

The Community's industrial policy

European File

Industrial production in the European Community increased 63% in the ten year period between 1963 and 1973. Since then it has only grown 7% in five years, whilst the level of unemployment has climbed from 2.5% to 5.5% leaving 6 million without jobs in Europe. This is a measure of the scale of the crisis facing Europe's industry today.

1. Crisis in European industry

Our industries have had to cope with :

- a fourfold increase in *oil prices* since the winter of 1973-74;
- increases in *raw material costs*;
- the repercussions of the *international monetary crisis* which have caused exchange rate fluctuations not conducive to investment;
- additional competition from recently industrialized countries*. Low wages and, in certain sectors, ultra-modern equipment enable these countries to manufacture at prices much lower than ours and competition such as this is unavoidable. The creation of a larger market in Europe has, however, made it easier to sell some of our own products. Whilst by the year 2000 third countries could be exporting

foodstuffs, textiles etc. worth 100 billion dollars to industrialized countries, the markets in developing countries should offer industrialized countries at the same time potential sales of around 117 billion dollars per year for machinery, 59 billion for chemicals, 40 billion for transport equipment and 37 billion for electrical equipment. In consequence, European countries must know how to adapt to the new international division of labour and reorganize their low-productivity (such as steel) and develop their own high technology sectors (such as data processing).

In addition to these external pressures, our industries face internal structural problems. To respond to the new international division of labour and to new individual and collective needs — induced by the rise in incomes and the growing importance of leisure and environmental standards — our industries must undertake major reorganizations and structural modifications. Ageing manufacturing equipment must be modernized to keep the industries competitive. All this costs money and the required changes are difficult to push through in times of economic crisis and high unemployment.

The high level of unemployment in European countries has also induced new social demands, in particular for a reduction in the working week without loss of income. Workers are refusing to be condemned to forced inactivity or, alternatively, to hyper-productivity. At the same time, doubts are being expressed about whether renewed economic growth can in fact absorb all the unemployed. By 1985 there will be an extra 9.7 million people on the European job market. Economic growth and automation often mean less jobs. The European Commission is currently ways of creating a better division of the work which is available.

2. The Community : a necessary industrial zone

Industrial policy is a new priority for the European Community. Up until 1969 action was mostly concentrated on the Common Agricultural Policy and on the realization of an extensive market for industrial products via customs union. Simply removing customs duties is not enough : the difficulties being experienced in certain industrial sectors and the need to develop new high technology industries require the Community to develop and implement a coordinated industrial policy. In 1970, the Commission announced that the 'customs union, though it is the basis of all the rest, should be complemented as much as possible by new common instruments of action'.

Faced with the current crisis, the necessity for a Community industrial policy becomes more evident :

- the reorganization of troubled industrial sectors can only be effectively accomplished at the European level. If one Community country takes it upon itself to reorganize a national industrial sector without considering its neighbouring countries, the country may simply be exporting unemployment to its Community partners which would very likely not go unchallenged and could quickly end up in a return to protectionism. More than half of the Nine's trade is with one another. Protectionism is consequently likely to eliminate more jobs than it creates. Indus-

trial strategy must be developed within the framework of the Common Market and the necessary changes must be planned at the Common Market level.

- most of the industrial future of Europe lies with the high technology industries, (aerospace, data processing, telecommunications etc.) in the production of sophisticated capital equipment (machine tools etc.) and in the sectors involved with new types of growth (new energy sources, campaign against the deterioration of the urban environment, housing, transport infrastructure). The expansion of these sectors requires very substantial investment and a large base. Community countries are fortunate to have established a market of 260 million consumers, and if we also put our heads and our financial resources together we can assure the future of our industry.
- the existence of a vast unified market already alleviates somewhat the effects of the economic crisis on industry. The introduction of a European monetary system will help reduce many of the uncertainties (inflation, exchange rate instability, etc.) which have long hindered industrial investment.
- importing a large part of their raw materials and more than half of their energy, the Nine are dependent on external suppliers. The sheer size of the Community should enable it to use all its weight in negotiations with producer countries to avoid brutal fluctuations in raw material prices. The Community can also help our countries by encouraging more harmonious international trade as well as plant location in third world countries.

3. What does the Community do?

European industrial policy is currently developing along two principal lines : the first aims to complete the establishment of the Common Market, and the second aims to respond to the specific problem of particular sectors.

a) Completion of the Common Market

The completion of the Common Market will give new opportunities to our industries. The Community is working towards the following objectives :

- the elimination of technical barriers to trade*, i.e. the elimination of all trading difficulties resulting from national provisions covering the quality, composition, packaging or inspection of goods. The aim of this is to enable companies to market their wares throughout the Community whilst at the same time ensuring the necessary protection for consumers. Up until now the Community has adopted 180 directives of this type of which 130 cover industrial goods, from cars to cosmetics.
- opening up public markets* : two European directives specify that contracts from public authorities in the Nine (State or municipal) be open to Community and not just national suppliers.

- *harmonization of company law and social measures* : to assist the free movement of capital whilst giving greater protection to partners and third parties. European directives aim to standardize the requirements for setting up limited companies to ensure 'transparency' of the accounts to keep shareholders and workers better informed, and guarantee the same protection for workers through the nine Community countries against mass redundancies or the bankruptcy of their employer.
- *greater cooperation between European companies* : in 1973 the European Commission set up the Business Cooperation Centre — nicknamed the 'Marriage Bureau' — which has sought and arranged contacts between companies in the Community that wish to cooperate. Between 1973 and 1978, the Centre replied to 3 000 requests for information on the legal, economic, administrative and fiscal aspects of transnational cooperation. It dealt with 576 requests for cooperation which led to agreements between 70 mostly middle-sized companies.
- *pursuit of healthy competition policy* : in times of economic crisis the Commission is giving particular attention to the problem of 'invisible barriers' within the Common Market introduced by companies through cartel agreements, the problem of the abuse economic power which could be the result of companies who have removed their competitors, and is trying to bring a Community perspective to national public aid and also require companies to rationalize and adapt to progress.
- *Community investment assistance* : since its inception, the Community has been able to substantially contribute to investment in the coal, steel and nuclear energy sectors. The European Investment Bank and the Regional Fund accord loans and aid which help industrial growth, especially in the least developed regions. Two new instruments have recently been introduced : the 'Ortoli facility' named after one of the Commission's Vice-Presidents — which enables the Community to borrow up to one billion EUA¹ on the capital market to support industrial development by way of loans. Investment premiums and interest relief grants can also be charged to the Community budget to facilitate the reorganization of certain sectors.

b) Action in specific sectors

The Community is also active examining problems on a sector by sector basis. Community action of course varies greatly depending on whether it is attempting to reorganize crisis stricken industries or trying to promote growth sectors. Authorized by the Treaty of Rome to watch over the proper functioning of the Common Market and empowered to prohibit national public aids when they risk interfering with its proper operation, the Commission has adopted the following principles for action :

- in the growth sectors where success is in the Community's interest, it accepts national aids as long as expansion in these sectors takes place in the framework of Community cooperation;

¹ 1 EUA = £0.69 approx. (at exchange rates current on 23 January 1979).

- in crisis sectors it permits rescue schemes on condition that they do not increase capacity — all these sectors are already suffering from over-capacity — or maintain an unsatisfactory status quo. Public aid should afford a temporary period of respite during which long term solutions can be implemented. They should be limited to companies where severe social problems could arise.

1°) Reorganization of industries in trouble

The reorganization of certain industrial sectors is obliged by their surplus capacity on the one hand and the new international division of labour on the other. The objective is to make them competitive enough — either at a stabilized or reduced level of production — to face international competition without special assistance. It is not only a question of capacity reductions and productivity increases. If such reorganization is carried out without proper coordination it can be counterproductive to measures being taken by other States or other companies. The Community's work has three aims : to help industries reorganize themselves, to ensure that assistance given by Member States to troubled sectors does not simply export their problems to their neighbours, and to help resolve social and regional problems so that job losses can be compensated for by the creation of new job opportunities.

- *Steel* : amongst the 700 000 workers in the Community steel industry, one in every seven currently risks losing his job. 100 000 others have already lost theirs since 1974. The cause of this lies in the emergence of new manufacturing countries, the stagnation of demand resulting from the world recession, the unsatisfactory organization of a sector where overcapacity has been created whilst relying on too much ageing machinery. The European Commission is implementing a global reorganization programme known as the ' Davignon Plan ', named after the Commissioner in charge of industrial affairs. This plan aims to restructure the steel industry to make it competitive. Modernizing plant and reducing surplus capacity will lead to unavoidable job losses which must be compensated for by the creation — with the Community's help — of new jobs in the regions hit by the crisis. To offer these companies a breathing space in which to introduce changes, short term measures have been introduced, fixing minimum or recommended prices for many steel products. The Commission has also concluded agreements with third countries to stabilize their exports to the Community. ¹
- *Textiles* : the European textile and clothing industry accounts for 10% of gainful employment in the Community. Some of the companies are faring badly against competition from low-wage countries and stagnation of domestic demand. Factory closures are on the increase and the European Commission has negotiated agreements limiting cheap imports. The industry has a breathing space up until 1982, during which time it must adapt to the new competition. In the man-made fibres sector in particular, analysis of the situation has shown that the industry cannot be helped without reducing productive capacity. Before approving a plan of co-

¹ The next issue of European File will deal with this problem in more depth.

ordinated reductions, the Commission will ensure that all companies are affected to the same degree and will consult with trade union bodies. It will also use the financial instruments available to it to promote industrial diversification in the regions where jobs are being lost.

- *Shipyards* : in December 1977, the European Commission sent the Council of Ministers a Community action programme of help to the shipbuilding sector. This programme involves an ordered reduction in productive capacity, finding substitutes for jobs no longer required, and improving productivity and strengthening the remaining part of the industry. In the framework of negotiations being conducted by the Community with other industrialized countries, Japan introduced measures at the beginning of 1977 to prevent excessive concentration of orders in its shipyards.
- *Footwear* : between 1972 and 1977, the production of shoes dropped by 8% for the whole Community and was particularly serious in three countries : the Netherlands, where output fell 30%, Ireland which saw a 36% cutback and Belgium which experienced a 49% drop. The cause of this is basically the influx of low cost shoes produced in South Korea and Taiwan in particular. The situation could further deteriorate through protectionist measures taken by Japan and the USA. The Commission has also made approaches to the countries concerned to reduce exports of cheap shoes to the Community. An import monitoring system has also been introduced.

2°) *Promoting growth industries*

According to Etienne Davignon, Commissioner responsible for Industrial Affairs ' the Community should not become a hospital for sick industries. Community action to help growth industries is as important as the strategy to restructure industries in trouble. In the aerospace industry, in data processing and in other areas opening up markets and pooling industrial capacity will be necessary to reach the scale required by international competition '.

- *Aerospace* : the Community can play a dual role in giving aerospace industries a ' European base ' : by helping create a European domestic market, particularly by coordinating public aid and encouraging transnational cooperation; by taking a stake in the risks involved in launching new programmes.
- *Data processing, electronics* : in this sector so vital for the future of society, various purely national efforts have run aground and Europe's position is weak. We import, for example, more than 90% of our advanced electronic circuits. The European Commission intends to develop both computer applications and promote the development of a European industry. It has already implemented two programmes and has prepared a more extensive four year programme. It is currently drawing up another programme for advanced electronic components. In the telecommunications sector — a major user of this technology — the Commission is looking at ways of ensuring that public contracts are open to all European suppliers irrespective of nationality.

- *Pharmaceuticals* : the Commission is working on the harmonization of the final national provisions inhibiting the free movement of products and the creation of a large European domestic market.
- *New energy sources* : the Commission has proposed an energy savings programme, including measures of insulating buildings and it has given financial support to projects to exploit alternative sources of energy, particularly solar energy. Numerous jobs could be created in this sector as well as in the environmental sector.

In addition to the high technology sectors, there are many more traditional sectors which can provide jobs such as, for example, the construction industry. The European Commission has proposed harmonizing the different national provisions covering construction materials. The creation of a 'Common Market for building materials' should help inter-Community trade to increase.

Community industry employs close on 40% of the working population. It contributes 44% of the gross value added created by the Nine's economy. It is in the interest of all — manufacturers, distributors and consumers — that European industry adapts to the new demands of our time, to provide a solid base for future economic growth ■



Commission of the European Communities

Information offices

- Dublin** 29 Merrion Square, Dublin 2 — Tel. 76 03 53
London 20 Kensington Palace Gardens, London W8 4QQ — Tel. 727 80 90
Cardiff 4 Cathedral Road, Cardiff CF1 9SG — Tel. 37 16 31
Edinburgh 7 Alva Street, Edinburgh EH2 4PH — Tel. 225 20 58
Ottawa Association House (suite 1110), 350 Sparks Street,
Ottawa Ont. K1R 7S8 — Tel. 238 64 64
Washington 2100 M. Street, N.W. Suite 707,
Washington D.C. 20037-USA — Tel. 202-872 83 50

