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RESTRICTIVE PRIVATE AGREEMENTS
RETARD EUROPEAN INTEGRATION

The Department has recently given intensive study to the problem of barriers to European integration created by private agreements and has come to the conclusion that there is need for the US to press for action.

Restrictive arrangements among domestic trade associations and cartel agreements cutting across national lines are prevalent throughout the countries participating in the recovery program. Domestic trade associations have as their principal motivation the elimination of competition by fixing prices in an entire industry. Many of these associations also establish production quotas, set up divisions of the market between producers, arrange restrictive patent-pooling agreements, and provide administrative machinery to keep members in line. The international agreements often stem from the domestic associations and are, in fact, the mechanism utilized by the various national industries to eliminate competition among these groups.

The drive for integration and liberalization of intra-European trade will provide a greatly increased incentive for international cartel agreements as a means by which industries may protect themselves against the competition which liberalization seeks to create by the removal of quantitative restrictions and other government barriers. These arrangements, whether domestic or international in scope, can seriously interfere with the main purposes of the integration drive by preventing cost and price reductions, by impeding increased efficiency, by distorting investment development, and by preventing achievement of viability of the European economy.

Action recommended: The Departmental group studying the problem has recommended for further consideration a number of steps which might be taken in a concerted drive against restrictive practices.....

DOS REVIEWED 18-Mar-2013: DECLASSIFIED FOR RELEASE IN FULL

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.....It is recommended that the missions in their contacts with officials of the participating countries and leaders of public opinion should stress the need for an indigenous European information program which would reveal the importance of eliminating restrictive business practices which interfere with the aims of integration and recovery. It is further recommended that participating countries be encouraged to adopt effective legislation to curb restrictive business practices in line with their bilateral commitments. Another recommendation is that in determining the use of counterpart and dollar aid, attempts should be made to eliminate restrictive business practices in European trade. (This would be in conformity with the US Foreign Investment Policy Statement adopted by the NAC and approved by the President.) Positive measures should be taken to stimulate competitive conditions, such as by encouraging, when economically justifiable, the establishment of new firms or the granting of aid to independent producers free of cartel affiliations. it is recommended that the OEEC and the Council for Europe be encouraged to undertake programs to urge the adoption of adequate anti-trust legislation in the participating countries and to develop public information programs to reveal the ill effects of restrictive practices.

Growth of Restrictive Trade Associations. In the UK there are approximately 1100 trade associations whose principal function is to make agreements among their members to fix prices and eliminate competition by dividing the market. The growth of cartelization in the UK was rapid after 1918 when there were approximately 500 domestic associations. This cartelization of domestic industry, which was accelerated during the depression of the thirties, was given added impetus by wartime conditions. The wartime government regulations could be more easily enforced by organizations which could discipline an entire industry. When private government became an instrument of public government, it became more and more difficult for firms to stay out of a trade association. British associations

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ciations emerged from the war with increased power. The press noted price changes for British products in the American market following devaluation, but they were uniform price changes. Thus, among other products, the prices of bicycles, motorcycles, dinnerware, silverware and whiskey have been uniformly established....

In France domestic trade associations function in the same way and for similar purposes. The Director of the French Price Control Office informed US officials that industrial price-fixing agreements are responsible for the rigidity of prices which has defeated government efforts to bring down the cost of living. The French government has also found that restrictive arrangements by trade associations are making its reconstruction and modernization program much more expensive.

Reports from Italy indicate domestic cartelization. Combinations in the cotton industry are matched by steady development in the same direction in rayon and other staple fiber industries. Trade associations in Norway and Sweden control the paper, pulp, timber, steel and other important industries.

Effects of International Cartels. International cartels operate to restrict international trade by dividing sales, territories, price-fixing, limiting production or sales, dividing fields of production, impeding the flow of investment funds, and impeding increased efficiency. The increased flow of goods across national boundaries provided by the removal of quotas and the lowering of tariff barriers can be directly impeded by agreements among two or more firms to allocate exclusive sales territories. The lowering of prices can be directly hindered by private arrangements eliminating price competition. Expanded production which in turn contributes to lowered costs and prices can be prevented by agreements not to produce or sell more than a certain amount. Production limitations of this sort frequently prevent

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prevent full utilization of existing capacity, make no distinction between efficient and inefficient producers, and discourage the introduction of new and more efficient plant. Agreements to limit the type of products which particular firms will produce can distort economic development in western Europe. These agreements do not take into consideration comparative efficiency of producers and frequently prevent full utilization of existing capacity. By excluding particular firms from producing designated types of commodities, control of supply is left in the hands of a few enterprises to which each kind of a commodity is assigned. Such arrangements destroy the competitive incentive to get more business and to enter new fields, thereby preventing an enlargement of supply which might cause lower prices.