ECONOMIC AND SOCIAL COMMITTEE
OF THE EUROPEAN COMMUNITIES

INDUSTRIAL CHANGE AND EMPLOYMENT

OPINION

Brussels 1978

The European Communities' Economic and Social Committee, chaired by Mr Basil de FERRANTI, approved this opinion at its 151st plenary session, wich was held on 28 and 29 September 1977.

The preliminary work was done by the Section for Industry, Commerce, Crafts and Services and the Rapporteur was Mr Einar CARSTENS.

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INTRODUCTION

If Community industry is to survive the recession of the last few years, it must - in the view of the Economic and Social Committee - be fundamentally restructured. The recession has caused all kinds of problems both inside and outside the Community, such as inflation, mass unemployment and balance-of-payments difficulties, not to mention the need for a new relationship with the developing countries.

Industry is not static, but constantly subject, both nationally and internationally, to the pressures caused by the progressive industrialization of the developing countries, the increasing pace of technological change, the rise in energy and raw-material costs and increased competition from the USA, Japan and others on the Community market.

Attention must also be paid to certain pressures within the Community, such as environmental protection, the changing structure of demand and the increasing need to consider individual and collective needs.

II

There is no doubt, says the Committee, that Community industry will have to tackle major problems of adaptation and restructuring in the next few years. At present, national industrial policies are prepared from a purely national viewpoint and thus may clash with each other. The Member States tend to export their problems, and it is to remedy this that the Economic and Social Committee, in an Opinion issued on its own initiative, calls for a Community industrial policy. The Opinion is accompanied by a report of the Section for Industry, Commerce, Crafts and Services, which was chaired by Mr Carlo HEMMER (Luxembourg - Employers). The Rapporteur was Mr Einar CARSTENS (Denmark - Employers). The report reviews in brief what the Commission has proposed so far and situates industrial change in its wider international context. It also gives the different points of view expressed on the subject in the Section meetings.

O P I N I O N   O F   T H E   C O M M I T T E E

INDUSTRIAL CHANGE AND EMPLOYMENT - A REVIEW OF THE COMMUNITY'S INDUSTRIAL POLICY AND FUTURE PROSPECTS

PART I

CHANGES IN THE INDUSTRIAL ENVIRONMENT

Industrial structure undergoes constant change, both at national and international level. It is particularly affected by the international situation and conditions in individual countries and in general by changes in supply and demand, technological developments, the arrival of new products in the market and changes in terms of competition.

One factor which should especially be taken into account is the gradual industrialization of the developing countries. It is impossible to say how quickly this industrialization will take place, but it is likely to be quite a rapid process, not least in view of the commitments taken on by the Community towards these countries. This process of industrialization will enable the developing countries to improve their standards of living, but it will also have repercussions on the imports and exports of the industrialized countries.

Rapid technological development, involving higher investment per worker, will clearly remain an important factor over the next few years. Associated with this will be the very considerable effects which higher commodity and energy prices will continue to have on Community industries together with those of increased pressure from the main industrialized countries, including the United States and Japan, as a result of the lowering of tariff barriers. It must also be borne in mind that, particularly since the onset of the recession, many countries, including the Community and its Member States, have introduced a number of measures, such as aids and various forms of import restrictions, which are changing, to an ever-increasing degree, the traditional way in which international trade is organized.

Finally, mention should be made of internal factors - including protection of the environment, changes in demand patterns (caused in particular by increased incomes and leisure), industrial pollution and increased attention to the needs of individuals and society at large.

At all events, it would appear to be abundantly clear that industry in the Community will face enormous adjustments and restructuring problems over the next few years. The workers employed in Community industry will of course be affected by these problems. The 1960's were, broadly, a period of full employment and industry had no real difficulty in making adjustments. In a period of high unemployment, it is much more difficult to make adjustments.

Industrial policy was not explicitly mentioned in the EEC Treaty, mainly because it was considered at the time that removal of trade barriers was the main concern of policy for industry. Today the EEC Treaty provisions on the abolition of classical customs and other barriers to trade have largely been implemented - although it is true that the technical and administrative trade barriers which remain are not being tackled quickly enough. But, because of the radical political and economic changes which are taking place throughout the world, the need for an industrial policy is today greater than ever.

In the absence of a common industrial policy, industrial policies of the individual Member States develop along purely national lines and, because of these narrow horizons, may conflict with one another; Member States thus tend to export their problems, i.e. steps taken by one Member State to strengthen its industry (and consequently employment) undermine industry (and consequently employment) in others. All Member States in fact pursue an industrial policy, but such policies are generally implicit rather than explicit. This has contributed to the difficulty of establishing an industrial policy at Community level. In other words, although each Member State has equipped itself with means for intervening in the economy (for example four-year plans, economic expansion laws, investment controls), the Community has so far not been provided with appropriate instruments, although this is essential for the establishment of a Community industrial policy.

PART II

THE PRINCIPLES AND OBJECTIVES OF INDUSTRIAL POLICY

The Substance of Industrial Policy

"Industrial Policy" is difficult to define. The concept cannot be defined in isolation, partly because industrial policy is meaningful only if seen in relation to policy in other areas. It is perhaps fair to say that industrial policy is primarily a special type of approach to the interplay between individual policies which have an impact on industry (economic and monetary policy, social and labour market policy, regional policy, trade policy, environment policy, etc.). "Industrial Policy" covers not only the general approaches adopted in the various relevant fields but also all concrete rules of conduct, support arrangements, restrictions, etc. which have a direct impact on the industrial situation.

"Industrial Policy" as understood in this Opinion is primarily concerned with the income and wealth-generating function of industry. The term "industry" as used here, embraces large and small firms (including crafts firms) of the public and private sectors.

Industrial policy must operate within the area of interplay of the policies which society formulates in order to achieve its objectives, e.g. sustained improvement of living conditions, higher consumer satisfaction, jobs for all capable of working, economical use of raw materials and energy, the satisfaction of real individual and collective needs through the production of quality goods and services at the lowest price possible, and non-polluting production favouring re-cycling and combatting waste. A competitive industrial sector is a sine qua non for attainment of the above-mentioned objectives.

Given the Community's fundamental dependence on the rest of the world, it is necessary to ensure that conditions within the Community allow the establishment of new industries, and allow existing industry to (a) flourish and expand, (b) adapt to changing circumstances and carry out the restructuring which is continually needed, and (c) continue to compete with its rivals in other parts of the world.

Employment

Industrial policy must cover employment. It would be unacceptable unless it included measures to give Community workers a chance of finding a job. This is particularly true in a period of major unemployment, like the present one.

Cyclical unemployment inevitably influences industrial policy decisions. This type of unemployment must be tackled by economic, monetary and social measures taking into account the necessity of acting within the objectives of a long-term policy.

The elimination of structural unemployment, however, is another matter and here industrial policy has a long-term contribution to make by influencing the structures of industrial production and marketing in the Community and elsewhere.

The following are essential if industry and industrial policy are to contribute to job creation : (a) a reasonable amount of quantitative and qualitative growth; (b) adequate purchasing power; (c) a fairly stable economic and monetary situation in the Community and the rest of the world; and (d) pursuit of a Community policy which provides optimum conditions for creating and maintaining a competitive industrial sector, so that Community industry can obtain a maximum share of growth in international production.

Fairly stable development on the above lines, ensuring availability of the requisite finance, will pave the way for an expansion in industrial investment. Steps must in any case be taken to try and ensure that this expansion creates and maintains jobs. The Committee recommends that every attempt be made at both national and European level to mobilize the resources and instruments needed to do this, since structural unemployment is not only a national problem and cannot be absorbed solely by using national instruments.

Technological progress is proceeding at a rapid pace, and the pressure of international competition is forcing firms to rationalize. It is therefore probable that in the long term new jobs will largely have to be created in the tertiary sector, whether public or private. It must, however, be remembered that growth and employment in industry is crucial to growth and employment in services.

If an attempt is made to expand economic activity beyond the limits imposed by the situation in the Community and its trading partners, the Community will find itself running balance-of-payments deficits with the rest of the world, on which it is dependent. These deficits may then force the Community to reduce its level of economic activity.

Education and Vocational Training

The Committee observes that there is a quantitative and qualitative mismatch between training provided and jobs available. Unemployment is particularly high among the unskilled. By the same token, inadequate training is partly to blame for the particularly high level of female unemployment. There has also been an alarming increase in the number of young graduates out of work in recent years, and more and more are finding that they cannot obtain the type of work for which they have been trained and are inadequately qualified for the jobs available.

The maximum emphasis should be laid on broad general education at all levels, in view of the rapid - and therefore difficult to forecast - changes in job supply and demand. Measures to be taken in the field of education, general training and vocational training are all the more urgent because they can only bear fruit in the medium term.

PART III

MEANS TO BE USED

An industrial policy requires a framework (e.g. the Common Market) within which market forces can create a balance between supply and demand and enable the necessary adjustments to be made. It also implies measures to foster research and development and appropriate measures to help sectors in difficulty, because market forces are not able to solve these questions in a satisfactory way.

It must be borne in mind that in an industrial policy context particular stress is laid on structural rather than cyclical problems and that cyclical problems must be solved without the creation of new structural problems. This chapter deals with some of the means to be used, under the following sub-headings : the Common Market, Innovation, Research and Development; Production Sectors in Difficulties; Criteria for Granting Aid; and Sectoral Policy.

The Common Market

The Treaty of Rome must be regarded as providing the basis for a common industrial policy since its aim was to set up a common market in which all barriers to the free movement of persons, goods, services and capital would gradually be removed. The aim was, and is, to create equal conditions for all firms and persons, partly in order to ensure maximum efficiency of production in the interests of Community consumers but also in order to ensure that Community firms are competitive on the world market.

Efforts have been made to remove trade barriers, but a number still exist and new ones are continually appearing. It is of crucial importance for the success of a common industrial policy that all concerned take more vigorous steps to dismantle such barriers - especially technical barriers to trade and the obstacles to a free Community market for public purchasing. Action in these two areas must be given top priority.

It is essential to avoid distortions in competition within the common market. For this reason a competitive policy was laid down in the form of provisions on restrictive agreements, dominant market positions and State aids to firms. These provisions have subsequently been fleshed out by case law and administrative practice.

National industrial policies often rely to a considerable extent on State aids. This is liable to result in one Member State offloading its difficulties on to another and lead to an inefficient distribution of resources at the level of the Community.

The Treaty's competition rules provide for Community surveillance of such aids. Articles 92 and 94 provide the Commission with considerable powers to monitor both industrial and non-industrial national aids (prior vetting of proposed aids, continuing review of existing aids, wide discretionary powers to endorse or reject aids).

Article 93(3) of the EEC Treaty specifically requires the Member States to give "prior notice of plans to grant or alter aid", and the Member States generally abide by these rules. In addition, the Commission exercises the powers vested in it by the Treaty to block or abolish national aids which it regards as incompatible with the Community interest. In exercizing these powers it is fulfilling its obligations under the Treaty, and the Court of Justice, which can impose penalties in the event of the Commission failing to do its job properly, monitors the way in which the Commission fulfils these obligations (Articles 175 and 215).

In a comment on the 6th report on EC competition policy, Mr VOUEL, member of the EC Commission responsible, made the following comments on government aids to control inflation and stimulate employment and investments :

> "I will not conceal from you the fact that it is especially difficult to avoid situations where, by the use of national aids, the common interest is relegated to second place, and where, for various reasons and under various pressures, one or other Member State is tempted to take national measures which are insufficiently coordinated with those of the other member countries, under the illusion that it can solve its problems unilaterally. No more dangerous illusion could exist. One must avoid the growth of national protectionism through aids to sectors or firms in difficulty or through aids to export for trade within the Community; one must also ensure that the desire to boost investment does not lead to a race between Member States to outbid each other in attracting new investment.
>
> Above all the short-term aspects of the present business situation should no longer obscure the fact that the solution to the crisis lies in profound changes in the structure of EC industry, whether this takes the form of rationalization or of conversion to other activities. Measures directed simply at preservation, which have sometimes had to be accepted, primarily for social reasons, should now be replaced by measures designed to encourage the necessary adaptation of industry, which will also contribute to the struggle against inflation".

Article 90 also states that public undertakings are, like all other concerns, subject to the rules contained in the Treaty.

Mr VOUEL also made the following remarks concerning public enterprises :

> "As far as public enterprises covered by Article 90 are concerned, the Commission has made clear in its report the obligations incumbent on both Member States and these undertakings. Especially in the present situation it is essential that public enterprises should be better integrated into the Common Market, taking account of the particular role this sector is often required to play in the economic or social field. I give special attention to the problem of 'transparency' in the relationship between these undertakings and their governments, and to the opening up of their purchasing to suppliers throughout the Community. After explaining in the 6th report our position vis-à-vis public undertakings, I intend shortly to have a dialogue on this subject with the various interested parties, and I hope that this dialogue will prove fruitful".

To develop an appropriate industrial policy and ensure that Community firms are not hindered in attaining their optimum size, tax and legal barriers to mergers and inter-firm co-operation must, subject to suitable safeguards be removed. The Committee recalls in this respect that on 28 February 1974 it adopted by 74 votes to 15, with 25 abstentions, an Opinion on the proposed regulation on the control of business concentrations, and asks that the Council adopt this proposal as soon as possible.

Rapid, extensive changes in technology and terms of competition are to be expected. It is fair to say that small and medium-sized firms, thanks to their great flexibility, will in many cases be in a better position than large firms to adjust quickly to such changes. The drive to ensure that firms can grow to their optimum size must not expose small and medium-sized firms to unreasonable competition. Industrial policy should always take account of the future development of existing small and medium-sized firms, and help to make it possible to set up new ones. In the industrial policy context, competition policy is an important instrument for combatting distortions in competition between firms of equivalent size, and for protecting small and medium-sized firms against economic domination.

Innovation, Research and Development

With the progressive industrialization of the LDCs, the Community will have to rely increasingly on "knowhow-instensive" industries based on extensive R & D and innovation.

These industries will have to cope with keen international competition, particularly from the USA and Japan.

Success here will require intensive, comprehensive research. Both pure and applied research will be needed. The latter is carried out with a clear-cut aim in mind, but the practical applications of pure research cannot be determined in advance.

Innovation, in its wide sense, is not confined to the industrial sector. It can, for instance, occur in the health and leisure sectors. But most innovations, if they are to be applied on a wide scale, involve a production process.

Contributions to research come from scientific institutes, universities and industry itself, but the links between these different spheres are often far too weak. Product development, however, is almost entirely carried out in industry (in both large and small firms) and it is industry that puts most innovations to practical effect. Industry thus has a major interest in the process of innovation, for this process is crucial to its continued existence. But it is all too rarely recognized how equally crucial the process is to society as a whole. Major efforts are required to step up collaboration between industry on the one hand and educational and research centres on the other, with more emphasis in the latter on the practical applications of their work. In this way further use will be made of the available talent so that new ideas - and the people who provide them - contribute more in practice to the well-being of all.

A high level of innovation is a prerequisite for the Community's continued economic growth and prosperity, for its ability to adjust to a rapidly changing world. Industrial policy has a key role to play here, by encouraging R & D geared to future needs.

The scale and importance of this task is such as to require a major effort, inter alia from the national and Community authorities, to create the right conditions and climate for a high level of innovation. The possible methods are multifarious - training of research workers, grant of research funds (e.g. through R & D contracts), coordination, assistance with the dissemination of research findings, helping to ensure that all sectors of the public are alive to the relevance of innovation to the common good. The Committee could undertake a study with a view to submitting practical proposals on this issue.

In the countries which have long been industrialized market forces will largely be able to regulate supply and demand, provided of course that competition exists. But as regards many new advanced technology products which require comprehensive and costly R & D and for which the public authorities are often the main buyer, it is common practice for the State to take steps to further R & D and to get production going. Such measures are particularly common in the United States, Japan and the individual Member States. This State intervention has played a significant role and, together with the existence of the big home market, explains the United States' dominant position as a producer and exporter of military equipment, aircraft and data-processing equipment.

The small scale of the individual Member States' markets has meant that in many instances their production has not been and is still not able to compete with US production in particular. ESC Opinion 572/76 adopted on 26 May 1976, referred to the need to liberalize public purchasing in order to create a genuine common market for advanced technology products and thus promote competitive production. With the Community becoming increasingly dependent on advanced technology products. Much closer cooperation is called for between Community industry and the Community authorities.

The Commission is continuing with its work in sectors such as aircraft and informatics. It must be emphatically recommended that the Community coordinate national aid programmes and, where appropriate, carry through Community programmes in these areas.

It is also important that the public authorities do not hinder the operation of the common market and hamper development of new products (for instance, by recourse to Article 36 of the EEC Treaty).

Public support in this area frequently takes the form of R & D contracts and investment aid. Such support must be temporary. In addition, Community competition rules must be obeyed; inter alia this is necessary if small businesses are to be able to play a part in production and exports in this field. The Commission must also effectively monitor such support measures.

Production Sectors in Difficulties

As regards firms in difficulty, the Committee considers that the Commission should proceed with Community harmonization of bankruptcy law as soon as possible. The Committee would also emphasize the need for adequate warning that firms are moving into difficulties so that timely action can be taken to prevent closures or, if necessary, to make preparations for winding the firms up under acceptable conditions.

A major aim of industrial policy, whether at national or Community level, must be to create an environment in which firms can normally, by their own force and abilities, adjust to changed market conditions. No country can indefinitely subsidize its entire economy, whether it be agriculture, declining industries or potential growth industries.

Ahead of us is a period of major change, generated by rapid technological advance, increasing competition and the appearance of newcomers on the market. The crucial emphasis must therefore be on ensuring that all the parties involved are as flexible and adaptable as possible.

As a rule - subject to the existence of a favourable climate, including the availability of finance - firms should rely on self-help in order to adjust to changed circumstances. Exceptionally, however, their situation may change so rapidly and so extensively that it is deemed natural or politically necessary for the national governments or the Community to help firms and their employees on a temporary basis. Such help will often be a component of regional policy.

Retraining and further-training schemes which make for optimum re-employment will be major aspects of assistance to redundant workers.

Exports from non-member countries may sometimes be based on economic or social principles which differ from those obtaining in the Community, or which are at variance with international agreements (e.g. GATT rules on dumping). In such cases it may be necessary to operate special arrangements, taking the form of specific measures for imports or restraint on the part of exporting countries. Such arrangements may also be necessary in cases where countries exporting to the Community employ certain forms of support or take excessive de jure or de facto steps to protect their domestic markets.

Criteria for Granting Aid

To a large extent the granting of aid on the basis of national schemes must be considered contrary to the proper functioning of the Common Market, regardless of the objectives of the intervention.

The situation differs considerably between the various Member States and the lack of coordination - or convergence - of the Member States' economic and monetary policies is a major reason for the existence of national support arrangements. During the recession, national support arrangements have flourished in the Community far more than hitherto. Indeed, in this respect the Common Market has taken a step backwards. As part of the transition to economic and monetary union there should, logically, be a switch from national to Community support arrangements; as a minimum, national aids should be coordinated adequately.

The mere fact that a firm is big and has a large labour force is not sufficient reason for providing support. In many cases, government assistance has gone to lame ducks. Such assistance does not resolve the real problems. It is futile to stand in the way of the changes themselves. Firms should be eligible only if they can be made competitive - either within their current sphere of activity, or after switching to another sphere - within a reasonably short space of time.

The fact is that if overcapacity is to be avoided in certain sectors, then steps must be taken to prevent pointless and unnecessary competition between support measures which, in the final analysis, create little employment and lead to the emasculation of measures to develop the least-well-off regions of the European Community.

Furthermore the following criteria should be applied to industrial support measures :

a) Aid must be granted only where the market forces are incapable on their own of bringing about the necessary adjustements or where the market forces would not act quickly enough or would entail excessive social costs. Aid must be selective, i.e. it must only be granted in respect of firms or products which are capable of becoming competitive in due course;

b) Aid must not be granted to prop up an industry except where it is designed to offset certain unwarranted practices employed by non-member countries or to make for a degree of security of supply; no export aids are permissible in intra-Community trade;

c) Aid must be temporary, degressive and supplementary so as to provide firms with a strong incentive to make the vital adaptations;

d) Support for R & D, and for aids which will enable small firms to play their proper part - should be treated more favourably - albeit without protecting them artificially.

Aids should be tailored to objectives and should be designed to do the minimum damage to intra-Community competition. The scale of aid must be proportional to the severity of the problem. Member States must grant equal aid for problems of equal magnitude.

Besides following the above rules in regard to aid distribution, it is important that the Community should also stimulate and guide the granting of aid. The existence of the Common Market and the need to keep it together places a duty on the Community to play a more regulatory role. The criteria which should be applied with regard to such positive measures and intervention are in particular the following :

a) the number of jobs to be created and their quality;

b) the contribution to the reduction of regional disparities;

c) the requirements of the environment;

d) finally, progress towards an equitable international division of labour.

While it is often difficult to establish whether the granting of aid has been a precondition for creating such or such capacity, it is of vital importance for the Community and the Member States that a survey be made, at least at the overall level, of the capacity and production created by national support policies, and that the Commission be provided with the data needed for this purpose.

The present survey of national support arrangements, which the Commission publishes in its annual report on competition policy, should be amplified along these lines, with a particular eye to bringing out the impact of aid for given sectors on the development of the sector in question.

Sectoral Policy

In a world characterized by extensive and rapid change, structures must be flexible enough to allow production to be adapted and repatterned.

Community production is bound to contract in the sectors where LDCs are exceptionally competitive. For a number of reasons, complete cessation of Community production in these sectors would be both unacceptable and unnecessary. The industrialization and development of the LDCs will continue to provide a major market for Community capital goods for a long time. The size of this market will depend on the ability of the LDCs to finance their industrialization and development.

The future growth of Community industry must, however, take place above all in the sectors where needs make themselves felt most strongly and in preference in the advanced-technology sectors, on the basis of comprehensive and intensive innovation and R & D

The Committee would have wished to have been able to examine in more detail the changes which have taken place in the major sectors of Community industry over the last two decades. This was not possible given the absence in this respect of comprehensive statistics of a comparable nature. The Committee recognizes the difficulties involved but nonetheless calls on the Commission to make good this statistical gap, since such statistics are, in its view, essential to any attempt at serious coordination of policies. These statistics should be drawn up as soon as possible.

Once a satisfactory data base is available, it should then be kept regularly up-to-date so as to provide a birds' eye view of the current situation together with expected trends. This statistical data should be made available to the many organizations which take decisions with industrial policy implications, i.e. not only firms and their employees but also to public authorities, trade unions, employers' organizations, etc. Such up-to-date statistics on production and employment in Community industry, suitably broken down and containing particulars of percentage increases and decreases (supplemented by corresponding figures on imports and exports) can provide a basis for meaningful discussion of the adjustment and redevelopment problems of Community industry.

Representatives of the nine Governments could have fruitful discussions on industrial policy issues on the basis of such statistics. Similarly, the Economic and Social Committee could usefully hold regular discussions on industrial policy issues with representatives of the Commission and the Council, on the basis of these statistics. Such statistics and such discussions could be of considerable relevance to the formulation of the Commission's policy on external trade.

Such statistics and discussions are essential if the Community is to pursue forward-looking, dynamic policies on industry and employment.

In many cases, sectoral analyses and discussions are of limited value. Firstly, because each sector breaks down into numerous sub-sectors which operate under widely different conditions. Secondly - and especially - because we are concerned here with individual firms. Each branch of economic activity includes firms which can and will grow, and others which are doomed to stagnate or decline. Furthermore, technological progress constantly leads to shifts within branches of industry.

Finally, the coming process of adjustment and conversion poses the question : who decides what individual firms are to make? Such decisions will be taken by the firms themselves - especially in the forthcoming period of rapid change, which will require prompt and flexible reactions. Firms' decisions will naturally be influenced by decisions taken at Community and national level.

Part IV

CONCLUSIONS

The Community is particularly dependent on trade, the international division of labour and a whole series of factors beyond its borders. Its development style, based as it is on the consumption of raw materials and energy, makes it vulnerable vis-à-vis the countries which supply raw materials.

Recent years have seen extensive changes in internal and external conditions, in technology, in the pattern of trade between the Community and the rest of the world, etc. Further rapid, significant changes are on the cards.

The general development and industrialization of the LDCs will be a major source of extensive, radical change. The process will provide Community industry with major new production and, probably, employment opportunities. But it will also expose Community industry to greater and new competition in many sectors.

If it is not domestically and internationally competitive and adaptable to needs, Community industry will be unable to meet the challenge which will be presented by future developments. It is, for instance, inconceivable that lack of competitiveness can be offset on a lasting basis by special agreements with LDCs.

The coming changes will demand constant, extensive adaptation and restructuring in the industrialized countries. This, in turn, will demand the maximum possible flexibility from all parties involved. This flexibility will be easiest to obtain by ensuring that medium-term economic policy caters in advance for industrial change.

The aim of the common industrial policy must be the creation of an optimum environment for a competitive industrial sector.

The following points must also be made about the common industrial policy :

a) it must ensure that the social side - and in particular the purchasing power of wages and salaries, especially those of the lower-paid - improve for all employees and that better conditions of work, health and safety obtain in firms;

b) it must embrace completion of the common market, including abolition of technical barriers to trade, and of barriers to a free Community market for public purchasing;

c) it must make for creation of an optimum environment for a high level of innovation, research and development;

d) if new or ailing production sectors are granted protection or assistance, the common industrial policy must spell out the common guiding principles;

e) it must be backed up by an accurate knowledge of the impact of national aids of both the market and the employment situation; this impact must periodically be subject to a critical examination by the Committee;

f) it must be based on up-to-date statistics on production, employment, export and import trends. Such statistics are necessary for a proper analysis and discussion of industrial policy issues; these must be drawn up as soon as possible;

g) it must create an environment in which small and medium businesses can be established and in which such businesses can trade successfully;

h) it must make for the creation of an optimum climate for industrial investment and its financing, by taking advantage of progress towards the coordination of economic, monetary, and tax policies in the Community;

i) it must envisage suitable arrangements for mobilizing, at Community level, the resources needed for investments;

j) it must align the laws on bankruptcy at Community level. Consideration should be given to the possibility of introducing throughout the EEC an early-warning system for detecting ailing firms;

k) it must - on the basis of reasonable growth rates and reasonably stable economic and monetary conditions in the Community and the world at large - contribute to the reduction of unemployment;

l) it must put forward concrete measures to encourage a shift of emphasis towards viable firms that guarantee :

- a high level of good quality jobs;
- savings in raw materials and energy;
- the satisfaction of real individual and collective needs through the production of high-quality goods and the provision of high-quality services at the lowest possible prices;
- the production of non-polluting products which are suitable for recycling and discourage waste.

m) it must be backed up by an external trade policy comprising for instance uniform export-credit guarantees, guarantees for investment in LDC's and reliable access to essential supplies as well as temporary protection measures for sectors suffering from abnormal competition;

n) equally the common industrial policy must fit in with the Community's external policies and contribute actively to the process of adjustment and innovation which alone can make the Community a healthy and reliable partner in world trade.

A common industrial policy which adopts a dynamic rather than a passive approach to coming developments, and which seeks to tailor economic structures to present circumstances and future needs, will be instrumental in reducing and eliminating unemployment. The Community will lose out in the forthcoming adjustment process if it pursues an industrial policy which seeks to preserve the status quo, rather than adjust the industrial sector to a changing world; if this happens the plight of the Community's unemployed will be even worse and the prospects of those who have jobs will be still more uncertain.

CHAPTER V

REPORT OF THE SECTION FOR INDUSTRY, COMMERCE, CRAFTS AND SERVICES

1. Introduction to the Report

On 5 May 1976, the Section for Industry, Commerce, Crafts and Services heard a statement by Mr SCHAEFFER, Director in DG III of the Commission, on work being done by the Community in connection with its policy on industrial redevelopment. At the same meeting the Section decided to seek permission from the Committee's Bureau to draw up an own-initiative Opinion. It was agreed that the Opinion should call for action by the Community authorities. It was to be brief, and deal with specific aspects of industrial policy - such as the removal of technical barriers and the geographical siting of investment projects - in the light of current employment problems in the Community.

At a meeting held on 24 May 1976, the Bureau endorsed the Section's request for authorization to draw up an Opinion. The Bureau likewise decided to propose the following title to the Plenary Session :

> Industrial Change and Employment - A Review of the Community's Industrial Policy and Future Prospects.

Some members would have liked the Opinion to deal more particularly with the means to be used for re-absorbing the current unemployment in the Community.

2. A Review of Industrial Policy

a) The first attempt at defining a common industrial policy was made in the Commission Memorandum to the Council on the Community's Industrial Policy, a document better known as the "Colonna Memorandum". The Memorandum was intended to open up widespread discussions, and familiarize its readers with the problems involved in establishing an industrial policy at Community level. It was hoped that the Memorandum would thus be of assistance in decision-making.

The Memorandum was an extremely long document. It analysed the structures and viability of the industrial sector and then :

- described the technological, legal, fiscal, financial, social and regional improvements that needed to be made;

- examined what scope there was for redevelopment, and reviewed aid to individual sectors;

- urged that encouragement be given to the development of advanced-technology industries;

- made suggestions about the financing of small and medium-sized firms.

The Memorandum stressed that the development of industry and a vigorous market should be compatible with the social and human needs, and that an industrial policy would have to be increasingly geared to qualitative goals such as (a) improvement of working conditions, (b) greater job satisfaction, (c) more active involvement of workers in the framing of development objectives and in the day-to-day operation of business firms.

In its Opinion of 25 March 1971 (OJ No. C 59/71), the Committee emphasized that a common industrial policy could not be an end in itself but should be regarded as one of the instruments for improving society. The supreme goal of industrial policy should be the improvement of living conditions.

The Committee also pointed out that :

- The diverging structural and sectoral policies of individual Member States gave rise to competition distortions which hampered a rational division of labour and made it more difficult to increase industrial productivity;

- It was of the utmost importance that the common industrial policy take account of the development needs of the emergent countries; it was the Community's duty to make a contribution to the industrial development of those countries, whilst at the same time respecting their independence;

- As far as structural and sectoral policy was concerned, the task of the Community and individual Member States was primarily to provide an environment within which firms could restructure.

The Committee also pointed out that reviews of individual sectors should pay special attention to unemployment issues, since economic growth had to be geared to full employment.

For that reason, the Committee considered that the proposed reviews should indicate foreseeable qualitative and quantitative employment trends in both individual sectors and the economy as a whole.

b) Discussions on the common industrial policy continued at a Commission conference held in Venice in 1972; the aim of the conference was to define the industrial aims of the enlarged Community, and to back up the efforts of the Community to implement a genuine industrial policy.

c) In a 1973 Memorandum on the Technological and Industrial Policy Programme, the Commission again threw open for discussion its ideas on the establishment of a European industrial base and proposed a detailed timetable for the implementation of projects in a wide variety of fields (removal of technical barriers to trade, liberalization of the right to tender for public contracts, the elimination of fiscal and legal barriers hindering links and mergers between firms, etc.).

On 17 December 1973, the Council adopted a Resolution. However, this Resolution merely laid down a timetable which could be altered on a recommendation from the Commission, in order to take account of any changes in priority that had become necessary.

In its Opinion of 29 November 1973 (OJ No. C 115/74), the Committee reaffirmed what it had already said in its Opinion on the Industrial Policy Memorandum of 1971, namely that improvement of living conditions must be the top-priority objective of industrial policy.

With regard to the qualitative objectives, the following factors were found to be of particular importance for the further development of the Community : the encouragement of technological development in industry, the conversion of declining industries and the achievement of the greatest possible balance in regional economic growth.

The Committee stated that industrial redevelopment, in particular, was becoming vital and should be facilitated and encouraged. The basis for a dynamic development of industrial structures would have to be effective competition both within the Community and in trade with non-member countries.

In this connection, the Committee warned against selectively encouraging the creation of specific company structures.

The Committee analysed the problems of small and medium-sized businesses in its Study of 26 June 1974 entitled "The Situation of Small and Medium-sized Undertakings in the European Community". It is currently drafting an "initiative" Opinion on the matter.

d) Alongside these attempts to work out an overall industrial policy, the Commission has pressed on with work in specific sectors such as shipbuilding, paper pulp, the aircraft industry, data-processing, building and construction, textiles and footwear. By and large, however, these Commission initiatives have not resulted in concrete decisions being taken by the Council. This has been for a variety of technical reasons, though a common denominator has been a lack of interest on the part of individual Member States.

The dossier on shipbuilding (*), for example, is still in abeyance even though the Council was supposed to have taken a decision by 1 July 1974. All it has done is adopt a directive laying down the conditions under which aids can be deemed to be compatible with the common market. The Commission, on the other hand, had proposed that a coordinated policy be adopted to enable Community shipbuilders to compete with non-member countries. The idea was that Community action should be focused on :

- investment support;

(*) ESC Opinion OJ No. C 97 of 16 August 1974.

- retraining;
- a research and development programme.

The problems in this sector are currently being discussed at the OECD.

The Commission's proposal for the paper pulp industry (*) has met with a similar fate, the Council being unable to agree on what concrete action should be taken even though it has shown interest in the Commission's analysis of the industry. The Commission's memorandum contained three separate proposals for restructuring the pulp industry : EIB financing, assistance from the European Social Fund and a call to Member States to provide investment aid.

In the aircraft sector, (**) a Council Resolution of 4 March 1975 called on the Commission to present an initial general report on how the Community's aircraft industry operates and on the measures necessary for the development of that industry. The Council recently spelt out the objectives of the 1975 Resolution, in a Declaration published in OJ C 69 of 19 March 1977.

(*) ESC Opinion OJ No. C 62 of 15 March 1975.
(**) ESC Opinion OJ No. C 131 of 12 June 1976.

The result was that in October 1975 the Commission presented an action programme. The backbone of this was Community management and financing; the main aims were establishment of a common policy for the civil aircraft industry, and the setting up of a European Military Aircraft Procurement Agency.

In the data-processing sector (*) the Commission submitted to the Council towards the end of 1973 a Communication concerning a Community Policy on Data-Processing. This was followed in 1975 by two series of proposals on priority projects, namely :

1) The setting up of a data bank for the matching of organs and blood;

2) The processing of data relating to agricultural imports and exports;

3) Automated systems for the retrieval of legal documents;

(*) ESC Opinion : OJ No. C 263 of 17 November 1975 (Communtiy projects)
OJ No. C 131 of 12 June 1976 (Community policy)
OJ No. C 255 of 7 November 1975 (Community policy)

4) Air traffic control;

5) Computer-aided design techniques (CAD);

6) The development of a real-time language;

7) Software portability;

8) A set of studies on promoting the use of data processing;

9) Development of a data storage and retrieval system.

So far only Nos. 1, 3 and 5 have been adopted by the Council.

The Commission has also recently submitted to the Council a Four-Year Programme for the Development of Informatics in the Community. The Committee has been asked to deliver an Opinion on this programme.

The Action Programme on the building and construction industry has not yet led to any positive reaction from the Council.

In the textile sector, (*) the technological research programme proposed by the Commission was adopted by the Council on 14 April 1975. The following areas of research were pinpointed :

- the heat treatment of man-made fibres,
- the treatment of textiles in organic media,
- the fireproofing of textile fibres.

The Commission has recently submitted a research programme on the footwear industry, seeking to (a) ensure a more rational use of material for uppers and (b) rationalize upper-making. The Council has just adopted this programme (**).

In parallel with all this activity in individual sectors the Commission has also devoted attention to regional aid schemes. The aim has been to ensure that national aid measures fit in with the overall objectives of the Community, especially those laid down in 1971; this means that aids for (a) collective research and development programmes, (b) the elimination of surplus production capacity, (c) redevelopment, (d) horizontal mergers, and (e) vertical integration are considered to be deserving of encouragement.

(*) ESC Opinion : OJ C 16 of 23 January 1975.
(**) OJ No. L 61 of 5 March 1977.

As is clearly stated in the Fifth Report on Competition Policy (point 118), the Commission has always held the view that aids granted by public authorities "may be justified if it is likely that the recipients, after reorganization, will be commercially viable and able to compete successfully, and if the measures taken do not aggravate existing problems at Community level or merely transfer these problems to other Member States".

A list of the aid granted by public authorities is set out on page 109 et seq. of the Sixth Report on Competition Policy.

e) With regard to the implementation of the Industry Policy Action Programme (Resolution of 17 December 1973), the Section refers to the latest Report brought out by the Commission (Doc. COM(76) 199 final). The Section notes that, although a set of 18 Directives was adopted recently, there have been considerable delays in implementing the programme to remove technical barriers to trade as well as in achieving goals in major fields, such as the harmonization of company law and the removal of tax barriers to trade. The Section also notes (a) that the Commission has recently withdrawn a number of proposals, including those on Community development contracts and joint ventures and (b) that the Council has recently adopted the Directive coordinating procedures for the award of public supply contracts (OJ No. L 13/77).

3. The Future Pattern

The Commission's attempts to formulate an industrial policy and resolve a number of concrete industrial-policy issues, have not had any spectacular results so far. During the recent recession, a number of new problems have emerged and a number of long-standing problems have come to the fore. The need for industry policy measures - or, to put it another way, for formulation of an industrial policy - has increased, but a number of problems have become more intractable.

On the domestic front reference can be made to inflation, extensive unemployment, balance-of-payments difficulties, the slackness in the economy, growth and investment problems. Another aspect is the change in attitudes to questions such as the quality of life, pollution, the environment at work, co-determination and worker participation.

The problem has been further exacerbated by the disparities between the economic and monetary policies pursued by Member States. In certain cases, these disparities may hamper the operation of the Common Market more than customs duties and other traditional trade barriers have ever done.

Externally, we have had radical changes in international economic and monetary structures, the collapse of the Bretton Woods system, floating, the change in the LDCs' attitudes to DCs, the industrialization of LDCs, and energy and commodity problems which have led to a sharp deterioration in DCs' terms of trade.

The steady intensification of the international division of labour and the growth in world trade since the Second World War have been based on a relatively stable monetary order and free trade. Living standards have risen in all countries as a result, but the benefits have not been distributed equally. The highly industrialized nations have gained more from the international division of labour. Inter-DC trade has increased considerably more than trade between DCs and LDCs. As a result, the gap between DCs and LDCs has widened.

The recession posed a threat to the free trade system but efforts to prevent a return to protectionism were largely successful. The high degree of economic interdependence among countries was in itself a deterrent to protectionism, but the underlying threat to free trade (and thus to employment and higher living standards) will remain until we have achieved a more stable economic and monetary situation (inflation, exchange rates, economic growth, etc.).

In this connection, the enormous and growing debts of the non-oil LDCs are a serious problem. The problem is compounded by the fact that a number of DCs are likewise getting more and more heavily into debt. The oil-producing countries are running huge surpluses, though these have already been recycled to a large extent via the banking system. A higher degree of stability cannot be achieved until this problem is brought under control.

It must be recognized that all countries do not benefit equally (via world trade) from the international division of labour. Special attention must be paid to the needs of the LDCs. It must be remembered that the LDCs cannot develop their industries unless they can temporarily be provided with a degree of protection.

It transpires from Table 1 that the Community is particularly dependent on trade and an international division of labour, not least because of its relative lack of raw materials.

TABLE 1

	EUR-9	USA	Japan	USSR	China	World
Population	7.5	6.0	3.0	7.1	21.9	100%
Area	1.0	6.3	0.3	15.0	6.6	100%
Percentage of world trade	20.9	13.0	7.8	5.0	1.2 (1974)	100%

In 1974 the Community accounted for 20.7% of world trade (excluding intra-Community trade). More than half of its imports consisted of raw materials and commodities. Owing to the high proportion of world trade which it accounts for, the Community will have a substantial influence on international economic trends. The greater the progress made towards a common policy, the greater this influence will be.

The Community's trade with the rest of the world in 1975 is tabulated below :

TABLE 2

	Imports	Exports
Industrialized countries	54,425	60,659
Developing countries	51,486	41,601
State-trading countries	8,674	12,266
The figures break down as follows :		
USA	19,569	12,479
Japan	4,540	2,185
State-trading countries	8,674	12,266
OPEC	31,326	17,428
Mediterranean (*)	13,337	22,105
ACP	7,941	7,499

(*) Portugal, Spain, Malta, Yugoslavia, Greece, Turkey, Spanish North Africa, the Canary Islands, Morocco, Algeria, Tunisia, Libya, Egypt, Cyprus, Lebanon, Syria, Israel, Jordan and Albania.

a) <u>Trade between DCs</u>

To date, DCs have dominated world trade. In 1973 they accounted for 70% of the total. Trade between DCs has expanded sharply, not least because of their specialization in individual sectors of industrial production. After the oil crisis, the DCs' share of world trade dropped as a result of (a) the altered terms of trade and (b) the decrease in inter-DC trade.

The USA is a much more important trading partner for the EEC than Japan (32,000 million EUA as against just under 7,000 million EUA). Tables 3 and 4 give the figures for trade between the EEC and the USA, between the EEC and Japan, and between the USA and Japan.

TABLE 3

Trade between the EEC and the USA - between the EEC and Japan

Mio $

Sectors (Classes C.S.T.)	Year	Imports from Japan EUR-6	Imports from Japan EUR-9	Imports from USA EUR-6	Imports from USA EUR-9	Exports to Japan EUR-6	Exports to Japan EUR-9	Exports to USA EUR-6	Exports to USA EUR-9
2. Crude materials, inedible, except fuels	1970 1975	44 107	- 132	1,386 2,866	- 3,386	33 37	- 58	95 127	- 389
4. Animal and vegetable oils and fats	1970 1975	5 22	- 24	64 92	- 115	- 1	- 1	11 24	- 25
5. Chemicals	1970 1975	114 273	- 344	981 1,844	- 2,441	239 407	- 448	329 1,018	- 1,278
6. Manufactured goods classified chiefly by material	1970 1975	350 864	- 1,249	1,247 1,698	- 2,536	158 293	- 440	1,693 2,507	- 3,147
7. Machinery and transport equipment	1970 1975	372 1,892	- 2,821	2,932 5,865	- 8,348	378 602	- 846	2,767 5,349	- 7,139
8. Miscellaneous manufactured articles	1970 1975	260 826	- 1,097	475 1,118	- 1,754	99 343	- 453	1,104 1,514	- 2,094
TOTAL	1970 1975	1,145 3,984	- 5,667	7,085 13,483	- 18,580	907 1,683	- 2,246	5,999 10,539	- 14,072
	1st ½ yr. of 1976	2,246	3,156	7,470	10,338	873	1,187	5,451	7,559

Source : SOEC

TABLE 4 Mio $

TRADE BETWEEN THE USA AND JAPAN

SECTIONS (SITC sections)	YEAR	US IMPORTS FROM JAPAN	US EXPORTS TO JAPAN
2. Crude material, inedible except fuels	1970 1975	34 55	1,305 2,322
4. Animal and vegetable oils and fats	1970 1975	4 8	39 40
5. Chemicals	1970 1975	176 400	322 589
6. Manufactured goods classified chiefly by material	1970 1975	1,895 3,620	243 484
7. Machinery and transport equipment	1970 1975	2,243 5,599	1,146 1,698
8. Miscellaneous manufactured articles	1970 1975	1,278 1,406	240 436
TOTAL	1970 1975	5,630 11,088	3,295 5,569

Source : OECD

The picture of trade flows between Japan and the USA and the EEC shows that there are marked differences between the various sectors. No clear general pattern emerges. But as can be seen from the summary on page 3, the overall situation is that the EEC is running a significant trade deficit with both the USA and Japan.

There is a vital differeence between EEC-USA and EEC-Japan trade relations. While the Community's relationship with the USA (EEC-USA trade is much larger than EEC-Japan trade) is without very serious problems, the Community's trade relations with Japan are fraught with difficulties. One reason is that Japan's export industries, which since the early sixties have been restructured in the light of world demand, now concentrate heavily on an extremely small range of products. In addition, Japanese exporters are very aggressive sellers and marketers. Take for example a key product like steel. In 1955, Japan produced 9.4 million tons of steel, and total world production of steel was

270 million tons; in 1974 Japan produced 119 million tons (+ 1200%) and world production was 680 million tons (+ 150%). In addition, the Japanese Government and industry cooperate closely, in particular as regards information and export financing.

The EEC has a growing trade deficit with Japan. In 1975 when exports were running at only 46% of imports, the deficit totalled \$ 3.3 million. The EEC, like a number of countries, has begun negotiations with Japan aimed at curtailing Japanese exports to the Community. The Community has not, however, succeeded in working out a properly coordinated trade policy vis-à-vis Japan.

b) Trade with the State-trading countries of Eastern Europe

Table 5 provides details of trade between the EEC and the State-trading countries of Eastern Europe.

TABLE 5 Mio $

TRADE BETWEEN THE EC AND STATE-TRADING COUNTRIES IN EUROPE

SECTIONS (SITC sections)	YEAR	EC IMPORTS		EC EXPORTS	
		EUR-6	EUR-9	EUR-6	EUR-9
2. Crude materials inedible except fuels	1970 1975	1,294 1,052	- 1,389	463 230	- 277
4. Animal and vegetable oils and fats	1970 1975	89 151	- 160	39 45	- 50
5. Chemicals	1970 1975	325 423	- 539	769 1,552	- 1,784
6. Manufactured goods classified chiefly by material	1970 1975	1,226 1,110	- 1,377	1,681 4,630	- 4,915
7. Machinery and transport equipment	1970 1975	457 606	- 791	2,222 5,230	- 5,959
8. Miscellaneous manufactured articles	1970 1975	351 811	- 992	376 405	- 507
TOTAL	1970 1975	3,742 4,153	- 5,248	5,550 12,092	- 13,492
	1st ½ of 1976	2,330	3,158	5,551	6,258

Source : SOEC

The table shows that from 1970 to 1975 EEC imports from Eastern Europe rose by 10% while exports more than doubled. Chemical products, semi-manufactures, vehicles and transport equipment account for the bulk of the EEC's exports. This reflects the State-trading countries' need for technology and capital goods.

The fact that two different economic systems are involved (planned economies on the one hand, market economy on the other) means that the trade between the two blocks has special features and special problems. Trade often resembles barter, in that individual deals are frequently on a quid pro quo basis. When the EEC sells capital goods, for instance, it is often asked to reciprocate by buying finished or semi-manufactured products (in some cases products made in plant supplied by the EEC).

In recent years the EEC's exports to the State-trading countries, to the extent that they have not been in kind, have considerably exceeded its imports. The EEC has financed its export surplus by granting extensive credits to the State-trading countries. The resultant substantial indebtedness of the State-trading countries provides food for thought, for both the EEC and non-member DCs.

Pricing creates a further problem. In State-trading countries, prices are determined politically and bear no relation to costs. EEC industry repeatedly has occasion to complain about goods being sold at absurd and unacceptable prices.

c) Trade with OPEC countries

Table 6 provides details of trade between the EEC and OPEC countries.

TABLE 6

Mio $

TRADE BETWEEN THE EEC AND OPEC COUNTRIES

SECTORS (SITC Sections)	YEAR	EEC IMPORTS FROM OPEC		EEC EXPORTS TO OPEC	
		EUR-6	EUR-9	EUR-6	EUR-9
2. Raw materials, inedible, except fuels	1970 1975	393 530	- 648	43 134	- 161
4. Animal and vegetable oils and fats	1970 1975	26 56	- 79	12 84	- 88
5. Chemicals	1970 1975	7 23	- 35	319 1,253	- 1,704
6. Manufactured goods classified chiefly by material	1970 1975	175 315	- 365	709 3,806	- 4,607
7. Machinery and transport equipment	1970 1975	13 39	- 42	1,294 9,810	- 12,299
8. Miscellaneous manufactured articles	1970 1975	2 11	- 17	191 932	- 1,278
TOTAL	1970 1975	616 974	- 1,186	2,568 16,019	- 20,137
	1st 6 mths. 1976	562	662	8,891	10,375

Source : SOEC

TABLE 7

Community trade with OPEC countries

$000,000

Years		EUR - 6	EUR - 9
1970	Imports Exports	7,167 2,887	- -
1975	Imports Exports	33,088 17,936	41,350 22,996

EEC (EUR-9) exports to OPEC of the following products are currently worth \$20,000m, and are rising sharply : chemicals, manufactured goods, machinery and transport equipment, manufactures. From 1970 to 1975 Community (EUR-6) exports of these products rose in value from \$2,500m to \$16,000m. This considerable increase in export earnings helped to offset the massive increase in the Community's oil bill. Exports of these products are expected to remain buoyant.

In 1975 the OPEC countries exported less than \$500m worth of the abovementioned products. From 1970 to 1975 these exports (to EUR-6) rose from \$200m to just less than \$400m.

The OPEC countries have plentiful supplies of capital and energy, and capital-intensive and energy-intensive industries are to the fore in their rapid industrialization process. It is unlikely that the OPEC States will be capable of absorbing all the output of these industries. It is to be expected that they will sell some of it on the world market, inter alia to DCs.

d) <u>Trade with non-oil LDCs</u>

Table 8 provides details of EC trade with non-oil LDCs.

TABLE 8 Mio $

TRADE BETWEEN THE EC AND NON-OIL LDCs

SECTORS (SITC sections)	Year	EC IMPORTS FROM LDCs		EC EXPORTS TO LDCs	
		EUR 6	EUR 9	EUR 6	EUR 9
2. Crude materials, inedible, except fuels	1970	2,302	-	113	-
	1975	4,798	5,633	236	583
4. Animal and vegetable oils and fats	1970	286	-	30	-
	1975	601	791	176	201
5. Chemicals	1970	156	-	1,196	-
	1975	390	552	3,275	4,058
6. Manufactured goods classified chiefly by material	1970	2,109	-	1,774	-
	1975	3,092	4,169	4,672	5,876
7. Machinery and transport equipment	1970	86	-	3,762	-
	1975	694	873	10,787	14,505
8. Miscellaneous manufactured articles	1970	330	-	590	-
	1975	2,010	2,932	1,278	1,716
TOTAL	1970	5,269	-	7,465	-
	1975	11,585	14,950	20,424	26,939
	1st 6 mths. 1976	6,446	8,622	9,663	12,959

Source : SOEC

The EEC exports more to non-oil LDCs than to OPEC countries. (In 1975, $27,000m as against $20,000m). From 1970 to 1975, the increase in EEC (EUR-6) exports to OPEC countries (from $2,500m to $16,000m) was considerably higher than the increase in exports to other LDCs (from $7,500m to $20,500m). In 1975 non-oil LDCs exported considerably more chemicals, manufactured goods, machinery and transport equipment and manufactures to the EEC than the OPEC countries did ($8,500m as against less than $500m). From 1970 to 1975, non-oil LDCs' exports (predominantly manufactured goods and articles) to the EEC (EUR-6) rose from $2,700m to $6,200m.

The raw material and manpower situation in non-oil LDCs varies considerably. Despite a rapidly growing population, the manpower available for industrial production is often inadequately educated and unused to an industrial environment. In addition, the non-oil LDCs are generally short of capital.

Industrialization is under way in all non-oil LDCs, with support from DCs in the form of capital equipment, knowhow transfers, "aid" and direct investment. The pace of industrialization varies according to local conditions and the LDCs attitudes to help from DCs.

Industrialization is, of course, initially based on local raw materials. Textiles and clothing have thus generally been amongst the first products. The LDCs are increasingly anxious to process their raw materials. Rational processing will, however, often require large plants, advanced technology, management skills and capital. By and large, only the large private and public sector concerns of the industrialized countries are capable of meeting these needs. Direct foreign investment and participation in joint ventures is contingent on the host country providing guarantees that such activities will be immune from arbitrary interference.

Certain LDCs have invested in ultra-modern technologies, and established competitive, capital-intensive industries. But by and large it will be logical for LDCs to base a large part of their industrialization on their abundant (and, therefore, cheap) labour.

Countries such as Korea, Taiwan, Hong Kong, Singapore and Mexico have for some years been making components for sophisticated end-products. These components are exported to DCs. So far, only a limited number of LDCs have been involved in this type of production, but it is likely that there will be expansion here and that more LDCs will engage in such activities.

4. The Need for Industrial Restructuring

Industrial structures are not static. They are affected by a large number of national and international factors. As illustrated above, the trade patterns between the Community and the rest of the world have been subject to a number of changes in recent years. Industrial structures are influenced not only by international conditions but also by absolute and relative changes within the Member States and the Community - e.g. introduction of new products and changes in demand (generated by higher incomes, increased leisure time), in supply patterns, in costs, in knowhow, and in competition conditions. It is crucial that industry react to these changes by restructuring and adapting. Inertia can have disastrous results.

In response to these changes the market mechanism has brought about major changes in the structure of many sectors of economic activity. The following are a few examples :

- The adaptation of many industries, such as textiles, to the use of synthetic rather than natural materials;

- the restructuring of retail distribution, with the emergence of large-scale units (Supermarkets, etc.);

- the development of the travel and leisure industries, which now constitute major sectors in the economies of industrialized countries;

- the development of the processed ("convenience") food industries.

In order to facilitate changes of this kind, it is essential that the general economic climate is such as to encourage the redeployment of resources in response to changes in supply and demand. Hence, economic policy has a very important bearing on industrial policy.

Industry must be constantly restructured and adapted if it is to survive in periods of economic change and growth. At the moment, we are going through a period of considerable, far-reaching and rapid change. Crucial factors are (a) technological development, which will probably speed up and will be accompanied by an increase in the investment needed per job, and (b) the growing industrialization of LDCs. Past experience indicates that if industry fails to move into new areas of production, its labour force will contract as manpower productivity rises.

It is difficult to predict the pace of LDC industrialization. It will be rather slow if the LDCs have to fend for themselves. It will be much quicker if DCs and LDCs cooperate closely. Considerable progress has already been made as regards cooperation.

At international level, recent years have seen discussions between LDCs and DCs, discussions in the UN, the North-South dialogue, the Euro-Arab dialogue, the UNCTAD conferences, the Lomé Convention and the GSP system for LDC exports to the EEC.

Under UN auspices, a group of economists is drafting a study on the future of the world economy. This study, which will be published shortly, deals with various development scenarios but generally predicts stronger economic growth in LDCs than in DCs and a sharper rise in world trade than in economic growth. LDCs' imports will probably increase more quickly than their exports. It is, however, to be expected that LDCs will increase their share of world trade in manufactures.

Cost advantages play a crucial role in determining the location of production and investment, and by the same token employment. Wages normally account for a substantial proportion of industrial costs. However, total labour costs are of considerable significance here. These comprise not only wages but also wage-related social security contributions and the costs of creating jobs (investments in machinery and buildings), training and retraining costs are likewise also significant, insofar as they are borne by individual firms. The actual cost impact of wages and social security contributions is, of course, affected by the level of labour productivity. However, now that the LDCs are playing an increasing role in the international division of labour their abundant and relatively cheap supply of labour will exert a growing influence on the location of production. It must nevertheless be remembered that their lack of industrial tradition, and the associated shortage of skilled manpower, will in many cases slow down their progress.

For a long period of time, the industrialization of the LDCs will generate substantial DC production and exports - particularly in capital-goods sectors; the relevant sectors of the DCs' economies will attract substantial amounts of labour and capital, provided this capital is not retained in other sectors.

Industrialization and the development of LDCs, with a view to reducing their lag behind the DCs, will be the major challenge for a long time to come. A successful response to this challenge can not only bring increased prosperity to LDCs, but also go a considerable way towards solving the DCs' problems.

Industrialization and development of the LDCs will have a far-reaching, profound impact on the EEC's industry and its structure.

It is important that small and medium-sized businesses in the Community are not prevented from obtaining their share of the new export markets. The Community and the Member States may have to make a special effort to enable small and medium-sized concerns to establish contacts with new markets.

The USA, Japan and the LDCs may be expected to step up their drive to sell industrial products to the Community, especially if their economies remain sluggish.

The higher incomes generated by industrialization will enable LDCs to increase demand on their domestic markets and trade more with each other. This will mean that they will be under less pressure to market their industrial production in the older industrial countries.

It is not feasible for the Community to shut out or sharply curtail unwanted imports, given its heavy dependence on the rest of the world. But from time to time it may be necessary to control imports of certain products - by means of either import controls or restraint on the part of exporting countries. Such steps will be necessary, for example, where exports from non-member countries are based on economic or social considerations which differ from those obtaining in the Community or which are at variance with international agreements such as, for example, GATT rules on dumping; such steps will also be necessary where products enjoy support arrangements in the exporting country or where exporting countries take excessive de jure or de facto measures to safeguard their domestic markets.

Such import regulations should never be designed to support structures which are not competitive. They must seek to ensure that the necessary industrial restructuring can take place in a balanced manner.

It is crucially important that such import regulations should be applied at Community level.

But come what may, in the years ahead Community industry will run into extensive adjustment and restructuring problems, with all their implications for individual firms and their employees. Such adjustment took place relatively smoothly and painlessly in the sixties, which was a period of sustained, substantial growth. It will be more difficult in a period of extensive unemployment.

Some members consider that higher employment and higher corporate turnover implies an adequate level of income and satisfaction of requirements by production. These members point out that, in a period of spare capacity, new products and new services afford more or less the only chance of bringing about a net increase in employment.

The industrial policy must steer clear of mercantilism under any shape or form. Whilst firms must be competitive and export in order to earn foreign currency, their prime duty is to meet individual and collective demand, in accordance with the framework laid down by the Community. If demand tends to concentrate on services rendered rather than on the replacement of material goods, it will be possible to reduce imports and to export the technology of these services, this being the basis of tomorrow's production.

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Set out below are a number of sets of statistics and comments made by members on the various chapters of the draft Opinion, together with some remarks designed to amplify the text of the draft Opinion. In this connection, reference should be made to the abovementioned document (Doc. R/CES 159/77 rev.).

Employment

Between the end of February and the end of March 1977 the number of registered unemployed in the Community fell by 250,000 or 4.3% but this drop is probably due mainly to seasonal factors.

At present there are around 5.5 million unemployed in the Community.

Economic and Employment Trends in certain industries

Shipbuilding Launched (Gross registered tonnage)

EUR-9

1965	1970	1975	1976
3,558.4 (*)	5,376.9	7,838.1	7,670.4

(*) Excluding Belgium and Ireland

Sources : Lloyd's

Employment (**)

1975	1976
265,893	253,575

(**) These figures are rough estimates. The figures for some Member States include labour engaged in ship repair work and sub-contracting. No figures are available for previous years.

Sources : Shipbuilding Federation.

Production of paper pulp ('000 tonnes)

EUR - 9

1965	1970	1975
5,073	6,077	5,451

Sources : OECD

Employment in the paper and paperboard industry (*)

1969	1970	1975
432,197	416,818	348,643

(*) No figures are available for employment in the paper pulp industry

Sources : Paper Industry Federation

<u>Turnover for Aircraft production (*) (1969 prices)</u>
in 000,000 EUR

<u>EUR - 9</u>

1969	1970	1974
3,952	3,915	4,884

(*) No figures are available on the number of aircraft produced

<u>Sources</u> : Aircraft Industry Federation

<u>Employment</u>

1969	1970	1974
435,553	438,770	412,328

<u>Sources</u> : Aircraft Industry Federation

Finished houses and apartments (*) ('000)

EUR - 9

1965	1970	1975
1,197.7	1,902.0	1,761.5

(*) No figures are available on the breakdown between public and private sector

Sources : SOEC

Employment

1965	1970	1975
7,797,000	7,992,400	- (**)

(**) No figures available

Footwear production (000,000 of pairs)

EUR - 9

1965	1970	1975
666	898	877

Employment

1969	1970	1975
432,197	416,818	348,693

Sources : Footwear Industry Federation

The following table gives a general insight into employment trends in the various sectors :

Table 9

DEVELOPMENT OF EMPLOYMENT BY BROAD SECTORS OF INDUSTRIAL ACTIVITY

Sector	1960		1965		1970		1980	
	in millions	%	in millions	%	in millions	%	in millions	%
Primary sector (growth rate)	16.74	16.8	13.27 (-4.5% p.a.)	12.9	10.38 (-4.0%)	10.0	6.90 (-4.0%)	6.5
Secondary sector (growth rate)	41.38	41.5	44.97 (1.7%)	43.6	44.87 (0.0%)	43.3	44.02 (0.2%)	41.3
Tertiary sector of which (annual rate)	41.66	41.7	44.93 (1.5%)	43.5	48.28 (1.4%)	46.6	55.75 (1.4%)	52.3
- private (annual rate)	30.35	30.4	32.17 (1.2%)	31.2	34.02 (1.1%)	32.9	37.83 (1.1%)	35.5
- public (annual rate)	11.31	11.3	12.76 (2.4%)	12.4	14.26 (2.2%)	13.8	17.92 (2.3%)	16.8
Total for the Community as a whole	99.78	100.0	103.17	100.0	103.53	100.0	106.67	100.0

Source : Commission "Outlook for employment in the European Community to 1980" (V/409/76)

Common Market

Some members think that when it proposes tax alignment or the approximation of laws, the Commission should not just seek to facilitate company mergers and cooperation. It should be concerned to stop major business groupings operating in the Community from compartmentalizing markets, charging different prices in different countries, discriminating between suppliers from different countries, or misusing their dominant positions to the detriment of the consumer.

These members note that the competition policy currently pursued by the Commission does not afford sufficient protection to small or medium businesses. Competition policy cannot play a useful role unless the Community authorities have the means to guide and pursue a genuine policy on industrial structures (prior checks on major mergers; supervision of location of foreign investment; standardized procedures for the award of public contracts which take account of the interests of the communities concerned). Otherwise, the small business sector will receive no protection whatsoever from competition policy.

Production sectors in difficulty

Some members believe that there must be Community-level research into sectoral structures. They call for an extension of compulsory notification of investments, on the lines of the rules governing the coal and steel sector, to all major sectors within the Community. The resultant information would give the Member States' governments a basis for guiding, stimulating and even undertaking investment. The criteria for such guidance must be :

a) the number and quality of the jobs to be created;
b) the contribution to reducing regional disparities;
c) environmental requirements; and
d) the aim of a fair international division of labour.

These members feel that as the machinery of the market place is less and less capable of ensuring a balance between supply and demand, it is necessary for industrial restructuring to be carried out under public supervision including that of the Community, and for there to be (i) supervision of investments and economic concentration, (ii) measures to promote certain sectors, and (iii) a reference framework such as the medium-term economic policy programmes.

Some members feel it is essential to point out that a problem similar to that mentioned in paragraph 3.29. of the Opinion arises when the Community subjects firms to environmental protection requirements which firms in non-member countries do not have to observe. They consider that the solution to this problem must be sought in international agreements, and not in lowering standards in the Community. Other members acknowledge that such a problem exists but consider that it is sufficiently dealt with in paragraph 3.29. of the Opinion.

Research, development and innovations

Some members hold the view that the Commission should make it illegal to put patents into cold storage. It should ensure that patents which are not used are made available to the community at large. These members regret that, in this field, EEC policy lags well behind the EURATOM Treaty.

Where publicly financed research pays off commercially, profits should be divided up on a pro-rata basis, according to the amount of capital invested by the various parties in the research work.

Other members consider that full information needs to be available about collaboration between industry and research centres and that there must also be government supervision of such collaboration.

The Community should draw up its own research programmes and earmark the requisite funds for development.

Criteria for allocating aid

Some members draw attention to the need to prevent aid from being rendered totally ineffective, either because it is not consistent with the goals being pursued or because it is dissipated over large numbers of different projects. All too frequently subsidies are allocated for opportunist reasons rather than on the basis of economic logic, resting on objective criteria.

National and Community authorities must exercise the requisite authority when laying down the criteria for selectivity. Aid allocation criteria should take account, inter alia, of the general and sectoral objectives of national plans and the Medium-Term Economic Programme. More generally, projects to be financed from public funds should be in line with the principal industrial policy objectives. Public authorities must (a) ensure that firms in receipt of public funds enter into the necessary undertakings and (b) supervise efficiently the manner in which these undertakings are observed. If the above precautions are taken, planning based on contractual agreements could be a useful tool for implementing the common industrial policy. These members also feel that the present laws of expansion lead to capital being relatively cheaper and thus encourage the replacement of labour by capital and artificial distortions in how these two factors of production are used. Public aid for investments should therefore be restructured so as to do away with the comparative advantage that capital enjoys in relation to labour.

These members would also point out that in the past too much emphasis was put on investments designed to increase productivity. When aid is granted from public funds other ways of increasing productivity should also be taken into consideration, especially as regards economizing on energy and raw materials.

Sectoral policy

Some members consider that, even against the current background of radical structural change, it is necessary to achieve socio-economic objectives (including measures to fight unemployment). New machinery must be developed making it possible to implement measures with specific targets. In other words a selective growth strategy is needed. The Community must quickly turn this strategy into a fully-fledged policy by laying down indicative guidelines. It will have to work towards the requisite repatterning, on the basis of medium-term planning. The freedom of the Member States and the relevant sectors will have to be increasingly restricted in this area. The preconditions for such a policy include a better picture of sectoral prospects.

It should therefore be stipulated that investments of more than a specified size must be notified to a specially created Community body, some of whose members would be representatives of the unions and employers. The mandatory notification would apply, in particular, to a number of large problem sectors. Furthermore, a reference framework should be established. This would involve spelling out in much more detail the aims of the relevant common policies (industrial, environment, regional and social policies, together with the policy on developing countries).

These members think that a number of basic points should be observed here :

a) democracy should be stepped up in the affected firms so that employees and their representatives have a major say in the key business decisions, especially those affecting jobs;

b) medium-term planning for each relevant sector in question within a structural policy for that sector, and bodies through which the work force of the sector are involved in this process;

c) provision of sufficient relevant information and on the basis of that information the carrying out of checks on (i) what is produced, where it is produced and the conditions under which it is produced, and (ii) the implications for the number and type of jobs.

They think that the Community should rapidly expand structural policy for individual sectors. In developing this policy, the following basic situations can be distinguished :

- Industries with good growth prospects. In view of the direct or indirect contribution they can make to the overall growth rate, consideration might be given to special encouragement for expansion of such industries;

- Industries in general difficulty for structural reasons, and because of that with insufficient profitability;

- Profitable industries (probably) needing structural change.

For the discussions that are needed between the different interest groups, several members consider that it is necessary that the existing joint committees should function better and that new joint committees should be set up for other sectors, without jeopardizing the autonomy of the parties in question. A greater mandatory flow of information from businesses is crucial to the more effective functioning of the joint committees. The role and tasks of the committees would therefore have to be defined in greater detail. From the organizational angle, the committees could be accommodated at the Economic and Social Committee in view of the fact that the Committee has its own secretariat and its own budget.

European Communities - Economic and Social Committee
"Industrial Change and Employment"

Opinion of the Economic and Social Committee

Brussels : General Secretariat of the Economic and Social Committee

1977 - p.
DK, D, E, F, I, N.

The Committee notes that recent years have seen extensive changes in conditions inside and outside the Community, in technology, in trade patterns, etc. Further rapid and significant changes are on the cards.

If Community industry is not competitive and adaptable, both internally and internationally, it will be unable to meet the challenge posed by future developments.

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