

Speech by Mr F.H.J.J. Andriessen to the

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UTRECHT

Competition policy as a key instrument of

European economic and industrial policy
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The number of unemployed seems to be rising rapidly towards the 10 million mark; the current deficit on the balance of payments has never been so high; all around, financial deficits have reached unacceptable levels; wherever one looks, and no matter how closely one looks, the prospects are dark and dismal.

Ladies and gentlemen, however much one may deplore the fact, it would appear that Europe has rarely if ever been in such a sorry plight.

Hardly a speech or discourse is given today on the economic and social situation in the European Community that does not strike a very pessimistic note. Unfortunately, mine will be no exception to this rule.

The policy paper by the Dutch Christian Employers' Association (Nederlandse Christelijke Werkgeversverbond - NCW) and by the Association of Dutch Entrepreneurs (Vereniging van Nederlandse Ondernemers - VNO) on "Europe: the test of the 1980s" also takes a similar position. It finds the

social and economic situation worrying and notes that, though they may vary from one Member State to another, the problems exist throughout Europe. The paper also sees a growing tendency towards protectionism and indeed a danger of disintegration, and it argues that "a Community approach to the basic problems such as the decline in economic growth, rising inflation, employment problems and the diminishing strength of the private sector alongside a top-heavy public sector is now more necessary than ever".

I believe, Mr Chairman, that I can do no better today than to take up this call for a Community approach to the problems and to focus on it in analysing with you the general economic and industrial situation in the European Community and, after that, discussing competition policy, which is my particular brief as a Member of the European Commission.

The problems I have referred to cannot any longer be solved at national level; the call which you make in your paper and which I have just quoted already makes this point. Nor can they be solved

spread fairly and evenly among the ten Member States.

These two facts call for a critical review of the Community budget.

But that is not enough. The budget is the result of policies, and the new Commission therefore intends to go further: it proposes to subject the whole of Community policy to a critical examination and to see where and how efficiency can be increased and policies reshaped without creating additional financial burdens.

I do not wish to enter into the details of financial problems here.

Let me just say that the Commission is aware of the need to use available resources as effectively as possible. However, it cannot allow Community policies, whose utility and necessity are beyond question, to be trimmed merely because a more or less arbitrary ceiling laid down at an earlier stage has been reached. Anyone who accepts the European Community must also accept that it has its own, independent, natural momentum. One must be critical, examine what one is getting in return for one's money, but we cannot allow

without what is currently referred to as "a wide-ranging discussion in society at large". The NCW is making a valuable contribution to such discussion, by giving its annual meeting over to Europe and its problems and, together with the VNO, producing a paper such as that which I already mentioned - "Europe, the test of the 1980s" - a study which combines idealism and realism and thus contributes to the work which must be carried out in Europe if present and future difficulties are to be overcome.

Mr Chairman, the new European Commission which took office at the beginning of this year has been confronted with the need for a complete restructuring of the Community budget. This exercise, its first major task, has to be undertaken for two reasons: firstly, because the Community is rapidly approaching the limit of its financial resources, and, secondly, because contributions to and benefits from the Community budget are not felt on all sides to be

internal market and free and fair competition are the basic ideas underlying the strongly market-orientated philosophy of the Treaty of Rome. The Treaty does not, however, contain any detailed provisions on industrial and energy policy.

The single market has indeed been a key factor in the rapid growth of trade within the Community and the growth in the prosperity of its citizens. The economies of scale which resulted from the creation of the internal market have also been of major importance in the development and marketing of new technologies involving high research costs. I hardly need add that the free market has also greatly benefited the consumer.

At the beginning of my speech I referred to present-day economic problems. They are familiar enough to you. The drop in demand resulting from the economic recession is encouraging tendencies to safeguard national markets for national producers. This is the classic form of protectionism. There are plenty of signs that it is undergoing a revival. But at the same time we are seeing an increase in protective measures in the form of government aid to

the Community's forward momentum to be brought artificially to a halt. We would then be making ourselves an accessory to the destruction or weakening of the Community, and obviously the Commission is not prepared to stand by and watch this happen.

All this applies with even greater force now that Spain and Portugal are on the point of joining the Community. Membership of these two relatively poor countries will require additional budgetary efforts. We cannot on the one hand bid them welcome and at the same time leave both countries standing in the cold. The political decision to allow them to join carries a price that will have to be paid one way or another.

Let me rather concentrate on a number of general economic problems and in particular the industrial situation in the EEC. Obviously, the Commission - like the other Community institutions - must act within the framework of the European Treaties. The Treaties were drafted in a forward-looking spirit. They strongly reflect the economic thinking and policies of their period and the conditions of economic upswing which existed when they were drawn up. A free

as quickly as possible.

In some industries, this will mean that jobs will be lost. It will not be possible immediately to find new jobs elsewhere for all the workers affected. Proper social security measures to back up the restructuring process will therefore be an essential element of the policy. The key objectives of a social policy of this type will have to be the creation of new jobs, retraining schemes and an increase in the mobility of workers.

A major concern in all this, particularly for the European Community, will be its internal regional equilibrium. Community solidarity requires special efforts to help the less-favoured regions.

However, this must not result in regions with a natural lead being held back in their further development. That would be a great mistake which would undermine our efforts to restore Europe's competitiveness at world level.

It is against this background that you must see the general review of Community policies which I referred to earlier. It is

ailing industries and firms. Governments feel all the more compelled to provide such aid now that new producers are appearing on the world market with highly competitive products.

The EEC is the largest single trading block in the world. As an importer of raw materials, it has an interest in the maintenance of free world trade because this enables it to export its own products and thus maintain balance of payments equilibrium. Now that demand for current European products is shrinking while so many producers from other parts of the world are having considerable success in exporting their goods to Europe, there is in my opinion no alternative for European industry but to restructure its own productive apparatus in a bid to restore and safeguard its competitive capacity.

My own view is that the restructuring must be far-reaching and fairly rapid. I know that the social effects of such an operation will be considerable and in many cases painful. Nevertheless we must realize that we would be putting the cart before the horse if, for the sake of maintaining existing jobs, we were to slow down this restructuring process. In the longer term, it is in the interests of all - industry and employment - that the modernization process should be carried out

certainly in difficult times, restrictions on trade cannot all be avoided.

The concept of the completely free economy contrasts with the opposite view that there should be far-reaching government involvement in the economy, with detailed planning for each industrial sector. You will hardly be surprised to learn that I am not much in favour of that school of thought. I have yet to come across a single instance of a country in which government has successfully managed to perform the role of entrepreneur.

In my view, restructuring is first and foremost the responsibility of industry itself. Government's role is much more one of backing up the process. Firstly, it must create the framework within which industry can develop of its own accord. That framework is to some extent formed by the free internal market and the avoidance of distortions of competition, which I already mentioned. The authorities have a clear role to perform here. They must have the capacity to provide selective stimuli for the restructuring process, and must indeed actually provide them. Such stimuli may take the form of financial assistance aimed at ensuring the viability of firms.

also against this background that the Commission intends to use the powers which it has in a number of areas (and here I am thinking particularly of its powers in the area of competition) as a key to achieving greater coordination of national policies on the regional, sectoral and economic fronts.

This key will also have to be used for the purpose of restructuring Europe's industrial apparatus and in pursuing our industrial policy.

So as to avoid any misunderstandings, let me look more closely at the role of government with regard to industrial development.

In the view of some, the best industrial policy is no industrial policy.

Government should not become involved in any way: it should not provide any aid or impose any restrictions on trade. In a completely free economy, the necessary adjustments would take place automatically of their own accord. It must be said that this view is close to the philosophy underlying the Treaty of Rome. However, it is too simple a solution to be applied today and is therefore inappropriate. It callously ignores social problems and overlooks regional disparities and weaknesses in the fabric of industry. Lastly, it does not allow for the fact that,

The Commission laid an appropriate proposal for a Regulation before the Council of Ministers back in 1973. It is now high time that the Council began to press ahead with its examination of the proposal. I will endeavour this year to get the Council to move more quickly so as to ensure that decisions are taken within the foreseeable future.

In assessing mergers of firms, the Commission adopts a very flexible approach where small and medium-sized businesses are concerned. It is indeed my intention to adopt a special policy approach to small and medium-sized firms generally. This applies both to agreements between the firms themselves (such as patent licensing agreements and selective distribution agreements) and to aid systems. For example, I recently endorsed a Dutch aid scheme for small businesses wishing to make use of microelectronics in their production.

I will not impose on you here by giving a full description of all that

I will return to this point in a moment. But I have reservations about non-selective measures to stimulate investment which apply automatically and are thus not target-oriented and indeed sometimes unnecessary. Such measures easily prove to be at the expense of neighbouring countries. They may also lead to an international escalation of aids resulting in a senseless waste of public resources.

My philosophy as outlined here starts from the principle of free competition between firms. But I recognize that cooperation between firms may be desirable, even where they are in competition with one another. I am thinking here of cooperation for the purposes of specialization, joint research and, albeit subject to specific conditions, the joint utilization of capacity in cases where there is structural excess capacity. I have a similar approach to mergers between undertakings. The Commission favours mergers aimed at enabling firms to improve their competitive capacity. However, we must beware of the danger of effective competition in the Community being placed (further) at risk. It is therefore more necessary than ever for the Commission to be endowed with an instrument that would allow it to control major international mergers rapidly and effectively.

may be substantial since it is evident that a balanced and equitable policy can be pursued only if all the Member States supply all the information needed.

How, then, does the Commission view State aids? It should be noted first of all that the Commission does not automatically reject all such aids. As I mentioned earlier, I see competition policy as forming part of the Commission's general economic policy. This means that aids must be assessed in the light of general economic objectives. The consequence is that I may often have to tolerate some degree of distortion of competition because a particular aid measure serves a "higher objective". The pursuit of completely untrammelled competition must then give way to that higher objective.

I make a distinction between three types of project for which I regard aids as being acceptable, subject to certain conditions:

- traditional industries in difficulty;
- the development of new products;
- "horizontal measures", referred to in present-day Dutch jargon as "facettenpolitiek" (e.g. energy conservation).

is happening in the private law area of the Community's competition policy. But I do think it important to state that the Commission considers it necessary to bring air and sea transport effectively within the sphere of competition policy. I am well aware that the Member States are not very enthusiastic on this point, but I believe that it is very much in the interests of the European citizen that we convince governments of the need for a more positive approach. I am firmly resolved to play my part here.

Lastly, let us take a somewhat closer look at the criteria I would like to apply when assessing State aids. The recession has resulted in a real surge in new applications for aid. Since I took office at the beginning of January, the Commission has received applications for aid totalling some Fl 15 000 million. I know from informal contacts I have had that further applications amounting to many thousands of millions of guilders are in the pipeline. The huge amounts of money involved are a clear indication of the danger of distortions of competition.

I do not propose to go into the problems that arise in connection with the transparency of State aids. Suffice it to say that these problems

a difficult period. This may be necessary where firms have to shoulder heavy financial and commercial risks. I intend to take a more cautious line over aids to promote the further development that applies to research already carried out since the risk factor here is often smaller than in the case of research. However, it will not always be easy to distinguish between research and development. It goes without saying that the policy on aids for such activities must dovetail with the policy that the Commission will pursue on innovation.

"Horizontal aids" constitute a new policy area. The term is a reference to a policy geared as it were to tackling simultaneously the same problems in different industries. I am thinking here of energy conservation, environmental protection, recycling or more rational use of raw materials and of special arrangements for small and medium-sized firms. Such aids, which are not usually very substantial, help to achieve other Community objectives. We are therefore justified in exercising some flexibility when we assess such aids from the angle of the distortion of competition caused.

The first two categories are without doubt suitable objects for a vigorous Community policy. By applying stringent conditions to aids in these fields, the Commission will be able to achieve a beneficial coordination of Member States' industrial policies.

Where firms in difficulty are concerned, I am thinking mainly of the textile, steel and shipbuilding industries. From the viewpoint of distortion of competition, aids for such firms represent the greatest threat. On the other hand, however, social considerations here pose a particularly thorny problem. My policy approach is to authorize State aids only where they are linked to a clearly defined restructuring plan for the firm or industry concerned. Such a plan must be geared to restoring the viability of the firm or industry in question so that State aid will no longer be needed in the foreseeable future. A policy of this kind does not take kindly to production aids which are designed merely to offset losses and the direct effect of which is to distort competition for firms that manage without any help.

As for the development of new products, I am thinking, for example, of the electronics or the aircraft industry. Aids to promote research are permissible here if their purpose is, for example, to help firms over

None the less, the Commission will have to measure such aids closely against the general interest referred to earlier. The European Court of Justice too takes a very strict line on this, as can be seen from its judgment relating to a planned investment project by Philip Morris in the Netherlands.

This approach indicates that State aids for firms or industries are sometimes looked upon favourably. However, I must stress once more that aids must remain the exception and must not be repeated again and again. The recent proliferation of aids is a source of considerable concern to me.

To sum up, Mr Chairman, I see scope for using competition policy as a means not **only** of curbing certain developments but also of encouraging adjustments in industrial structures. Viewed from this angle, the Commission's competition policy acquires wide-ranging significance for industrialists and employees, for individuals and their environment, for the responsible exploitation of this planet's natural resources and for a new international division of labour.

It is my intention to pursue a dynamic competition policy in an attempt to make industry and commerce in Europe healthy and viable again.

This will be of benefit not only to industry and commerce but also to consumers and to the Community as a whole.