

## CHAPTER 5

# **The EU**

## **Fortress or Beachhead?**

In 1957, six European countries joined together to form the EC. But even as membership grew to nine in 1973 and twelve by 1985, the common market remained unfinished because nontariff barriers expanded across Europe once tariffs on intra-EC trade had been eliminated. The spread of these protectionist measures stimulated political pressure to complete the common market, which culminated in the Single European Act in 1986.

This chapter shows that industry groups that could not fully exploit economies of scale pushed for the 1992 program to establish the single market. For these industries, European integration offered an escape from small domestic markets: it would allow companies to expand in size and standardize production, stimulating efficiencies that could not be attained while operating on a national basis.

The Single European Act in turn affected Europe's trade policy toward the rest of the world. Completing the single market unleashed adjustment processes across borders, particularly in activities with large returns to scale, as national industries and individual firms expanded and contracted in different locations. Competitive burdens on small-scale firms provoked protectionist pressures leading up to 1992. Inward FDI by foreign multinationals also caused European producers to seek TRIMs to prevent outsiders from capturing the benefits of the common market.

To date, however, popular concerns about a fortress Europe have proven to be unfounded. In the first decade after the single market was completed, only quotas on Japanese automobiles and a few classes of steel were extended Europe-wide. Though antidumping measures and state aids occasionally substituted for trade protection lost since 1992, protectionist pressures in industries such as textiles, apparel, and footwear did not produce higher trade barriers. Moreover, industries with large returns to scale grew more favorable to open

trade as larger companies moved down their cost curves and small-scale producers disappeared. As a result, European import policy did not take a protectionist turn after the Single European Act.

### **An Incomplete Common Market**

The postwar Marshall Plan planted the seeds of European integration, as the United States stipulated economic and political collaboration as a condition for financial aid. In Article 5 of the Convention for European Economic Cooperation, signed soon after the U.S. Congress passed the European Recovery Program in 1948, the future EC countries agreed to discuss the prospects for a regional arrangement. Already Belgium, Holland, and Luxembourg had launched a customs union, and France had informed the GATT that it intended to negotiate free trade with Italy (Milward 1984, chap. 2).

The 1951 Treaty of Paris, which created the European Coal and Steel Community, marked the formal start of European integration. Under this arrangement, outlined in the Schuman Plan, European countries established common policies and market-sharing arrangements in coal and steel to alleviate shortages, facilitate industrial planning, and integrate Germany into a transnational arrangement to control its future war-making capacity. The Treaty of Rome, in which Germany, France, Italy, Belgium, Holland, and Luxembourg agreed to form a customs union, followed in 1957. The plan envisioned the creation of a common market with free movement for goods, services, capital, and labor.

The first phase of integration from 1958 to 1973 eliminated tariffs and quotas on European goods. The six EC members negotiated as one for the first time in the Kennedy Round of the GATT. By 1968, the common external tariff was in place, and customs duties and quantitative restrictions on intra-EC trade had been eliminated. In 1973, the EC grew from six to nine with the addition of Britain, Ireland, and Denmark.

But despite the elimination of tariffs and quotas, product markets were not fully integrated. Distortions persisted due to differences in tax laws, technical barriers, varying national standards, domestic subsidies, closed procurement markets, border inspections, and myriad other restrictions. Moreover, these sorts of nontariff measures proliferated in place of the barriers that had been liberalized.

Import restraints were especially common in industries dominated by “national champions,” that is, companies with a legacy of state support and in some cases state ownership.<sup>1</sup> As formal trade barriers disappeared, national

1. Examples include Renault, Usinor-Sacilor, Thomson, and Machines Bull in France; British Steel, Rover, and ICL in Britain; and Fiat, Alfa-Romeo, Italsider, and Olivetti in Italy.

champions for the first time faced competition in their home markets. In response, governments employed special protective measures to insulate these companies from external pressures. Nontariff measures enabled national champions to preserve domestic sales and market shares; without state intervention, some of them would have gone out of business or been absorbed by other firms.

With national markets segmented, firms seeking to expand European sales could not standardize products and rescale manufacturing to serve the entire region. Many established factories outside their home countries because import limits made it easier to produce in the market of final sale (Franko 1976, 103–4, 148–53). The Dutch electronics company Philips, for instance, operated plants in every EC country—about 250 in all. The firm and its affiliates manufactured “seven types of TV sets equipped with different tuners, semiconductors, and plugs to meet differing national standards” (Hufbauer 1990, 6); each model required a separate production process.<sup>2</sup> In an effort to grow within the constraints of fragmented markets, many companies diversified into multiple product lines, which spread manufacturing and R&D more thinly. Throughout the EC, European multinationals were nationally oriented and less closely integrated across borders than non-European affiliates in the region (United Nations Center on Transnational Corporations [UNCTC] 1990, 23–26).

The spread of national-level restrictions thus threatened the common market’s viability. Firms seeking larger than national markets could not reap the full benefits of regional integration: as long as restraints on trade existed and technical standards and regulatory rules varied so widely, they could not penetrate the domestic markets of high-cost competitors, they could not specialize production across borders to take advantage of factor price differentials, and they could not rationalize duplicate activities and organize manufacturing, marketing, and distribution on a continental basis. Indeed, the European Commission’s Cecchini (1988, 31) Report found “innumerable cases of Europe-wide business rationalization which are not even attempted because of the costs involved.” Moreover, market segmentation in the EC coincided with a loss of market shares abroad for European firms, which heightened concerns about declining competitiveness.

These problems provoked calls to lift the surviving restrictions on the movement of goods, services, capital, and labor. In 1985, a European Commission White Paper, “Completing the Internal Market,” detailed the benefits of

2. Philips also made almost two thousand kinds of lightbulbs due to differences in national standards (Dai 1996, 167–68).

eliminating these remaining barriers and identified 289 measures for member countries to implement. The proposal targeted four types of barriers: fiscal barriers (such as taxation), national-level quotas against nonmembers, market access restrictions (for example, public procurement and regulations on banking, insurance, and transportation), and border barriers (such as technical standards, administrative rules, and border inspections). Subsequently, the white paper became the foundation for the 1992 program to complete the single market.

### **European Industry and Economies of Scale**

The first step in identifying producer preferences is to evaluate the importance of scale economies. In the book's analytical approach, support for the single-market program is likely to be strong where national markets were too small to exploit scale economies and trade barriers hampered firms' efforts to expand. Industries with large returns to scale would have opportunities to exploit cost reduction in a unified market, with positive and negative adjustment effects as national industries (and individual firms) expanded and contracted across borders. Particularly where barriers to intra-EC trade sustained price differentials across markets, low-cost producers would be able to streamline operations and drive out or acquire small, high-cost producers. In these industries, a more efficient cost structure would benefit the surviving firms in global competition.

#### **National Market Sizes**

In a number of EC industries, incomplete market integration kept production fragmented. The European Commission, noting that "minimum efficient size has increased since the 1960s," identified several branches of manufacturing in which "technological change has exerted pressure to create ever-larger production units" (Emerson et al. 1988, 127). This study found that the entire EC market could support fewer than ten MES plants in 11 percent of all manufacturing sectors, and 10–20 MES plants in another 16 percent of sectors. In these cases, the largest national markets had room for only four or five MES plants at most. Eliminating the remaining barriers to trade would lift the constraints of national market size and allow producers to operate on an EC-wide basis—which would encourage firms to expand throughput, lengthen production runs, and pursue mergers and acquisitions.

Table 22 shows market sizes in Europe compared to the MES for thirty-seven products. Markets were small or returns to scale large in motor vehicles, transportation equipment, and tires; branches of industrial machinery, such as trac-

**TABLE 22. MES Production and the EC Market, 1984**

<b>Product</b>	<b>MES as a Percentage of EC Market</b>	<b>Largest National Producer</b>	<b>MES as a Percentage of Largest Producer</b>
<i>Large returns to scale</i>			
Aircraft	90.1	France	
Trucks	22.3	Germany	94.1
Typewriters	21.1	Germany	69.2
Tractors	20.3	Belgium	78.6
Videocassette recorders	18.5	Germany	500.0
Motorcycles	11.9	Italy	27.8
Semiconductors	10.1	Germany	41.1
Automobiles	9.9	Germany	26.4
Steel	8.3	Germany	25.5
Washing machines	8.2	Italy	23.6
Televisions	7.9	Germany	30.6
Primary aluminum	7.6	Germany	25.7
Refrigerators	7.3	Italy	22.4
Industrial engines	7.0	Germany	7.6
Electric motors	6.5	Germany	10.8
Tires	6.1	France	17.4
Petrochemicals (ethylene)	6.0	Germany	15.5
Manmade fibers	5.1	Germany	11.4
Synthetic ammonia	3.8	Netherlands	15.1
Synthetic rubber	3.4	France	10.8
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Beer	2.2	Germany	6.1
Glass bottles	2.0	France	5.5
Refined petroleum	1.7	Germany	12.9
Cement	1.3	Italy	5.2
Paper	1.2	Germany	4.4
Iron castings	0.9	Germany	2.3
Paperboard	0.7	Germany	2.8
Carpets	0.5	Belgium	1.3
Building bricks	0.3	Germany	0.9
<i>Small returns to scale</i>			
Cigarettes	11.6	Germany	43.6
Storage batteries	3.5	Germany	8.4
Soap	2.7	France	8.8
Detergents	1.4	Germany	4.3
Bicycles	0.9	Germany	3.3
Cotton fabrics	0.6	Italy	2.1
Synthetic fabrics	0.5	Belgium	1.3
Footwear	0.1	Italy	0.3

*Source:* Data for number of plants: Eurostat, *Structure and Activity of Industry* (various years); data for output: United Nations 1993.

tors and engines; office and computing equipment, electrical machinery, electronic equipment and components, and household appliances; steel and nonferrous metals; and industrial, synthetic, agricultural, and petroleum-based chemicals. Scale economies were less significant in food processing, beverages, and tobacco; nonmetallic minerals; metal manufactures; textiles, apparel, and footwear; paper products; instruments and precision machinery; and basic chemicals such as paint and soap. These findings are consistent with other studies of European manufacturing such as Emerson et al. 1988; Buigues, Ilzkovitz, and Lebrun 1990; and Smith and Venables 1988.

In the industries with important scale economies, an integrated European market left room for thirty or fewer MES plants—more than any national market could support, but many less than the number of factories then in operation. Removing barriers to intra-EC trade therefore would enhance competition and break up oligopolies, allowing large, low-cost producers to expand, sometimes at the expense of small, high-cost producers. Of the firms already competing in the market, a few “European champions” would emerge in each industry, along with a handful of smaller, differentiated producers. This meant that some national champions could go out of business once they lost the trade protection that enabled them to survive.

The scale of production in the EC at the time the single-market initiative was launched provides further insights into how integration would affect national industries. Large-scale producers in industries with large returns to scale would be likely to benefit from the completion of the single market; small-scale producers, however, would be exposed to competitive pressures as trade liberalization and policy harmonization moved forward. Industries with inefficient-scale manufacturing at the national level therefore had incentives to oppose European integration unless measures could be developed to compensate them for the loss of trade protection in their domestic markets.

### The Scale of European Industry

In the early years of the EC, many analysts believed that European firms were too small to effectively compete with industrial giants from the United States. To meet “le défi Américain” (Servan-Schreiber 1968), it was argued, European firms constrained by their national boundaries needed a larger internal market within which to gain scale economies. In the first phase of EC integration, firms in industries such as automobiles, trucks, and home appliances did expand product runs (Owen 1983). But European companies made fewer gains than their U.S. rivals:

The competitive advantages of U.S. [companies] . . . were not matched by European firms, many of which were still recovering from the Second World War and confined to their relatively small home markets. This imbalance in competitive strength in international markets meant that U.S. firms reaped many of the benefits of European integration in the early days of the Common Market by becoming leaders in several key markets in the Community. (UNCTC 1990, 5–6)

In the years preceding the 1992 program, “many firms in the Community . . . lost ground to their United States and Japanese competitors, not only in extra-regional markets, but in the Community itself” (UNCTC 1990, 18). Particularly in industries with large returns to scale, intra-EC trade barriers enabled high-cost producers to survive and prevented low-cost producers from expanding to challenge the leading firms from the United States and Japan. The European Commission concluded: “it is in these sectors that the Community’s competitive position is currently most under threat” (Emerson et al. 1988, 128).

Differences in industry definitions make extensive comparison across countries difficult. As a first cut, table 23 displays the scale of European manufacturing for five products. The data confirm that U.S. industries achieved longer product runs or larger batches. German producers generally attained scales comparable to non-European firms, with France not far behind. But size dis-

**TABLE 23. Scale of Production in the EC, 1980–89**

Product/Units	Year	EC-4	Percentage of U.S. Production	Germany	France	Britain	Italy
<i>1980–82</i>							
Motor vehicles (no.)	1980	134,223	88.4	176,775	199,654	86,261	69,990
Steel (tons)	1980	425,668	71.9	1,640,440	1,183,415	193,080	263,846
Manmade fibers (thousand lb.)	1980	33,674	68.4	54,931	32,775	21,419	28,950
Televisions <sup>a</sup>	1982	251,200	45.0	415,000	287,500	180,000	128,889
<i>1988–89</i>							
Tires (thousand)	1989	3,763	81.3	3,536	3,612	3,110	6,220
Manmade fibers (thousand lb.)	1988	37,314	76.4	62,382	59,686	13,143	34,423
Steel (tons)	1988	817,393	73.1	1,742,455	1,300,781	860,373	385,074
Motor vehicles (no.)	1988	108,765	55.1	148,583	94,458	71,586	117,424

Source: Data for number of plants: Eurostat, *Structure and Activity of Industry* (various years); data for output: United Nations 1993.

Note: No. = number of individual units.

<sup>a</sup>Data for the EC: Commission of the European Communities 1985, 72–81; data for the United States: U.S. Congress 1983, 113–14. Since ten of the sixteen U.S. factories were Asian, a relative scale of 45.0 is a reasonable baseline estimate for the EC compared to producers in Asia.

advantages in British and Italian industry were considerable. Due to the restricted range of these data, the following discussion draws extensively from qualitative information.

The chemical industry was Europe's traditional area of dominance. German firms were world leaders in specialty chemicals, while French and British producers maintained strong positions in volume-intensive basic chemicals. In pharmaceuticals, German and British companies amassed large R&D budgets and secured many new patents, but French and Italian drugmakers were smaller, with fewer financial resources. In synthetic fibers, average output per plant was four-fifths of the U.S. level and 20 percent greater than Japan's. European firms in these sectors already were large in size and international in scope. Though nontariff barriers, such as price controls for pharmaceuticals, left some room to exploit scale economies at the plant level, further liberalization generally was not going to place significant cost pressures on firms or provoke industry-wide adjustment (Commission of the European Communities 1988d, 48–50, 74–76, 130–38). The main exceptions were ammonia and especially petrochemicals: ethylene crackers and chemical refineries in Europe achieved only two-thirds of the average scale in the United States, even though capacity per plant doubled after 1970 (Molle 1993, 56–59).

Primary metal was another industry with areas of strength. Nonferrous refineries and smelters achieved large output scales, particularly for aluminum and copper. Steel mills increased in size with the development of blast oxygen furnaces and corporate mergers at the national level. German steelmakers and a few French firms approached world-class levels of output. However, Britain's steel industry faced severe overcapacity, and Italy had more steelmaking facilities (135) than the five other original EC members combined (127). As a result, European volume as a whole was barely half of the Japanese level, and national champions dominated in France (Sacilor), Italy (Finsider), Britain (British Steel), Belgium (Cockerill Sambre), Holland (Hoogovens), and Luxembourg (Arbed). State aids to inefficient companies, along with production quotas and minimum prices, forced low-cost German and Dutch steelmakers to sell surpluses outside the EC because they could not easily export within it (Howell et al. 1988, 177–89).<sup>3</sup>

In the automobile industry, smaller mass producers such as PSA Group, Renault, Fiat, and Leyland (until its sale) had a weak competitive position due to

3. This provoked antidumping and countervailing duties in the United States. The U.S. Commerce Department found subsidization rates of 15–20 percent for Usinor, Sacilor, Italsider, A.F.L. Falck, and British Steel. Krupp, Klöckner, and Hoesch in Germany and Hoogovens in Holland received some subsidies in 1980, but these were small by comparison (Tarr 1988, 190–91).



volumes of barely two hundred thousand vehicles per platform. Though the home market shares of these national champions declined continuously after 1960, the EC market was “single only in name” due to differences in equipment standards, inspection requirements, and local taxation. Incompatible national standards forced firms to engage in costly duplication (Cecchini 1988, 55–56).<sup>4</sup> Market segmentation existed in both automobiles and trucks, as prices were much higher in countries with local manufacturing than in those dependent on imports. Without import barriers and state aids, automakers SEAT, Leyland, Renault, and Volvo and truck makers DAF and ENASA might have gone bankrupt in the 1980s (Sleuwaegen 1991, 111–15; Commission of the European Communities 1990, 76). The larger mass producers—Volkswagen, Ford, and GM—and specialist automakers such as BMW, Daimler-Benz, and Alfa Romeo had more to gain from completing the single market and less to fear from foreign competition.

In information technology (IT), “the smallness of European firms, insufficient levels of R&D spending . . . [and] national markets of insufficient size and sophistication” placed EC industry at a severe disadvantage (Sandholtz 1992, 74).<sup>5</sup> In response, governments encouraged consolidation and employed subsidies, procurement preferences, and technical barriers to nurture national champions. But these practices prevented manufacturing from being regionally concentrated. “Protected and fragmented national markets have served to foster smaller, less efficient plant sizes, and to increase design and distribution costs,” Bowen (1991b, 252) concludes of the semiconductor industry. As MES production grew—firms needed a 6 percent world market share to recoup construction costs for modern facilities in 1990, compared to 3 percent in 1970—EC producers fell hopelessly behind (Bowen 1991b, 230–34), and Europe’s share of the world semiconductor market declined from 25 percent in 1970 to 12 percent in 1985 (U.S. Congress 1991, 203).

Weakness in electronic components filtered downstream, as “the higher price-cost margins made possible by protected national markets, together with import restrictions, dissuaded consumers from purchases that could have permitted the achievement of greater production levels” (Bowen 1991b, 252). Computer consumption in Europe was one-quarter that of the United States,

4. For example, France blocked common standards for windshields, tires, and weights and dimensions during the 1970s.

5. Mackintosh (1986, 75) explains the weakness of European IT firms more dramatically: “their ‘national’ sales were too small to yield them the benefit of competitive economies of scale; neighboring European national markets had the appearance of bloody battlegrounds, with wounded ‘National Champions’ trying to fight off the invading transoceanic hordes.”

and IBM held market shares of at least 60 percent in all EC countries except France. The top EC firms were smaller than IBM's "second-rank U.S. competitors" (Mackintosh 1986, 85), and the six largest companies held only 10 percent of the world market.<sup>6</sup> In telecommunications gear, national markets were too small to amortize the fixed costs of R&D and manufacturing.<sup>7</sup> The procurement practices of the national service providers, along with incompatible standards and restrictive certification procedures, preserved equipment makers' home market sales and blocked low-cost suppliers from operating on a regional basis (Cecchini 1988, 50–54). With the European market segmented into nine different switching systems (compared to four in the United States and three in Japan), CGE-Alcatel "was manufacturing three distinct but overlapping lines of public switch" (Commission of the European Communities 1997, 64), and the average factory produced one million lines—a fraction of the U.S. level of seven million (Emerson et al. 1988, 86; Sandholtz 1992, 229).

The consumer electronics industry was in the worst shape of all. Companies often had to expend considerable development expenses and reset assembly lines to meet differing national standards (Cecchini 1988, 33–34). In televisions, France used the *Séquence à Mémoire* standard, a Thomson patent, while Germany required Phase Alternation by Line, which AEG-Telefunken held. As a result, "European industry was fragmented into a large number of plants with relatively small production volumes serving segmented markets" (Cawson et al. 1990, 224), and producers maintained scales that were "suboptimal compared to plants in Japan" (Bowen 1991a, 264). The gap was even wider in videocassette recorders, and Japanese firms used their large cost advantages to cut prices and undersell EC producers. Bowen (1991a, 266) concludes: "market fragmentation explains the low rate of exploitation of economies of scale by European manufacturers and correspondingly why their production costs are often 20–35 percent higher than those of their Japanese competitors."

In each of these industries, the creation of a single market would allow larger European companies to expand in size and gain scale economies. A consolidation trend already had started in the 1980s.<sup>8</sup> Further concentration would be

6. IBM spent \$2 billion on R&D in 1983, while the largest EC companies (Siemens, Machines Bull, and Electronic Data Processing) each recorded sales less than \$1.4 billion (Mackintosh 1986, 136–39).

7. According to Cecchini (1988, 51), "Even the larger EC member states have small markets—compared to Japan, let alone the United States—and these are segmented, there being little intra-EC trade."

8. Consumer electronics merged into three main groups led by Philips, Thomson, and Nokia. In computers, Nixdorf and ICL were acquired, and Philips ended production, leaving Siemens, Olivetti, and Bull. In automobiles, Peugeot and Citroën merged to form PSA Group.

possible if the barriers that protected national champions came down. Small-scale firms, however, would lose market shares. In automobiles, the European Commission expected the number of platforms to decline from 30 in 1985 to 21 in a single market. This meant that PSA, Renault, Fiat, or Rover (Leyland's successor) might not survive the transition to the single market (Commission of the European Communities 1988a, 23–24). Likewise, ending steel subsidies would help large-scale German firms employ additional capacity at the expense of state-run enterprises such as Finsider and British Steel seeking to elude bankruptcy. In petrochemicals, industry-wide concentration would pressure inefficient firms to close their refineries. Twelve telecommunications suppliers survived in a market that could support three or four once nationalistic links with service providers were ended (Sandholtz 1992, 84–89). Small electronics firms, particularly in France and Italy, faced possible extinction due to their “limited scale of operations” (Commission of the European Communities 1985, 11). And so it was for the industries with substantial unexploited scale economies.

These circumstances left small-scale companies with three options. First, they could seek to defeat the single-market program to preserve their national champion status. Second, they could lobby to delay or block the implementation of directives that would erode national protection and domestic-market shares. Third, they could seek external trade protection to compensate for increased competitive pressures in Europe. Higher barriers to outside trade would allow EC firms with unexploited scale economies to stay in business if non-European producers could be pushed out. Indeed, without enhanced protection against external trade, many groups would be likely to try to delay and dilute single-market directives or defeat them altogether. Thus, the single market and external trade were closely linked: imports from outside the EC provided an outlet for groups facing tougher competition as internal barriers to trade were liberalized and national standards harmonized.

However, external trade barriers would not help if foreign multinationals could freely invest inside the single market. In several industries with large returns to scale, U.S. firms had a significant and longstanding EC presence. Multinationals were firmly established and produced with high local content in industries such as automobiles (where Ford and GM accounted for one-quarter of production) and computers (where IBM held 58 percent of the market). In these cases, trade policies and regulatory rules could not effectively discriminate between European and U.S.-owned firms.

The threat was that new entrants would transfer productive capacity to Europe to share in the single market's benefits; this would enhance competition and erode the market shares of EC firms, pushing them up their cost curves. In

electronic components, Intel, Motorola, and Texas Instruments were opening or expanding semiconductor-manufacturing facilities. Moreover, Japanese companies had started to manufacture automobiles and consumer electronics in Europe: Toyota, Nissan, and Honda had established automobile factories in Britain, while several firms began production of TVs and VCRs in Britain and Germany. Japanese FDI in consumer electronics had worsened the “fragmented industrial structure which resulted in the establishment of too many plants of suboptimum scale and considerable excess capacity” (Young, Hood, and Hamill 1988, 183). Foreign entry raised similar concerns about overcapacity and price wars in automobiles and semiconductors.

In this environment, EC producers, especially those with small-scale operations, had incentives to push for TRIMs and other regulatory rules to hinder or block foreign multinationals. Content requirements and trade restrictions on imported components and subassemblies would ensure that the benefits of 1992 accrued to European firms rather than those headquartered outside the EC.

#### Industries with Constant Returns to Scale

In industries with small returns to scale, completing the single market would be less disruptive. Large national markets and small returns to scale limited the potential benefits of completing the single market, since producers would not experience opportunities for cost reduction. Instead, producers would gain or lose based on local factor endowments. Thus, national industries with small MES production and large domestic markets would be expected to resist the single-market program or, as an alternative, seek to enhance protection against external trade, only to the extent that they anticipated greater import competition within the EC.

But most adjustments based on national comparative advantage already had occurred in the EC’s earlier phase. Markets were highly integrated in all but a few industries such as food and tobacco, nonmetallic minerals, metal products, and leather (Cecchini 1988, 27). Production and trade patterns in the EC therefore reflected specialization and different consumer tastes rather than market segmentation. While Europe was falling further behind in industries with large returns to scale, its competitive position was stable in activities with limited scale economies, such as textiles, apparel, leather, paper, and processed foods (Emerson et al. 1988, 11–19).

In textiles and apparel, the single market offered few opportunities to further specialize according to comparative advantage. Textile and clothing markets in the EC were highly integrated despite differences across countries in

value-added taxes and labeling requirements; indeed, some firms in northern Italy found it easier to sell in Germany and France than in southern Italy. Europe already had lost much of its low-end production, except for labor-rich areas in Spain, Portugal, and Greece, and the surviving firms specialized for niche markets in high-value-added segments and outsourced labor-intensive tasks due to high wages at home (Commission of the European Communities 1988c, 41–56, 102–5).

The key issue for these industries was not internal liberalization, which would have little effect, but rather harmonization in external trade policy. Under the Multifiber Arrangement (MFA), national quotas varied widely because discord in the EC thwarted a common external policy. Differences in quotas in turn diverted MFA imports from high-quota to low-quota countries. In response, France, Italy, Belgium, and Ireland imposed Article 115 measures to block transshipment and shelter protected textile and apparel producers from gaps in Europe's external trade policy. Disruption in sheltered national markets would occur if these restrictions were phased out and quotas harmonized at the EC level. Moreover, producers in Mediterranean Europe gained from trade diversion because they competed with developing nations in standardized, price-sensitive goods.

The food-processing and tobacco industries also were likely to experience significant competitive effects from the completion of the single market. Because of content regulations (such as restrictions in France on the use of aspartame in soft drinks, pasta purity laws in Italy, and beer laws in Germany), packaging and labeling requirements (for biscuits, cakes, chocolate and confectionery, soup, baby food, and ice cream), tax differences (on beer, for instance), and health standards, barriers to intra-EC trade were substantial (Commission of the European Communities 1988b, 94–173). Though scale economies were small in primary processing (transforming crops into edible food products) and secondary processing (processing and packaging refined food products), large firms could benefit from opportunities to expand marketing and distribution networks for brand-name products. The food and tobacco industries were highly multinational already, but European food processors (other than Unilever and BSN) lacked the distribution and marketing strength of foreign multinationals such as Nestlé, Heinz, Philip Morris, Kellogg's, Coca-Cola, and PepsiCo because they focused on national markets and lacked EC-wide strategies (McGee and Segal-Horn 1992, 28–32, 43–44). Breaking down the barriers that fragmented consumer markets would make it easier for companies to distribute and sell pan-European brands to compete more effectively with foreign rivals.

**TABLE 24. Import Competition in the EC**

Industry	Import Share of Consumption		
	1984	1992	Percentage Change
<i>Import share &gt;10%</i>			
Lumber	41.2	36.2	-12.0
Paper and pulp	32.0	32.3	0.8
Textiles	13.6	17.7	30.4
Clothing	13.3	23.2	74.6
Footwear	11.0	22.8	107.1
<i>Import share &lt;10%</i>			
Processed foods	8.2	7.6	-25.2
Wood products	6.4	10.7	67.4
Glass and glassware	5.9	7.7	30.4
Plastic products	5.4	7.3	36.1
Converted paper products	4.6	5.8	25.6
Furniture	4.1	6.7	63.9
Metal products	3.1	4.8	53.9
Beverages and tobacco	2.2	2.1	-2.7
Soaps and detergents	1.1	2.4	116.2

*Source:* Data from Eurostat, *Panorama of EU Industry* (various years).

Table 24 displays Europe's external trade patterns in industries with small returns to scale. The data show heavy import penetration in industries with high labor costs or natural resource dependence: labor intensity fueled external competition in textiles, clothing, and footwear, while poor forest reserves and reliance on imported pulp hurt the paper and lumber industries.<sup>9</sup> In glass and glassware, plastic products, metal products, furniture, processed foods, and beverages and tobacco, external competition was not significant.

The preceding discussion anticipates that the elimination of the remaining trade barriers and harmonization in the EC were likely to have the largest distributional effects in textiles, apparel, and food processing. In textiles and apparel, abolishing Article 115 and harmonizing external trade would create incentives for nationally oriented, high-cost producers to seek protection against external trade. Adjustment also would occur in the food and tobacco industries through competitive pressures on small national producers and high input costs for primary processors of fruits, vegetables, meats, grains, and dairy products. In this case, however, the presence of foreign multinationals in Europe suggests that it would have been futile for high-cost producers to seek

9. European paper mills averaged less than one-quarter the capacity of more efficient Scandinavian mills, but national markets were large compared to the MES (Zavatta 1993, 91-92).

higher barriers to external trade if integration produced heavy internal adjustment costs.

The other endowment-based industries were not likely to experience significant competitive effects from further market integration. EC producers already had strong motives to support high barriers against outside trade in lumber, paper, and footwear. The completion of the single market would not increase competition enough to make these protectionist preferences any more intense.

### **Industry Preferences on Completing the Single Market**

Lobbying activity in the EC prior to the completion of the single market is not easy to evaluate. The European Parliament rarely held hearings, so organized groups had few opportunities and little incentive to publicly communicate their preferences in Strasbourg. The Directorates-General for trade, competition, and economic and financial affairs in the European Commission, the administrative arm of the EC, lacked an institutional mandate to solicit the opinions of private groups, as cabinet departments and executive agencies do in the United States. Though the European Commission encouraged lobbying to learn the views of European and national interest groups—and it often sought business and trade union input when directives were in the drafting stage—most contacts with private actors were informal and confidential (Calingaert 1994, 34–39).

Moreover, much lobbying remained national, despite the growing centralization of authority in Brussels, because the positions of the member states in the Council of Ministers were the key factors in the policy-making process. In national capitals, political pressure was not as open as in Washington, D.C., nor was it exerted through formal civic channels. Calingaert (1994, 34) explains: “Chief executives of large European companies do not normally seek to influence governments through public pressure. Rather, they concentrate on private, informal means.” Large firms in particular could exert influence outside public view because, a European Commission official noted, “when necessary they can ring up their own prime ministers and make their case” (Sandholtz and Zysman 1989, 117).

In short, policy-making involved “informal relationships and negotiations” that “because of their informal character, are not clearly reflected in documents,” Fielder (2000, 76) notes. The official hearings and reports that are publicly available therefore provide little insight into lobbying behavior in the EC. The analysis that follows draws from secondary texts, newspaper reports, and,

where useful, public documents to examine lobbying on the completion of the single market and the evolution of external trade policy in Europe. Though the information in these sources is not as thorough or as conclusive as material drawn from public cases of lobbying, still it illuminates the general direction of industry trade preferences in Europe.

The politics of the single-market program is especially obscure. Moravcsik (1998, 318) finds “broad-based business support in all countries for the [Single European Act] as a tool to increase the global competitiveness of firms.” At the industry level, the single market was most popular among capital goods producers such as “automotive, machine tool, chemical, and electronics firms,” and “multinational firms in capital-intensive sectors.” Opposition centered in food processing, while national champions with few exports “viewed liberalization of regulatory standards and public procurement most unfavorably” (Moravcsik 1998, 328). However, “business did not take a proactive role,” Moravcsik (1998, 344) argues, because “the great majority of businessmen believed that the effects of 1992 on corporate costs would be small. . . . Though industrial restructuring was viewed as inevitable, removal of trade barriers was an unimportant factor, for most European [multinational companies] were already organizing on a continental scale.”

Moravcsik accordingly doubts the influence of the European Roundtable (ERT), an alliance of European multinationals. Though the group closely monitored progress in the implementation of the European Commission White Paper directives, “the ERT did not originate single market proposals.” Rather, he argues, the ERT was cool to the white paper initially, as its members desired aggressive industrial policies more than the removal of border barriers and harmonized standards. The group also did not meet with the Monnet Committee until late 1984. “On balance,” Moravcsik (1998, 355–56) concludes, “the most that can be said for European multinationals is that they offered vocal support in 1985–86 once others had developed proposals for internal market liberalization.”

Others assign higher importance to the ERT lobby’s support for completing the single market (see Messerlin 2001, 74, 133). There is substantial evidence that large companies began to push for liberalization in the early 1980s—before the European Commission developed the proposals issued in the white paper. According to Calingaert (1994, 37):

The initial thrust . . . came from business community sectors that were concerned with Europe’s long-term ability to compete in an increasingly global market. Led by firms such as Philips, they developed a plan for re-



moving the remaining obstacles to the free movement of goods, services, capital and people, an idea embraced by the new commission.<sup>10</sup>

Businesses articulated these demands through ad hoc groups of large firms organized specifically to push for the completion of the single market, such as the ERT. Formed in 1982 after discussions between Volvo chief executive Pehr Gyllenhammar and Etienne Davignon, vice president of the European Commission, the ERT held its first meeting in early 1983. In a memo to Davignon, the group asserted that it needed liberalization because “[t]he European market must serve as the ‘home’ base necessary to allow European firms to develop as powerful competitors in world markets” (Fielder 2000, 89). Pamphlets such as *Changing Scales* explained how firms could gain scale economies through further integration. In 1984, sixteen corporate heads again petitioned the European Commission to create a pan-European market in which “the barriers of customs, tariffs and national preferment on public procurement are removed . . . [and] health, safety, and other standards are standardized.”<sup>11</sup> An ERT report later that year complained, “progress toward the creation of a European Common Market continues to be frustratingly slow” (Fielder 2000, 89).

Thus, “when Jacques Delors, prior to assuming the presidency of the Commission in 1985, began campaigning for the unified internal market,” Sandholtz and Zysman (1989, 116) note, “European industrialists were ahead of him.” Fiat chairman Giovanni Agnelli (1989, 62), echoes this view:

the politicians . . . in 1957 first conceived the idea of a common market—often over objections from the business community. Now the situation is reversed; it is the entrepreneurs and corporations who are keeping the pressure on politicians to transcend considerations of local and national interest.

In advertisements in the *Financial Times*, several companies threatened to move overseas if the single-market initiative stalled. French firms in the ERT mobilized pressure on the Mitterand government, which assisted the push for the single market (Cowles 1995, 509–516). On the eve of the vote on the Single European Act, twenty-seven large companies called on the Council of Ministers to commit to the creation of a unified market: “it is vital for the conti-

10. Gaster (1994, 262) adds: “Much of the original impetus behind EC-92 came from those who believed that what Europe needed above all was larger companies to compete with the American and Japanese giants, and who argued that larger companies could only come from a larger domestic market.”

11. “Bosses Want the Common Market Brussels Never Built” 1984, 75.

ment's economic well-being," the group asserted, "that the Common Market leaders give a clear signal that the organization will achieve its goal of complete economic integration by 1992."<sup>12</sup> Subsequently, the ERT established the Internal Market Support Committee to maintain pressure on national governments to follow through on European Commission directives (Cowles 1995, 518–19).

Within the integration movement, Philips was prominent. Chief Executive Wisse Dekker believed a common market was critical to industry's global standing (Dai 1996, 92–95). A 1983 company memo asserted that only with the single market completed could "industry compete globally, by exploiting economies of scale, for what will then be the biggest home market in the world today: the European Community home market" (Sandholtz and Zysman 1989, 117). Dekker's report to the European Commission, *Europe 1990: An Action Plan*, anticipated the recommendations in the white paper issued later that year (Fielder 2000, 82).

Along with Philips, IT companies pushing to liberalize trade and harmonize standards included consumer electronics firms Thomson and Thorn-EMI; data-processing equipment makers Olivetti, Machines Bull, Nixdorf, and STC-ICL; and telecom gear producers Siemens, CGE-Alcatel, and Plessey (Cawson et al. 1990, 183–84; Sally 1995, 188–89). These companies were "an important and vocal constituency . . . pressing for the completion of the internal market" (Sharp 1991, 73). IT firms also lobbied for Brussels to institute R&D programs for computers, semiconductors, telecommunications, and microelectronics. Through collaboration on an EC-wide basis and closer integration in a genuine common market, these firms argued, they could pursue the mergers, strategic alliances, and technology-sharing necessary to compete effectively in global markets (Sandholtz 1992, 173–75, 237–41).

Other industries with large returns to scale supported the single market as well, though divisions between firms surfaced. In the automotive industry, specialist producers of luxury vehicles, which faced little competition in their market niche, advocated radical integration. Mass producers, however, split over elements of the single-market program because heavy adjustment costs would fall on the weaker companies. Thus, Volkswagen, Ford, and GM "largely welcomed an open internal market," while PSA, Renault, and Fiat expressed "reservations" (Stephen 2000, 179).

The single market also divided the steel industry. German steelmakers and Hoogovens wanted to eliminate production quotas and end state aids. But national champions Usinor and Sacilor in France, Finsider in Italy, and British Steel in Britain supported protection against low-cost German and Dutch

12. "West European Leaders Meet Today," *New York Times*, December 2, 1985, A3.

competitors; these firms also sought continued financial assistance from their national governments.<sup>13</sup> The head of EUROFER, an executive at Hoogovens, pushed to restore free markets in steel as rapidly as possible, yet the *Financial Times* reported that most “EUROFER members are of the opinion that it is still too early to liberalize the quota system.”<sup>14</sup> Specialized steel firms feared competition on equal terms with national champions receiving generous state aids, while the leading companies outside Germany and the Netherlands opposed liberalization with or without subsidies.<sup>15</sup>

To summarize, the available information on lobbying for the single market generally supports hypothesis 1 and hypothesis 2, though the evidence is sketchy to be sure. Of the twenty products with large returns to scale and small national markets in table 22, firms in six of these activities (typewriters, video-cassette recorders, semiconductors, automobiles, steel, and televisions) openly pushed for the completion of the single market. An earlier section of this chapter noted that smaller national champions in industries with large returns to scale would have incentives to oppose the 1992 program to keep their home markets protected, and in the automobile and steel industries this appears to have been the case. It is not clear, however, why the same sorts of political divisions did not surface in the IT industries, where support for the single market was uniformly strong.

### European Protectionism before 1992

The preceding section suggests that firms in industries with large returns to scale, especially larger companies, pushed for the single market so they could reorganize to match foreign rivals. Supporters of the 1992 program generally believed that more open, integrated markets would provide a stimulus for companies to restructure.

As barriers to intra-EC trade were being liberalized, however, firms previously protected in their home market would face price pressures, and national oligopolies would be broken up. Moreover, in many industries the largest Eu-

13. Germany even threatened countervailing duties against subsidized imports from EC countries. In a compromise, the European Commission raised German production quotas and extended the phaseout of subsidies to the end of 1985. The commission's ban on subsidies drove most public support underground but did not end it (Howell et al. 1988, 63–81).

14. Cynics regarded Director-General Hans-Gunther Vorwerk's promarket views as a response to Hoogovens's opening of a new mill “that would be able to operate at a higher rate if output controls were removed” (“How Roles Have Been Reversed,” *Financial Times*, October 16, 1985, 18).

15. “Small Steelmakers Fear Easing of EEC Controls,” *Financial Times*, June 14, 1985, 1; “EEC Steel Control Plan Meets Heavy Opposition,” *Financial Times*, October 2, 1985, 20.

European companies could not compete effectively in the global economy. Finally, there was a risk that inward FDI would dissipate the benefits of the single market for European-owned firms. Each of these concerns created incentives for protectionism against external trade.

As a result, industries that united to campaign for the 1992 program did not share the same external trade preferences. Pearce and Sutton (1985, 5) note: "Lowering internal barriers is an objective common to both 'Euro-protectionists' and 'liberals.' What divides them is whether this should be accompanied by industrial policy and greater external protection." For companies vulnerable to competitive pressure during the transition to the single market, there was concern that without higher barriers to outside trade, "the benefits of this large domestic market, notably economies of scale, might be lost to their U.S. and Japanese competitors" (Pearce and Sutton 1985, 5). In such cases, protectionist pressures were intense leading up to 1992.

#### Industries with Economies of Scale

Among the industries with large returns to scale, only producers of chemicals and pharmaceuticals declined to seek higher trade barriers. In particular, Germany's Verband der Chemischen Industrie viewed "itself as a guardian . . . of free trade" (Grant, Paterson, and Whitston 1988, 184). Consistent with the EC chemical industry's large-scale operations and multinational ties, leading firms in other countries also did not seek protection against imports from outside Europe (Sally 1995, 193–194). In petrochemicals, the industry's weakest branch, Belgian, French, and Italian firms formed a cartel to coordinate capacity cuts (firms in Germany, Britain, and the Netherlands opposed cartelization), but the Conseil Européen des Fédérations de l'Industrie Chimique (CEFIC) did not ask the European Commission to allocate quotas or implement price controls (Grant, Paterson, and Whitston 1988, 228–31). Producers of inorganic chemicals and fertilizers petitioned for antidumping duties against Asian and Eastern bloc countries, but the products covered were small as a percentage of imports. National industries also had no voluntary export restraints (VERs) or quotas on chemicals and pharmaceuticals as of 1992.

Outside of the chemical industry, European companies actively lobbied for import barriers. Small-scale producers likely to lose business with the completion of the single market issued the most intense calls for protection. For the steel, automobile, and consumer electronics industries, whose comparatively small scale of production is shown in table 23, this external protectionism is consistent with hypothesis 5.

In steel, the EC-wide system of production quotas and minimum prices, and state aids at the national level, already blocked imports from efficient steel-makers inside the EC and low-cost mills outside Europe. In 1985, the VER against fifteen foreign suppliers was relaxed, as quotas for target countries increased 3 percent (though this was less than the rise in market demand over the period). The EC eliminated quotas for the European Free Trade Area in 1988 and converted the remaining import restraints to surveillance measures (Howell et al. 1988, 97–98). Steelmakers responded by filing fourteen antidumping cases, mostly against Eastern bloc countries.

In automobiles, quantitative controls limited Japan's market share to 1 percent in Spain, 2 percent in Italy, 3 percent in France, 11 percent in Britain, and 15 percent in Germany.<sup>16</sup> Technical barriers to trade also blocked Japanese trucks in EC markets (Sleuwaegen 1991, 122–23). In the run-up to 1992, PSA, Renault, and Fiat lobbied through the Committee of Common Market Motor Vehicle Constructors (CCMC) for Europe-wide quotas to replace the national restrictions that would soon disappear under the single-market program. Only Rover (which had a strategic alliance with Honda) and German automakers Volkswagen, Mercedes, BMW, and Porsche declined to support tough import restraints.<sup>17</sup>

Two events caused automakers to converge around a proposal to limit Japan to 15 percent of the EC market. First, Volkswagen tilted toward more stringent measures and joined Renault and Fiat in a formal request to the European Commission for transitional quotas. Second, the CCMC was disbanded, and its members formed the Association of European Automobile Constructors (ACEA), a group that included Ford and GM but excluded PSA to isolate its hard-line chairman Jacques Calvet (Mason 1994, 442–44; McLaughlin and Jordan 1993, 149–50). Subsequently, the European Commission negotiated an arrangement to limit Japanese exports to 1.23 million vehicles, roughly equal to 1989 levels, until 1999.<sup>18</sup> As table 25 demonstrates, lobbying by the six mass producers for the VER on Japanese automobiles was strongly correlated with vehicle output per platform.

In consumer electronics, the expiration of patent licenses for televisions and

16. In the European countries without domestic automobile production, Japanese market shares averaged 25–30 percent.

17. The protectionists sought to limit Japan's market share to less than 10 percent for ten years. Daimler-Benz and the other German specialists advocated less severe restrictions lasting no more than five years. GM, Rover, and initially Volkswagen leaned toward this less protectionist approach (Stephen 2000, 115–29; Mason 1994, 435–37).

18. Calvet denounced this "hateful agreement" and urged France to withdraw from the EC if the commission refused to impose French quotas Europe-wide (Mason 1994, 445–48).

**TABLE 25. Scale of EC Automobile Production and Trade Lobbying**

Firm	Output per Platform	Protectionist Pressure
Volkswagen	278,773	1
Ford	260,496	3
GM	218,169	2
Fiat	215,584	4
PSA	195,154	6
Renault	189,189	5

*Source:* Production data from Commission of the European Communities 1988a, vol. 11, 86–90.

*Note:* Protectionist pressure is ordered from 1 (least protectionist) to 6 (most protectionist) based on each firm's position on the Japanese VER. The Pearson correlation of output per platform and protectionist pressure is  $-0.818$ , which is significant at  $p < .05$  (two-tailed test;  $N = 6$ ).

the arrival of videocassette recorders in consumer markets triggered protectionist lobbying in the run-up to 1992.<sup>19</sup> As in automobiles, companies organized across borders to persuade the European Commission to grant trade protection while they restructured and pursued mergers and joint ventures. Philips and Thomson endorsed a seven-year VER against Japanese televisions to allow time to reorganize. “There is no way we can survive . . . in the medium term with our volumes of production,” executives at Grundig and AEG-Telefunken lamented (English 1984, 245). Firms complained even more loudly about foreign competition in items such as VCRs, CD players, and camcorders, where national standards provided no protection. Philips and Grundig launched an antidumping suit against Japanese VCRs in 1982.<sup>20</sup> The next year, the European Association of Consumer Electronics Manufacturers (EACEM), led by Philips and Thomson, petitioned to increase audiovisual equipment tariffs to 19 percent.<sup>21</sup> The EACEM later filed antidumping claims against South Korean and Japanese VCRs and CD players, while Philips and Grundig demanded 25–30 percent tariffs on audio products. Without higher duties, they asserted, factories would have to be closed and moved offshore (Cawson et al. 1990, 313–14).

Producers of semiconductors and electronic components, data-processing

19. The patent system limited market penetration by denying Japanese firms transmission licenses, particularly for large-screen TVs, or requiring them to pay large fees (Cawson et al. 1990, 224–25).

20. Siemens and eight other producers of VCR components joined the claim. Philips and Grundig dropped their petition when the European Commission negotiated an EC-wide VER to limit Japanese shipments to 4.5 million units (Cawson et al. 1990, 254–58).

21. The European Commission approved the 19 percent tariff (an increase from 8 percent for VCRs and 9.5 percent on CD players) for a period of three years, after which the tariff reverted to 14 percent.

equipment, and telecommunications gear also wanted higher trade barriers, though they did not seek protection as actively as consumer electronics companies. The European Commission even reduced semiconductor tariffs from 17 percent to 14 percent in 1985, but it refused to reciprocate the move to zero tariffs by the United States and Japan due to lobbying pressure from firms. In 1986, EC companies formed the European Electronic Component Manufacturers Association (EECA) to pursue antidumping actions against memory chips from Japan.<sup>22</sup> In computers, the European Commission imposed import surveillance measures against Japanese computers, though there were no formal import restraints. However, preferential procurement practices and prodigious R&D subsidies reduced the need for higher tariffs or antidumping duties (Flamm 1987, 160–68). In telecommunications as well, firms successfully blocked measures to open EC procurement markets to foreign competition, so they had less reason to seek additional protectionist measures.<sup>23</sup>

#### Industries with Constant Returns to Scale

Protectionist pressures before 1992 in industries with small returns to scale concentrated in textiles, apparel, and footwear—exactly those industries that experienced the largest increase in import penetration in the preceding years, consistent with hypothesis 4. In glassware, rubber, ceramics, and metal products, trade associations did not actively seek import barriers in the EC or at the national level.

Producers of textiles and apparel generally favored tough restrictions against developing countries. Though German and Dutch firms, which were highly specialized and less exposed to external competition, sought only soft quotas, producers in France, Italy, and Britain faced heavy adjustment pressures from external imports, and they lobbied for stringent controls in MFA III (1982–86) and MFA IV (1986–91) (Pearce and Sutton 1985, 107–12). However, MFA III “was the peak of EC protection in these sectors” (Messerlin 2001, 289). MFA IV allowed a higher rate of import growth and reduced the number of

22. Siemens, SGS Microelettronica, Thomson, and Motorola joined in a 1988 petition against dynamic random-access memories from Japan, but IBM and Philips declined to participate. This suit resulted in antidumping duties and a system of floor prices (Flamm 1990, 245–49).

23. “How Europe’s Phone Monopolies Are Warding off the U.S. Giants” 1984, 110. In contrast to consumer electronics and semiconductors, telecommunications equipment producers, due to their cozy relationship with national service providers, faced little competition from foreign giants AT&T and NEC. Siemens also held back from seeking new protectionist measures to avoid retaliation against its U.S. affiliates—which was not a concern for national champions CGE-Alcatel, Plessey, and Italtel (Cawson et al. 1990, 365; Sally 1995, 194–96).

countries and products covered—though the textile industry responded to this modest opening with antidumping suits on cotton fabrics and bed linens.

The run-up to the single market coincided with the expiration of MFA IV. Low-margin producers in Spain, Portugal, and Greece worried that exporters (particularly China, which had passed Turkey as Europe's top supplier) would target their markets after liberalization. Moreover, the trade association Comitextil argued that the transition to a single EC quota would radically increase imports from Asia. These concerns slowed the opening of textile and clothing markets in Europe (Grilli 1992, 185, 190; Costello and Pelkmans 1991, 83).

The footwear industry experienced similar problems, but it was more divided. The European Commission concluded that some transitional protection—VERs with certain exporters and transitional subsidies—was necessary to compensate firms hurt by internal liberalization. But as trade associations in Italy, Spain, France, and Britain pushed for quotas, multinationals such as Nike, Reebok, and L.A. Gear mobilized against stricter trade barriers (Costello and Pelkmans 1991, 81).

#### Regression Analysis of EC Nontariff Barriers

If the book's theory is correct, then scale economies, multinational production, and factor cost differences reflected in trade patterns should affect policy, not just lobbying. In the run-up to 1992, the relevant issue in the EC's external trade policy was nontariff barriers. Because the Uruguay Round was still under negotiation, external tariffs in the EC had changed little in the previous decade. Moreover, as the previous discussion implies, new protectionist measures generally took the form of VERs and antidumping duties.

Alas, nontariff barriers are difficult to quantify. Most empirical studies use binary dependent variables to denote the presence or absence of a nontariff barrier, but this method sacrifices too much valuable information. The following analysis employs coverage ratios, which measure the percentage of imports in an industry covered by a nontariff barrier. (Since these barriers vary in severity, the level of precision is not the same as for other measures, such as tariff rates.) The dependent variable is imports of products covered by VERs and antidumping duties as a share of all imports in 1992 at the three-digit Nomenclature Générale des Activités Economiques (NACE, Statistical Classification of Economic Activities) level.<sup>24</sup>

24. A VER list appears in GATT (1993, 73–75). Antidumping measures are from Stanbrook and Bentley 1996. Imports are from Eurostat, *Panorama of EU Industry* (various years).



The analysis includes eight independent variables. *Market size* is MES divided by EC consumption. *Scale economies* is an index of the size of scale economies, a proxy for the returns to scale. *Multinational production* is the proportion of industry sales produced outside firms' home markets. *Import competition* and *export dependence* are imports-to-consumption and exports-to-sales ratios for trade with non-EC countries. *Intra-EC trade* is trade inside the EC divided by production. *EC concentration* is an index of sales concentration at the EC level. *National concentration* is a weighted average of industry concentration across the EC member states.<sup>25</sup>

Table 26 presents Tobit regression results.<sup>26</sup> In the two models, one includes *EC concentration* and the other *national concentration*. In both models, external trade patterns have no effect on nontariff barriers; *import competition* even has an incorrect negative sign. Instead, *intra-EC trade* has a statistically significant positive effect on the level of trade protection, which suggests that industries facing competition within the EC received national VERs and antidumping duties at the EC level as compensation. *Multinational production* has a statistically significant negative effect on nontariff barriers. *Scale economies* and *market size* are weakly significant. The positive sign for *scale economies* is consistent with the expectation that industries with large returns to scale tended to be protectionist. *Market size* suggests that industries in which the EC market was small compared to MES received less protection than industries with large markets.

An examination of marginal effects shows the relative importance of the different variables. The analysis evaluates changes in the probability that an industry receives no protection (nontariff coverage equals 0) as one independent variable changes from low to high (one standard deviation below to one standard deviation above its mean). *Intra-EC trade* exhibits the strongest marginal effect: the probability of no trade protection declines by 17.3 and 15.1 percentage points in the two models as *intra-EC trade* shifts from low to high levels. *Multinational production* also has large effects, as the probability of no nontariff barriers increases by 12.8 in model 1 and 12.1 percentage points in model 2. Smaller markets relative to MES raised the probability of no trade protection by 10.1 and 15.5 percentage points, respectively. None of the other variables produces a change in this probability of more than 5 percentage points.

25. *Multinational production*, *intra-EC trade*, *national concentration*, and *EC concentration* are from Davies and Lyons 1996. *Scale economies* is from Commission of the European Communities 1997. *Import competition* and *export dependence* were compiled from Eurostat, *Panorama of EU Industry* (various years).

26. Tobit is an appropriate method because the dependent variable, *nontariff barriers*, is censored in that it cannot be less than zero or greater than one. The Tobit results differ little from OLS regression results, except that t-statistics are slightly smaller for *scale economies* and *market size*.

**TABLE 26. Tobit Results for EC Nontariff Barriers**

Variable	Nontariff Barriers in 1992	
Market size	-6.27* (3.30)	-10.20* (5.65)
Scale economies	0.06* (0.03)	0.07* (0.04)
Multinational production	-0.71** (0.27)	-0.70*** (0.25)
Import competition	-0.24 (0.34)	-0.13 (0.35)
Export dependence	-0.54 (0.50)	-0.55 (0.51)
Intra-EC trade	0.95*** (0.33)	0.86** (0.32)
EC concentration	1.11 (1.49)	
National concentration		0.98 (0.76)
Constant	-0.07 (0.13)	-0.06 (0.13)
Log likelihood	-12.95	-12.23
Model $\chi^2$	22.43***	23.82***
Pseudo R-squared	0.46	0.49

*Note:* Cell entries are Tobit regression coefficients, with standard errors in parentheses.  $N = 51$ .

\*\*\* $p < .01$     \*\* $p < .05$     \* $p < .10$

Thus, the Tobit models point in the same direction as the case studies. Industries generally received more trade protection when scale economies were more significant. Though production sharing cannot be estimated directly, trade protection was lower when firms generated more sales outside their home markets. Finally, exposure to competitive pressure within the EC appears to have been a stronger determinant of nontariff barriers than the pattern of trade with countries outside the EC.

## European Protectionism after 1992

### Industries with Economies of Scale

The completion of the single market had especially profound implications for trade in automobiles. The abolition of national quotas threatened to increase Japanese market shares in Italy and France from 2–3 percent to 20 percent, so the smaller mass producers (Fiat, Renault, and PSA Group) were likely to experience adjustment costs. In 1993 ACEA lobbied, successfully, to have the VER

with Japan revised to one million vehicles per year and extended through the decade. At the end of 1999 the VER was phased out and automakers lost anti-dumping suits against Japan and South Korea. Though the French government granted Renault and PSA an enormous €400 million subsidy and tariffs continued at 10 percent for cars (16 percent for trucks and 22 percent for buses), the EU automobile market at least was freed of quantitative restrictions (Messerlin 2001, 286–88).

Producers of consumer electronics and semiconductors also sought protection against Japan. Thomson chief executive Alain Gomez advocated 30–50 percent tariff hikes for a five-year period to ease the single market's completion (Tyson 1992, 248 n. 70). Corporate leaders backed EC quotas or the continuation of national trade restrictions in an effort to push the European Commission in a more protectionist direction in its July 1991 policy guidelines for the electronics industry (Cawson et al. 1990, 274–75). With color television patents set to expire, firms also sought new standards for high-definition television (HDTV) to block entry by Japanese multinationals. Tyson (1992, 241) elaborates:

the Europeans are using Community rather than national standards and promotional subsidies to encourage Community rather than national champions in HDTV. . . . Philips and Thomson . . . have staked their future on the HDTV struggle and have used their strong ties with national governments, Community officials, and European trade associations to shape Europe's HDTV policy.

All the while, companies continued to pursue antidumping duties, which they believed were more effective than VERs at limiting imports.<sup>27</sup> In semiconductors, a wave of dumping cases led to an agreement with Japan on exports restraints and floor prices for dynamic random-access memories in 1990, which was renewed in 1998.<sup>28</sup> Firms also initiated antidumping complaints against Asian producers of photocopiers, microwave ovens, weighing scales, and a number of other electronic goods.

However, FDI in Europe complicated protectionist campaigns in automobiles, consumer electronics, and semiconductors. The 1992 program offered Japanese and South Korean transplants free access to the internal

27. In 1992, Philips and Grundig launched antidumping complaints against Japanese CD players exported through Singapore, Taiwan, and Malaysia; three years later, Philips sought dumping duties against VCRs exported from Korea and Korean firms in Singapore.

28. The EC reduced tariffs on many types of memory chips from 14 percent to 7 percent in 1996. Still, the European Commission had ongoing disputes with the United States over the phasing schedule for these duties, and it continued to resist a move to zero tariffs.

market precisely as trade restrictions were being phased out at the national level and harmonized across the EC. Moreover, Japanese and South Korean affiliates in Europe began to import intermediate components to circumvent EC restrictions on finished goods from Asia. At first, EC firms sought tough rules of origin to block new investors from sharing in the benefits of completing the single market, as hypothesis 7 anticipates. But as time went on and Asian transplants increased local content, rules of origin became ineffective; companies had to find other ways to restrict the production and sales of these affiliates or end their protectionist lobbying altogether.

In the most prominent debate over rules of origin, Renault and PSA Group pressed the French government to treat Nissan Bluebirds manufactured in Britain as Japanese imports on the grounds that these cars failed to attain 80 percent EC content.<sup>29</sup> After Britain formally complained, the European Commission ruled that 65 percent EC content was sufficient to avoid tariffs. In another case, Philips and Grundig insisted in 1985 that Japanese factories in the EC count under the VER on videocassette recorders. This led to a commission directive that transplants with less than 45 percent EC content would count under a separate quota of 1.1 million kits imported for local assembly (Cawson et al. 1990, 311; Tyson 1992, 224 n. 17, 229). The commission later extended the 45 percent standard to computer printers, photocopiers, and several other consumer electronics.<sup>30</sup> In semiconductors, EECA lobbying resulted in new technical requirements in 1989: in place of rules mandating local assembly and testing (10–15 percent of value added), the commission stipulated that wafer fabrication (or “diffusion,” generally 60 percent of value added) had to be performed in the EC. Finally, procurement directives required 50 percent EC content in manufacturing and R&D to receive public contracts for telecommunications gear, computers, and power-generating equipment (U.S. Congress 1991, 198–99).

Antidumping was a second area that European manufacturers used to combat foreign entry. In 1987, the Committee of European Copier Manufacturers (CECOM) complained that Japanese affiliates were importing photocopier parts and components for assembly in Europe to circumvent antidumping duties on complete photocopiers. This suit led the European Commission to issue an anticircumvention order mandating 40 percent EC content—though this figure was less than the 60 percent that Philips, Grundig, and several other

29. PSA chairman Calvet characterized Britain as “a Japanese aircraft carrier just off the coast of Europe” (McLaughlin and Jordan 1993, 144).

30. “Access to the European Market: Some Original Ideas on the Limits to Free Trade,” *Financial Times*, February 10, 1989, 13.

firms sought (Tyson 1992, 230).<sup>31</sup> This “screwdriver assembly” rule effectively required foreign multinationals to meet EU content targets to avoid paying dumping penalties on captive imports of subassemblies from a corporate parent located outside Europe.

But rules of origin and screwdriver assembly provisions began to lose their utility as Asian multinationals expanded their European factories and induced suppliers to move offshore. Companies in electronics and telecommunications soon recognized that “in the long run there was little protection to be gained from tariffs or other protective devices given that foreign competitors could rapidly circumvent them via inward investment.”<sup>32</sup> Moreover, inward FDI inspired joint ventures and strategic alliances between Asian and European companies, which made the commitment of resources to protectionist lobbying more difficult to justify.<sup>33</sup> In a few cases this split the united front that industries once presented: for example, a dumping complaint by Philips against videocassette recorders from Singapore targeted Thomson, which imported 1.5 million of these items in a joint venture with Toshiba.<sup>34</sup> In other cases, acquisitions of EU companies by their Japanese rivals diluted industry pressure for protection.<sup>35</sup> Over time, it became impossible to block entry into the EU market with traditional protectionist measures against trade. European companies had to target the transplants directly or leave them alone.

But the only serious effort to limit the activities of foreign multinationals was in the automobile industry. As early as 1989, Italy’s foreign minister complained that Japanese FDI “would undermine the Community’s attempt to negotiate a car export restraint agreement with Tokyo.”<sup>36</sup> By 1993, Honda surpassed 80 percent EU content, while Toyota reached 60 percent with a further

31. The next year, CECOM accused Ricoh of assembling Japanese photocopier components at its U.S. affiliate and then exporting them to the EC. The European Commission subsequently ruled that the country of origin should be determined based on the location where “technically sophisticated components, such as the various printed circuit boards, lenses, various motors and high-voltage generators” were manufactured (U.S. Congress 1991, 200).

32. Sharp (1991, 73) concludes that this realization “led inexorably to the view that to compete successfully, even *within* Europe, these erstwhile national champions needed to set their sights on global markets and global competitiveness.”

33. This helped to moderate pressure for idiosyncratic HDTV standards (Cawson et al. 1990, 373–74).

34. “Brussels to Probe East Asian VCR Dumping Claim,” *Financial Times*, April 19, 1995, 8.

35. Of the five firms that filed the dumping claim for photocopiers, Develop sold its business to Minolta, Tetras sold shares to Canon, and Olivetti established a joint venture with Canon. This left only Xerox and OCE to pursue the suit to completion (Organization for Economic Cooperation and Development [OECD] 1994, 57–58).

36. “Italy Hits at Britain over Japanese Car Plants,” *Financial Times*, February 1, 1989, 6.

boost to 80 percent anticipated; overall, Japanese transplants produced half a million vehicles in Europe, and they forecasted 2 million by the year 2000. In negotiations with Japan, ACEA pushed to have the transplant production included in the VER. But this proposal achieved only partial success: the agreement merely included an ambiguous statement that Japan's transplant sales were expected not to surpass 1.2 million units.<sup>37</sup>

In industries in which inward FDI was less of a consideration, lobbying groups could seek more traditional protectionist measures. In steel, firms responded to the liberalization of the VER program with antidumping claims on plates, sheets, pipes, tubes, and ferroalloys. A surge in imports from Eastern Europe and the former Soviet republics also inspired German firms to join French and Italian producers to push the European Commission for quotas (Hayes 1993, 77). This resulted in quantitative restraints on Russian and Ukrainian steel—other than automobiles, the only significant case of quotas in the single market. When the quotas were converted to surveillance measures in 1996, auto-limitation arrangements covered 10 percent of imports, down slightly from 15 percent in 1988 (Messerlin 2001, 276–78).

The transition to the single market touched off less protectionist lobbying in chemicals. Producers such as ICI worried that their domestic markets “could be very attractive to non-European producers” with the removal of national trade barriers (Ghellinck 1991, 348). In particular, chemical companies objected to new rules that would grant more weight to the views of importers, consumers, and upstream industries in antidumping decisions.<sup>38</sup> The International Rayon and Synthetic Fibers Committee sought antidumping duties against staple fibers from Belarus and polyester yarns from Indonesia, Thailand, and Malaysia and an extension of tariffs on fibers from Taiwan and Turkey, while petrochemicals producers filed antidumping complaints against East European producers of soda ash, polyvinyl chloride, and fertilizers. Still, the chemical industry did not seek the sorts of quantitative barriers applied to automobiles and steel. Moreover, CEFIC consented to tariff cuts on 170 chemical products, a duty reduction of about \$20 million annually, as compensation for increased tariffs on certain chemicals in Sweden, Austria, and Finland after their accession to the EU in 1995.

37. France and Italy (home to Renault, PSA Group, and Fiat) viewed this as a firm ceiling; Britain (host to Japanese transplants) regarded it as a forecast. Privately, British officials expected Japanese transplants to sell two million vehicles once they reached full capacity. The VER also did not address EC sales by Japanese transplants in the United States (“The Enemy Within” 1993, 67–68).

38. This was important to the antidumping case for soda ash because glassmakers opposed these duties. Brunner Mond favored dumping penalties, but Solvay withdrew its support.

### Industries with Constant Returns to Scale

In industries that lacked scale economies, protectionist lobbying was most intense for textiles, apparel, and footwear, products with varying levels of trade protection at the national level. Even so, these pressures rarely led to tougher measures against outside trade. In footwear, 104 national VERs and quotas were abolished on schedule by 1992; the remaining 30 were transformed into twelve EU quantitative restrictions, mostly against imports from China, South Korea, and Taiwan (WTO 1995b, 101–2). On balance, Europe became more open to trade in labor-intensive and resource-intensive industries after completing the single market. External quotas in 2000 were limited to Chinese footwear, tableware, and kitchenware, with surveillance measures on toys and bicycles (WTO 2001, 55).<sup>39</sup>

Some liberalization occurred in textiles and apparel as well. Under the 1992 program, 80 of the 110 national quotas and VERs were folded into twelve EU quotas. The Uruguay Round Agreement on Textiles and Clothing (ATC) subsequently established schedules to phase out quotas in four stages ending in 2005. The EU also eliminated quotas against Turkey and ten European countries in 1996–98. By 2001, liberalization covered one-third of all product categories—though only 5.4 percent of restricted imports, as the most sensitive products were delayed until 2005 (WTO 2001, 53–54). Messerlin (2001, 292–93) notes that while few categories remained to be liberalized in Germany (39 percent), ATC commitments in labor-intensive products back-loaded quota elimination for Greece (88 percent), Portugal (77 percent), and Italy (53 percent).

Analysts have questioned whether the ATC will trigger a spate of new restrictions at the final hour. Since 1994 there have been more antidumping claims, though success rates have been low, and producers of cheap, standardized articles still need quotas to keep out imports from China and Asia (Messerlin 2001, 293–94). Even so, Brenton (2002, 216–17) argues that a return to the protectionism of the MFA era is unlikely: “in Europe the clamor for protection has not been heard. EC industry, following substantial outsourcing, appears resigned to the death of the MFA and is devoting its efforts to opening export markets in the developing countries whose quota access to the EC will

39. There also remained “massive production subsidies” (particularly in France) for newsprint and lumber, tough antidumping measures on lumber and cement, and technical regulations in these industries that limited intra-EC and outside trade. In these three cases—newsprint, lumber, and cement—delays also occurred in harmonization and mutual recognition under the single-market program (Messerlin 2001, 263–68).

be liberalized.” Most EC firms shed low-skill production and enhanced productivity by specializing in high-end items, developing vertical linkages with foreign suppliers, and expanding outward-processing trade (Hine and Padoan 2001, 69). These trends made it possible to liberalize Europe’s external trade, even if the end of textile and apparel quotas was delayed until the final hour.

## **Politics and Institutions in EC Trade Policy**

### **Lobbying and Industry Concentration**

Before 1992, interest groups seeking to influence trade policy primarily assembled in national capitals because there was limited scope for EC-wide import regulation (outside of agriculture and steel) and the important policy decisions occurred in the Council of Ministers, which was composed of representatives of the member states. The European Commission could not effectively monitor or control national trade policies, so local authorities enjoyed wide latitude to exercise administrative discretion. In this institutional environment, lobby groups that wanted nontariff barriers on outside trade or Article 115 measures against EC members needed to persuade only their home governments.<sup>40</sup> This system especially favored domestic industries led by national champion firms. National champions often bargained directly with government ministries to obtain the relief they desired, rather than lobbying through industry-wide trade associations. As a result, Fiat, Renault, and Leyland (automobiles), Philips and Thomson (consumer electronics), and British Steel, Usinor, Sacilor, and Finsider (steel) had considerable clout with their home governments.<sup>41</sup> Even industries with large numbers of firms, notably in textiles, apparel, and footwear, could successfully mobilize national campaigns for quantitative restrictions and Article 115 measures before the single market was completed.

However, the Single European Act fundamentally altered trade policy-making. Member states lost the authority to employ national quotas and VERs as

40. National quotas and Article 115 measures required the European Commission’s authorization, but not the approval of the Council of Ministers. However, the commission sometimes was not aware (much less supportive) of the import barriers in effect at national borders (Schuknecht 1992, 74–75).

41. In Thomson’s case, “The firm was much more able to dictate the stance of the [French Industry] Ministry on such matters as trade policy than vice versa.” Philips, though it was Dutch, also wielded influence in national capitals because it operated large factories in each member state (the firm produced VCRs in France and CD players in Belgium, and it delayed closing its TV factory in Britain in part to maintain the sympathy of the British government). Generally these two firms, as well as other large companies, were more active in trade policy than national industry associations (Cawson et al. 1990, 270–71, 322–23).



Brussels took control over quantitative restraints and abolished Article 115 measures. These changes reshaped institutional structures and the distribution of power over trade policy. Though the Council of Ministers continued to make many important decisions—which meant that lobby groups needed to retain influence with their home governments to have their interests represented in the council—the single-market program strengthened the European Commission as the agency responsible for executing unified trade measures.

These institutional changes channeled protectionist pressures from the national level upward to the European Commission.<sup>42</sup> Industry groups increasingly organized EU-wide to advance their interests in Brussels, which spurred the creation of Euro-groups such as ACEA and its predecessor, CCMC (automobile industry); EUROFER (steel); Comitextil (textiles and apparel); EACEM (consumer electronics); CEFIC (chemicals); and the Committee of Professional Agricultural Organizations (Mazey and Richardson 1993, 4–7). In Brussels, according to Schuknecht (1992, 52), “Well-organized and cohesive interest groups with significant political and economic weight are relatively over-represented.” Yet many EU groups have suffered from insufficient resources and internal divisions between their constituent national associations, as differences in factor costs and product niches generate national and sectoral cleavages. As a result, Euro-groups tend to be slow, indecisive, and reactive more than proactive toward the European Commission, so “they are often rather ineffective, and leading multinationals have become increasingly exasperated with them” (Grant 1993, 31).

Table 26 shows that neither regional nor national concentration significantly affected nontariff barriers in 1992.<sup>43</sup> But anecdotal evidence suggests that organized pressures since then have been greatest in concentrated industries such as automobiles, consumer electronics, steel, and chemicals, in which large companies operate throughout the EU and national champions dominate. Euro-groups in these industries are composed of a handful of multinational companies, but the leading firms (whether European or foreign owned) generally retain their own representation in Brussels to conduct lobbying. Industries with large companies exert pressure at the EU level effectively because they are better able to mobilize lobbying resources and they face fewer disadvantages to collective

42. An exception is the telecommunication industry: “The large firms continue to see their interests as best protected through direct contact with the governments who are their main customers; they are large enough not to need the umbrella of a body to represent the aggregate of sectoral interests” (Cawson et al. 1990, 357).

43. However, studies such as Tharakan and Waelbroeck 1994 find that large firms and concentrated industries have had more success in the European Commission’s antidumping investigations.

organization. For example, large firms can more easily bear the expense to maintain a well-staffed and -equipped office for political activities or to pursue trade remedies, such as antidumping claims, which in the early 1990s cost upwards of 100,000 ECU (Grant 1993, 30–35). So long as the leading firms share common interests, these groups wield considerable clout in Brussels.

It helps large companies that the European Commission has exclusive authority in external trade policy. The Directorates General can unilaterally impose provisional trade remedies without the Council of Ministers' approval, and many “[d]eals are done ‘behind closed doors’ between bureaucrats” (McGuire 1999, 81). Though the commission started to hold occasional public hearings on private-sector trade issues in 1998, it still deals with lobby groups mostly through informal meetings, which are private and confidential. Because the European Parliament has no formal role in external trade policy other than to approve foreign trade agreements, most political pressure on trade issues is exerted out of public view (WTO 2001, 22–23).

Two examples demonstrate the influence of large firms in concentrated industries. The first is the success of protectionist lobbying in consumer electronics, which reflects the pressures individually brought to bear by the two leading firms, Philips and Thomson. Producers began lobbying for EC-wide import restraints on home electronics such as VCRs early in the 1980s, before the concentration of authority over trade in the European Commission. Yet the EACEM remained a weak organization that functioned largely to legitimate the policy stances that Philips and Thomson espoused (Cawson et al. 1990, 219–21). Philips, in particular, became active and powerful in Brussels: “many EEC officials concede that Philips was among the most persuasive lobbyists at the European Commission, maintaining an impressive organization in Brussels devoted to that task” (Cawson et al. 1990, 323).<sup>44</sup> The firm’s ability to overcome the German government’s typically liberal inclinations in the Council of Ministers spawned the maxim “When Philips goes to Brussels, all the doors fly open” (Cawson et al. 1990, 293).

A second example is the automobile industry. The larger EU firms, including Ford and GM, maintain offices in Brussels and rely on these lobbying arms more than industry Euro-groups to advance their interests. However, divisions based on national orientation and product niche prevented automakers from

44. Notably, the VER on videocassette recorders from Japan “demonstrated the extraordinary political power which Philips was able to exert both in Brussels and the national capitals of EEC member states” (Cawson et al. 1990, 372).

adopting a common position on technical standards and other aspects of the single-market program. This changed when PSA Group was excluded from negotiations with Japan in 1990, and Ford and GM were invited to join the new, more unified trade group, ACEA (McLaughlin and Jordan 1993, 137–46). Holmes and Smith (1995, 131) emphasize “the ability of the car producers (excluding Peugeot) in Europe to agree and commit to a common political position through ACEA . . . and negotiate with the Commission” as a critical factor in the establishment of the VER.<sup>45</sup> With the addition of Ford and GM, ACEA had a formidable lobbying presence in Brussels dominated by multinational firms in a highly concentrated industry.

By comparison, industries with lots of small firms lobby primarily through Euro-groups. Despite a few notable exceptions, such as Comitextil and the Committee of Professional Agricultural Organizations,<sup>46</sup> these industries tend to lack influence over trade policy. Small firms, especially those oriented toward national markets, face severe disadvantages in EU-wide collective action. They are poorly organized at the European level and frequently immobilized by disagreements among the national associations within the Euro-group. Large, diffuse industries—textiles, apparel, and footwear, for example—have rarely filed antidumping suits. With Article 115 restraints now banned and VERs like those for automobiles and steel apparently beyond reach, small footwear producers and other politically weak industries instead have sought more modest actions such as surveillance measures and informal industry-to-industry arrangements.

### Qualified Majority Voting

In the EU since 1992, it not only has been more difficult to mobilize industry coalitions now that groups must lobby in Brussels rather than national capitals; institutional rules in the Single European Act have also made it harder to reinstitute trade protection EU-wide once it was lost in national markets. Specifically, new voting procedures in the Council of Ministers (which ratifies the European Commission’s foreign trade agreements and antidumping actions) required a qualified majority of fifty-four out of seventy-six votes.<sup>47</sup> The

45. These authors conclude: “Member governments are ill-placed to oppose policies which they are assured to have the support of the European industry.”

46. These two groups are well organized and powerful at the European level despite the industrial and geographic diffusion of their membership. See Grant 1993, 37–41.

47. These are the voting figures for the Council of Ministers before the Amsterdam (1999) and Nice (2004) treaties entered into force.

previous system relied on unanimity to pass legislation, so each member state effectively enjoyed veto power—though vetoes rarely blocked new trade barriers since most trade decisions occurred in national capitals rather than Brussels (and if the Council of Ministers did veto trade protection, countries could still restrict imports unilaterally). Once the European Commission's trade powers expanded, however, a coalition of Germany (ten votes), Britain (ten), and the Netherlands (five) or Denmark (three) could block protectionist actions in the Council of Ministers. Since the countries most supportive of restricting imports held only half of the council's votes,<sup>48</sup> protectionist measures needed broad appeal to secure the requisite support (Hanson 1998).

Through qualified majority voting, EU institutions in Brussels aggregate member state preferences to reach policy decisions. Since policy outcomes are a compromise of national interests, it is necessary to know which states, or coalitions of states, are most influential and what their preferences are. Historically, France and Italy have been the most assertive at pushing protectionist policies. Germany and the Benelux countries, on the other hand, have generally preferred less restrictive import policies, and Britain also has leaned toward a liberal import regime.<sup>49</sup>

Decisions made since the move to qualified majority voting suggest that the lobbying positions of concentrated interests in national economies have heavily influenced member state preferences in the Council of Ministers. The VER on Japanese automobiles is one such case, as the positions of national representatives mirrored the interests of the leading firms: Britain (host to Ford, GM, Nissan, Honda, and Toyota) accepted controls on imports from Japan but opposed restraints against the transplants; France, Italy, Spain, and Portugal (home to declining national champions) sought restrictions against imports and transplants alike; Germany initially resisted strict controls on Japan but later adopted a tougher position as specialist automakers began to worry about Japanese competition in luxury models; and Denmark, Greece, Ireland, and Benelux, with no national automobile production, favored open trade policies

48. These countries were France (ten votes), Italy (ten), Spain (eight), Greece (five), and Portugal (five).

49. In several pre-1992 cases, however, Germany relented to protectionist pressures from France and Italy to preserve unity. This made Germany an important swing vote on trade decisions in the Council of Ministers. For example, Germany shifted positions and accepted quantitative limits for steel and textiles in the 1970s. The German minister of economics later explained: "The German Government . . . only agreed to measures regulating imports in the textiles and steel sectors with considerable reservations, in order to avoid the threat of national protection measures and in order to maintain the degree of integration already achieved in the EEC" (Hayes 1993, 74).

but conceded to the member states with stronger interests at stake (Mason 1994, 440–44).<sup>50</sup>

### **Conclusion: Fortress Europe?**

The failure to complete the single market in the first wave of European integration from 1958 to 1973 left national markets separated and production in the EC fragmented. This was particularly damaging to industries with large returns to scale because firms needed to concentrate production to compete with rivals in the United States and Asia. These companies therefore pushed national governments and the bureaucracy in Brussels to remove the remaining barriers to intra-EC trade in the 1992 program.

The single-market initiative in turn had significant consequences—both deliberate and unintended—for EU policy toward outside trade. While the 1992 program was being implemented, protectionist lobbying intensified as several industries sought barriers to external trade as a buffer against increased competition in Europe. Most notably, an EU-wide VER replaced national quotas on Japanese automobiles to ease restructuring and slow down the elimination of excess capacity in the region. Similar motives underpinned pressure from consumer electronics producers for antidumping and anticircumvention restrictions on Asian factories, as well as the steel industry's desire for transitional quotas on Russian and East European steel.

Nevertheless, pessimism about the development of fortress Europe has proved unwarranted. As Europe completed the single market and expanded once more, taking in Sweden, Finland, and Austria, MFN tariffs declined from 6 percent in 1995 to 4.2 percent in 1999, and the EU negotiated further cuts to around 3 percent in the Uruguay Round (WTO 2001, 99). In the decade after 1992, the incidence of antidumping duties dropped, and only restraints on automobiles, steel, and a handful of less significant manufactures survived from the labyrinth of national quotas and VERs that predated the transition to the single market. While new TRIMs discriminated against Asian multinationals, the EU did not take the drastic step of applying the sorts of quotas proposed for Japan's automobile transplants.

Several factors—some at the core of the book's theory and a few outside of

50. Hanson (1998, 74–80) argues that the automobile VER was more generous than the national quotas it replaced—a debatable point (according to estimates, the VER redistributed sales among EC markets but was no more open to Japanese imports overall) that overlooks a more significant lesson: qualified majority voting does not prevent new trade barriers when a qualified majority has protectionist preferences.

it—explain the market opening that followed the Single European Act. First, the 1992 program stimulated inward FDI from foreign multinationals seeking to surmount trade barriers and gain scale economies in the larger internal market. While at first this led to political pressure for restrictions against these transplants, over time foreign operations in the EU were “Europeanized.” Local production rather than exports to the EU are now the dominant form of foreign entry in automobiles, electronics, and chemicals, so barriers to external trade have been rendered ineffective. Moreover, as European electronics and automobile companies started outsourcing abroad, antidumping measures that targeted screwdriver factories in the EU began to threaten European-owned firms. These trends diminished the incentives for protectionist lobbying in these industries.

Second, many of the industries that obtained national quotas and Article 115 measures before 1986 were too poorly organized and too divided internally to effectively exert protectionist pressure in Brussels. Institutional changes imparted a liberal bias to the making of trade policy by reducing the capacity of protectionist-seeking groups to obtain new trade barriers. The centralization of authority in Brussels helped (or at least did not hinder) only the most concentrated industries, such as automobiles.

Qualified majority voting was a final bulwark keeping the single market generally free of quotas and VERs on outside trade. In cases like the automobile industry, new voting rules did not dilute protectionist preferences in the Council of Ministers because concentrated interests operated factories throughout Europe and wielded clout with member governments. But protectionism has been a losing battle in poorly organized industries that face difficulty prevailing over a qualified majority. Thus, the EU has become more open rather than more protected since 1992.