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ABSTRACT

For a quarter of a century, the United States has been gradually losing market share in the European Community, which accounts for about one-fifth of world trade. The European Community consumes about one-fourth of United States exports, but this represents only about eight percent of its total imports. Three of the barriers contributing to further decline in trade include trade protectionism on both sides of the Atlantic, concerns for cultural sovereignty, and the economic situation created by the recent enlargement of the European Community to include Spain and Portugal. The challenge is for United States marketers to overcome the obstacles and increase exports to this market, and this may be accomplished through awareness and education. (MSE)

262

BARRIERS IMPACT U.S. MARKETING TO THE EUROPEAN COMMUNITY

by

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Introduction

With the recent accession of Spain and Portugal the European Community now unites twelve countries into a "Common Market." This Common Market has over 320 million consumers, approximately 85 million more than in the United States. As a leading economic partner for many countries, the European Community accounts for about one-fifth of world trade. Although the European Community buys approximately one-fourth of total United States exports, this figure represents only 8 percent of the European Community's total imports.

Aside from language, other barriers face the United States in attempting to increase exports to the European Community. Three barriers examined in this paper are trade protectionism, cultural sovereignty, and the recent enlargement of the European Community.

European Community As A Market

Formed in 1957, the European Community represented an effort to expand trade and economic development by the original members: Belgium, France, the Federal Republic of Germany, Italy, Luxembourg, and the Netherlands. They were joined in 1973 by Denmark, Ireland, and the United Kingdom, and in 1981 by Greece. Spain and Portugal became members in 1986.

Population

Table 1 shows the population, area, and population density for the Member States of the European Community, the European Community in total, and the United States. As shown, the European Community has a total population of more than 320 million people, over 35 percent more people than in the United States. The countries in the European Community vary in area and population density. As shown on Table 1, Belgium, the Federal Republic of Germany, the Netherlands, and the United Kingdom have higher population densities than Ireland, Greece, or Spain. The average population density of the European Community is more than 5 times that of the United States. High population density provides easier and more frequent access to ultimate consumers for advertisers and easier physical distribution of products for producers.

Gross Domestic Product and Imports

In addition to population and population density marketers consider consumer purchasing power in assessing markets. Purchasing power may be determined by calculating the average per capita gross domestic product as shown by the figures on Table 2 in column 2. These figures show the average per capita gross domestic product for the European Community to be about $7400. Although, this is a little less than one-half of the average per capita gross domestic product for the United States, it is wealthy by world standards and indicates good potential purchasing power.

The purchasing power of the European Community Members is used for domestic as well as imported goods. As shown on Table 2, column 3, all of the Member States are active importing products. Imports, as a percentage of gross domestic product, are most significant to the countries of the Belgo-Luxembourg Economic Union, Ireland, the Netherlands, and Portugal. Even though imports are least important to France, Italy, and Spain, they still represented about one-fifth of each country's gross domestic product.

Average imports per capita for the European Community, as shown in Table 2, column 4, were over 35 percent more than for the United States. Twenty-seven percent of the gross domestic product was spent by the European Community for imports in comparison to 9 percent by the United States.

Sources of European Community Imports

The figures on Table 3 show that 35 percent of the total imports to the European Community were traded among Member States in 1958. This grew to 51 percent by 1982. The growth was fostered by a range of agreements, including the abolition of customs duties and quantitative restrictions among the Member States. Over the period from 1958 to 1982, the European Community's imports from the United States declined from 11 percent to 8 percent.

Trade Between the European Community and the United States

As shown on Table 4, in 1985 the United States imported nearly $72 billion worth of products from the European Community. For the same year the United States exported to the European Community approximately $49 billion worth of products. Within that dollar volume, the top five categories of United States exports to the European Community were: (1) office machinery; (2) digital computers; (3) coal; (4) aircraft, engines & parts; and (5) food and agricultural products.

Barriers And Their Marketing Implications

A range of varied and complex barriers affect United States marketing to the European Community. Of the barriers, three have been selected to illustrate their effects on marketing.

Trade Protectionism

Both the European Community and the United States are interested in protecting their industries and avoiding trade wars. Examples of this protectionism are the situations of steel and corn.

The European Community has been trying to protect its declining steel industry against foreign import restraints. In 1982 the United States imported about $160 million worth of specialty steel products from the European Community.[7*] This product class is high priced and one of the few profitable segments of the European Community's ailing steel industry. In July, 1983 the United States imposed for four years import restraints, both tariffs and quotas, on specialty steel products from the European Community.

Beginning in March, 1984 the European Community retaliated by imposing import restrictions on certain United States products. Import quotas and tariff increases were placed for four years on United States manufactured chemicals, plastics, sporting goods, burglar and fire alarms, gymnastic equipment, snow skis, and sporting guns. The United States sold the European Community about $130 million worth of these products in the year prior to the imposition of the import restrictions.

In December, 1986 the United States announced that it planned to restrict imports from the European Community in retaliation for tariff increases on U.S. corn sales to Spain. The dispute arose because tariffs on U.S. corn were changed by Spain after the accession of both Spain and Portugal by the European Community in 1986. Spain's 20 percent tariff on both corn and sorghum, feed grains, was replaced by the European Community's variable levy system, a method whereby tariffs may be changed depending on the harvests of the European Community.[2] According to U.S. trade officials, this change amounted to a tariff of 100 percent. Therefore, the

*Superscripts in text refer to references at end of page.

United States exports of these feed grains, a long-established market, would decline by $400 million to $500 million a year.

The United States vowed to impose duties, effective on January 30, 1987, on imports of olives, carrots, wine, cheeses, gin, brandy, endives, and canned ham.[5] The European Community warned it would retaliate further against the duties by imposing wider grain tariffs.

This trade war was averted 24 hours before it was to start. Trade wars come and go; however, they present barriers to marketers. In the future, potential sales of United States goods may be lessened by trade protectionism and other retaliatory measures on the part of the European Community.

Cultural Sovereignty

The United States multinational companies provide a large number of global communications and cultural services to the European Community. Among these are records, cassettes, films, television, training given to employees of foreign subsidiaries, teaching materials, and support of university research. In addition, the United States impacts the European Community with both American journalism and advertising.

Records and live concert performances affect the culture and potential for marketing goods. U.S. firms supply about 50 percent of the global market in the recording industry. Live concert performances, especially by such well-known rock stars as Bruce Springsteen, provide arenas where the youth of the European Community wear jeans and T-shirts bearing the names of American universities, states, and products. After such performances, thousands of Coca-Cola bottles can be found littering the ground.

The United States film industry provides films for 35 percent of the market in France; 50 percent of the markets in Italy, the Netherlands, and Denmark; 60 percent of the Federal Republic of Germany's market; and 80 percent of the market in the United Kingdom.[1] Markets are reached and penetrated through the cinema. American products seen in American movies have a strong chance of being desired and purchased by viewers in the European Community. This same concept was stated in the 1930's by President Herbert Hoover when he said "Where the American film penetrates the market, we sell more American automobiles, more baseball caps, and more American phonographs."[4]

American characters such as Mickey Mouse and Superman are familiar to the children of the European Community as are J.R. and Rambo to the adults. Products, such as Coca-Cola and McDonald's, are available throughout the Member States.

The cultural fabric of the European Community is being threatened by the dominant position of the United States film industry. Present reaction by the European Community to the United States' pervasive influence on its culture is to seek ways to counteract the domination.

One such way is a plan to set up a European film board which would help finance feature films produced by companies working in two or more Member States.[3]

Future reaction may take the form of the public boycotting United States films because of a resurgence in cultural pride. If this were to happen, United States marketers could suffer a loss of potential product sales.

Enlargement of the European Community

Among the complex treaty conditions for entry into the European Community, Spain and Portugal agreed to lower their tariff and non-tariff barriers to trade. The lowering of barriers was allowed in phases, with full compliance with the treaty scheduled for 1993. This phased approach was considered essential to minimize disruption in the economies of Spain and Portugal, which are highly agricultural in comparison with other Member States of the European Community.

Compliance with the treaty will result in zero customs duties on imports to Spain and Portugal from other Member States of the European Community. Although there are complex details for specific situations, intra-Community trade will be beneficial to Spain and Portugal as well as to the other ten Member States of the European Community.

Non-member countries of the European Community, such as the United States, will face increased difficulty in exporting to Spain and Portugal.

For example, while imports from the European Community will have zero customs duties, the duties on United States manufactured products are projected to decline only to 7 percent by 1993.[6] Duties on United States agricultural products are expected to increase as evidenced by the situation with corn during 1986.

As a result of the aforementioned disparity in customs duties, and other factors, a number of observers do not expect any increases in exports to Spain and Portugal from the United States. In fact, the decline in exports over the last few years could worsen, especially in view of the agricultural situation.

The treaty conditions for Spain and Portugal could result in some benefits for the United States, although not for exports of major dollar volume. For example, copyright and patent laws in both Spain and Portugal have been extremely weak. It is estimated that 80 percent of the video cassette market in Portugal and over 55 percent of Spain's video cassette market are composed of pirated products.[8] Similar situations exist for designer clothing and pharmaceuticals. As a result, the copyright or patent holder enjoys no financial benefit from the sales. Under the terms of the treaty both countries agreed to provide copyright and patent protection. Because of this protection, legitimate goods could be substituted potentially for the pirated ones, thereby increasing some exports from the United States.

Conclusion

For a quarter of a century the United States gradually has lost market share in the European Community. The barriers highlighted in this paper contribute to further decline. The challenge is for United States marketers to overcome the barriers and increase exports to the European Community. Marketers may be able to overcome these barriers through awareness and education.

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[7] "News of the E.C.--E.C. Strikes Back Over Specialty Steel Curbs." Europe, No. 242, March/April 1984, pg. 50.

[8] Office of the United States Trade Representative. National Trade Estimate: 1986 Report on Foreign Trade Barriers. Washington, D.C.: GPO, 1986.

TABLE 1

AREA, POPULATION, AND POPULATION DENSITY[1]

COUNTRY	POPULATION IN THOUSANDS	AREA IN SQ. MILES	POPULATION PER SQ. MILE
Belgium	9,872	11,781	838
Denmark	5,112	16,629	307
France	54,872	211,207	260
Germany, Fed. Rep. of	61,387	95,976	640
Greece	9,984	50,944	196
Ireland	3,575	27,136	132
Italy	56,998	116,303	490
Luxembourg	366	998	367
Netherlands	14,437	15,770	915
Portugal	10,045	35,553	283
Spain	38,435	194,896	197
United Kingdom	56,023	94,226	595
European Community	321,106	871,419	368
United States	236,690	3,615,105	65

1 U.S. Bureau of the Census. Statistical Abstract of the United States: 1985. 105th ed., Washington, D.C.: GPO, December, 1984, Table #1475, pp. 839-841.

TABLE 2

GROSS DOMESTIC PRODUCT (GDP) AND IMPORTS FOR 1984

COUNTRY	GDP[1] U.S. DOLLARS MILLIONS	GDP PER CAPITA U.S. DOLLARS	TOTAL[2] IMPORTS U.S. DOLLARS MILLIONS	IMPORTS PER CAPITA U.S. DOLLARS
Belgo-Luxembourg Economic Union	81,481	7,959	55,303	5,369
Denmark	54,633	10,687	16,585	3,252
France	489,434	8,920	103,807	1,912
Germany, Fed. Rep. of	613,356	9,992	151,246	2,463
Greece	33,466	3,352	9,434	953
Ireland	17,717	4,956	9,663	2,761
Italy	348,385	6,112	84,215	1,485
Netherlands	123,048	8,523	62,136	4,345
Portugal	19,154	1,907	7,978	790
Spain	160,926	4,187	28,812	750
United Kingdom	425,541	7,596	105,961	1,879
European Community	2,367,141	7,372	635,140	1,978
United States	3,634,582	15,355	341,177	1,457

1 1983-84 Statistical Yearbook. 34th ed., New York, N.Y.: Dept. of Intl. Economic & Social Affairs, Statistical Office, United Nations, 1986, Table #24, Section B, pp. 100-103.

2 1983-84 Statistical Yearbook. Table #160, pp. 896-904.

TABLE 3

SOURCES OF EUROPEAN COMMUNITY IMPORTS AS A PERCENTAGE OF EUROPEAN COMMUNITY TOTAL TRADE

REGION	IMPORTS[1] 1958	1982
European Community[2]	35	51
European Free Trade Association	10	9
United States	11	8
Japan	1	3
Other industrialized countries	11	5
Eastern bloc	4	4
Third World	28	20
Total	100	100

1 Figures calculated from Monthly Trade Bulletin, 1958-1982 Special Issue, Luxembourg: Statistical Office of the European Communities. All figures were rounded.

2 Trade Among European Community Member States.

TABLE 4

TRADE BETWEEN EUROPEAN COMMUNITY AND U.S. FOR 1985 IN MILLIONS OF U.S. DOLLARS[1]

COUNTRY	U.S. IMPORTS	U.S. EXPORTS
Belgo-Luxembourg Economic Union	3,567	4,918
Denmark	1,794	706
France	9,960	6,096
Germany, Fed. Rep. of	21,232	9,050
Greece	428	498
Ireland	942	1,342
Italy	10,381	4,625
Netherlands	4,368	7,269
Portugal	598	695
Spain	2,774	2,524
United Kingdom	15,573	11,273
European Community	71,617	48,996

1 "West Europe." Business America, 9 No. 6, March 17, 1986, pp. 6-14.