled a great deal of national economic planning to be performed without direct government involvement.

It can be concluded that the development of equity ownership from members of the family to a broadly based shareholding is generally far less developed in Europe than in U.K. However, below Director level management is largely in the hands of professionals, although the degree of family influence is greater particularly in smaller firms.

The Management

The background of management varied a great deal between firms in any country and between countries. Nevertheless the impression was gained that there is a higher proportion of graduates in the higher echelons of management in the larger firms than is found in U.K. and that a 'shop floor' origin is much rarer. A notable exception was a British subsidiary where the manager did not favour graduates 'They are too intelligent!'

The proportion of graduates is probably related to the higher status of the technical man found throughout. In one leading French company 11 of the 14 senior managers were engineers; however, this predominance of engineers which has been traditional in France is now losing some ground to men with a financial background. A large German chemical company had nine chemists (three of them Professors) and three engineers on the management board out of a total of 18. The status of accountant was generally regarded as low and their influence was found to be correspondingly less than in U.K.

Managers with a broad business training were few although the acceptance of the need for it was recognised in most countries; Germany was an exception in that little evidence was found of an interest in business training.

Evidence was sought to support the belief that there is greater interchange between the Civil Service, Universities and Industry in Europe. However, few examples were found, although it was stated that there is a significant one way movement from the French Civil Service into business. The three full time directors of the German chemical company who also hold Professorships is notable, although probably not typical.

The calibre of managers is hard to assess. Whereas it was generally stated in France and Italy that good managers were scarce, the opposite was quoted in Germany and Switzerland. On the other hand, an American consultant who had operated in all these countries considered that there was little to choose between them but that the age group 35-45 now coming to the top showed a great improvement on their predecessors.

Degree of competition

Businesses in all countries were stated to be highly competitive. This was a relatively new development in Germany which had only recently become a buyers' market and where industry was finding some difficulty in adapting itself to the changed conditions.

R.P.M. was legal in Germany, Switzerland and Belgium but was illegal in France. Price fixing between producers appeared to be quite frequent; where forbidden by law the impression was gained that it was usually still possible to maintain prices through informal agreements.

Management development

A great interest exists in Management Development in all companies in the various countries visited. However, after conversation about the techniques employed in implementing Management Development the companies under consideration are no further advanced than the techniques employed by many of the larger British companies.

Whereas one found techniques being used such as Planned Succession, Management Appraisal and planned transfers, there was little evidence of the quality of internal training courses offered by the companies to equip personnel for a higher job in Management. In most cases such internal courses were developed for first line supervisors only, giving the elementary concepts of management.

One French Company felt that Management Training should be focussed around Cost Accounting only. A large Italian company had organised a three day conference in Venice for its 200 executives to discuss company problems,

this being the first of such ventures, which it will be repeating again this year. A large Swiss company was very vague about actual training and left such training for managers of its various divisions to work out for themselves. A smaller Swiss family owned watch business prepared its present First Executive by sending him to England for three years work for a stockbroker, after schooling in a commercial school.

A large German chemical concern with excellent training facilities, made use of the case study method to develop their lower echelons of management, and also offered specialised training courses in subjects such as languages, mathematics, etc. which the individual could attend on a voluntary basis as a means for self-development. Whereas this company made use of transfers as a means for Management Development, the individual was transferred only to positions within his own speciality, e.g. Chemistry.

The companies visited in Belgium showed very little evidence of Management Development, with the exception of one of the large Banking Establishments which had a well developed scheme.

Generally all companies made good use of short external seminars, Technological Colleges and to a far lesser extent the Management Business Schools at Fontainbleau and Lausanne.

It is striking to compare the institutions that exist for Management Training between Europe and Britain. In France the Management Training institutions are:-

(a) Insead at Fontainbleau, which is run on the lines of a business school.

(b) Ecole Polytechnique; in prewar years most managers came through this school followed by a period in the Department of Inspector du Finance.

(c) ENA (Ecole National Administration) - a postgraduate school for training civil servants in business administration before they enter the civil service.

Then there is IMEDE at Lausanne which is also run on the lines of a Business School. These are the only Institutions worth mentioning in Europe giving Management Training.

By comparison, the well known institutions in Britain are:-

(i) Henley Staff College, (ii) Cranfield, (iii) Liverpool, (iv) London Business School, (v) Manchester Business School, (vi) Ashbridge, (vii) Sunridge Park, (viii) Birmingham University.

It is quite clear, therefore, that Britain has far more facilities to offer than Europe in the way of institutions for Management Training.

Company Organisation

The Company Organisation Structures encountered were moulded along the academic classical lines, and varied from a Divisionalised to a Functional Structure. A form of structure often encountered was of a semi divisionalised form in which several divisions were responsibile to a functional official, e.g. Sales or Marketing Manager.

The impression given by certain of these concerns suggests that there is overlapping of duties and that there may be difficulty in communications. As examples, one French Company has its service department's personnel responsible to a departmental manager in charge of the particular service department, but on the other hand also responsible to a Divisional General Manager. Another French Company had two Divisions directly responsible to the Managing Director, and four other Divisions responsible to the Assistant Managing Director.

An Italian company could not give a clear indication of its structure due to reorganisation. A fact quite noticeable was the number of companies who were either in the process of reorganisation or who were thinking of reorganisation.

Communications as a means for Planning and Control

The majority of businesses visited make use of computers or other mechanical systems as a means of data processing for planning and control. It can be concluded that more computer installations in businesses exist in Europe than in Britain.

Although not much evidence could be found of feeding information down the organisation line as a means for planning, there is definite use being made of such information data as a means for control, no doubt influenced by American connections of many of the Companies visited.

In the majority of companies visited, cost data are furnished to first line supervisors on a monthly basis, whereas in one French company such information is made available on a weekly basis. The feasibility of such a weekly feed of cost information may be questioned in that the supervisor may as a result be required to spend too much time on data analysis, rather than on supervision of his department.

Personnel relations

(i) Trade Unionism

All companies visited appeared to have little trouble with Trade Unionism although whilst in Italy a large strike had been called for no apparent reason. This was shrugged off by the population and blamed on to 'the Communists always trying to stir up some trouble'.

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Reasons for the comparative lack of strikes by European Trade Unions as compared with the British Unions can no doubt be found in the fact that European Unions are based on idealogical political principles rather than on the strong trade demarcation policies of the British Trade Unions. Thus the European Trade Unions attach themselves to the country's political parties, and in a country like Italy these unions are heavily financed by the political parties. Therefore, in many cases the Unions' philosophies do not correspond with the philosophies of the socialistical inclinations of British Unionism, which puts the Welfare of the Worker as a top priority. Various European Unions can be represented in one plant. Comparatively the membership of European Trade Unionism is also smaller than in Britain. For instance, France has a working population of 10-12 million people of which 3 million are Unionised, memberships being mostly confined to the public and rationalised sectors of industry, and private industry having a comparatively smaller Union membership.

A further comparison between, especially the French Unions with their British counterparts, is the vertical structure of the Union in which both Management and workers may become members of a Trade Union. This factor in itself no doubt leads to fewer strikes.

With the acute shortage of labour the unions in European countries are concentrating on the training of workers. Especially in Germany, the Unions have facilities for offering training to workers who are having their vacations.

In the German Chemical Organisation visited the concept of co-determination, which is a feature of German Trade Unionism was clearly illustrated. Co-determination is the worker's role through the Trade Union in the management of the organisation. In this organisation half of the Companies Supervisory Board consisted of workers' representatives. A further interesting point about co-determination is the fact that these elected representatives need not come from within the workers' ranks in the particular company, but may also be elected from an outside source.

It is difficult to make judgement as to whether the European Trade Union ideology is more acceptable than that of the British Trade Unions, but the fact that far fewer strikes occur gives the impression that the European Unions, no doubt backed by various Governmental policies, makes these types of Unionism more acceptable to business.

Although the European Trade Unions appear by comparison to be far less wealthy than British Unions, it is of interest to note the quality of leadership. Union leaders in Europe are developed in some instances from the Shop Floor. They are also recruited from University Graduates, and in France among three Union leaders met, two were Engineers. In Germany much attention is paid and money spent on the academic development of leader potential, to ensure a Professional Management of Union matters.

It must be concluded that the quality of leadership of Unions in Europe is of a higher quality and more constructive than in Britain. No doubt this accounts for the more passive approach by the Unions in Europe.

(ii) Fringe benefits

It is interesting to compare fringe benefits paid by employers (either to Government on behalf of employees) or to employees direct. These fringe benefits may include special security, medical aid, unemployment assurance, leave and bonuses.

Whereas an estimate of such benefits paid in Britain amounts to 15% of the workers' wages or salary, it is estimated that 52% of workers' wages or salaries is paid in France. In Italy the figure varied between 56% and 92%, whereas a sliding wage scale existed with basic wages rising in proportion to cost of living index by Government legislation. Another feature of fringe benefits which the worker receives under Government legislation in Italy is protection when absent from work (2/3 basic wage) resulting in large amounts being paid by employers for unproductive labour.

In Germany an excellent State Pension Scheme exists which is non contributory and which benefits especially the lower paid worker. This results in most companies offering additional pension schemes to Management positions only. It is estimated that in this country employers pay 15% of workers' wage or salary as fringe benefits. An interesting fringe benefit paid by one large German company is the offering of company shares to employees at 50% of their market values.

In Belgium fringe benefits between blue collar and white collar workers varies. Employers pay 18% over and above the blue collar workers' wages, and 40% over and above the salaries of white collar workers as fringe benefits, this being due to extra bonuses and holidays paid to such white collar workers. Although the percentages given above are approximate, the comparison indicates that employers on the Continent pay larger amounts as fringe benefits than the British businessmen are obliged to pay out.

Product and Process Innovation

As part of the overall study of the effectiveness of European companies considerable attention was paid to the approach of companies visited towards product, process and systems innovation, and product line diversification, since it was considered that any progressive company would have made, or would be making, strides towards improvements in at least one of these two areas of business in order to remain an effective entity in the business world.

Research and development work into product and process improvement, in order that the company's product line might keep in line with buyer

requirements with respect to design, quality, and cost of products being offered to the market, was found to be carried out in all companies visited. It was discovered that companies spent between 3 and 4% of annual sales turnover on research, and that an additional amount was spent on development work. This varied between 3% and 9% of sales turnover.

It was surprising to note that in a highly industrialised country like Belgium company spending on research was very low insofar as the technology utilised by Belgian industry was developed in other countries, thus with respect to product and process innovation Belgian industry tended to follow in the wake of the highly industrialised countries of the Western world.

Although British subsidiaries on the continent in general did not carry out research work themselves they did undertake a considerable amount of development work, which stemmed from the parent company's research activity. This development work was primarily aimed at restyling or reformulating the product to meet the demands of the European buyer since this was considered to be a prime requisite of any product being put on the European market.

Two aspects of this particular subject are noted hereunder, one to illustrate the continental approach to R and D and the other to illustrate the use made of the results of R and D.

(a) As a financial stimulus to researchers in Germany and to prevent them being drawn into the more remunerative administrative functions all those participating in the bringing to fruition of a particular invention are allotted, on a contract basis, a percentage share of the invention; the percentage being dependent on their degree of participation. The industrial application of the patent resulting from the invention gives the researcher an additional income on a royalty basis. This system, in part, accounts for the proliferation of German patents.

(b) In the Italian textile industry although the number of looms has been reduced by 25% since 1958 the output has increased by 30% due to the improvements in textile machinery resulting from the machinery manufacturers' Research and Development efforts. The net result to the textile manufacturer has been that his cost of production has risen only slightly in a country where labour costs have risen markedly. All of the 77,000 looms in Italy are of the automatic type whereas in the U.K. only 94,000 out of the 170,000 looms in use are automatic.

Systems innovation

All of the medium to large companies and banks visited were using computers to carry out work which was previously handled by clerical staff, technical staff, or by a punched card system. In the industrial sphere the computers were used primarily for the generation of control accounting information and payroll. Other applications of computers were invoicing,

sales and purchase statistics, inventory control of finished goods throughout the sales network, programming and control of chemical plant operations.

The usage of computers was considered to be more widespread than that in the U.K.

Although companies visited were well established in the computer field only two large manufacturing companies were found to be making use of other systems innovations such as, network analysis, value analysis, and operational research. Few of the other companies from their representatives' comments appeared to have heard of such management techniques.

Product line diversification

Only two of the companies visited had made no attempt to enter the diversification field and both of them were small companies with a highly specialised product which necessitated a particularly specialised type of manufacture which did not lend itself readily to diversification from the manufacturing standpoint.

All of the other companies had been very successful in their choice of diversification products, however it must be noted that, in the main, these companies had expanded their product line by adopting products which were allied to their particularly special manufacturing or selling competence.

It could not, however, be said that all companies visited had determined beforehand set diversification objectives since in several instances the growth of diversification products had stemmed from an internal need for certain commodities, e.g.

(a) A large manufacturing and marketing company had as a result of requiring certain materials for its own use developed into the fields of leather tanneries, egg farming, paints manufacture, wood supplies, plastics and elasticated materials.

(b) As a result of very high costs of supplies of certain goods one of the companies visited had set up to manufacture these goods which were primarily decorative packing materials. The establishment of these secondary operations had opened up new fields for the company which it was just beginning to exploit in terms of marketing the goods as separate products.

On the other hand there were a number of companies who had realised that their product line was being directed towards a particular type of market, with the result that the companies' activities were restricted by their market. Such companies had considered diversification in a more analytical manner than the previous group, but with the same aim viz to provide the company with a variety of types of market in which to operate in order that the company might continue to grow.

(a) A large French company whose special competence lay in the manufacture of switching equipment, which was mainly sold to a government department, had broadened its market by expanding into the manufacture of commercial electronic equipment and radio and television. The same company had established itself in the field of pump manufacture for supply to manufacturers of domestic appliances.

(b) Even in the banking sphere diversification is possible as was illustrated by a large Belgian commercial bank, who, because they were unable by law to provide long term finance had set up as an entity a mortgage bank which was able to lend on a long term basis. The same bank was responsible for the establishment of a consultancy company which the bank itself employed from time to time to handle particular aspects of its activity, viz., carrying out researches for bank clients.

(c) Over the past 15 years a large Italian company whose major activity formerly was the generation of electric power, now nationalised, had diversified into such varied fields as manufacture of chemicals, iron and steel, electronics, textiles, chemical plant construction, mining, and, surprisingly, catering. In all of these spheres of activity the company was engaged on the manufacturing and marketing sides.

There was no indication that extensive field market research had been carried out by any company prior to embarking on a particular diversification project, but there were indications that extensive desk market research had been done on the market statistics which were available.

In the main, where diversification had occurred, the broadening of the company's activity had been achieved either by new developments within the company or by merger with or take-over of another company. No instance was found of diversification resulting from a licence agreement with another company.

On the question of financing of diversification projects most companies gave the information that the funds were derived from internal sources.

From the foregoing many continental industrialists are acutely aware of the fact that continued success of their business can only be maintained provided they:

(a) have an adequately financed, forceful research and development group which will enable them to keep pace with their competitors and with the changing demands of their market.

(b) recognise that there are benefits to be derived from computerisation of certain business systems not only on a cost improvement basis, but primarily on the basis that modern business practice is becoming more and more complex, with the result that the old fashioned methods of providing management control information are no longer capable of bearing the load or of providing the information necessary in good time.

and (c) provided they grasp opportunities to diversify when such are presented at their own doorstep, or on the other hand realise that their business is operating on a much too narrow base and set out to broaden that base by diversifying into associated fields where the company's special competence whether in selling or manufacture can be realised in terms of additional income and in spreading the business risk.

Conclusion

In the same way as one cannot speak of a typical British company, it is true that there is no such thing as a typical European, French or German company, great diversity being found in the approaches adopted to the problems facing them. Nevertheless, there were a number of factors, not necessarily common to all the countries visited, which could play a significant role in influencing the effectiveness of individual companies.

The most noteworthy factor was the part played by the Trade Unions. The low incidence of strikes can be attributed largely to the organisation of labour into a few large unions with highly qualified leadership and membership extending beyond the shop floor. Consequently demarcation disputes and unofficial strikes were unknown.

The application of modern managerial techniques, although they are gaining ground, was considered to be less common than in U.K. Computers, however, were extensively used but were not always being applied to the production of management information.

In spite of wide divergences in the degree of national economic planning, methods of taxation and ownership, the pattern of achievement by business in Europe indicates that these factors are not so important when considering individual companies as is often suggested. They may contribute to the difficulties experienced, but the successful business learns to adapt itself to the environment.

The calibre and background of management was of some significance. Insofar as it was possible to assess from the small sample of managers met, the standard was judged to be high and there was a feeling that they were probably more competent than their British counterparts. Although there is a widening of specialisation found in top management, it is still predominantly technical. This may well account for the greater emphasis on research and development found in most of the companies visited. Although the need for a broader business training is gaining acceptance, the courses available are fewer than in this country.

In conclusion it is considered that there is probably little difference in the effectiveness of the average European company and its U.K. counterpart. Nevertheless the positive attitude to exporting which was fairly general must contribute greatly to the economic strength of the nation.

A brief study of British exports in three major E.E.C. markets

- by -

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1. Introduction

Our aim was to obtain a general impression of three major E.E.C. markets - the French, Italian and German - and to gauge the measure of success of British exports to them. While it is impractical to hope to obtain a precise knowledge of these countries and their markets in so short a visit, nevertheless certain salient features stand out in each market, and these we have attempted to describe. In order to best illustrate these features we have briefly studied two or three product areas in each market and prospects for British exports in them.

In two of the three countries we found economic uncertainty, in the third apparently undiminished vigour. To the outsider the Common Market seems a well-oiled machine progressing inevitably towards ever greater prosperity. From within the imbalances and tensions are all too apparent, and a pessimist might feel that the Common Market countries move from one crisis to another. The truth is somewhere between. While there are indeed crises, usually of a political nature, there is an underlying determination to ensure that agreement is somehow reached, to make certain that the progress of the last decade is maintained.

Within this framework the current position of British exports leaves a great deal to be desired. During the period of greatest growth in the 1950's British exporters were concentrating their attention elsewhere; by the time they turned to the Common Market in many cases the patterns of supply were established. In 1962 and 1963 progress was made, but 1964 saw a severe setback to British exports, not in value, which levelled off, but in the British share of the market. The early months of 1965 look little better.

One point is worth making here. This is that Britain's Overseas Defence Expenditure has been running at over £220 millions per annum net during the past few years. This is a burden not shared by some of the most advanced industrial nations; it amounts to over a quarter of all our exports to the E.E.C. Without this burden our Balance of Trade would be significantly improved.

Our report, country by country, follows:

II France

1. The Economic Background

Between 1961 and 1963 France rode high on the wave of prosperity born of devaluation in late 1958 and the political stability which followed General de Gaulle's accession to power. In these three years industrial production rose by 15%, total imports by no less than 31%; but wages also increased, by slightly over 18%. By late 1963 it was apparent that the French economy had become over-expansive and that prices and wages were rising too quickly. The Government intervened by pegging prices at the September 1963 level; at

the same time a restraint was put on bank lending, and employees and trade unions were encouraged to moderate their wage claims. This Stabilisation Plan has had the desired effect of slowing down the economic pace; indeed some argue that reintrenchment has gone too far. They point out that the annual rate of production increase has fallen below 5%; that with fixed prices and still increasing wages (albeit at a slower rate), profit margins are being squeezed; that internal company financing has become less and less possible. A further difficulty is the shortage of labour, which puts a permanent inflationary pressure on the economy. All in all we found that the confidence of a year to two years ago has been replaced by an aura of uncertainty and doubt.

2. British exports to France (see Table 1).

During the three year period 1961-63 British exports to France rose by 73%; but then in 1964 there was a levelling off, with only a two per cent rise on the previous year. And in the first four months of this year there has been a fall.

In 1961 Britain accounted for 4.5% of France's imports. By 1963 this figure had risen to just over 6%; but in 1964 it retreated to 5.4%, and it is still further down this year.

Thus while it might be possible to attribute the 1964 levelling off of exports to France to the slackening demand enforced by the Stabilization Plan, one must nevertheless note that Britain lost a share of its market in 1964. Germany not only increased its exports to France substantially in the same period, but it actually increased its market share. Nor was this simply the result of enjoying the privileges of E.E.C. membership, important though these are. Sweden and the United States did just as well. Nor can the fall be blamed on our prices; by and large these remain competitive.

We were reluctantly forced to the conclusion that in a boom year in the home market (as 1964 undoubtedly was), British exporting enthusiasm becomes less urgent.

3. The French market

The Frenchman is proud, nationalistic, individualistic. He numbers nearly fifty million; he has rather more cash in his pocket than his British counterpart. He is often young; a third are less than 20. Being nationalistic, if price and quality are equal he will buy French. But being individualistic, he is easily tempted by good styling and superior design. And being proud, he is always interested in a lower price, in a bargain. In spite of what most British exporters seem to think, he does not invariably live in Paris; indeed nine out of every ten Frenchmen live outside Metropolitan Paris. Nor does he speak the English that all good foreigners should speak. He is uninterested in inches, feet or yards;

nor do quotations ex-factory or F.O.B. impress him. (In other words that famous quotation offering 'half-inch gauges, 4/9$^{3}/_{4}$ gross ex-works Rochdale' will not win his order). Letters he will ignore; he wants to meet people who know what they are selling. In short he is an astute and able buyer who has money to spend, who will buy a better product which is measured in metres, which is sold to him in French, which is quoted in francs delivered to site. France is a tough market. But if British exporters will meet these criteria, they will indeed sell in France.

4. Some salient points for the intending exporter to France

a. Tariffs and taxes. As inter-E.E.C. tariffs are progressively reduced, so the burden on British exports to France becomes relatively greater. But even so the differential is not by any means as great an obstacle as is often implied. By the time all the other taxes and charges are added to his C.I.F. price, the tariff differential is a very small part of the total price. Thus there is the French sales tax, usually 25%, levied on all goods whatever their origin. Agent's commissions average 6 to 7%, though they may be higher. Together with other minor taxes, charges and freight in France, the exporter may expect to see something between 50 - 70% added to his C.I.F. price. There can be no room for excess C.I.F. fat in this market.

b. Banks and finance. The British exporter should of course seek his export finance here at home; often through a clearing bank, with protection from the E.C.G.D. He should not look to the local British banks for more than cursory help. They are essentially there to help their local customers, be they French companies or British subsidiaries. The French banking system - a weird and wonderful animal - is again of more interest to the subsidiary operating in France than to the exporter.

c. Representation and contacts generally is the area where the Commercial Section of the Embassy can really help. Good agents are difficult to find; once found they merit a full share of care and attention.

d. Advertising has somewhat lagged behind in France; the per capita expenditure is less than a third of Britain's. There is neither a strong national press nor commercial television. The accent is more on provincial papers (only one Paris paper tops the million mark, while there are 19 provincials which exceed 100,000; 'Ouest France' is the largest of these with 575,000), weekly magazines such as Paris Match, and peripheral commercial broadcasting from the Saar, Monaco and Luxembourg. A point worth noting is that it is possible to pinpoint an advertising area most precisely via provincial newspapers (which rarely overlap) and selected cinemas (the French are still avid cinema goers). And another is that advertising claims must be verifiable in law. If you boast that your product is the 'best', you must be able to prove it in the courtroom.

e. Sales Promotion and in particular the initial entry into France is probably best achieved by participating in the specialised Paris Trade Fairs. Just as in London these tend to be the annual focal point for an industry.

f. R.P.M., with one or two exceptions (the pharmaceutical industry and state monopolies such as tobacco, for example), does not exist in France. Indeed to attempt to enforce R.P.M. is a criminal offence and carries severe penalties. In practice suggested retain price lists are issued, and the retailer who ignores them finds his supplier slow to deliver.

5. Cars (see also Table 2)

The British record is dissappointing. Measured in units, betweeb 1962 and 1964 our exports declined marginally, while Germany's exactly doubled, and the import market as a whole increased by not quite half. The figures for the first four months of 1965 show a further decline of British exports.

Index figures based on units/value

French imports from	1962	1963	1964
All countries	100/100	136/136	146/156
Germany	100/100	163/155	200/202
U.K.	100/100	103/103	97/106
Others	100/100	122/137	115/131

The only British Company which has done consistently well in France in the motor trade is B.M.C. Their success is the result of:-

- a 'different' car of superior design.
- a car which combines the virtues of roominess and short overall length. The latter is becoming vital in Paris' overcrowded streets.
- a countrywide network of garages and repairers who carry spares.

The figures speak for themselves:

	1961	1962	1963	1964
B.M.C. exports to France (all vehicles) units	2900	4200	9400	13000

The 1965 B.M.C. figures are in excess of the 1964 figures to date. Here then is a company which has shown that it is possible, with the right product and the right distribution and after sales network, to win a sizeable part of the French market.

6. Pumps for irrigation

Irrigation is nothing new to the French farmer (particularly in the South and Centre). But a number of factors have laid increasing emphasis on its use. First, state planning has aimed at more efficient use of land and a reduction of the labour force on it. Second, farmers returning from Algeria have brought expertise and a tradition of irrigation with them. And finally, a succession of dry and indeed drought summers have forced the farmer to turn to water spraying.

The market for irrigation pumps has accordingly grown rapidly, and in 1964 sales were 50 million francs. Imports account for over half of this figure, mainly because the French industry is splintered and therefore burdened with high overheads. The French farmer tends to use well pumps rather than drawing his water from surface sources. Competition is growing, particularly from German manufacturers. But even with the E.E.C. tariff differential working agsint them (12% to inter-E.E.C. 4.5%) U.K. exporters, who accounted for 7.8% of imports in 1963, have a growing and profitable market before them.

Import Statistics

	Value (000 francs)			Quantity		
	1961	1962	1963	1961	1962	1963
U.K.	474	1,211	1,445	616	2,592	3,943
Germany	3,693	5,243	6,857	2,095	2,811	4,656
U.S.A.	1,063	1,620	1,330	1,150	1,163	1,930
Belgium	412	1,151	2,413	955	1,683	3,254
Denmark	229	442	1,994	463	3,299	39,019
Others	2,899	4,490	4,438	1,599	4,756	5,480
Total	8,770	14,157	18,477	6,878	16,304	58,282
U.K. %	5.4	8.6	7.8	9.0	15.9	6.8

7. Furniture

Here is a market with tremendous potential for the British exporter. To date the vast majority of furniture sold in France has been made by one of the 24,000 French furniture makers, often an artisan working by himself (less than 200 companies employ more than 50 workers). Of the 1962 total value of sales, 29,000 million francs, only 2.4% was imported (and of this 2.4% only one fiftieth part came from the U.K.).

Imports, however, trebled in the three years 1961-63, and there is no

reason why they should not continue to take an even greater share of the expanding, prosperous and relatively unorganised French market. Germany and Benelux dominate the import market with more than 80%; the German manufacturers have established a joint marketing organisation in France, and this has undoubtedly helped them.

They and the French manufacturers concentrate on the modern style market; U.K. products have not done well here, and with the E.E.C. differential tariff (17% to 6%) and increasing competition there is little hope of improvement. The fields where there is greater potential for U.K. products are in the reproduction of period furniture and in cottage furniture. For the latter, more and more French families are buying a country cottage for weekends and holidays; competition is strong, but there is a definite liking for U.K. styles. But the real potential lies with reproduction furniture. They is little competition (what there is comes from 'American Colonial' and 'Spanish' styles) and the market remains virtually untapped.

Imports into France of Wooden Furniture (000' francs)

	Veneered			Solid		
from	1961	1962	1963	1961	1962	1963
U.K.	358	930	1,856	-	146	467
Germany	23,043	31,816	47,616	-	143	190
Bel-lux	8,859	24,918	46,315	-	-	186
Denmark	335	1,535	4,640	979	1,452	1,946
Others	4,691	8,780	17,838	1,074	1,498	2,545
Total	37,286	67,979	118,265	2,053	3,239	5,334
U.K. %	0.96	1.4	1.6	-	4.9	8.8

Table 1 French imports

	1961	1962	1963	1964
ex U.K. (£ million)	112.2	138.1	180.7	184.9
U.K. % of all imports	4.5%	5.3%	6.0%	5.4%
U.K. balance with France (incl. re-exports)	(18.6)	20.8	40.9	16.0
German % of all imports	17.1%	18.0%	18.0%	18.3%
U.S. % of all imports	11.0%	10.5%	10.3%	11.3%

Table 2 French imports of cars

	1962	1963	1964
a. from all countries (000's vehicles)	108	147	153
b. from all countries (millions francs)	591	803	921
c. from U.K. (000's vehicles)	29	30	28
d. from U.K. (millions francs)	152	156	161
e. d as % of b.	26.7%	19.4%	17.5%
f. from Germany (000's vehicles)	46	75	92
g. from Germany (millions francs)	261	404	526
h. g as % of b.	44.2%	50.3%	57.2%
i. French production (000's vehicles)	1,278	1,453	774 (x)
j. a as % of i	8.5%	10.1%	N.A.

(x) Six months.

III Italy

1. Economic background

Italy is relatively poor in natural resources (she has no coal to speak of) as well as being a net importer of some essential foodstuffs such as meat and cereals. Hence, just like Britain, Italy must export or die, and her industry is therefore orientated towards the exploitation of her native skills. Thus industry takes raw materials or semi-finished goods and makes them into finished goods by processing them; in this way she adds value to her imports and then sells them as high value exports to earn enough foreign currency to pay for her needs. A typical example is the importation of leather and skins and the export of shoes.

These exports are not enough to pay for her imports; the balance is made up by earnings from tourism, the inflow of moneys being invested from abroad, in roughly the following proportions:-

Export of goods	40%
Tourism	8%
Foreign investment in Italy	27%
Others	25%

In other words 75% of Italy's balance of payments is made up by Tourism, Investment, and her own exports. Since investment is governed by confidence in the particular proposition, it is obvious that the effect of investors' confidence in Italy plays a vital role in her balance of payments position because investment forms such a major portion of it.

During the 1950's, Italian Industry enjoyed a sustained boom arising out of the reconstruction of war damage and cheap labour (unemployment ran at about 9%) and ploughed back most of its profits. The advent of the Common Market towards the late fifties strengthened the boom and stimulated investment even further (up to 1962 Investment accounted for 25% of G.N.P. each year). At about this time the hitherto readily available pool of labour began to dry up in certain regions, and stimulated unskilled labour to come up from the South to seek better employment. In the panic to get any labour to produce the goods that were being demanded both by the customers of the common Market as well as the working population which had more disposable income, employers made unrealistic wage offers with the result that labour costs soared by 31% in 1962, 24% in 1963, and 11% in 1964. This had the effect of squeezing the employers' margins to the point where they eased their rate of investment from plus 15% in 1962 through plus 12% in 1963 to minus 15% in 1964. This naturally affected the capital goods producers as well as capital goods imports. With this basically weak position Italy was unable to withstand the three body blows dealt in 1962/63: first the election of a weak centre left Government; secondly this Government's action of nationalising the electricity supply industry and the

resultant panic among investors foreign and home alike who promptly withdrew their capital; thirdly, a bad harvest which necessitated buying essential foodstuffs from abroad, thus swelling the normal import bill. Too late, the authorities imposed various austerity restrictions in response to this situation and managed to avoid devaluation, but through these measures brought a severe downturn in industrial activity in late 1963 and early 1964. Unemployment and short time working (less than 33 hours per week) rose, and yet so did costs because of the new social benefit measures the centre left Government had brought in.

The consequence of this was that Italian imports went down and exports soared because lack of a home market made Italian manufacturers sell at marginal costs abroad.

2. International Trade

The U.K. is Italy's fourth biggest supplier after the U.S.A., France and Germany, and our exports to Italy have been steady at about 6½% of all Italy's imports, and her exports to the U.K. about the same except that from 1962 on the balance moved in our favour.

i) Share of Italy's imports from

	1961	1962	1963	1964
U.K.	5.5%	6.4%	7.4%	6.4%
E.E.C.	29%	31.3%	32.7%	32.8%

ii) Share of Italy's exports to

	1961	1962	1963	1964
U.K.	6.7%	-	6.4%	6.8%
E.E.C.	31.4%	-	36.7%	38.4%

iii) The behaviour of trade in 1963 and 1964

	1963		1964	
	Exports to	Imports from	Exports to	Imports from
U.K.	£M 96	£M 166	£M 120 (+ 25%)	£M 142 (-14.4%)
E.E.C.	£M 535	£M 730	£M 680 (+ 27%)	£M 720 (-1.4%)
Others	£M 962	£M 1510	£M 1090 (+ 13.3%)	£M 1477 (-2.2%)

It is significant that in her cut down in imports Italy's greatest reduction fell on her imports from the U.K. (-14.4%), whilst she reduced her imports from the E.E.C. countries by a mere 1.4%. This reflects two important

factors affecting our future trade with Italy. Firstly, the loyalty to the Common Market through the preferential tariffs, and secondly it highlights the heavy reliance we place on raw material, capital goods and semi-finished goods in our exports to Italy; consumer goods comprise well under a half, probably nearer to a third of our exports to Italy. This means that even when trade picks up we shall not profit immediately because of the time factor in spreading the benefits of a pick up in trade back to the capital goods makers.

In fact the provisional figures for 1965 indicate that the consumer goods exports are level but that the raw materials and capital goods are still well down.

3. The Market

In terms of buying power Italy is divided into two distinct parts by a line running east west through Rome. The South is still poor in spite of millions of pounds of investment there by the Cassa del Mezzogiorno and the legal obligation of the Parastatal industries in the I.R.I. to invest 60% of their new investment in the South. Many of the projects, however, are capital intensive and therefore in spite of this heavy investment, there is still a dearth of gainful occupations. In consequence the buying power of the South is still only about a half that of the Northern part; the most prosperous part of the North being in the Milan, Turin, Genoa triangle, which contains much of Italy's industry, and therefore a rich consumer market.

The Italian has during the past decade experienced a steady rise in his income and standard of living (it is not possible to give direct comparison as the wage index is based on 1938 equals 1; other indices are 1953 equals 100). Some of the extra income has gone into increased food consumption whilst the rest has gone to buying consumers goods such as transistor radios and cars etc. There has been an increase in the number of working wives which is going to influence the pattern of spending in the direction of convenience foods (tins, frozen) and labour saving machinery for the household.

The Italian likes to cut a dash and has a natural appreciation of good design and beauty. He is very well disposed towards England which he regards as a model of Democracy; the British businessman is therefore always welcome especially if he speaks Italian!! This is not to suggest that the Italian will buy British just for the sake of it; it means that given a well designed, properly promoted reasonably priced article he will buy British, in contrast to the Frenchman. The few individual success stories that one did hear of (JCB, BMC, ICI) all come about as a result of fulfilling the above conditions.

Large firms seem to account for the lions share of our Exports, some 35 firms account for over $^1/_3$ of this country's exports, but there is room for the smaller firm and it is tragic that these firms often take the attitude

that while there is an adequate home market they won't bother answering correspondence or if they do they do so in English and quote in Imperial not Metric quantities.

Most of them are not even prepared to come out looking for business that is there for the asking; the British Chamber of Commerce in Milan recently sent out about 12,000 letters to British manufacturers of various goods for which there was known to be a market inviting them to exhibit at the samples exhibition which leads up to British week in October - only 1% answered.

A delegation from the Birmingham Chamber of Commerce visited Milan recently after the British Chamber of Commerce in Milan arranged visits and interviews and not a single man went back to England without having got business that more than repaid his trip.

4. Salient points for tackling the Italian Market

Much preparatory work can, and indeed is best done, before the businessman leaves this country. The Board of Trade have contact through the Commercial section of our Embassies abroad and through the Consulate General in the provincial centres. On the other hand, the F.B.I. generally have their contact at the local British Chamber of Commerce. The quality of work turned out by these institutions will obviously vary according to the individual, but at the very least it will provide a very useful backdrop to local market conditions and save the businessman much time and expenditure. This seems obvious comment but must be repeated in view of the reported experiences of our representatives abroad; businessmen arriving without any foreign currency, sending a P.C. to book a hotel 2 days before arriving, no knowledge of language or interpreter, etc.

These organisations will also give invaluable help in locating suitable agents, and in Italy particularly great care must be taken in one's choice as the agent has excellent legal protection so that dismissing him is a very costly business.

Business practice in Italy is often on a different level to that experienced at home. Conventions and ethics are often stretched and it is common place when dealing with large contracts to leave a 'bustarella' or little envelope, generally containing a 1% secret commission. This stems from the pronounced differential between the office workers and top management which stems from the still strong class distinction, as well as from the system of taxation. This consists of two elements; firstly a PAYE and then a municipal tax which is assessed in accordance with visible wealth and standard of living, and the state of friendship between the individual and the taxman. In business the same condition prevails and companies often keep three sets of books; one for the taxman, one for the shareholders and one for the management. Because it is accepted that no one makes a true return of income, the taxman ups the submitted figure by an appropriate

amount; so an honest man is penalised.

Hire purchase is financed by suppliers and credit in general is liberal, at least 90 days is taken by most people. A business generally has more than one bank so as to be able to negotiate the best possible terms by playing off one against the other.

Distribution is through wholesalers on account of the strong regional loyalties which still exist (Italy as a united state is less than 100 years old). This regionalism is also responsible for the fact that there are no national newspapers. Advertising on the television is relatively expensive (only 84 subscribers/1,000 population in 1963) and in the newspapers it also costs relatively more than in their British counterparts. Advertising has, until recently, been relatively unsophisticated with the result that foreign agencies have managed to get themselves established firmly, but local agencies are now pirating their men and getting themselves and the standard of Italian advertising onto a higher plane.

Italy's economy is maturing rapidly, and therefore the future lies with the exporter who can supply a product or a design which is not available locally. Hence the speciality or exclusive product, whether industrial or consumer, has an assured future. Two examples each illustrating a different aspect of this are now discussed in detail.

Firstly Motor Car exports to Italy. The attached table gives details of the Italian Passenger Car Market. The most important aspect of the market is the steady increase of the imports from the E.E.C. as a % of total imports whilst the proportion which imports from the U.K. form are declining steadily in spite of the fact that the B.M.C. figures (which admittedly include local assembly) continue to rise. The interpretation of these figures in the light of comments in Milan suggest that B.M.C. sell because they have something special to offer whilst the other makes being only marginally different and not so well organised for service, are suffering. Thus a speciality sells.

The second case is a recommendation put forward by the BOT special supplement containing 'targets' for Italy - in this case pumps.

The market exists because Italian agriculture needs to mechanise for two reasons:-

i) To release labour for industry and thus redress the imbalance that reigns between the employment and national product contribution between agriculture and industry.

	Ind.	Ag.
Net Prod. %	41.2	15.5
% Working Pop.	41.9	26.2

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ii) Because of the steep rise in agricultural wages - 79% since 1960. To date the pump market has been satisfied in the following way:-

	Values in Millions of lire		
	1961	1962	1963
Italian Prod.	29,000	30,000	35,000
Total imports of which			
U.K.	654	998	1,274
Germany	4,041	5,212	6,042
U.S.A.	1,400	1,335	2,066
France	190	691	1,771

The forecast for capital expenditure for 1962/63 for irrigation amounts to about 180 thousand million lire which suggests a worthwhile market, but the above figures do not lead one to believe that the U.K. is exploiting the potential (c.f. France's rate of growth).

The final lesson drawn from this tour is that we, like the Italians must put a great premium on inventiveness and production of unique products as these are the ones that will form the exports of tomorrow.

Italian Passenger Car Market

	1961	1962	1963	1964	1965 Jan. Feb.
Home Production					
Number	N/A	887,811	1,105,291	1,128,930	N/A
Values	N/A	N/A	N/A	N/A	N/A
Total of all Imports					
Numbers - not available					
Values:					
Million lire	28,649	71,033	137,895	83,449	11,130
£ million	16.5	40.8	79.1	47.8	6.4
Imports from U.K.					
Numbers	10,155	23,542	28,796	13,097	1,487
Of these BMC*	18,600	18,600	32,000	22,000	
Values:					
Million lire	6,359	14,148	18,004	8,168	927
£ million	3.65	8.12	10.4	4.7	.53
As % of total import	22%	19.9%	13.1%	9.8%	8.3%
As % home production	N/A	2.6%	2.6%	1.16%	N/A
Imports from E.E.C.					
Numbers	28,388	81,123	175,371	111,564	15,040
Values:					
Million lire	18,317	52,565	115,671	72,482	9,816
£ million	10.52	30.1	66.25	41.6	5.8
E.E.C. as % total	63.9%	74.0%	83.8%	86.8%	88.2%

*includes exports from U.K. and local assembly.

IV Germany

1. Economic background

The remarkable recovery of German industry following the 1945 currency reform has been described with good reason as an economic miracle. Perhaps a no less striking feature has been the sustained strength of the economy up to the present day, as reflected by the 160% growth in G.N.P. over the past decade. In recent years the end of the boom has been repeatedly forecast but although the galloping pace of the 50's is past the G.N.P. was up 9% in 1964.

Meanwhile the cost of living has remained steady the index rising from 100 to only 135 between 1950 - 1960. In contrast the per capita income increased by more than 150% over the same period. This extremely healthy picture is completed by their exports which have risen from £711 million in 1950 to £5796 million in 1964.

2. British exports to Germany

Britains percentage share of German imports has remained constant at rather over 4% for the past four years. The share of our main competitors has likewise stagnated but with the balance very much in their favour i.e. France enjoying 10.6% and the U.S.A. 13.7%.

The chief reason appears to be that the major redevelopment of the German market took place during the 1950's while Britain's eyes were on the more rewarding markets of the Commonwealth. When finally British exporters awoke to the enormous potential of the German market a pattern had been established which Britains export effort of the past few years has significantly failed to alter. A good illustration of this is the performance of the U.K. motor industry whose share of imports into Germany has in fact decreased from 4.4% in 1961 to 4.2% in 1964.

3. The German market

There are many similar features between the markets of Germany and the U.K. particularly in relation to size, density of population and a high level of consumer spending power. Industry is however spread more evenly throughout the country and not concentrated in four or five areas as in the U.K. It follows then that the population is more evenly distributed throughout the country and it is therefore of paramount importance to have first rate distribution facilities.

This is one of the factors which contributes to the high initial cost of introducing a product to the German market, a factor that seems to have deterred several British exporters.

The German buyer is receptive to new and imported products but is no less antagonistic than his French neighbour towards exporting firms and

their representatives who are unable to communicate promptly and in his own language.

4. Salient points for the exporter

The Export Guarantee Corporation gives maximum cover to goods going to Germany. It was interesting to note that U.K. exporters receive better terms in both % of cover and length in period of credit than their German counterparts.

Credit is an important sales aid and this function is carried out by the exporters U.K. bank. The British banks are not strongly represented in Germany, preferring to work together with local German banks on a correspondent basis.

The exporter of food and pharmaceutical goods when entering the German market would be well advised to examine the laws governing the contents of these products, thus avoiding the infringement of the stringent conditions imposed.

R.P.M. receives Government support but there are 'grey' areas where it does not operate effectively. This whole question is under discussion with other members of the Common Market.

Advertising is mainly handled through the German branches of large international agencies. Recently, however, local German agencies have been growing rapidly and employing the latest advertising techniques previously only found in the U.S.A. and U.K.

The main market is reached through magazines as very little advertising time is permitted on television and daily papers only enjoy local coverage.

5. The Motor Industry

The British share of automobile imports into Germany in 1964 fell to 4.8% compared with 6.7% in the previous year. The shares held by Italy and France in 1964 were 29% and 35.5% respectively. The number of vehicles sold by B.M.C. over the past four years illustrates clearly Britains inability to successfully penetrate this market although there are now signs that the latest models are beginning to sell better.

	1961	1962	1963	1964
Number of vehicles sold	3100	4300	3900	3700

Britain arrived late in this market by which time the best agents and distributors had been contracted either by local manufacturers or other importers. Similarly the most efficient garages had signed exclusive service agreements, a feature of the German market, and were not in a position

to maintain British cars. There are also repeated complaints that delivery times of popular models are greatly in excess of competitors and this has caused the loss of much business.

These factors together with the higher tariffs on imports from Britain makes the motor industry's task of penetrating the German market a hard one. The latest range of B.M.C. cars are, however, proving that it can be done providing the product is right and delivery prompt. Unfortunately the latter is not always the case and delivery for an M.G.B. for example remains at twelve to fourteen weeks.

Table 1

German Imports

	1961	1962	1963	1964
Millions £s ex. U.K.	171.2	199.3	213.1	219.1
U.K. % of all imports	4.4%	4.8%	4.7%	4.2%
Balance (to U.K.)	(1.4)	+31.2	+32.0	(19.8)
incl. re-exports	21.7	25.5	27.2	27.0
French % of all imports	10.4%	10.7%	10.5%	10.6%
U.S.A. % of all imports	13.8%	14.2%	15.2%	13.7%
Italian % of all imports	6.9%	7.6%	7.1%	7.6%

Table 2

German imports of cars

	1961	1962	1963	1964	1965 Jan-Mar.
a. All countries (000's vehicles)	95.6	163.7	132.8	183.9	59.1
b. All countries (million Dm)	360	665	593	804	273
c. U.K. (000's vehicles)	3.5	7.9	6.4	7.2	3.2
d. U.K. (million Dm)	20.9	45.5	39.7	37.6	14.5
e. d as % b.	5.8%	6.8%	6.7%	4.8%	
f. France (000's vehicles)	44.6	73.8	70.6	65.0	NA
g. France (million Dm)	177.4	294.8	314.3	285.4	NA
h. g as % b	49.3%	44.4%	53.0%	35.5%	NA
i. Italy (000's vehicles)	36.9	67.1	37.6	59.1	NA
j. Italy (million Dm)	118.5	263.0	161.5	233.1	NA
k. j as % of b	32.9%	39.6%	27.2%	29.0%	NA
l. German production (000's vehicle)	1752	1945	2186	2340	NA
m. a as % of l.	5.5%	8.4%	6.1%	7.9%	NA

6. Furniture

British exports of furniture represent 6.4% of all German imports. In terms of figures this represents £9,605 out of a total of £150,000. In relation to the total annual German production of £9 million there would appear to be considerable scope for U.K. exporters to increase their share; more particularly because there is a scarcity of craftsmen and delivery periods of several months for top quality furniture are normal.

It is in the quality field where the potential seems to be as Holland and Denmark with 18.8% and 17.6% of the market respectively, have cornered the medium price and Scandinavian style demand. Although steps have been taken to interest British furniture exporters little response has so far been forthcoming.

Furniture Statistics

	1963		1964	
Total imports in Germany	113,425		149,974	
Exporters		Market Share %		Market Share %
Netherlands	21,552	19%	28,160	18.8
Denmark	19,267	17%	26,450	17.6
U.K.	6,165	5.4%	9,605	6.4

7. Womens ready-to-wear clothing

Another market that appears to offer considerable opportunity to British exporters is womens clothing. The potential of this market has only recently been brought home to U.K. suppliers and during 1964 exports rose by over 70%. On this basis the U.K. share of the market has now risen to Dm. 3.7 million nearly 8% of total imports which amount to just under Dm. 50 million.

The German woman is fashion conscious and has money to spend. British styles are much admired. A concerted effort to make them more widely known is being carried on through Trade Fairs and other promotional media.

V Conclusions

1. For the past four years British exporters have been trying hard to make up for ground lost in the late 1950's. It is distressing to report that by and large they have failed.

2. The fundamental reason for this failure has been the lack of a sustained

sales effort on a broad front. British companies have, with some notable exceptions, exported when and if it suited them. During periods of expansion in Britain exports have been neglected; when the squeeze prevails Europe is discovered afresh.

3. The Common Market tariff barriers are by no means an insuperable obstacle. Given a well-designed product at a reasonable price delivered promptly, there is a ready market for British exports. Again we must report that the most common complaint levelled against British exporters is that they are apparently unable to deliver their products on time. The Continental feels that this reflects a lack of exportmindedness, not simply within the individual companies, but throughout the whole transport and handling system which carries his order from the factory to his country. To safeguard himself from the unexpected hazards and stoppages peculiar to the British economy he feels obliged to order well in advance; or, more simply, to seek supplies elsewhere.

4. For years successive Chancellors of the Exchequer have exhorted the country to make a greater export effort. But too small a section of the industrial community has responded. It would appear that only the unpleasant effects of an exceedingly serious financial crisis, brought about by our inability to pay for our everyday needs, and felt by all sections of the community, will compel us to adopt that state of export-mindedness which would lead to a lasting improvement in our economy.

A survey of the possibilities of establishing local manufacturing facilities in Europe for British Companies desirous of increasing or establishing markets for their goods in the E.E.C.

- by -

R.A.W. Kinglake
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It has been possible during a ten day visit to European business centres to have 'on the spot' discussions concerning the establishment of British Manufacturing subsidiaries. These contacts plus the valuable information available in the United Kingdom from Governmental, Banking and Commercial sources have made this survey possible.

In most European cities visited contacts were made with British and European businessmen and bankers, British Embassy staff, the local British Chambers of Commerce and Trade Union Leaders.

It is hoped that this survey will be of value to those British firms who are meeting growing obstacles when selling to the European market as a result of tariff changes, and are anxious to have an increasing stake in the rising prosperity of E.E.C.

It is recognised that the criteria for establishing the location of manufacturing facilities in Europe will inevitably differ from Company to Company and product to product. It is already apparent within the Common Market that producers of mass market consumer goods have found it advantageous to manufacture within more than one member country. This duplication of manufacturing has been done to meet the traditional local market requirements and has the advantage of reducing transport costs and tapping a new supply of labour.

Particular attention was paid to the effect of the proposed Corporation Tax in the U.K. on existing British subsidiaries, and as yet no change in policies is evident. British management abroad stated that the implications were being studied in their U.K. parent companies.

Managers of successful British subsidiaries in Europe stressed that it was not possible to enter a new market and make substantial profits within the first year or two, indeed it was stated that only after three years or more would a 'break-even' point be reached. It is difficult to see the possibility of applying the suggested 'pay back' criterion of the British Foreign Exchange authorities to such investment.

British subsidiaries that have failed in Europe have normally taken little note of the requirements of the market before entering it, and it is important to sell to these countries articles demanded by the consumers and not simply articles which have proved successful in the United Kingdom.

There are in some countries strong reasons to merge with an existing company. In this way local knowledge is purchased and very often an established sales force is obtained. The latter has been an important factor in recent takeovers in Germany by American Companies.

Particular considerations in various countries

FRANCE

Market background

The population is 48 million covering an area of 212,000 sq. miles. Nearly six million people live in Paris Metropolitan area, but outside this area there are fewer heavy concentrations of population than in the United Kingdom. Only two other centres have more than ½ million inhabitants - Marseilles and Lyons.

A large proportion of French industrial production is carried on in villages and small towns, and nearly 50% of the population live in communes of less than 2000 inhabitants.

Prior to the second World War there was a policy in France of dispersal of industry, this has been extended since 1946.

The 'Planning' of the postwar years has discouraged the building of offices and factories in the Paris Region and encouraged development in areas suffering from unemployment.

The Government sponsored 'Plans' give guided lines to the Economy and any Company manufacturing in France is well advised to develop within the proposals of the current Plan, though British subsidiaries visited in France denied fitting their Company policy to 'the plan' and thus obtaining the more favourable interest rates on bank loans.

Taxation

Company taxation is at present 50% of the net profits. A Distribution Tax of 24% is also levied on profits distributed in the form of Dividends. The Distribution Tax is charged at the rate of 10% only on dividends payable on a U.K. Shareholding of 55% or more providing the Parent Company has held the shares for more than one year. A British owned French subsidiary is taxed less than a branch of a U.K. company.

A Turnover Tax (Tax sur la Valeur Ajoutee) is payable on most domestic and imported produce. As an easy guide a rate of 25% of the invoice value can be taken as covering this tax. If a British subsidiary in France exports goods Turnover Tax is not levied on these transactions.

Exchange Control

The profits made by a British subsidiary can normally be remitted on application to the Banque de France. Proof must be submitted that Taxes for the year have been paid, and end of year accounts must accompany the request for remittance rights.

If the capital transferred to open up the Subsidiary is to be repatriated permission will normally be granted if the initial investment was authorised by the French Exchange Control Authorities.

Local Financing of Working Capital

Providing that a British Parent Company puts up the Capital to cover the Fixed Assets there are means of obtaining Credit to cover working capital requirements.

Much short term credit is supplied by the Discounting of commercial bills. There is at the moment some degree of credit squeeze in France and credit will be difficult to obtain for projects not in alignment with the National Plan.

Type of Company

Société Anonyme (SA)

Société à Responsabilité Limitée (SARL)

The above are the two most common types of company and in both cases members liability is limited to their share of the capital.

An SARL is in fact much easier to set up but is more complicated to run than an SA. Many firms, therefore, set up an SARL and then form an SA to take over.

Currently there is concern in French Government circles regarding the large net inflow of Foreign investment. It is essential to obtain the permission of the Ministère des Finances who will at present only grant this if it will increase productivity or improve distribution. Caution should therefore be the byword.

It was suggested in Paris that initially it would be ideal to have an 'association' with a French firm of like size and interest and that currently the accent should be on small U.K. firms making efforts to 'associate'.

Labour Market

Labour is generally in short supply in the urban areas such as Paris and firms are now moving out to Development areas where there is a large reservoir of 'agricultural' labour.

As far as the foreigner living in France is concerned he must have a Carte de Séjour (Residential Permit). In addition, any manager of a subsidiary should have a Carte de Commercant (Commercial Card). This card can take up to three months to obtain and an interim Temporary Card can be obtained for foreigners at the time their investment is approved.

The legal working week is 40 hours and there is no wage discrimination between men and women - 'equal pay for equal work'. Wages are currently rising at about 6% per annum. Social security charges are 49% of the gross salary.

Trade Unions

There are three main unions in France:

C.G.T.
C.F.D.T.
C.G.T.F.

All three unions are founded on political affiliations and not crafts as in the U.K. All stated they were entirely financed by members and owing to the low subscriptions they are not wealthy.

Of the total labour force of 14 million some 3 million are members of these unions. C.G.T. has an estimated 2½ million members, whilst slightly more than 50% of the balance belong to C.F.D.T. and the rest to C.G.T.F.

The unions do not operate a closed shop as they feel it could be their 'death knell'. Demarcation disputes are unknown.

At plant level the inter union co-operation is good in matters like training and re-training, but their long term policies are widely divergent.

Government Aid

Certain areas of France are designated Development areas and an 'industrial bounty' of between 5% and 20% of the capital outlay can be obtained up to a fixed maximum.

Also in certain cases of declining industrial activity a bounty of up to 20% can be obtained.

In both cases there is a minimum investment level of Frs 300,000 and at least 30 new jobs must be created.

In addition to these bounty's there are certain financial advantages in setting up in these areas:-

1) Writing off for tax purposes 25% of the cost of new constructions.
2) Waiving of trade licence tax
3) Reduction in transfer tax.

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ITALY

Market Background

The area of the country is 120,000 square miles with a population of 52,000,000. Italians, as a people, are not city dwellers, only 13 cities have a population in excess of $^1/_4$ million and their total combined population is roughly equivalent to that of Greater London.

Italy can be divided into three parts:

a) the fertile and highly developed North of some 20 million people.

b) Central Italy - the cradle of culture with a population of 14 million

c) Southern Italy - a poorer agricultural area than either a) or b) with a population of 18 million.

Over half the population of Italy live in areas still officially classified as depressed and the 36% of the population resident in the South produce only 22% of the National Income.

Italy after a period of credit squeeze is now running a surplus on its external account. From 1962 - 1964 Italy was in a wage cost inflation spiral and hourly earnings went up 17% in the year 1962 - 1963. The credit squeeze took the economy 'off the boil', and caused unemployment and under employment. Confidence is not fully recovered in Italy at the present time. The Government is attempting to establish some form of 'Planning' on the French pattern, the basic tenet being a 5% increase annually in Gross National Product and an extra $1\frac{1}{2}$ million jobs in non-agricultural activities within the next 5 years, half to be in Southern Italy.

A feature of the Italian economy is the large Government participation in Industry, through the I.R.I. holding company (Institute per la Ricostusione Industriale). Through this holding the Government exercises considerable influence on the economy.

The strength of the Communist Party in Italy makes it the exception in the European countries visited, it is the largest and the most active in Europe outside the Eastern Bloc, and it is supported by voters as the most expeditious vehicle for a better standard of living.

Taxation

Companies pay tax on income at a basic rate of 28% to 36% on incomes of 100,000,000 lire. A corporation tax is also levied at .825% on taxable assets, and a further corporation tax of 16.5% on income exceeding 6% of the taxable assets.

All profits distributed in any form by companies are liable to a 15% deduction at source.

Exchange Control

The transfer of dividends and profits can be made without any hindrance. The proceeds from a liquidation of an investment in Italy can be remitted to U.K. without difficulty providing the Italian Treasury has recognised the original investment as 'productive'. In the case of 'non-productive' investments, two years must elapse before disinvestment is allowed and remittance of income is limited to a rate of 8% per year. Amounts in excess of this figure must be credited to 'capital account' which can however be switched into 'Foreign account' and then remitted freely. There is normally a small discount applied on 'Capital Account' Lire.

Local Financing of Working Capital

Companies which are accepted as 'Productive' may obtain medium and long term loans on the following conditions.

a) If there is no Italian capital in the Company medium and long term loans may be obtained up to a level of 50% of capital brought into Italy.

b) If there is mixed Italian and Foreign Capital, if more than 30% is foreign, over 55% of the capital may be available in loans providing the company satisfy the Italian authorities that similar types of loans have been obtained abroad of a like duration and proportion to capital.

Medium term loans can be obtained for about 8% plus expenses, whereas short term loans cost about 6 - 7½% depending on whether Bills or Overdrafts are used.

Types of Company

Societa a responsabilita limitata (SRL)

Societa per azconi (SpA)

These are the two main types of companies in Italy and both are recognised exlege as a legal person and have limited liability.

It is obligatory by law for all companies to join the local Chamber of Commerce and subscriptions are included in the local rates. In Milan for example this produces an income of £1 1/4 million.

Experience in Italy by English business men has shown that when merging with an Italian company it is essential to purchase 51% or more to gain absolute control.

The opinion was also expressed that now is the ideal time to set up a subsidiary in Italy whilst cost of land, buildings, etc. are relatively low as prices are liable to rise substantially over the next two years as the economy improves.

Labour Market

The cost of labour in the industrial areas of Italy is as high as anywhere in Europe. The workers take home pay is low but the social security contributions can be as high as 90% of the gross wages.

Paid holidays for workers are 12-16 working days, staff get up to 30 days, both according to length of service. Additionally there are 17 Bank holidays each year. Workers are also entitled to Christmas Bonus of an extra months salary.

Traditionally absenteeism is very high so the tendency is to employ more workers than actually required.

All foreign personnel must obtain a residence permit from the Ministry of Internal Affairs and a labour permit from the Ministry of Labour.

Many Italian workers are at present in more prosperous countries and there is also a large virtually untapped labour source in Southern Italy.

Trade Unions

There are four main unions in Italy all of whom are politically inspired. They are:-

C.I.S.L.	- Democratic
C.I.S.N.A.L.	- Neo-Fascist Monarchist
U.I.L.	- Social Democrat
C.G.I.L.	- Communist/Socialist

There are a few genuine labour disputes which erupt into strikes, but most strikes are staged for purely political reasons by one or other of the unions.

Approximately 40% of the workers belong to a Trade Union and 40% of these belong to the C.G.I.L. which is the largest and best organised. (It is interesting to note that, in a Catholic country, the Communist Party polled 25% of the votes at the last election but only 5% of these are estimated to be Communists).

Government Aid

A feature of all business brochures about Italy is the amount of Government aid available in various forms to firms who establish factories in Southern Italy.

Foreign investments in Italy are classified as 'productive' and 'non-productive'. Particularly favourable treatment is given to direct investments not having a purely speculative object and which are intended for the creation or extension of 'productive' enterprises. In order to obtain recognition it is necessary to apply to the Treasury beforehand who will in turn issue a declaration to the investor within 90 days after the investment has actually materialised.

The following points of view may be of interest in the light of the above comments.

1) Despite all the advantages of cheap land, readily available house, tax incentives etc. the general standard of labour available in the South is of very low quality.

2) Any financial advantages gained by setting up in the South are largely minimised by the increased transport charges.

3) Other areas in Northern Italy also attract Government aid as they are also labelled underdeveloped. These areas generally have much better geographical locations.

THE GERMAN FEDERAL REPUBLIC

Market background

The area of the Federal Republic is 96,000 square miles with a population of 54½ million, excluding West Berlin (population 2.2 million).

German manufacturing firms are widely dispersed throughout the country, and the current view is that Frankfurt offers the best advantages as a trading centre in view of its central position.

The Federal Republic has since its inception followed liberal trade policies and there has been no planning on the French, and, now, the Italian pattern.

There is little fear in Germany that the present favourable atmosphere for business expansion will be upset later this year by a change of Government. Business men consider that the chances of a Social Democrat victory are not great, and are confident that should they be mistaken and the present Government fall, the Social Democrats in office would not fundamentally change the present liberal non-intervention policies towards Industry and Commerce.

Taxation

A Corporation Tax is charged in the Income of Companies, for resident Companies it is levied at the rate of 51% on undistributed profits and 15%

on distributed profits. The withholding tax on dividends is 25%, but under the current double taxation convention this is reduced to 15% for dividends to U.K. shareholders, which are subject to U.K. taxation.

The Lander levy a Trade tax which amounts to between 6% and 9% of profits.

The most important indirect tax in Western Germany is the Turnover Tax, which is levied on most transactions in goods and services - the standard rate is 4% and is paid on imports in the form of an equalisation tax.

Exchange Control

There are no restrictions of any sort on the transfer of profits or capital from Germany to the U.K.

Local Financing of Working Capital

British subsidiaries may obtain local assistance with the required working capital if a guarantee is obtained from a U.K. Bank. The current interest on overdrafts is 8%.

Germany

Types of Company

Kommanditgesellschfatt auf Aktien (KGaA)

Aktiengesellschfatt (AG)

Gesellschfatt mit beschrankter Haftung (GmgH)

The most suitable form of company is the GmgH which is simple to set up. It has the added advantage of having no stock certificates or transfer agents and is not required by law to publish a balance sheet (in practice only 2% of GmgH do this). On the other hand an AG must file a Balance Sheet and Profit and Loss account. From 1st January 1966 the published figures must agree with those supplied to the Tax authorities, thus prohibiting the practice of producing a special report for shareholders.

It was suggested that the ideal method to set up in Germany would be to buy into a GmgH through one or more of the partners (again at least 51% share if possible) as by this method you would acquire an office and sales staff, which are extremely difficult to set up due to the shortage of qualified personnel.

Membership of the local Chamber of Commerce is obligatory by law.

Labour Market

Labour and staff are extremely scarce, hence the considerable influx of foreign workers which are vital to keep industry going.

Salaries are paid in 13 installments. That is to say everyone has an extra payment at Christmas. Social security and fringe benefits are excellent and cost in the order of 40% of the gross pay.

Employment of foreign executives presents no difficulties as the requisite Work permits are easily obtainable.

Employees enjoy the statutory right of co-operation or co-determination with the management of the enterprise in matters relating to their social and economic welfare and security. Small companies have a Works Council and large companies a Supervisory Board in addition to the Board of Management.

Trade Unions

There are two main unions in Germany:

DGB - for workers and white collar staff

DAG - for white collar staff only.

The DGB is by far the largest union having some 6 million members. It is in fact a Confederation with 16 affiliated unions covering various industries.

The unions are craft and non-political and negotiate long term agreements for whole industries but wages may vary in the different provinces.

As a result of legislation the unions are extremely powerful representing the workers in the Works Council and have members of the Supervisory Boards.

German workers are not strike conscious and for example in one of the largest chemical firms in Germany the last strike was in 1926.

It is interesting to note that the successful structure and organisation of todays Unions was imposed by the British Military Government in the post-war years.

Government Aid

In Germany little or no financial aid is forthcoming from the Federal Government to overseas firms. The only exception is in West Berlin where the level of taxation is reduced, but for obvious reasons this is hardly the ideal location to set up a subsidiary if you wish to attack the whole German Market.

In certain areas of Germany the Municipalities or Provincial Governments offer some inducements to set up in their locality. However these areas are usually unsuitable because of their geographic location. The Frankfurt area is undoubtedly the most attractive because of its central location and its communications by road, rail, river and air within Germany and Europe.

BELGIUM

Market background

With a population of $9^1/_4$ million in an area of 11,775 square miles, Belgium ranks second in density of population in Europe.

The Northern half of the country is Flemish speaking and the Southern French speaking; the former is growing faster in population and economic strength, which is aggravating the linguistic division in the country.

There is a growing movement towards changing the Constitution to a Federal form in an effort to satisfy the aspirations of the Walloons or French speaking minority.

Belgium has welcomed foreign investors since the war, though there are signs that the Government wishes to be more selective in future before assisting foreign companies to establish themselves, especially in areas of low unemployment and fully utilised public services.

Taxation

Income Tax on Companies is levied at a rate of 30% on both distributed and undistributed profits. Prepayments are encouraged by increasing tax due by 15% if payment is made after the income is earned. Normal sales Tax is 6% but there is a luxury sales tax of 13% to 16% on certain articles.

Some British firms operating in Belgium as branches of their U.K. companies have had no tax disadvantage in not being a Belgian Company, but it was reported by a manager of one of these, that the position was being reviewed in light of the proposed changes in the U.K. Tax System.

Exchange Control

There are no controls over remittances of profits and repatriation of capital from Belgium. If a Foreign Company has obtained a guarantee from the Exchange control authorities that a reimbursement of capital can be made at any time such a transfer can be made through the official market, otherwise the free market must be used. There is no significant difference between the Free and Official Exchange rates.

Local Financing of Working Capital

There are various means of obtaining short term bank credits - the principle are:-

1) Discount of bills drawn by the seller of goods on the buyer.

2) Overdraft factilities.

At present both means are about equally used in Belgium; the rates depend on the current bank rate, for example interest on an overdraft is approximately 7½%, about 1% over the bank rate.

Types of Company

Société anonyme (SA)

Société de personnes à responsibilité limitée (SPRL)

These are the only types of company likely to be of interest to firms setting up a subsidiary.

Company directors need not be of Belgian nationality; they may all be foreigners and live abroad. However a company having a permanent establishment in Belgium must appoint a guarantor resident in Belgium for the purpose of insuring payment of taxes.

Labour Market

Labour is generally in short supply except in certain of the Development areas. In Brussels sales staff and certain grades of office workers, such as bilingual secretaries are difficult to find.

Works councils are obligatory by law in all factories but one British subsidiary with over 150 workers at their works has been unable to form one owing to lack of interest.

Social Security and fringe benefits cost about 40% of the gross pay.

Foreigners working in Belgium need a 'permis de travail' or in the case of directors a 'carte professionalle' in addition to a 'visa d'establissment'. All of these are at present obtainable without difficulty.

Trade Unions

There are three main trade unions in Belgium:-

C.S.C. - Catholic
F.G.T.B. - Socialist
C.G.S.L.B. - Liberal

All three unions are organised on a religious or political basis and for this reason nearly all strikes in Belgium are for political reasons.

The unions are very strong and negotiate with management on an industrial basis.

The C.S.C. has about 812,000 members and the F.G.T.B. has about 69,000 whilst the C.G.S.L.O's has only about 80,000.

Government Aid

The Belgium government's financial benefits to foreign concerns setting up Belgian Companies are among the best in Europe. These are in the form of cheap land, interest rebates in loans, state guarantees of borrowing, capital subsidies and fiscal exemption.

Altogether there are 15 zones which are scheduled as Development areas and they are widely scattered geographically.

Many local authorities in these Development areas offer additional inducements to new industries including the provision of factory sites and exemption from local taxes.

SWITZERLAND

Switzerland was the only country visited during the ten day trip which is a partner with Britain in EFTA. Unfortunately it is the only country in which it is not possible at present to set up a manufacturing subsidiary.

The total population is just under 5,700,000 and at present there are nearly 1,000,000 additional foreign workers living in the Country.

Owing to the current inflationary trend the Government have taken certain measures which affect Foreign companies and personnel.

Firstly, no furhter expansion by foreign companies is at present permitted. Secondly all employers of foreign personnel have been instructed to reduce the number of foreign employees by 5% whether they be management staff or workers.

The results of this last item of legislation have been twofold. On the one hand it is extremely difficult if not impossible for any foreigner to obtain a work permit at present. On the other hand at least one large American company which has its European Head Office established in Switzerland will shortly be transferring to another European base.

In the light of this information there seemed little or no point in reporting the prospects of setting up a manufacturing subsidiary in Switzerland.

In conclusion for the benefit of anyone interested in setting up a subsidiary in Europe there are many valuable sources of information to assist them (see list at end of report). However, it cannot be over-stressed that it is only by first hand personal contact and discussion in the respective countries that the British manufacturer will find the solution to his problems.

Finally, the following points might be of some assistance:

1. Accurate market analysis must precede major decisions whether or not to set up a manufacturing subsidiary and if so where.

2. Send the best available man and do not use it as a chance to rest your man who is flagging at home.

3. Check that your product is right for the market.

4. Ensure that your price is right by first finding out what price the market will bear and investigate Government regulations on price control.

5. Study carefully the distribution channels you intend to use and bear in mind that Europeans expect a far higher standard of service than is often accepted in England.

6. Plan your advertising for the market bearing in mind the wide differences in suitable media. Make certain that brochures etc. are written grammatically and in good style.

7. Remember that marketing in Europe is different to that in the U.K. and British methods may be unsuitable.

Sources of information for firms interested in setting up in Europe:

British Banks
Foreign Banks
Board of Trade
F.B.I.
British Chambers of Commerce overseas
Commercial Department of British Embassies.

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