

# COMMISSION OF THE EUROPEAN COMMUNITIES

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## TRADE AND SECTORAL QUESTIONS

Working paper for the European Council meeting, Brussels,  
5/6 December 1977

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1. In accordance with the conclusions of the European Council meeting held in London, the Commission has further considered the situation in certain industrial sectors seriously affected by current structural changes.
2. The Commission is gradually equipping itself to carry out this task; it has effected an initial analysis of the major changes which the industrial structures of the principal Community countries have undergone from the establishment of the Common Market to the present economic crisis. On the basis of the projection data available in the Member States, the Commission has analysed the sectoral effects, particularly on employment, of the main developments which have shaken European economies (cost of energy, recession, new tendencies in the international division of labour). These analyses and studies should make it possible to identify more clearly the policies needed.
3. Indeed, although the immediate prospects are disturbing, there are "growth sectors" both in manufacturing and in the service industries which, in the medium term, will continue to expand and, in some cases, maintain their demand for labour. These sectors are energy, the aircraft industry, telecommunications, data processing and electronics. The Community must equip itself to take on its role as an economic power in those advanced technology sectors which can expand only if they can rely on a continent-wide resource base and market.

Before July 1978, the Commission will present a report on the problem to serve as the basis for a genuine debate on this question, so vital to the future of Europe.

4. On the other hand, the branches most affected by the drop in domestic and international demand and by keen competition from non-member countries include traditional sectors which are rendered very vulnerable by a low productivity level, in particular the steel, textiles and shipbuilding industries.

Aware of the difficulties facing these industries and of the urgent need for decisions, the Commission has accordingly given priority to the task of preparing and proposing coherent solutions for each of these three sectors (see attached summaries).

## STEEL

Owing to the world recession, the Community steel industry is currently operating at 60% of capacity. As a result, the companies are in growing financial difficulties, so serious as to put the very future of some of them in jeopardy.

The low - in many cases ultra-low - prices of imports from certain non-member countries (Korea, Spain, South Africa, the East European countries, Japan, &c.), sometimes as much as 50% below home prices, are making matters worse and could abort the Community's efforts to impose discipline on the market and restore the steel companies' earnings.

### Objectives and policies

#### Internal

- (i) The scheme for voluntary restraint of sales by Community firms should be continued and systematically tailored to the level of demand.
- (ii) Reference prices should continue to exert a gradual upward influence, and minimum prices should be a floor which is not evaded.
- (iii) A Community-level restructuring plan should be instituted for the steel industry. The Commission is now drawing up for this purpose new General Objectives for 1985-90, and has also requested the Member States to notify it of their domestic plans so that it can dovetail them into the Community programme early next year. Pursuant to the general objectives, the Community framework for Member States' interventions to assist the steel industry should promote structural change in order to make the sector competitive.
- (iv) In view of the impact of this state of affairs on employment, all the weapons in the financial armoury—the ECSC Budget, borrowing capacity, the Social and Regional Funds— should be brought into play to redeploy redundant workers. The Council will therefore have to take the necessary decisions to provide the ECSC with the funds this policy requires, which the Commission has already quantified for 1978.

#### External

The crisis being worldwide, we should concert with our main trading partners in the international steel market upon behaviour calculated not to clash with the efforts being made internally to tackle the present difficulties.

For exports, everything must be done to prevent the introduction of further anti-dumping measures which inhibit international trade, and instead reach understandings, particularly with the United States and Japan, whereby normal trade flows can be continued at non-disruptive prices.

For imports, care should be taken, (i) by establishing the right contractual basis and (ii) by adopting suitable Community attitudes, to ensure that our trade with our partners does not further worsen the state of our own market.

## SHIPBUILDING

The crisis in the Community shipbuilding industry is the result, firstly, of world overcapacity in shipping due to over-sanguine forecasts in 1972 and 1973, and secondly, of the uncompetitiveness of Community shipping and shipbuilding, in consequence of outdated production structures and disproportionate operating costs in face of competitors with brand-new shipyards, integrated into big industrial groups.

These factors have led to the Community's being saddled with production capacity of 4.4 million grt, whereas the demand forecast for 1980 is only 2.4 million. This means that 75,000 jobs (out of 165,000) are in danger. Only a Community-level policy would offer any hope of making an impact on this dire situation.

### Objectives and policies

#### Internal

- (i) Coordination of aid through a Directive the Commission has proposed to the Council for the purpose of focusing aid on the adjustment of production capacity;
- (ii) Bringing the whole Community financial armoury to bear on the restructuring and conversion of the shipyards, together with extra social measures if necessary. The needs being so great, this can only be done efficiently if the Member States' policy is in harmony and borrowing operations on the financial market are conducted in accordance with the arrangements proposed by the Commission;
- (iii) Measures to stimulate demand by tightening up the minimum safety standards, minimum rules as to working conditions, and environmental forum for safeguards;
- (iv) A permanent forum for concertation with national leaders of the industry in order to settle the practical details of the adjustment and conversion programme.

#### External

- (i) A strong push, particularly vis-à-vis Japan, to secure a larger share of orders in the near future. The effectiveness of this policy depends in part on the credibility afforded by the Community's resolve to tackle the other aspects of the problem;
- (ii) On the basis of its own efforts, the Community should mount an international drive to persuade its competitors to make like efforts to reduce world overcapacity and combat disruptive factors;
- (iii) In the field of sea transport the Community should act against the unfair competition inherent in the freight rates charged by other States' merchant navies.

## TEXTILE AND CLOTHING INDUSTRIES

Apart from trade in the raw materials, the textile trade balance surplus dropped between 1973 and 1976 from 1,540 million to 1,000 million units of account. The deterioration in the clothing industry's case has been much worse: a deficit of 778 million u.a. grew to 2,850 million over the same period.

In the textile sector, 272,000 jobs were lost, 166,000 of them in the clothing industry. In the man-made fibres sector, the troubles stem from ever-increasing capacity in face of stagnant demand.

Even were the producers to keep capacity at its present level, there would still be an overcapacity of between 300,000 and 600,000 tonnes in 1981.

### Objectives and policies

#### Internal

- (i) As soon as the second Multifibre arrangement has been concluded, the Commission will propose the common measures needed to facilitate the necessary industrial changes.
- (ii) The Commission will use its financial resources to bring in industrial redevelopment measures, as a means of cushioning the impact of the elimination of capacity on employment in the regions affected.
- (iii) As regards man-made fibres, the Commission has asked the Member States to stop giving any aid for the installation or expansion of capacity for a period of two years. The Commission, acting with the entrepreneurs and the unions, should work for a balanced, realistic programme to cut back capacity.

#### External

- (i) The Community is trying to end the disarray of the market by negotiating bilateral agreements with the major suppliers to stabilize imports of certain highly sensitive textile and clothing products.
- (ii) The Community should endeavour to secure convergence of industrial policies on man-made fibres with the EFTA and associated countries: these countries must be persuaded not to continue financing expansion of capacity during the capacity freeze in the Community, so distorting competition.

