

**ECONOMIC AND SOCIAL COMMITTEE
OF THE EUROPEAN COMMUNITIES**

**PRESENT SITUATION
IN THE
COMMUNITY'S BUILDING SECTOR**

OPINION

Brussels 1981

The European Communities' Economic and Social Committee, chaired by Mr Tomás ROSEINGRAVE, approved this Opinion at its 189th Plenary Session, which was held from the 1st to the 3rd July 1981.

The preliminary work was done by the Section for Industry, Commerce, Crafts and Services, having Mr Claude EVAÏN as Rapporteur.

ECONOMIC AND SOCIAL COMMITTEE
OF THE EUROPEAN COMMUNITIES

O P I N I O N

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P R E F A C E

The Economic and Social Committee of the European Communities is alarmed at the rapid deterioration in the building industry throughout the Member States. It therefore proposed to the Community authorities that they draft a European industrial policy to assist this sector.

The Committee's Opinion was adopted nem con at the July Plenary Session. This followed a Symposium organized jointly with the Commission in September 1980, attended by all interested socio-professional groups. A report on the Symposium proceedings, in brochure form, will soon be available in English, French and German.

The Opinion marks the completion of the Committee's work on this subject. It analyses the difficult situation which building firms are currently facing, and recommends in order to stimulate growth and employment in the sector, a course of Community action which should culminate in a genuine European sectoral policy. This course of action should cover :

- organization and planning
- financial measures
- technical standards
- research
- social aspects
- foreign trade

The Committee is ready to assist in the implementation of all these measures.

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OWN-INITIATIVE OPINION ON THE PRESENT SITUATION IN THE COMMUNITY'S BUILDING SECTOR AND THE MOST APPROPRIATE MEASURES BY WHICH THE EEC CAN PROMOTE GROWTH AND EMPLOYMENT IN THIS SECTOR

1. Analysis of the present situation

Basic preliminaries : what do we mean by "construction"?

For the purpose of investment, EEC construction divides up as follows :

- 1/3 residential buildings (houses, blocks of flats, etc.);
- 1/3 public-sector and commercial non-residential buildings (factories, business premises, administrative buildings, etc.);
- 1/3 civil engineering projects (public-sector and industrial).

Construction should also include what accountants call "consumption", i.e. maintenance.

Decline in output and its consequences

Taking the Community as a whole, production has fallen back considerably since 1973-1974 though sectors and countries have been affected differently. The slowdown has been particularly pronounced in the housing sector in the United Kingdom, France and Italy, though the public works sector (civil engineering and building) has stabilized in France and Italy. By contrast, the housing sector in Germany and the Netherlands has tended to stabilize (1).

The drop in housing output affects all EEC countries, with the equivalent of 400,000 dwellings being lost between 1974 and 1979, i.e. a fall of 24%.

This falling off of production can be attributed primarily to :

- the end in the last few years, of the period of post-war reconstruction and rapid urban development;
- inflation, which has eroded the value of short-term savings and led to a rise in interest rates;
- the restrictive impact on investment of the monetary and fiscal policies pursued in most Member States - low-cost housing (2) and public-sector infrastructure schemes being the sectors most affected;

(1) This information is based on Euroconstruct. statistics.

(2) Publicly-subsidized housing for people on low incomes.

- there is not so much building land on the market, and there has been a concomitant rise in bulding-land prices.

"Stop-go" policies and changes in market structures have aggravated the effects of this decline on the construction industry. The decline in activity has led to the disappearance of endless numbers of firms and construction teams have been broken up. Employment has been particularly hard hit (500,000 jobs axed since 1974). Firms have had to adjust to new markets requiring a more highly skilled labour force, and the problems of vocational training have become more acute (lack of skilled workers).

Firms have been slow to assimilate new building technologies and have also been too slow in satisfying people's demands for a better quality of life.

Construction has become much more expensive recently. This is due to the rising cost of land, but the increase in the cost of building work is also a factor. A major cause of this rise in building costs has been the disruptive effects on production of "stop-go" policies.

The five years between 1980 and 1985 will probably continue to witness structural changes in the housing market: more emphasis on maintenance and home-improvement schemes (including the restoration of the national heritage), energy-saving projects, preference for owner-occupied dwellings, etc.

The construction sector will also need to take into consideration the new requirements of European society (improvements in the quality of life) (1).

However, if the present situation continues and no measures are taken to satisfy requirements (better living conditions and public-sector infrastructure projects), there are likely to be bottlenecks and serious economic and social tensions.

The importance of the construction sector in the economy :
the case for an energetic policy on the human environment

Construction ranks first among industries of the European Economic Community in terms of volume :

- the construction industry accounts for approximately 8% of total added value : it provides work for more than 6 million workers. If one includes construction experts in public-supply contract award offices, as well as those working for architects and civil engineering consultants, then more than 7 million workers are directly involved in construction work in some form or other;
- if one takes into consideration the whole chain of construction from beginning to end - and that includes supplies of materials, products, equipment and the provision of specialized services - then the industry as a whole provides 13% of the gross domestic product.

(1) See the experiments taking place in the Member States, e.g. in the town of Kassel (as part of "documenta urbana 1982"); the results of such experiments should be disseminated more widely.

The construction industry has certain features which are of particular benefit to the economy as a whole :

- employment : the construction industry is not capital intensive and employs about 30% more people than any other branch of the economy with an equivalent output. This is true of the construction industry as a whole but it is even more true of the housing sector, renovation work, and energy-saving schemes;
- balance of trade : the building industry and civil engineering consume few imports;
- energy saving : the shift towards energy-saving designs is of prime importance;
- finally, we must remember that the construction industry is also very important from the point of view of the economic and social life of the Community :
 - . development of trade through improved community infrastructures;
 - . improvement of the environment through a vigorous policy on living conditions - a policy which aims at labour-intensive growth whilst ensuring a balance of economic forces;
 - . multiplier effect of employment and economic activity on its upstream suppliers;

Attention should also be drawn to the following points :

- the signs of potential housing shortages are reappearing in some Member States;
- many Europeans still live in inadequate housing, which does not even meet health and safety requirements;
- many infrastructures still require modernization;
- industrial reconstruction and factory modernization schemes need to be carried out;
- a great deal of work still remains to be done to save, restore and modernize urban dwellings that no longer meet modern society's needs;
- reconstruction of the 250,000 dwellings destroyed by earthquake in the Italian Mezzogiorno and Greece in 1980 and 1981 will mean work not only for Italian and Greek firms but also for firms from the other Member States of the Community.
- enlargement of the Community will require heavy transport infrastructure investment - hence a great deal of work for the construction sector.

These are all reasons why the problems of the construction industry should be tackled at Community level.

Achievements of the Community

The construction industry has so far remained a largely national affair although some measures have already been adopted at Community level, notably the Directives opening up tendering for public supply contracts (though still inadequately implemented) and the Draft Directive on the harmonization of construction materials and products (not yet adopted by the Council).

The Committee would stress the importance which it attaches to the Council's rapid adoption of this Directive in view of the amendments proposed by the Commission on 6 September 1979 (1) and approved by the Committee in its Opinion on the Problems of Trade Barriers and the Alignment of Laws in this Area (2). The adoption of this Directive is vital for further harmonization in this sector.

According to the Commission, indirect Community action should also be taken into account since some EEC subsidies and loans also cover construction work to some extent. This is the case with subsidies provided under the ERDF and EAGGF, and loans granted by the ECSC, EURATOM, NCI and EIB (3).

In 1979 these various forms of aid came to 4,840 million units of account, i.e. 2.3% of GFCF (4) in the EEC construction industry (208,600 million units of account).

Naturally only part of such aid has a direct effect on the construction industry. According to the Commission this comes to 2,000 million units of account, i.e. about 1% of gross fixed investment in building and civil engineering and 15% of the sums committed by the Commission.

(1) COM(79) 453 fin

(2) Opinion of 21 November 1979 (CES 1360/79)

(3) ERDF : European Regional Development Fund
EAGGF : European Agricultural Guidance and Guarantee Fund
NCI : New Community Instrument
EIB : European Investment Bank

(4) Gross fixed capital formation.

Because of the uncertainty surrounding these estimated figures, it is advisable not to jump to conclusions and to study the question in greater depth. Moreover, the spin-off effects on construction have not been studied. It would be interesting to compare appropriations committed by the Commission with those committed by the Member States. It would also be useful to calculate the percentage by which EEC funds would have to be increased to achieve a "take-off" situation in the Member States.

One cannot say that this aid stems from a genuine EEC policy for the construction industry - and even less from a housing policy since only an infinitely small proportion of the indirect aid mentioned above goes on housing (less than 2% according to the Commission).

2. Possible Community Action

Starting points

In order to assess clearly the pros and cons of various possible lines of action, the Community needs to be able to compare the policies which Member States have adopted in the past, are pursuing in the present and envisage for the future. Such comparisons would have to be as accurate as possible. The primary need is to promote those studies and analyses most needed if the EEC is to have a genuine Community policy on the construction industry.

It would be premature to envisage the creation of an European technical institute for construction similar to the

one that exists for example in Holland. It would, however, be necessary to coordinate the activities of national construction industry organizations. The only body in a position to be able to do this is the Commission. Adequate funds should therefore be made available for such a purpose. National governments should also cooperate more within the Community in order to exchange and compare technical, economic and social data and research findings.

There should be regular Community-level consultations between representatives of employers and workers in order to examine the situation in the construction industry and look at the measures that can be taken to ensure its development. The Committee is willing to help ensure that this idea leaves the drawing board and is accordingly prepared to make an annual assessment of the situation in the construction industry and take stock of the extent to which measures proposed in this Opinion have been implemented.

The Committee feels that it is necessary to follow up the discussions between the Commission and representatives of the construction industries of the Member States begun at the symposium in September 1978.

The Committee reiterates its request made at the symposium organized by the Commission and the ESC in September 1980, namely that a high-level Commission negotiator be appointed to hold consultations with representatives of the construction industry and its labour force.

Such consultations should be followed up by the submission of an Action Programme to the Council of Ministers. The Council should set up a specialist committee comprising representatives of the governments and administrations of the Member States to study and implement this Programme.

Financing

A distinction has to be made between genuine Community financing and measures to reform and harmonize national financing systems.

Community financial instruments include :

- funds for structural purposes (Guidance Section of the EAGGF; Social Fund, Regional Fund);
- finances available under the ECSC;
- the European Investment Bank (EIB) which finances such things as industrial and mining buildings and plant, transport infrastructure, telecommunications infrastructure, production infrastructure and energy transportation infrastructure;

- the New Community Instrument (NCI) based on the Council Regulation of 16 October 1978 (Ortoli facility) with borrowing/loan mechanisms; these mechanisms make it possible for 100 million EUA to be poured into house-building.

The Committee supports the Commission's efforts to secure a better balance of the Community's budget so that a greater proportion of "own resources" can be used to help the construction sector, particularly housing.

A transport infrastructure policy of Community interest, and an industrial policy would be of particular interest to the public works' sector and would be a way of supporting the EIB and ERDF, which already provide assistance for regional infrastructure schemes. To achieve this aim the financial regulation on support for the relevant programmes should be implemented rapidly.

National financing mechanisms in the housing sector are out of touch with national economic and social needs, largely because of inflation. Economic policies have encouraged consumption rather than savings and this, as we all know, has had adverse economic consequences (inflation, high interest rates, etc.).

To ensure more continuity in the market, consultations between governments and specialized financing bodies in the Member States will have to be organized. The activities of the latter have hitherto been confined to national matters. The aim of such consultations would be to :

- encourage savings by protecting purchasing power, and by directing savings into specific financing networks so as to cushion the effects of cyclical fluctuations on the construction sector;
- progressively implement freedom of movement in the area of housing loans. In this connection, the Commission is called upon, through the coordination of national legislation, to give priority to tackling freedom of establishment and freedom to provide services for financial institutions so that particularly successful schemes for the financing of building can operate throughout the Community;
- explore and examine all new forms of financing which might meet current needs in the construction sector (collective real-estate investment fund, life insurance for house purchasers, etc.);
- issue Community loans in European units of account.

The EEC should become a centre for the exchange of information and consultations between national institutions, with a view to revitalizing the construction sector. Generally speaking, the Community should induce Member States to pursue an economic policy that safeguards activity in the construction sector, inter alia by ensuring as continuous a flow as possible of private and public-sector orders (1).

(1) For instance by a long-term programme for the construction of subsidized housing.

Opening up the market - alignment

As a general principle, the Committee has always attached the greatest importance to eliminating obstacles to the circulation of goods within the Community. It has strongly backed measures to this end from the very outset and considers that action to open up the market and eliminate technical barriers is the cornerstone of a genuine construction policy.

Alignment should be designed not only to facilitate free circulation within the Community but also to further exports, which are more essential than ever. Many Community exporters are handicapped by the absence of uniform Community rules.

Differences between regulations and standards hamper trade. Such differences must therefore be phased out gradually with due allowance made for the variety and complexity of the present situation.

Initially, optional alignment could be carried out in certain cases and the Community could specify aims without laying down how they are to be achieved.

Standards should be aligned on the basis of the papers which have been issued by technical and scientific bodies and by international standards institutes (with the CEN playing a coordination role). The Commission could instruct these bodies (or some of them) to carry out specific tasks.

In a number of Member States consultations are already held between specialists responsible for relations with international institutes such as the ISO (*) and other bodies such as the International Committee on Research Studies and Documentation in the Building Industry (CBI). These consultations should be put on a broader basis and intensified.

Alignment will have to be selective and in accordance with certain priorities. For instance, before common design and building standards are laid down, thought should be given to aligning the requirements to be met by building materials and components, as well as the design loads of structures (particularly with regard to resistance to seismic shocks). In this connection, it is vital to harmonize also the test specifications for materials and components; mutual recognition of the tests carried out by the test stations of the various Member States would be a first step in this direction.

Administrative and legal barriers within the Community should be eliminated by the gradual alignment of rules on building structures (fire hazards, safety, noise transmission, energy conservation, environment, resistance to seismic shocks). A start has been made in some areas.

In the future there are likely to be supply problems with certain types of materials that cannot be freely used because of administrative measures and environmental constraints.

(*) International Standards Organization

The EEC should examine how far action can be taken in this field and should encourage the use of traditional materials (gypsum, cement, lime, gravel, etc.) freely available in Europe itself. This would help keep down imports and so improve the trade balance. Among the materials available in Europe, preference should be given to those best suited to meeting energy-saving and conservation requirements, satisfying fire protection standards and improving the quality of life. The qualifications and work possibilities of the labour force should also be taken into consideration.

There should be close consultations on the above points with the social and occupational groups concerned. Draft decisions should, at all events, be referred to the Committee.

Keeping costs and prices under control

In recent years house prices have soared in most Member States, and buyers are getting much less for their money. Steps should be taken to counteract this trend. The attack could be on two fronts: real-estate policy and streamlined construction.

The tax and other laws on building land should be reviewed in a bid to increase supply. The Member States should consult each other and it might prove advisable to draw up Community guidelines.

Open industrialization using compatible components is a fact of life in most industrialized countries. This technique should provide opportunities for better cost control. Here, the Community could :

- encourage the introduction in Member States of standard agreements that lay down common rules for modular and dimensional coordination, etc.;
- ensure implementation of the outline Directive on products used in the construction sector;
- organize competitions and schemes;
- provide financial support for pilot programmes;
- launch research into specific problems.

Research

Research can do much to improve the quality of life and boost the level of economic activity in the construction sector. It is also one of the means by which the Community can cope with new competition from countries in the throes of industrialization. Finally, Community-level research, concentrated on carefully selected targets, can ensure substantial economic, technological and social progress.

There is hardly any Community-level research at the moment, except on raw materials (timber), demolition and energy. The EEC does not have the money to fund a major research drive but a number of programmes could be launched or developed. It is also necessary to coordinate national research programmes and disseminate their findings.

Community research programmes could give priority, for instance, to the renovation and restoration of old buildings, energy conservation, information, the introduction of data-processing, and the effects which technological development in the construction sector could have on other industries (chemicals, steel, etc.).

Taking into account indirect costs such as technical diagnoses, etc., it is sometimes cheaper to construct new buildings than to improve and restore old ones. Nor do out-of-date regulations help matters. This situation could be remedied by using industrially produced components and by developing suitable technology, materials and equipment. There are many possibilities for innovation in these two areas.

Energy conservation should be furthered by developing new insulation and alternative-energy systems (solar panels, heat pumps, heat generators, etc.). These could contribute to industrial redevelopment within the Community, and to new export lines.

The fact that several General Directorates in the Commission (DG V, DG XII, DG XVII), as well as bodies such as the JRC and ECPS (1), are operating simultaneously in this field, makes it difficult to carry out a lucid analysis of the situation and act in a consistent manner. Action already begun must nevertheless be both continued and stepped up and there is a need for improved coordination between the different types of action.

The effect of certain town-planning regulations on technological developments should likewise be examined since most of these regulations were drawn up at a time when technologies were totally different (for example it was not possible to foresee the necessary increase in the number of solar panels on house roofs).

(1) JRC : Joint Research Centre
ECPS : Environment and Consumer Protection Service.

It is all the more necessary to take rapid action in each of these areas because European producers will soon find themselves disadvantaged and outflanked in their own markets by non-EEC competitors unless there is a huge Community market in which to develop new techniques and products.

Information networks within the construction sector are already relatively advanced in the Member States and are beginning to be extended to Community level (EURONET, EURO CHRONOS, DIANE, etc...). This trend must be continued and developed further both in the technical and other fields (economic, fiscal, etc...).

These networks should be brought under the Commission's data-processing programme currently being drawn up. Every possible consideration, however, will have to be given to the fact that the construction sector has many specific features, including a large number of small and medium enterprises whose access to new computing sources will have to be facilitated as much as possible (both with regard to initial investment as well as know-how in using the networks).

Action in the social sphere

A Community construction policy should have a stabilizing or expansionary impact on building and on employment. Such a policy should thus be part of the Community's overall strategy on the crucial problem of unemployment, particularly youth unemployment. Young people are tending to turn their backs on the construction sector so special measures - vocational training in new technologies and the improvement of working conditions - should be taken to reverse the trend.

A Community construction policy should also aim to satisfy genuine social needs. In this respect priority should be given to the construction in Europe of subsidized, low-cost housing - an area where there are big shortages. Such a policy would (a) boost employment in the construction industry and (b) help towards solving the housing problem in Europe.

At the same time action should be taken to bring about an improvement in general working conditions via an assault on the specific problems of vocational training, safety and health.

Efforts should be made to introduce systematic basic vocational training in the EEC in accordance with a model applicable to all Member States.

The development of new materials, equipment, technology and markets also calls for a more highly-skilled labour force which can permanently adapt to changing job requirements.

The restoration of the housing stock and renovation of ancient towns, for example, calls for people with specific skills or many-sided talents. People with the latter are relatively hard to come by.

This explains why restoration schemes in some European towns have been backed up by relevant training programmes.

To help further reduce the number of occupational diseases and accidents at work, the Community should see it as its duty to improve safety conditions. The alignment of regulations on specific materials is one of the fields where the Community could make its mark in this respect.

Illicit double-jobbing has expanded greatly in the various Member States and has become a general problem; the problem is particularly acute in the construction sector.

To encourage growth and employment in the Community, it is necessary to wage a more vigorous campaign against illicit double-jobbing. This will call for some Community-level alignment of existing and future regulations.

Statutory and administrative provisions should be adopted at Community level to combat malpractices and make possible systematic supervision and penalties for the illegal supply of labour.

Statutory provisions regulating liability for failure to hand over taxes and social security premiums should be adopted at Community level. In order to combat this malpractice there should be effective supervision and penalties.

The Community should also lobby the International Labour Organization to persuade it to put the whole question of the employment by EEC firms of European workers in countries outside the EEC on the agenda of its industrial committees for construction.

Finally, the Community should do its utmost to ensure that labour clauses on minimum standards are incorporated into bilateral or multilateral agreements concluded with non-member countries (see previous Opinions of the Committee on this matter). The Community should also encourage the two sides of industry to conclude collective agreements covering expatriated workers.

External trade

Community-based construction firms have to compete in foreign markets with newcomers to the market (from South America, South-East Asia, Eastern-bloc countries), where costs are not influenced by the free play of the market or else are held down by low wages. There is also competition from large American firms offering integrated projects.

The Community cannot survive unless it increases its exports, and the housing and infrastructure needs of the developing countries are immense. The Community must therefore act if European firms are to hold their own - let alone improve their position in overseas markets.

The full political and financial strength of the Community should be used wherever possible to boost European contract work abroad, especially in the developing countries.

Steps should be taken to further cooperation abroad by Community-based firms in order to help them to compete with their rivals from non-member countries. Community measures could be taken to align credit-insurance schemes, to ensure closer cooperation between Community firms running these schemes (perhaps going so far as a limited pooling of risks), and to set up an information office (to signal international business opportunities and disseminate market data). In the longer term, a European bank for loans to the construction sector could be set up.

Consideration should be given to the possibility of the recognition at Community level of "Joint Venture Contracts", a form of contract allowing the formation of consortia by firms from several countries for specific projects.

A first step towards the establishment of such a mechanism could be to arrange for a Community financial institute (e.g. the European Investment Bank) to take a given share in export credit-insurance contracts for construction work outside the Community by Member State firms.

This participation would have to be "automatic", though each export credit-insurance body would be allowed to retain full independence.

As the Member States already cover a high proportion of the risks insured by these bodies, the best course would be for each Member State to hand over a proportion of its participation to the Community Institution.

Such reform would have the advantage of providing these contracts with a "Community label" and creating European solidarity in foreign construction markets, even if the rate of Community participation is small to begin with.

Standard clauses would have to be introduced and these would go to make up a Community reference system covering initially, and progressively, terms and currencies of payment, procedures for adjusting prices and disputes.

If Community technical rules were introduced, they would most likely facilitate the task of export firms. Ability to offer potential clients a coherent set of tested technical specifications greatly strengthens the ability of Community-based firms to compete with rivals from the other major industrial zones of the world.

European Communities - Economic and Social Committee

"Present Situation in the Community's Construction Sector and the Most Appropriate Measures by which the EEC can Promote Growth and Employment in this Sector"

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The Committee's Opinion was a follow-up to a joint Commission-Committee symposium on construction and growth held on 11 and 12 September 1980.

It contained a detailed analysis of the situation in the building industry, which was marked by a slow-down in activity and the loss of half a million jobs since 1974.

The Committee examined the industry's possible role as a creator of jobs in future years and proposed that a coherent package of measures be taken by the Community.

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