

# An industrial strategy for Europe

## European File

Industry provides jobs for close on 40% of the working population in the European Community.<sup>1</sup> But the expansion of production capacity over the last few decades has not always been accompanied by productivity increases on the scale of our external trading partners. Today we are in a state of crisis: more than 8.5 million Europeans (7.5% of the working population) can no longer find jobs in the European economy which has been hit by:

- rises in the price of oil (increased by a factor of 13 since 1973) and of certain other raw materials. This has led to a rise in costs and to reduced exports to many countries which must devote a growing share of their revenue to the payment of oil imports;
- variations in the exchange-rate value of the US dollar, of the Japanese yen and other currencies. These variations have fuelled inflation and often made industrial export strategies hazardous;
- competition from recently industrialized countries. Low wage levels and, above all, in certain sectors, ultra-modern equipment enable these countries often to produce goods cheaper than we can. Such competition is unavoidable. It is not necessarily harmful to employment in the global context, as long as our external trading partners accept reciprocal trade and our industry knows how to adapt to the new international division of labour;

<sup>1</sup> This file updates and replaces No 3/79.

- structural problems which have been largely masked by economic growth up until 1974: large industrial sectors with low productivity, insufficient development of advanced technology sectors, declining productivity in relation to our competitors on the world market, etc. These problems have begun to emerge with inflation and monetary instability. They have now become crucial with the recession and the energy crisis.

## **The Community: a vital industrial zone**

In contrast to the ECSC Treaty, whose objective was to transfer steel and coal policy from the national to the Community level, the founding treaty of the EEC contains no mandate of such a nature for other industrial sectors. The Community's responsibilities were nevertheless outlined in 1970 in a report on the Community's industrial policy. On this basis, discussions have been pursued to improve — for reasons of structural policy — the integration of other policies (trade, monetary, competition, etc.) upon which the solidarity of Community countries rests.

It is vital that the industrial problems of our countries are analysed and ultimately overcome together:

- first of all, because even the solidarity of Community Member States is compromised by the current industrial policies which, if dealt with only at the national level, would distort the economic basis which is our common heritage. A European approach is all the more indispensable since, though Member States have financial instruments available to facilitate the required restructuring, at the Community level other instruments are available to assist restructuring efforts. Such is the case, for example, with the control over national aids to industry, which is intended to ensure that financial intervention effectively contributes to industrial reorganization and does not create distortions in competition. This is also the case with the common trade policy which must take into consideration the capacity of an industrial sector at a given time to deal with fresh competition which could result from trade agreements concluded between particular countries outside the Community;
- secondly, because a good proportion of Europe's industrial future clearly lies in the high technology industries (aerospace, data processing, telecommunications, etc.), in the production of sophisticated capital equipment (machine tools, etc.), as well as in sectors related to a new style of economic growth (new energy sources, reduced wastage of scarce resources, protection of the rural and urban environment, housing, transport, infrastructure, etc.). The growth of these sectors calls for considerable investments and a large market potential, factors which make action imperative at the Community level.

The Community's industrial strategy aims to improve the conditions under which industry has to work, on the one hand by working towards the integration of the European market and on the other by stimulating changes in the organization of production.

## Extending the Common Market

The fundamental objective of the Treaty of Rome is to guarantee long-term peace and prosperity in Europe by integrating the Member States and their economies. Such integration presupposes the removal of all barriers to trade in order to establish a single market, both for consumers and for industry. For the latter, one single market is a healthy state of affairs: it offers considerable economies of scale and strengthens both industry's productivity and export position.

However, though numerous obstacles have been removed, many still remain. To offer new opportunities for companies, the Community encourages:

- the removal of technical barriers to trade resulting from differing national provisions covering, in particular, the quality, the composition, the packaging or the control of goods. The European Court of Justice considers that any product legally manufactured and marketed in a member country should be admitted to all Common Market countries, except for reasons of health or public safety. This jurisprudence gives the European Commission a new basis for removing unjustified barriers to trade and to push for ministerial decisions on the harmonization of legislation (to date, the Community's Council of Ministers has adopted some 150 Directives concerning industrial products,<sup>1</sup> ranging from cars to chemicals, not to mention machine tools, etc., but this procedure is nevertheless too slow). Alongside such traditional work — which will be reinforced in the coming years — the Commission intends to develop work to prevent new barriers and it has presented the Council of Ministers with a proposal to encourage cooperation between national standards organizations;
- the opening-up of public markets: two European Directives specify that contracts from public authorities in the Nine (State or municipal) be open to Community and not just to national suppliers;
- harmonization of company law: the efforts made in this area are intended to help integrate the Community's industrial fabric by facilitating contacts between enterprises through the creation of a common legal environment. European Directives have been drawn up to standardize conditions for setting up limited companies, to ensure the transparency of the accounts of capitalized companies, and to guarantee, in all member countries, the same protection for workers in the event of mass redundancy or the bankruptcy of their employer. On the matter of industrial property, Member States have adopted a European patent system; the European Commission is proposing to add to this a European trade-mark law which will eliminate one of the most important barriers to the free movement of goods;
- healthy competition: the European Commission is particularly concerned to prevent companies from creating 'invisible barriers' through cartel agreements within the Common Market; to prevent the abuse of economic power which can arise when competitors are eliminated; to use public national aids with a Community perspec-

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<sup>1</sup> See *European file* No 12/79: 'The removal of technical barriers to trade'.

tive.<sup>1</sup> And that with all the adroitness needed to handle the difficulties of certain sectors and their implications in employment terms, while not forgetting the specific interests of small and medium-sized companies;<sup>2</sup>

- industrial investment: the Community is equipped with different instruments which, though with different objectives, help stimulate investment. Since its inception, the Community has been able to contribute substantially to reconversion-investment in the coal and steel industries. The European Investment Bank and the European Regional Fund accord loans and aid to assist industrial development, particularly in the less-developed regions. In addition, the 'Ortoli facility' — named after one of the Commission's vice-presidents — enables the Community to raise money on the capital market to support industrial development by means of loans, particularly in the areas of transport infrastructure and energy saving;
- the development of balanced relations with the rest of the world: with the strength of its economic power and the size of its market, the Community is in a privileged position to negotiate with numerous countries. Such a position becomes particularly important when raw-materials-supply problems arise.<sup>3</sup> Up until the present, the Community has concluded preferential agreements incorporating special clauses on industrial cooperation with around 80 countries.<sup>4</sup> It also negotiated, in the framework of the GATT (General Agreement on Tariffs and Trade), greater harmonization of customs duties for developed countries, as well as tariff reductions (around 30% on average) which will be progressively introduced by 1987. Improvements have also been obtained in the areas of technical barriers to trade, anti-dumping duties, subsidies and public markets, aerospace, etc. So many of the agreements and arrangements involving the Community depend on its export markets and can be put at risk by the protectionist tendencies amongst trading partners.

Moreover, in the framework of its work to stimulate structural aspects of economic growth, the Commission intends to give priority attention to small and medium-sized companies (SME) and to innovation. The SME provide the economic machine with the flexibility to enable it to meet the diverse and complex demands of our society. And innovation is the only course open to our economies in the current situation of economic crisis; its vital role in economic growth obliges the Community to take an active interest.

### **Action in specific sectors**

The Community is also active examining problems on a sector-by-sector basis.

The economic crisis, first of all, has revealed that certain industrial sectors are affected by structural difficulties at the world level. The existence of surplus capacity, on the one hand, and the new international division of labour, on the other, calls for reorganiza-

<sup>1</sup> See *European file* No 14/79: 'European competition policy'.

<sup>2</sup> See *European file* No 19/80: 'The European Community and small and medium-sized industry'.

<sup>3</sup> See *European file* No 8/79: 'Towards a European energy policy'.

<sup>4</sup> See *European file* No 7/80: 'The European Community in the world'.

tion. The objective is to re-establish the competitiveness — at a stable or reduced production level — which will enable European industry to face international competition without outside assistance. It is necessary to adjust capacity in quantity terms and to raise productivity. If restructuring work is conducted in an uncoordinated fashion, it runs the risk of being thwarted by measures introduced in other countries or by other enterprises. Also, the Community's work is threefold: to help industries to restructure themselves, to help resolve social and regional problems in such a way that any job losses will be compensated for by the creation of new employment, and to ensure that aid accorded by Member States to crisis sectors does not have the effect of exporting their difficulties to neighbouring countries. National rescue measures are only permitted, therefore, if they do not increase production capacity, if they are only temporary and pave the way for long-term solutions, or if they are restricted to companies with particularly acute social problems.

The Community should not turn into a hospital for sick industries and it therefore gives equal importance to the promotion of growth industries. In the industries of the future, the opening-up of markets and the pooling of industrial capacity are often necessary to achieve the dimension required to be internationally competitive. Financial public aids are also sometimes necessary, but whether they are national or European they are only used on condition that the expansion of the sector concerned is conducted in the framework of Community cooperation.

Some examples are cited below of the Community's work in certain industrial sectors selected according to their importance and the urgency of the problems they pose.

- Steel: the European steel industry now employs some 600 000 workers compared to 790 000 in 1974. A number of these workers are partially unemployed or threatened by new job cutbacks. The cause of this situation is the fall in demand caused by the world recession, the emergence of new steel-producing countries, and the structure of the European steel industry where overcapacity is combined with ageing equipment and low productivity. The Community is therefore implementing a global restructuring plan to increase the industry's competitiveness, which alone can guarantee the continuance of a maximum of stable jobs. Since 1977, voluntary reductions in production, minimum recommended prices fixed at the European level, arrangements between the Community and other exporting countries, and Community financial intervention in the retraining of workers whose jobs are lost, have provided steel companies with a breathing space in which they can modernize their operation.<sup>1</sup>

But the economic difficulties of 1980 — steel demand has fallen by around 15% compared to 1979 — has reduced the utilization level of equipment and led to a new collapse of prices, further accentuated by a break in the discipline agreed to by the principal producers. In such conditions, the European Commission has been obliged to adopt more energetic measures. Production quotas have therefore been fixed to the end of June 1981. The objective is to ensure improved adjustment of supply to demand and a just distribution of sacrifices by the parties concerned, to put a brake

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<sup>1</sup> See *European file No 6/79: 'A steel policy for Europe'*.

on price falls, to revive the investment capacity and therefore the possibilities for modernization which are compromised by the need to make up short-term losses, to safeguard the greatest number of jobs and to recreate the conditions for a rapid return to a system based on the self-discipline of producers. The Community strategy implies the control, and ultimately the removal of national aids, reduction of the production capacity, monitoring of imports from the rest of the world as well as financial participation in the social and regional reconversion measures which are the obligatory complement for restructuring (indemnity for temporary unemployment, early retirement, creation of new jobs, etc.).

- Automobiles: this sector absorbs 20% of our steel production, it directly employs 2 million European workers and 4 million indirectly (in total, 14% of industrial employment). The energy crisis has led to the search for more economical cars, the increased use of electronic devices, the standardization of technical norms and, consequently, growing internationalization of the market. In 1979, the Community was equal to the United States (11.5 million vehicles produced on either side of the Atlantic), but Japan is on the way to taking the lead. The share held by Japanese manufacturers, who are up to date as regards automation, has risen from 5.5% to 23% of total sales in the USA between 1973 and 1980, and from 3% to 9% of sales in the Community. Generally speaking, the Community is trying to recreate a balance of trade with Japan and also wants the country to take its full responsibility in the world economy; not only as a seller, but also as an investor and creator of jobs. However, it is up to European manufacturers to increase their productivity as well as their penetration of external markets and of the commercial vehicles sector which both of which are less saturated than the European market for passenger vehicles. And this by taking the maximum advantage offered by the existence of a common market and, particularly, by developing with the help of the Community and Member States, their cooperation in the areas of research, machine tools, electronic components, etc.
- Textiles and clothing: this sector accounts for 10% of wage-earning employment in the Community, but it has lost more than 700 000 jobs since 1973 — frequently those of women — which were provided by numerous small and medium-sized companies operating in the regions where these activities were predominant. The sector is characterized by a large diversity of production, versatile but overall stagnant demand, increased productivity under the pressure of technological change and international competition with cost advantages (energy costs for US synthetic fibre manufacturers, wage costs for mass consumption products produced by the new industrialized countries of the Third World). Thus imports from outside the Community represented 38% of European consumption in 1979 compared to 18% in 1973. European industry must direct its efforts towards the less vulnerable products. To facilitate such a change, the European Community has negotiated a moderation of low-priced exports from 26 countries in the framework of the Multifibre Agreement which should be renewed in the near future. In addition, the Community finances research and development programmes and grants aid for the retraining of workers and industrial reorganization in the regions most affected. This support is, however, modest. It is really up to the industrial sectors themselves to find the solutions to make them competitive internationally in the foreseeable future.

- Paper pulp, paper and board: producing too little wood, the Community has been obliged to open up its frontiers to raw materials and finished goods from northern Europe and America which enjoy a comparative advantage, particularly from the point of view of energy costs. A vicious circle has thereby arisen: reduced capacity for Community production, a slow decline in the proportion of the consumption requirements it can meet (specially for current consumption of paper and board), accentuation of the already large trade deficit. In such circumstances, the Community attempts to get the most from its wood and used-paper resources, encouraging the necessary reorganization as well as the modernization of industrial equipment.
- New information technology: computers, new electronic components (micro-processors, etc.), data banks, modern telecommunication techniques which are progressively transforming our countries into 'information societies'.<sup>1</sup> The telematics market is expanding rapidly, but European industry produces, for example, only 10% of the advanced electronic circuits used in the Community. It lags behind its main competitors – the Americans and the Japanese – whilst it could take a one-third share of the world market. To help it, we must utilize all the benefits of a progressively integrating European market: harmonization of standards and technical practices, progressive access for all companies to public contracts – the total of which is comparable to that in the USA – increased Community aid for development technology, coordination of national aid, etc. The European Commission has presented a series of proposals aimed at forming a common strategy for Member States, enterprises and the social partners. Together with the relevant national bodies, it has already created Euronet, the first major European data-transmission service.
- Pharmaceutical products: in this sector, which is capable of further growth, the European Commission is conducting a programme to harmonize national provisions which hinder the free movement of goods and the constitution of a large domestic market.
- New energy sources and the environment: investment in energy saving and environmental protection can lead to the creation of a certain number of new jobs. The European Commission is expanding its work in these areas.<sup>2</sup> It is encouraging Member States to combine their efforts and accords financial support to energy savings projects and for the development of alternative resources, such as solar energy<sup>3</sup> ■

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<sup>1</sup> See *European file* No 3/80: 'Europe and the new information technology' and No 16/80: 'Micro-electronics and employment'.

<sup>2</sup> See *European file* No 16/79: 'Economic growth and energy conservation' and No 2/81: 'The European Community and environmental protection'.

<sup>3</sup> See *European file* No 15/80: 'European energy demonstration projects'.



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