

# An industrial strategy for Europe

## European File

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Directorate-General for Information,  
Communication and Culture  
Rue de la Loi 200 — B-1049 Brussels

4/86  
February 1986

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The objective of industry is to manufacture products which meet consumer needs in sufficient quantity, quality and at prices which compete on both internal and international markets. In Europe, even more than elsewhere, industry must export a large part of its output to cover the cost of vital imports of raw materials and other foreign goods. European industry enjoys certain advantages in meeting these objectives. It has a long industrial tradition, a well trained workforce and a large accumulation of investment capital. But in a period of rapid technological change, such as the present one, European industry must learn to adapt to new markets and new products. An industrial strategy is necessary to ensure that such a period of change is completed as quickly and smoothly as possible.<sup>1</sup>

### **Problems and a potential solution: the European Community**

With the accession of Spain and Portugal, the Community has a population of 320 million. It is the largest market in the developed world. Industry employs 35% of the active population and accounts for 40% of the gross value-added of the Community economy. The value of industrial production is broadly equivalent to that of the United States and more than double that of Japan (see table).

In spite of this favourable situation, there are a number of problems which have become increasingly acute in recent years. They help to explain the comparatively poor economic performance of the Community and its high level of unemployment.

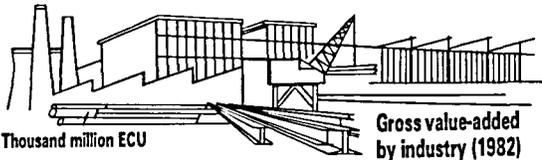
- European skill in inventing new products is not always matched by the ability to develop and market them. A number of competing countries have been more successful than the Community in harnessing the new technologies to develop rapidly their industry.
- Soaring energy costs, the stagnation of economic growth and the advent of new competition from industrializing countries on both export and internal markets have led to surplus capacity in certain basic industries. A painful restructuring process has been necessary.

Nevertheless the Community can now face the future with more confidence than has been possible in recent years. The profitability of companies and their rate of investment have improved. A sound basis has been created for future growth. Enormous progress has been made in restructuring the basic industries. The new technologies are offering continually greater opportunities, both for the creation of new products and the modernization of the manufacturing methods of existing ones.

Industrial revival is within reach. But to be truly successful it must be given a Community dimension. Only the Community can provide the large and stable internal market which will permit the development of the new technologies and sufficient returns on the huge investments they require. At present national economies are dominated in certain sectors by a few large firms. Only the Community can

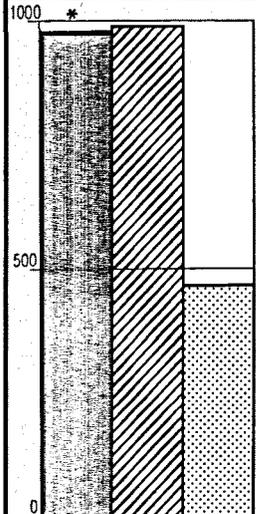
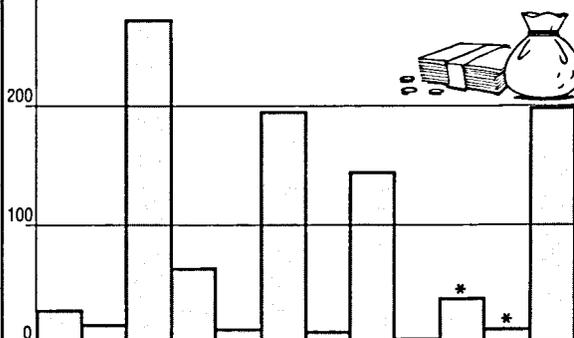
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<sup>1</sup> This file updates and replaces our No 11/84.



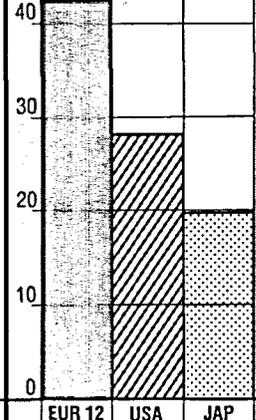
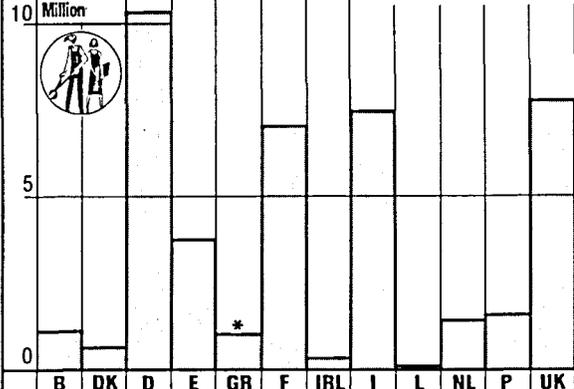
300 Thousand million ECU

Gross value-added by industry (1982)



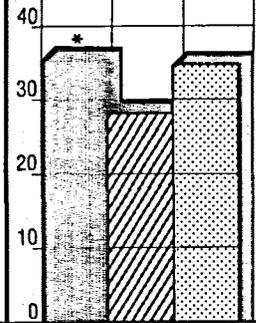
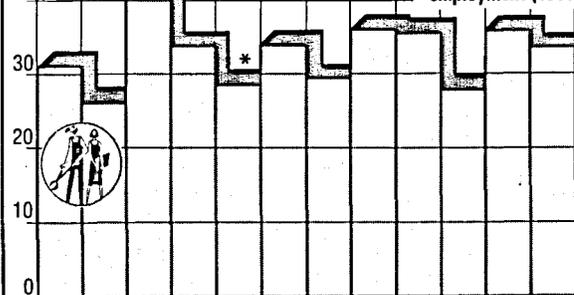
10 Million

Industrial workforce (1983)



40%

Industry's share in civil employment (1983)



\* Estimate. Source: Eurostat.

provide the competitive framework to encourage industrial adaptation and efficiency. Only the Community can generate sufficient resources for a new wave of economic growth. Member countries on their own can no longer do so.

Community industrial strategy is therefore based on two fronts of attack: the completion of the common market, which must provide European industry with the advantages already enjoyed by its main competitors in the large American and Japanese internal markets; the promotion of industrial regrouping by encouraging companies to take advantage of European economic integration to restructure and to master the new technologies.

### **A Community without frontiers: the completion of the common market**

The creation of a common market was one of the basic aims of the European treaties. The completion of a customs union allowed the abolition of customs duties and quantitative restrictions on trade between Member States. This market has grown steadily with the enlargement of the Community from six to nine, then ten and finally twelve countries. The accession of Spain and Portugal has increased the gross value-added of Community industry by 8% and the industrial workforce by 14%. The common market has been extended to 50 million new consumers. Most quantitative restrictions on trade with Spain and Portugal were abolished from 1 January 1986. Customs duties are being abolished gradually over seven years and will disappear entirely in 1993.

The removal of customs barriers between Community countries has been accompanied by many other major measures:

- The application of a common external customs tariff to the rest of the world and the development of a common commercial policy. The Community has signed free trade agreements for industrial goods with its neighbours in EFTA (the European Free Trade Association). Other agreements have been signed with a hundred developing countries (Mediterranean countries, the African, Caribbean and Pacific countries and certain Asian and Latin American countries which aim to encourage their development and promote cooperation especially in trade and industry.
- The enforcement of Community rules on fair competition and controls on State aids. These rules aim to ensure equal access for all companies to the whole Community market.
- Community support for industrial investment. In 1984 alone the European Regional Development Fund granted 330 million ECU<sup>1</sup> to industrial projects.

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<sup>1</sup> One ECU (European currency unit) = about £0.62, Ir. £0.72 or US \$0.88 (at exchange rates current on 6 January 1986).

The European Investment Bank gave 1 300 million ECU in long-term loans, under the best conditions available, drawn partly from its own funds and partly from those of the New Community Instrument for borrowing and lending. These loans went to projects intended to encourage industrial productivity, promote new technologies and introduce energy savings in big industrial concerns as well as small and medium-sized businesses.

- The abolition of numerous obstacles to trade within the Community. Community policy demands the opening of certain public purchasing procedures to competition from other Member States, the introduction of a single customs document for trade between Community countries and the opportunity to form European economic interest groupings which will soon allow companies from different Member States to cooperate more closely to obtain a larger share of the wider Community market.

Nevertheless, many obstacles remain to the free flow of goods and services, damaging both the credibility and the effectiveness of the common market. In order to eliminate these barriers and foster a more dynamic environment for European industry, the Commission presented the Heads of State or Government at the June 1985 European Council in Milan with an ambitious White Paper on the completion of the internal market. It sets out a detailed timetable of measures for the establishment of a Community without frontiers by 1992 through the removal of all existing barriers. These fall into three broad categories:

- Physical obstacles to the free movement of goods and people. Frontier posts are the most visible manifestation of the failure to complete the Community's internal market. Businesses pay a huge extra burden of costs in the form of formalities and delays through border checks. The White Paper goes beyond calling for the simplification of current procedures. It proclaims the principle of the complete abolition of controls at Community internal frontiers. In certain cases — the collection of statistics, action to combat drugs and terrorism — frontier controls will have to be substituted by increased cooperation between Member States. In other cases — notably the protection of public health — it will be necessary to extend the harmonization of standards and introduce new Community measures to combat animal and plant diseases.
- Technical obstacles created by divergences between national regulations. The elimination of such obstacles would allow industry to achieve economies of scale by manufacturing goods to specifications acceptable to the entire Community. The case law of the European Court of Justice provides the basic principles for action in this area: except for special reasons of public health or security, there should be no barrier to the sale throughout the Community of goods legally made and marketed in one Member State. It can happen that the mutual recognition of national legislation on various products is insufficient to resolve all problems. In such cases a Community harmonization of national legislation is needed. It could, however, be limited to guaranteeing a high level of protection for the environment, consumers and health and safety, while leaving

the detail of common specifications to specialized technical organizations such as the European Standards Committee.

Technical standards are not the only enemy of the free movement of goods. Progress is also required in the application of Community directives on public procurement, an area too often restricted to tenders from the country in question. A common market for transport and other services is also long overdue. The principle should be accepted that the control of banks and financial institutions by their parent country is sufficient to allow them to operate throughout the Community.

- Fiscal obstacles to trade. By adopting VAT on the basic system of indirect taxation the Community has already made a significant move towards the elimination of fiscal barriers. None the less, both the application of VAT rates in Member States and the range of goods to which they apply are still far too divergent. The result is price differences between Member States which encourages fraud and prevents the abolition of frontier controls. The Commission therefore proposes that the tax should be charged at the point of sale, rather than at the border (i.e. the system already operating in Belgium, the Netherlands and Luxembourg) and that the rates of indirect taxation (VAT and excise duties) should be brought closer together without being completely harmonized. This must initially involve a freeze on the existing pattern of taxation, changes being allowed only in the direction of greater convergence. Subsequently, national tax rates would gradually be brought within narrower margins of divergence, a maximum difference of around 2.5% either side of a common norm being permitted. Experience in the United States suggests that a taxation differential of up to 5% can be accepted without major problems.

## **Promotion of industrial regrouping and the new technologies**

The need to restructure struggling industrial sectors is recognized by all Member States. Whilst continuing to support this effort, the Community is now placing more emphasis on the development and spread of the new technologies which alone provide the foundation for new economic growth

### **Restructuring**

It is now widely acknowledged that to save as many jobs as possible in the long term, it is necessary to restructure problem sectors such as steel, textiles, shipbuilding, etc. These industries were hard hit by rising prices caused by the two oil price 'shocks', as well as by increasing foreign competition and shrinking demand. The Community has helped in this restructuring by ensuring that national aids were not used to shift problems from one Member State to another. The aid which is permitted is strictly limited in time, allowed only in special cases and tailored to its objective: the gradual restoration of long-term viability through the reduction of permanent production surpluses.

Within the framework of its special powers and responsibilities in the steel sector, the Community linked State aids to reductions in capacity, imposed a series of crisis measures (minimum prices, production quotas) and participated in the social and regional cost of retraining workers and developing new industries. Restructuring has now reached the stage where the Community is preparing to return to normal market competition. State aids will be outlawed, if they are intended to cover operating losses or finance new investments. The crisis measures will be gradually removed.

### **Towards a technology Community**

Whilst industrial restructuring is required, particularly in traditional sectors, to adjust productive capacity to market demand, the competitiveness of the Community has also been weakened by the slow introduction of new technologies in production processes. At the same time Europe's dependence on the rest of the world is reaching alarming proportions in the area of information technology, which is expected to provide four million jobs this decade and which will in the not too distant future influence between 30% and 50% of all jobs. The Community now imports half its needs of microprocessors, 75% of its video recorders and 80% of its microcomputers. The time has therefore come to make the stimulation of new technologies the centre of the Community's industrial strategy.

European cooperation has already borne fruit in a number of areas where it has enabled a powerful European presence to be established: examples include the Airbus and Ariane in the aerospace sector, which received European Investment Bank loans, and JET, in the thermo-nuclear fusion sector, a powerful experimental research installation built and operated by the Community. Many new initiatives are on the way to extend joint activity into new areas. The objective is to stimulate cooperation between businesses, laboratories and universities throughout Europe in the development of new technologies and new products fulfilling existing or potential market needs. It is not, therefore, a question of basic research but of joint action in the pre-competitive stage of technological development. It will be up to business to take over at the production and marketing stage, taking advantage of the more competitive and dynamic commercial environment created by the completion of the internal market.

- The Community Council of Ministers has already approved several programmes which should allow the Community to take part in the race to develop new technologies on different fronts. They include:
  - ESPRIT (European strategic programme for information technologies). This five-year programme (1984-88) should help Europe to respond to the challenge of foreign competition in information technology. It is in a sense a model for other actions in the high-technology field. Under this programme, the Community can usually finance up to 50% of pre-competitive research and development work, undertaken jointly by enterprises from at

least two Member States, universities and research institutes. Areas covered include: advanced micro-electronics in high-integration circuits, software techniques, advanced information processing, the computerization of offices and computer-controlled production techniques. There is also an 'infrastructure' side to the programme which ensures its effective implementation through a system of information exchange between participants, coordination of work, consideration of standards problems and the dissemination of the results of the research.

- **RACE** (Research and development in advanced communications technologies for Europe): this programme, also including activities in the standards and infrastructures field, is intended to help Europe to remain in the forefront in the telecommunications industry. Its principal objectives are: to develop the technology needed for wide band or high performance fibre-optic networks capable of transmitting simultaneously sound, picture and computerized information, thereby allowing the multiplication of new, integrated telecommunications services. In the initial 'definition' phase from 1985 to 1986, the programme will aim to establish a common reference model, to define specifications for the functions of the network, terminals and services which might be made available to industry and the public by 1995, and to explore the technical means for exploiting the results of the research.
- **BRITE** (Basic research in industrial technologies for Europe): this four-year programme (1985-88), organized and financed on the Esprit model, aims to encourage the development and spread of new technologies, new processes of manufacture and new products in the 'traditional' sectors which still account for three-quarters of industrial employment. The programme has two sections: the first is devoted to basic technologies applicable to various industries (assembly techniques, improving product reliability, reducing wear and tear, new computerized testing methods, membrane and particle technology, etc.); the second section covers flexible materials and products and especially their use in the textile, leather and household goods industries.
- A research programme in biotechnology (1985-89). This programme covers a key sector. Forty per cent of all manufactured goods are biological by nature or by origin. Many new applications are foreseen in agriculture, chemicals, pharmaceuticals, environmental protection, etc. The aim of the programme is to stimulate research and also training in areas such as bio-informatics, the collection of biotic materials, the basic technology of enzyme and genetic engineering, the technology of cells and cultivated live tissues, and the evaluation of toxicity and other risks which could flow from the development of bio-technology. The programme also includes concertation activities (evaluation of the progress of the life sciences in Europe and elsewhere and the creation of an information network). It is to be complemented by a system of aid for innovatory industrial projects.

- Beyond these developments, the continuation and amplification of which are being examined in the context of a new Community framework programme for Community research, the idea of a technological Europe is emerging centred on the latter and on the EUREKA programme. By linking 18 European countries, the Community Member States and those of EFTA, the Eureka programme provides a model for wider cooperation with new partners, using new forms of finance and management. Such a programme could complement those of the Community by tackling new areas of research and encouraging industrial cooperation in the development of new high-technology products.

The achievement of a Community technology policy will demand much greater coordination of national and Community research efforts, as well as the pursuit of the Eureka programme. It will also require a substantial increase in the financial resources which the Community provides for science and technology. The research share of the Community budget should be increased from 3% to 8% of the total.

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As the proposals for revisions of the Treaty of Rome agreed by the Heads of State or Government in December 1985 bear witness, the completion of the internal market and the strengthening of the scientific and technological bases of European industry are complementary goals. From the economic point of view the scale of the internal market is of crucial importance for the exploitation and marketing of the fruits of development and research. From the political point of view, success in achieving both goals will depend on increased Community cooperation, a strengthening of Community institutions and a streamlining of the Community decision-making process. It is therefore important that the qualified majority vote should supplant, as far as possible, the search for unanimity which has so often impeded ministerial decisions.

Completion of the internal market and the spread of new technologies also demand increased efforts to strengthen the economic and social cohesion of the Community. Like the Heads of State or Government, the Commission attaches great importance to the reduction of regional disparities, to the development of a dialogue between employers and workforce and the improvement of working conditions. Further measures are required, also, to create a climate favourable to innovation and investment. Thus:

- Human resources must be developed and handled in the most effective possible way. A drive to improve the level of qualifications is essential. To this end the Council has just agreed an action programme on technological education and training (COMETT). This programme is intended to promote cooperation between universities and industry in training, the international exchange of students, teachers and businessmen, joint projects for new technologies training

involving businesses in more than one Member State, and the use of audiovisual and computer techniques for teaching at home.

- Businesses must be freed from administrative constraints which sap the innovative ability and competitiveness. The biggest efforts in this direction must be made by the Member States. But the Community itself can help by defining overall goals, eliminating obstacles at internal frontiers, simplifying and making more transparent Community rules and by adapting its competition law to allow cooperation between businesses in pre-competitive research.
- Small and medium-sized enterprises, on which much new job creation will depend, will particularly benefit from the above changes. Special efforts will be needed, however, to encourage them to make use of the new technologies. Global loans from the European Investment Bank, both from its own resources and those of the New Community Instrument, are already making a growing contribution to this effort.
- Investment must be promoted by reducing the public share of national consumption, by tax benefits and the encouragement of risk capital. There must be a special drive to open up the whole of the Community to investment capital, to allow industry to take advantage of the new opportunities now emerging. Large-scale Community investment programmes should also be considered in certain sectors such as transport or telecommunications.

Taken together with the completion of the internal market and the redeployment of industry towards new technologies, all these actions will together converge on a central objective: the improvement of the competitive position of European industry and, thereby, the employment situation ■

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