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A COMMUNITY STRATEGY TO DEVELOP EUROPE'S INDUSTRY

Communication from the Commission to the Council

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A Community strategy to develop Europe's industry

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Introduction

1. A permanent function of the Community is to make it possible to bring about change when it is needed. If we are to succeed in this today, we must work out an industrial development strategy linked to the measures proposed in the fields of energy and research.

For this reason, the Community's role in the development of Europe's industry is a central theme in the current discussion on the future of Europe prompted by the May mandate. The industrial strategy of the public authorities, like that of the major companies and industrial complexes, must now be formulated with a complexity, a breadth of scope and a time-span which in Europe are feasible only at Community level. The aim must be to recreate a climate of confidence that will encourage innovative and expansionary investment, both by the major industrial groupings and by the small and medium-sized businesses, whose contribution to the creation of productive employment is well known. This confidence must be shared by governments: as they try to restore balance to public finances, they must show more practical faith in the growth potential that can be released by business's capacity for innovation rather than rely on taxation, which stunts this capacity.

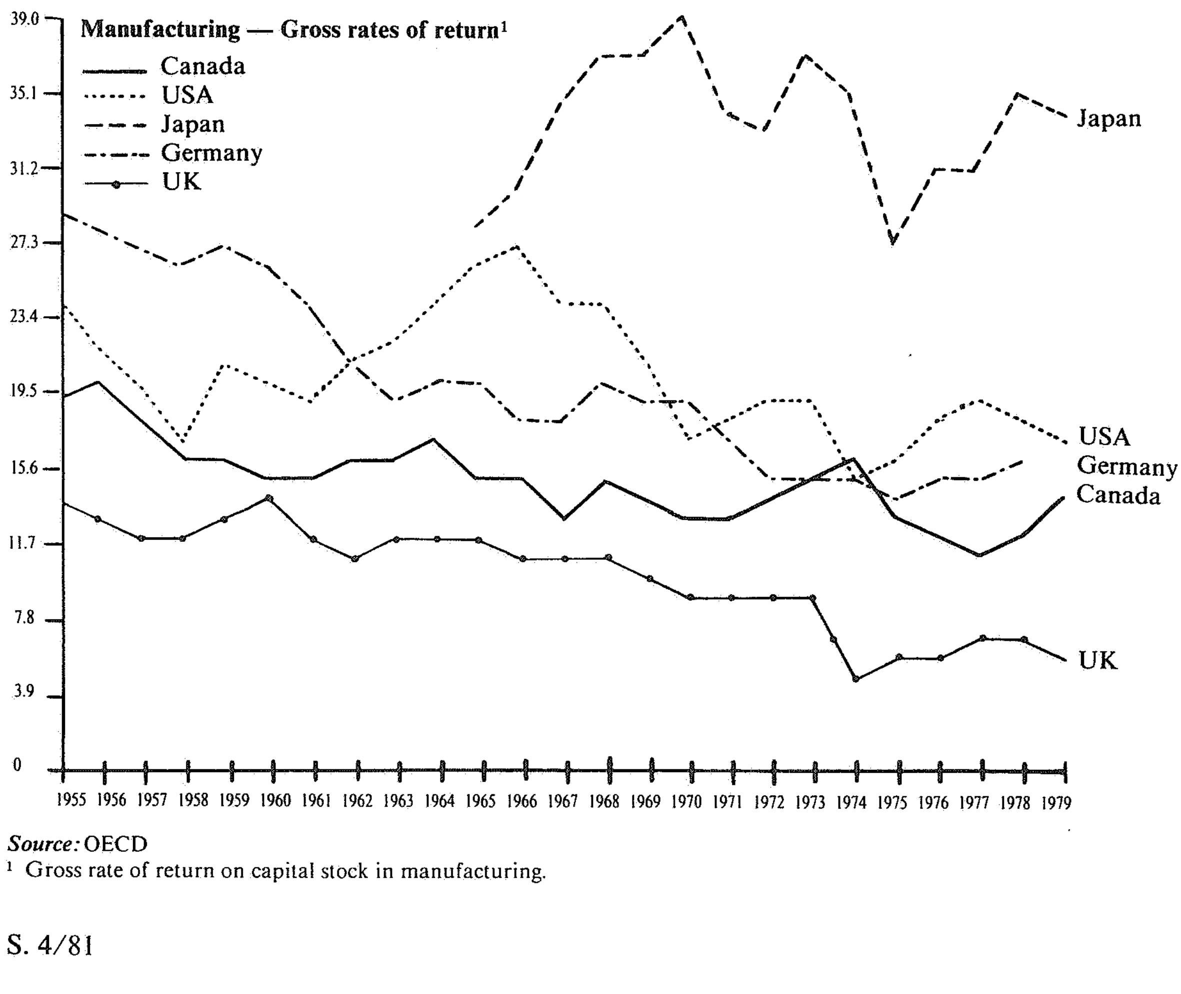
The strategy must be in line with the preliminary draft fifth medium-term economic policy programme.[1]

The crisis has shown that European industry, faced with the same challenges as its trading partners, has found it more difficult to adjust to the changes taking place in the world. In particular, the Community's overall industrial performance is not as good as that of the USA or Japan.

The Community's share of world exports in manufactured goods is declining while the USA's share remains steady and Japan's is increasing. Excluding energy products the trade surplus of the USA and Japan is increasing while the Community surplus remains more or less static.

The major problem facing European industry is that productivity growth has slowed down, largely as a result of inadequate productive investment. As a result, competitiveness in

[1] *European Economy* No 9, July 1981.



Source: OECD

[1] Gross rate of return on capital stock in manufacturing.

Europe as measured by unit labour costs declined in relative terms between 1960 and 1980, according to calculations by the US Department of Labour which show that unit labour costs increased in the seven largest countries of the Community by an average of 8·7% per year, compared with 7·4% in Japan and 3·9% in the USA.

Trends in the manufacturing gross rates of return confirm this relative decline in the overall productivity of all factors of production.

Lastly, European industry's loss of competitiveness has meant a loss of potential employment: over the last decade, the number of jobs in Europe increased by 2 million compared with 5 million in Japan and 19 million in the USA.

It is very difficult to identify the causes of the EEC's poor industrial performance: in the first place they are manifold, and secondly it is very easy to mistake effects for causes and thus make the wrong diagnosis.

For this reason, the Commission, supported by Parliament's Committee on Economic and Monetary Affairs, has started a detailed study of the competitiveness of European industry: it will be available by the end of the year and will help identify both the weaknesses and the strengths of industry in Europe.

Even though this study has not yet been completed, the information available to the Commission already shows that the Community can make a real contribution to industrial expansion and that this contribution cannot come from any other source.

What will this contribution be? Can the EEC in the 1980s give its industry the kind of fundamental impetus that it did in the 1960s now that the economic context is one of a world in crisis and in a political and social climate which has been marked by the basic choices of society which would be difficult to call into question?

The answer is yes. A Community strategy which aspires to this end should drive for:

- renewed growth through increasing productive investment, because without growth positive adjustment will not be possible;

- the establishment of a European industrial continuum, with specific incentives for the development of our industry.

The need for a European response

2. When the common market was set up in 1958, European industry was given a new framework in which to develop: it was given an objective — customs union; a timetable — ten years; and a strategy — international competitiveness.

This Community framework, which was certainly a change in the established order and which for industry might have been a leap in the dark, turned out to be the springboard for an unprecedented industrial boom in the Community.

But times have changed. In a world of increasingly fierce competition, change becomes at once more necessary yet more difficult and the authorities are called upon to intervene more and more in order to bring it about.

For instance, industry in the USA, which already enjoys the advantages of a continental-scale market, can count on large, particularly defence-related, public contracts. In Japan, the strategy of the main industrial groups is worked out within a planning framework based on consensus between government and industry.

In Europe, intervention on the market by the public authorities is as least as substantial, if not more so. But its effectiveness is undermined by two factors: it is sporadic; and it carries the ever-present risk of fragmenting the Community market. It is all the more important to improve the effectiveness of direct action by the public authorities to help industry in view of the many historical, geographical and political constraints on industrial development that elude control.

Thus because Europe has not been able in time to make the qualitative changes which would have allowed it to act in concert, it is permanently on the defensive in the face of American and Japanese strategy. Europe is no longer calling the tune; Europe no longer leads the way. Its responses are impirical and *ad hoc;* and, because they are taken to be a reaction rather than action, often lay themselves open to the charge of protectionism.

There is an urgent need for the Community to take a fresh lead by proposing a framework for a European response. This response must be renewed growth, which alone will persuade businessmen and workers to accept the need for change; and the arena will of necessity be Europe's internal market, which is the greatest asset that Europe can give its industry.

Pressing the European market one important step further towards internal unity, thereby reaffirming its separate identity *vis-à-vis* the outside world, will help to restore confidence. We must once again see the common market as an opportunity for European industry. That is the thrust of the Commission's document on the internal market.[1]

Secondly, confidence can be signalled by reviving productive investment, which is the only way of making a European industrial strategy credible: for it is in the first place the task of companies themselves to bring about the industrial reinvigoration of Europe.

It is therefore the companies themselves that must be reassured and convinced: as far as industrial policy is concerned, the Community has no task more urgent or more important than this.

[1] Bull. EC 6-1981, points 1.1.6 and 2.1.11.

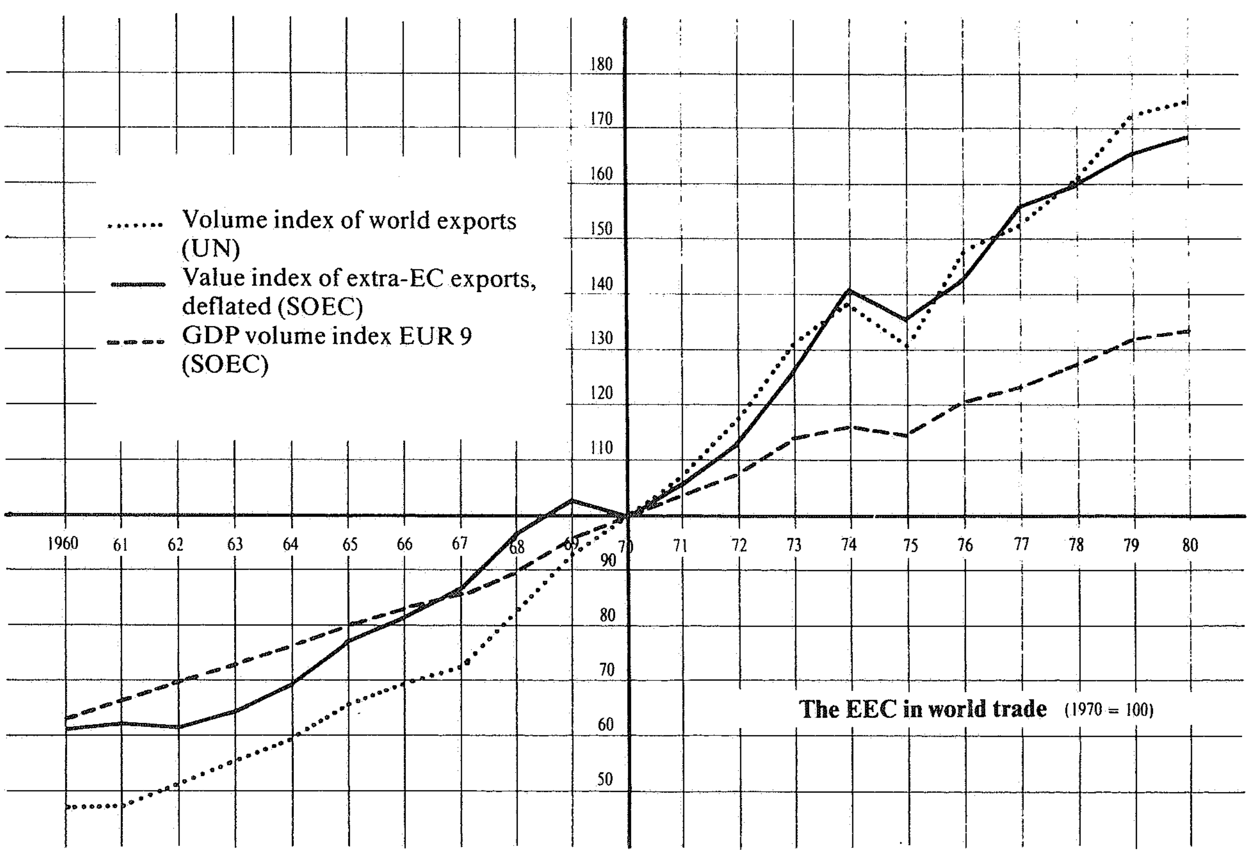
Reviving productive investment

3. Our industrial base cannot be modernized without growth.

But it must be decided which component of demand — exports or domestic demand, consumption or investment — the Community is to take as a basis for growth that will nurture the renewal of our industrial base, both as regards new manufacturing techniques and the development of new products and services.

In the past, growth in the EEC was largely export-led: exports expanded at the same rate as world trade. Over the last few years, world trade has been slowing down and it is unlikely that we shall again see the like of the boom in the 1960s; neither is Community industry as a whole in the best position to take advantage of an upturn in world demand, should one occur.

For since 1978 the share of the world market held by European products has been decreasing and a gap is growing between the growth in world demand and the growth in Community exports.



The EEC in world trade (1970 = 100)

In the face of this trend, which denotes a decline in Europe's competitiveness, the Community must take action to exploit all the possibilities provided by international trade, even if they are more limited than in the past:

- The Community must re-emphasize that protectionism is a dead end for Europe: it is an absurd contradiction to predicate Europe's economic expansion on a growth in world trade and at the same time to hinder trade on its own market.

- Conversely, the Community should insist that its industrial trading partners match its own contribution to the smooth functioning of the system according to GATT principles. This is a matter of the domestic macroeconomic policies of these countries and the opening up of their markets. It could also mean taking measures in concert with our partners along the lines of the OECD agreement on steel, which guarantees solidarity between the Community and the other producer countries in restructuring the industry, or the Multifibre Arrangement for textiles.

- Finally, the Community has special responsibilities *vis-à-vis* the developing countries whereby it stimulates their internal growth, which in turn provides direct spin-offs in the form of orders for capital goods.

In fact, the Community will find the springs for the growth it is looking for both in the strengthening of competitiveness and in the expansion of its own internal demand. The nature of this additional internal demand still has to be defined.

As the twin aims are to create more jobs which can generate wealth and at the same time to combat inflation, productive investment must be both the engine for industrial revival and its secure basis, since it not only creates additional demand but also helps to improve productivity. The Commission recommends that priority be given to productive investment, first of all in industry but also in the major supporting infrastructures.

A revival based on consumption, especially public sector consumption, would not offer the same advantages. It is therefore better to wait for consumption to rise as a result of the improvement in general productivity, whether this leads to higher incomes or a drop in the real prices of consumer goods.

Stimulation by means of investment will do more to help industrial redeployment if enough of this investment is directed towards:

- new technologies which aim primarily to improve productivity;

- activities which tie in with the priorities set by the Community; such as energy and research and development, or activities connected with environmental protection, which also directly create jobs.

Investment of the first type helps to improve and modernize the industrial employment base by increasing overall productivity in the economy. Its job creation impact occurs only with a time lag as sales, particularly exports, increase following improvements in competitiveness. Investment of the second type has a more immediate effect in creating new jobs.

Investment must be directed to upgrading both the human and financial resources of companies and the quality of the technologies to which they have access.

The common feature of this type of investment is that it generally has to be at the initiative of the public authorities; when necessary, they should be in a position to provide finance and, to do so, they should be able to recast fiscal policy so that the requisite resources are transferred from consumption to investment, in such a way as to avoid stimulating inflation.

Energy

The first essential for energy is investment to secure supply and conserve energy.

It is unrealistic to think we can create a climate favourable to productive investment if we do not make this vital effort to guarantee the independence and security of the economic environment.

The Commission recently published its conclusions and proposals on this matter.[1] The Council's reply will be a credibility test of the determination of governments to work towards the revival of the Community's industry.

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[1] Pages 7 to 20 of this Supplement.

Between now and 1990 the Community should invest an amount of between 500 000 million and 750 000 million ECU to diversify its sources of energy and to save energy.

Research and development

Owing to budgetary difficulties, almost all the Member States have cut down on government funding for R&D at the very time when financial conditions in the business world have compelled many companies to restrict their own expenditure. In its analysis of R&D in the Community, the Commission found that, having regard to both the scale of research requirements and the resources available, efforts are too scattered, supply does not match demand and the effectiveness of what has been done is very uneven.[1]

The priorities selected for Community research should be made more relevant to both present and future industrial requirements, and companies should have readier access to the research findings.

The Commission feels that it is essential to encourage projects which are long term and already foreseeable and to ensure that essential industrial sectors such as chemicals and automobiles, which are undergoing major changes, have the technologies they need in good time so that they can continue to be a source of wealth and employment.

At the same time, a greater effort must be deployed in the new technologies — biotechnology, information processing, communications and automation.

In these fields, the Commission proposes to launch a new long-term industrial R&D programme: to develop European capacities for the production of microprocessors and opto-electronic equipment and for the transmission, management and processing of information.

In view of the pressure of international competition in the field of innovation, the Community must ensure that industrial R&D is underpinned and enhanced by exploiting the advantages offered by the European dimension — advantages of scale (markets), industrial application (innovation) and the breadth of legislative provisions (standards, etc.).

[1] Pages 21 to 32 of this Supplement.

The Community must also intervene to encourage the attainment of objectives of common interest, to fill dangerous gaps and where necessary to facilitate technological ventures which are an industrial gamble.

The Community must also step in when national resources are on too small a scale to support technological programmes, and to make sure that smaller Member States are not left at a disadvantage and that regional imbalances are not created.

Innovation

A sound technological base is a necessary but not sufficient condition of industrial development. The Commission recognizes this and has spelt out in detail all the factors which determine the behaviour of companies and society as regards innovation.[1]

The tax and financial conditions pertaining to high-risk investments must be improved. Business leaders must be given the chance to try out innovations which are not yet on the market, for example by means of pilot projects. The economic environment, both general and as codified in legislation, also has a major influence on the vast majority of companies, which, owing to their limited size, are little affected by specific measures.

Regional measures must be stepped up to improve infrastructures, the availability of information and the support framework for companies in the structurally weaker regions. The recently proposed changes to the Community's regional policy accommodate this objective to a considerable extent.[3]

New consultation machinery must also be introduced to facilitate a common approach to development strategies for certain key technology sectors.

By these means, in sectors where the European dimension offers greater scope for effective action, the Community will be able to promote cooperation among companies active in key technologies and to support initiatives based on the new technologies.

The Commission has set up a round table of representatives from the European information

[1] Pages 33 to 41 of this Supplement.
[2] OJ C 336, 23.12.1981: pages 57 to 61 of this Supplement.

technology industries as a forum for this industry. The Commission and the industry together discuss the responses that are needed to the strategies of its major competitors and the support which the Community could give to these companies in research, standardization, new product and service development and so on.

The Community should also be able to give direct assistance through adequate financial aid, similar to the Commission proposals for microelectronics, and indirect assistance by legislative measures, to foster cooperation among European producers to enable them to catch up and even regain the leadership in the development of products and services which have a strategic impact on the whole of European industry.

Training

The Commission considers that training and management conditions as they affect company employees can have a major influence on their performance in terms of productivity, innovation and investment and so on. There is certainly much more to be done in this field, and a leaf could be taken from the book of our principal competitors.

The Commission intends to expand its role in this area through the European Social Fund and its training and education policy.[1] It is obvious that ultimately the security of industrial employment depends on training, and that the Community cannot allow the shortage in certain skills to be yet another bottleneck, on top of the many constraints already in existence.

External investment

The growing trend towards the internationalization of investment means that non-European companies are investing and creating jobs and added value in the Community.

Similarly, European companies should be able to invest outside the Community for the following reasons:

- international investment leads to the subsequent expansion of the international markets — in components, services and capital goods;
- it is the best means of voluntary industrial cooperation, promoting the development of countries which may become major trading partners, such as China, the ASEAN and OPEC countries;
- it is an important way of strengthening our relations with the developing countries;
- the taking over of companies can open up access to the technologies required.

More particularly as regards developing countries, three objectives should be pursued:

- to secure Europe's supply of essential raw materials. This means a renewed emphasis on investments in the extractive industries so as to escape from dependence on competing industrialized countries. It also means establishing contractual relations with the raw materials exporting countries which would include supply agreements;
- to overcome the obstacles to the penetration of Third World markets and to offset our price competitiveness handicap by a policy of transfer of technology and the establishment of industry, whether this takes the traditional form of direct private investment of association with State-financed industrial development measures. Here too stable relations between the Community and the countries concerned are a condition for success;
- in the context of the adjustment of our industrial structures, to develop consultations and exchanges of information on the developing countries' industrialization policies and prospects, in order to exploit the opportunities for industrial cooperation, specialization and subcontracting.

External support measures

Compared with its principal competitors, European industry is undeniably handicapped on international markets by the fact that financial support and other measures to assist firms are taken in a national framework without any concerted action at Community level.

At present the Community as such has virtually no instrument for promoting either exports or external investments. Certain practices, for example as regards the financing and individual insurance of exports, have sometimes

[1] Bull. EC 10-1981, point 2.1.50.

turned out to be an obstacle to closer cooperation on the international market among European firms.

The Commission considers that the Community cannot continue to hold aloof from export policy, which quite rightly appears in the Treaty (Article 113).

An effort must therefore be made to identify the weaknesses of European industry caused by the dispersal of effort in export and external investment policy, with a view to a tighter coordination of national instruments within the Community framework and, where this can and ought to be done, to the introduction of Community measures.

Supporting investment

The investments referred to so far are essential for the modernization of European industry: but they will not be sufficient to ensure a revival on a scale that will have a large enough impact on employment. Accordingly, the governments, exercising strict discipline in their budgetary options, must release the resources needed to develop investment in the major infrastructures which create a large-scale demand for industrial products, such as steel, railway equipment and water engineering equipment, and which will draw the various parts of the Community closer together.

Such projects, many of which are eligible for Community financial aid, besides directly creating employment, also strengthen European industry's general ability to capture major international contracts.

Implementation of the Community's industrial strategy therefore requires the adoption by the Council of the Commission's specific proposals for energy and research. This is both a condition for success and necessary if the strategy is to be credible.

It is also essential to do away with the obstacles standing in the way of productive investment. But, as the aim is of course to expand European industry in a way that will create productive employment in the Community, we must be certain that it will indeed be European companies that will effectively and in the first place benefit from this set of measures.

This means that the Community must create, through all its policies, a European industrial continuum with a built-in element of preference for European companies.

Towards a European industrial continuum

4. In the 1960s the reduction in national levels of protection by the abolition of customs duties was offset for companies by a European preference in the form of the Common Customs Tariff.

This European preference has now declined as the CCT duties have fallen. In any case, owing to the increasing relative importance of non-tariff barriers to trade maintained or introduced by the Member States, market unity is not all that it should be.

As a result, companies that venture into the European market by setting up organizations on a European scale do not find the huge continental market that they expected where economies of scale would compensate for the drawbacks of moving out of the immediate sphere of their country or countries of origin. Furthermore, the company organized on a European scale is often treated with suspicion by governments reluctant to afford it the benefit of their various industrial policy instruments: financing, R&D aid, public contracts, norms and standards, etc. Thus, for a company to organize itself on a European scale, which ought to be a considerable asset in the common market, in fact turns out to be a handicap.

The Community must therefore, as part of its attempt to unify its internal market, be able to grant such companies concrete advantages in the European context.

This can be done through three types of measures.

A European industrial continuum

The internal market

As already pointed out in the introduction, the internal market is the very basis for a European industrial continuum. The Commission's proposals to strengthen it[1] must therefore be given priority in European industrial strategy. The most important of these proposals are:

Reciprocal notification in advance by governments of proposed rules which would create barriers to intra-Community trade; this will help to prevent and deter national protectionist measures.

Technical norms and standards fixed at national level can stop companies launching long-run production lines from the outset, and can prevent small and medium-sized firms from supplying nearby markets on the other side of frontiers. Rather than trying to harmonize them after they have been set, it would be much more efficient and logical to set new norms and standards for the whole of the Community from the outset. This would give Community industry a sounder foundation by providing a unified market, thereby giving Community producers preferential access to the Community market.

So that products can be designed directly for the single market, the Commission, in a proposal for a Council Decision,[2] asked the Member States to take all measures necessary to ensure that departments responsible for establishing technical rules and standards institutes cooperate closely to prevent the creation of barriers to trade. Priority in the establishment of norms and standards gives European industry an advantage over its competitors.

The promotion of norms and standards for a larger market, and even for the world market, may turn out to be advantageous for European industry in sectors where it is in a relatively strong position.

Company law and taxation systems in the European Community which encourage the creation of European industrial entities facilitate their activity in the common market.

The Commission's proposals in this area should be adopted immediately.[3]

Non-discriminatory access for all European companies to research activity carried out jointly in Member States with government aid.

[1] Bull. EC 6-1981, points 1.1.6 and 2.1.11; Bull. EC 10-1981, point 2.1.9.
[2] OJ C 253, 1.10.1980.
[3] OJ C 39, 22.3.1969; OJ C 253, 5.11.1975; OJ C 103, 28.4.1978; Supplement 4/75 — Bull. EC.

The Commission will pursue its endeavours to ensure that Article 7 of the EEC Treaty is respected, i.e. that no discrimination by Member States based on company nationality is allowed.

Competition rules

Where application of national and Community competition rules is concerned, assessment of the dominant character of a company's position on a market, whether national or Community, must take into account where necessary the fact that this market exposes the company to actual or potential competition from imports both from other Member States and from outside the Community, on the understanding of course that the rules on free trade are correctly observed.

State aids are exceptions to the free play of the market. The Commission authorizes them only in cases where they serve regional or sectoral development objectives covered by the Treaty. This means that they must help to make enterprises competitive enough to operate without aid within a foreseeable period. Consequently, aid to sectors in difficulty must be accompanied by the effective restructuring of the firms in these sectors. Greater stress must be put on the contribution of aids to restructuring, which is a requirement covering the whole common market. However, the Commission favours the granting of aid for developing advanced technology sectors that will promote both innovation and research and development.

Preferences with regard to public procurement

Public procurement is becoming an increasingly vital element of national industrial strategies. The sealing off of national public-sector markets is a threat to the unity of the market that will get worse unless the growth of the public sector in the Member States is accompanied by the opening up of public contracts.

Opening up of public contracts is by no means easy. Governments are reluctant to use their own taxpayers' money to make purchases abroad; and nationalized industries, particu-