

European Communities

EUROPEAN PARLIAMENT

Working Documents

1973-1974

12 December 1973

DOCUMENT 277/73

Report

drawn up on behalf of the Committee on Economic and Monetary Affairs

on the ~~Community's~~ industrial policy

Rapporteur: Mr P.B. COUSTÉ

PE 34.719/fin.

At its plenary sitting in Strasbourg on 9 May 1973, the European Parliament instructed the Committee on Economic and Monetary Affairs to draw up a report on the text of Commissioner Spinelli's statement on the Community's industrial policy.

The Committee on Economic and Monetary Affairs appointed Mr Cousté rapporteur on 24 May 1973.

It considered the draft report at its meetings of 24 May, 14 June and 30 November. At the meeting of 30 November it adopted the motion for a resolution and explanatory statement unanimously.

The following were present: Mr Lange, Chairman, Mr Notenboom, Vice-chairman, Mr Cousté, rapporteur, Mr Artzinger, Mr Berthoin, Mr Burgbacher, Mr Harmegnies, Mr Leenhardt, Mr Normanton, Mr Scholten, Mr Starke, Mr Thornley and Mr Yeats.

C O N T E N T S

	<u>Page</u>
A - MOTION FOR A RESOLUTION	5
B - EXPLANATORY STATEMENT	9
I. The need for a Community industrial policy	9
II. Evolution of the concept of a Community industrial policy	10
III. Industrial policy in the Commission's communication on an industrial and technological policy programme	12
IV. Multinational companies	16
V. The new programme of action for industrial and technological policy presented by the Commission to the Council on 24 October 1973	17

A

The Committee on Economic and Monetary Affairs hereby submits to the European Parliament the following motion for a resolution, together with explanatory statement:

MOTION FOR A RESOLUTION

on the European Community's industrial policy

The European Parliament,

- having regard to the statement on industrial policy made by Mr Spinelli, Member of the Commission of the European Communities, to the 9 May 1973 plenary sitting in Strasbourg¹;
 - having regard to the Memorandum from the Commission of the European Communities to the Council on the Community's industrial and technological policy programme (SEC (73) 1090/fin.),
 - having regard to the programme of action in the field of technological and industrial policy submitted by the Commission of the European Communities to the Council (SEC (73) 3824/fin.),
 - having regard to the report of the Committee on Economic and Monetary Affairs, (Doc. 277/73),
1. Points out that industrial policy may be conceived as a means of establishing an economic and legal framework within which the forces industry can themselves ensure progress and development in this sector, or of creating the machinery for State regulation and intervention in industry;

Considers it necessary to point out in this connection that the different concepts of Community industrial policy must still be based on the principle of free competition and allow undertakings to set up business wherever they wish in the Community, according to their particular economic requirements but draws attention to the fact that this freedom of establishment must be reconciled with the requirements of sectoral policies, in particular, regional policy and environment policy.
 2. Draws attention to the need to establish a Community industrial policy, bearing in mind that it is of prime importance to the achievement of Economic and Monetary Union which the Conference of Heads of State or Government, meeting in Paris in October 1972, declared to be one of the cornerstones of European unification;
 3. Stresses that industrial policy must also be directed towards the organization of large economic areas, thus enabling undertakings to make full use of the opportunities offered by a market of European and often world scale rather than of national dimensions, and considers, moreover, that in mergers must meet the requirement of fair competition.

¹ Debates of the European Parliament No. 162

4. Considers that in view of the important and urgent need to translate industrial policy into practical terms, the industrial policy programmes which the Commission submits to the Council should include a greater number of practical proposals. Takes note, however, of the Commission's proposals to the Council on various sectors of industrial policy, ship-building, aeronautics, information industry and nuclear energy.
5. Notes that many of the measures proposed by the Commission in its industrial policy package follow divergent purposes and are difficult to reconcile with industrial policy in the true sense of the word and considers that many of them could be classified more easily under the heading of fiscal policy, competition policy and the completion of customs union;
6. Draws attention to the fact that the essential feature of industrial policy, as conceived at the Paris Summit, is that it must be implemented and developed in conjunction with the other Community policies; in other words, industrial policy measures must be consistent with other sectoral policies, in particular, social policy, regional policy and environmental policy;
7. Considers it necessary to encourage the creation of multinational European industrial groupings that can make better use of the facilities offered by large markets and compete more effectively with extra-European industrial groups.
8. Considers that since industrial development cannot be based solely on the promotion of large industrial undertakings with international aspirations but on the development of industry as a whole, the industrial policy programme submitted by the Commission should devote greater attention to the requirements of medium and small-scale undertakings;
9. Considers that since industrial policy and environmental policy are interconnected, the Commission should have proposed solutions to the problems of environmental policy which link it more closely with industrial policy.
10. Considers that as little has so far been done to gradually open up public and semi-public markets, it would at least have been possible and appropriate to speed up the information campaign proposed by the European Commission in this sector of industrial policy and thus to remove the major historical and psychological obstacles to the gradual and effective opening up of public and semi-public markets in the Community;
11. Supports the Commission's views on the removal of fiscal barriers to cooperation between companies and its request to the Council to decide by the end of the year on the proposed directives already submitted to it;

12. Welcomes the steps taken by the European Commission to ensure cooperation among the major national financial institutions providing funds for industry. Draws attention to the fact that Commission action in this sector is highly important, given the need to adapt sources of financing to the new requirements of small, medium and large-scale undertakings;
13. Considers it essential to introduce a joint policy in the technology sector at the earliest possible juncture in view of its major effects on the competitiveness of European industry. This policy should not only lead to closer coordination of the measures taken in this field by the Member States but must also promote and help implement Community projects proposed by the Commission. In this context, it draws attention to the fact that individual activities by undertakings in the technological sector should be encouraged by the Community.
14. In this context, it draws attention to the fact that individual activities by undertakings in the technological sector should be encouraged by the Community.
14. Considers that industrial policy should cover problems stemming from the industrial and social requirements of developing countries and should therefore encourage diversification of industrial and economic structures in developing countries and help these countries to solve their problems of food supply.
15. Instructs its President to forward this resolution and the report of its committee to the Council and Commission of the European Communities.

EXPLANATORY STATEMENTI. The need for a Community industrial policy

1. The setting up of the Common Market and the progressive and systematic opening up of national markets to foreign competition have been the most striking characteristics of European economic history in the past twenty years.
2. European industry has had to cope with a series of developments deriving from fundamental changes in the structure of various sectors of the economy made necessary by the decline of those sectors of industry no longer able to withstand competition from similar products originating in third countries or from substitution products. In other sectors the ability to compete cannot be maintained without a new policy of concentration, rationalization and often of distribution of industrial activities.
3. Moreover the phenomenon of internationalization of the economy of the industrialized countries implies that in order to take advantage of the wider market these industries must acquire the appropriate structure and size. Community enterprises should therefore be able to adapt to the size of the European market, to technical progress, to the needs of modern research and to the change in the conditions of world markets produced by the appearance of new trading powers and new patterns of trade.
4. The scope of European firms' activities has continued to expand, gradually outgrowing the limits of a national market and moving towards activity on a European if not a world scale.

Hence in the area of industrial policy effective and rational choices can only be made in general European terms and thus within the context of an industrial policy at Community level.

5. Industrial policy is not a specific policy. It uses the same instruments as several other policies and its main objectives are as follows:
 - to help to improve productivity generally;
 - to maintain a high level of employment;
 - to increase the ability of enterprises to compete;
 - to help to improve the quality of life of workers, conditions of work and the environment.
6. The industrial policy of the Community can at present be implemented

effectively and constructively and can be developed only if it is conceived as part of the Community's activity and therefore only if progress is achieved in such sectors as economic and monetary union, regional policy, social policy, the policy of the environment and transport policy. This is why the industrial policy action proposed by the Commission is based on the assumption that the appropriate Community institutions will undertake to achieve progress in all the different policies concerned while seizing every possibility of improving European industry.

II. Evolution of the concept of the Community industrial policy

7. The Treaty of Rome does not refer to an industrial policy, not because the authors of the Treaty did not realize that the creation of a large economic area would require a far-reaching transformation of the European industrial system but because it was thought that this transformation would come about as the largely spontaneous result of the creation of a single market without the need for a specific policy.

Once the customs union had been achieved, with resulting profound economic changes over the years, the shortcomings of this idea became evident.

8. The market had taken on continental dimensions while structures had remained national. Internationalization of the economy and problems of a social order demanded a policy whose main task was to speed up the adaptation of industrial structures to the new requirements.

9. Initially the purpose of industrial policy was seen as being to solve problems in only two areas - advanced technology industries and declining industries.

This policy, which might be called a 'policy of extremes', soon proved inadequate for actual requirements and it became necessary to think not just in terms of extremes but of overall development.

The idea of a Community industrial policy has in time evolved from the concept of a market to one of structure, from an idea involving a dichotomy to an attempt at an overall approach.

10. The need for an industrial policy was confirmed at the Paris Summit and the final communiqué stated the need to establish a single industrial base for the Community as a whole.

11. The basic idea of industrial policy since then has been that it should be implemented and developed in close connection with other Community policies. In other words the industrial policy measures which are devised should be consistent with other policies, particularly social policy, regional policy and policy on the environment.

12. The present concept of a Community industrial policy sees the need for action at various levels. It is believed that the fundamental responsibility for industrial development should continue to lie with private initiative; this is backed by a number of measures of local or national policy while finally in certain sectors action is necessary at European level. It is only by keeping these various levels in mind that any industrial policy can be made effective.

13. For this reason the Commission of the European Communities states in its programme of industrial and technological policy that the Community's industrial policy cannot and should not be conceived as a single policy administered by the Community institutions. This policy will continue to be largely based on the free initiative of enterprises, on agreements freely concluded between trade unions and industrial organizations and on programmes implemented by regional and national government authorities. At the same time action by Community institutions will aim to ensure a balance overall and not just in individual sectors.

III. Industrial policy in the Commission's communication on an industrial and technological policy programme

14. At present, the need for a Community industrial policy is felt particularly acutely since despite the abolition of customs duties and the creation of the customs union, the European industrial system has largely remained a combination of national industrial systems which are poorly linked and often unable to take advantage of all the opportunities offered by a unified economy. This structural inadequacy has resulted in some sectors of European industry not being sufficiently competitive.

15. In order to achieve economic and monetary union by the scheduled date, European industrial structures must be brought into line with present economic requirements. In other words it will be necessary to create a 'European industrial base' founded on the existence of a single market operating as an internal market in which people, goods, services, capital and companies are able to move freely.

16. Consequently in order effectively to cooperate in achieving economic and monetary union and to apply the guidelines for industrial policy laid down at the Paris Summit it will be necessary to implement an industrial policy with the following main objectives:

- to establish a legal and fiscal framework at Community level and to provide European implementing legislation;
- to implement ancillary and planning measures relating to industry as a whole and in certain sectors with special problems;
- to achieve development of industry as part of an overall social policy aimed at improving the quality of life, conditions of work and the environment. The development of European industry should also help to eliminate regional imbalances, gradually to achieve full employment, to ensure balanced economic expansion and, by a better allocation of resources, to combat inflation.

17. Within this general framework, the Commission considered that its programme should define priorities, i.e. certain sectors in which it is more urgent than elsewhere to make progress and overcome the continuing tendency to think in national terms.

The initiatives proposed by the Commission in its industrial and technological policy programme are as follows:

(a) Elimination of trade barriers.

18. Technical barriers - Each Member State has over the years adopted

specific regulations for a large number of industrial products. These regulations often differ from one Member State to another and are thus a barrier to trade.

It is the Commission's opinion that all technical barriers should be eliminated over the next five years; it also intends to introduce systematically into its proposals the flexible and rapid procedure known as 'adaption to technical progress' to enable existing directives to be adjusted to technical progress.

The Commission plans to present an annual report on its activity in this field.

19. The Commission believes that the free movement of branded pharmaceuticals should be achieved as soon as possible. This will involve the mutual recognition of marketing authorizations and of the qualifications of those responsible for the manufacture of these products, which will be necessary if freedom of establishment is to become a reality.

(b) Gradual and effective liberalization of public and semi-public contracts.

20. Products and goods intended to meet the needs of the State, its administration and public agencies and of public enterprises and enterprises which administer services of general economic importance largely escape provisions governing the free movement of goods.

As a result, those sectors of industry are unable to benefit from economies of scale.

21. The Commission proposes to submit a large number of directives to the Council between now and 1974. Apart from action based on the Treaty, the Commission intends to take such additional measures as publishing details of public contracts awarded at regular intervals and to devote a debate in the European Parliament to this subject.

(c) Encouraging the establishment of enterprises able to compete at European level.

22. Transnational grouping makes it possible to combine effective competition with economies of scale. It is worth noting at this point that competition policy largely complements industrial policy. Indeed, intensification of efforts to prevent restrictive agreements and endeavours to curb abuses of a dominant position are a necessary adjunct to the promotion of transfrontier cooperation. It would also seem advisable to recall the Commission's interpretation of Article 86 of the Treaty

whereby concentrations within the Common Market of enterprises enjoying a dominant position constitute an abuse of this dominant position when their effect is basically to impede competition within the Common Market.

23. As part of its work to do away with legal barriers to trade, the Commission has taken or will take the following measures to provide a common base in the field of company law:

- harmonization of company law: a first directive was adopted in 1968 and other proposals for directives should be adopted by the Council before 1 July 1974;
- creation of new legal forms: in 1970 the Commission proposed the institution of a European Company making possible international mergers and the setting up of joint holding companies and subsidiaries. The Council will be considering this matter in the near future.

Conventions have been worked out on the issuing of European patents and work will be continued on the law on trade marks and on the effects for the Community as a whole of bankruptcy proceedings instituted in any one Member State.

24. With a view to introducing legal provisions to eliminate fiscal barriers to the transfrontier reorganisation of firms, the Commission has since 1969 been submitting proposals for directives on which the Council has still taken no action.

25. The Commission intends to take specific action, such as submitting proposals on Community development contracts and the creation of a 'business cooperation centre' in order to encourage cooperation between enterprises. There is also provision for cooperation between institutions which finance industrial enterprises. This cooperation would complement rather than compete with private sources of finance. The Commission also intends to encourage the setting up of financial machinery using risk capital.

26. Since industrial development does not merely involve the formation of large international industrial groupings, but also encouragement of industry at every level, it is our opinion that the Commission's industrial policy programme should give greater consideration to the requirements of medium and small size industries.

It would therefore seem useful to indicate the main problems to which priority should be given so as to allow medium and small size industries to develop and become an integral part of the European economy.

The main problems to which priority should be given would seem to be the following:

- occupational training and refresher courses for heads of firms and industrialists;
- finance: this problem is particularly acute in the case of small and medium size industries which do not generally have access to the capital market;
- the lack of information and knowledge regarding the setting up of new firms which often discourages a potential entrepreneur;
- sub-contracting and cooperation: these are two fields in which greater cooperation at European level might considerably increase the potential of the enterprises concerned.

The business cooperation centre which is already in operation should constitute the nucleus of a broad movement towards cooperation at European level. The efficient and wide-ranging operation of this bureau should be considered a prerequisite for industrial policy.

- (d) Sectors faced with special problems: advanced technology industries and industries in crisis.

27. The Common industrial policy is based on the principle of the optimum distribution of the factors of production and should be complemented by specific action in certain sectors experiencing special problems.

In the case of the groups of sectors involving heavy capital investment, the Commission considers that more information on market projects and investment projects is required.

- (e) The consistency of industrial policy with other Community objectives.

28. The aims of industrial policy and of social policy coincide on the subject of employment. An effective industrial policy should help to create a sufficient number of jobs.

The Commission recommends greater efforts to forecast employment trends in the various regions and sectors and by qualification. It is particularly desirable that steps should be taken to anticipate the effect of structural changes on employment opportunities.

The Commission will in the near future be putting suggestions on the machinery required to the Standing Committee on Employment.

There is a close link between the Community's commercial and industrial policy. The policy of trade liberalization does not ignore the interests of European industry.

The Commission asks the Council to make a statement on the proposals it has submitted on export credits and the establishment of a system of guarantees for private investment in the developing countries.

IV. Multinational companies

29. The phenomenon of multinational companies has, particularly over the last few years, become extremely important in economic life and in the internal affairs of member countries and has affected progress towards economic and monetary union.

A number of factors such as wage levels, the prospects of development provided by the creation of an economic entity progressing towards unification, the features of the fiscal system in Europe as compared with that of the United States, the level of common customs barriers vis-a-vis third countries and a great many other factors have caused many European or American firms or groups to establish subsidiaries or acquire substantial holdings in the industries of various countries of the Economic European Community.

It is particularly important to remember the following positive aspects when making any judgment of multinational companies:

- they contribute towards a more rapid dissemination of technical and organisational knowhow;
- they encourage a more uniform geographical distribution of income from the factors of production;
- they make a substantial contribution to international economic integration. While it is recognized that, mainly as a result of their great financial power, multinational companies may in certain circumstances create social problems in the economic life of the countries in which they operate, they are thought generally to make a by no means negligible contribution to the economic integration of Europe. However, it is felt that the decision-making centres and fundamental interests of multinational companies operating on Community territory should be increasingly integrated into the Community's economy. Otherwise the policy pursued by the multinational companies in matters of trade and competition might prove incompatible with the requirements of the host country and difficult to reconcile with the economic and social needs resulting from the achievement of economic and monetary union.

V. The new programme of action in the field of industrial and technological policy submitted by the Commission to the Council on 24 October 1973

30. At its meeting of 20 September 1973 the Council again stressed the importance and urgency associated with questions of industrial policy and invited the Commission to submit, before December 1973 a formal proposal for an industrial and technological policy action programme. The Council hopes to adopt this programme before 1 January 1974 as envisaged at the Paris Summit Conference.

31. On 24 October 1973, the Commission presented an action programme as instructed, having re-examined all the questions relating to Community industrial policy. Its work was based on its Memorandum of 3 May 1973, the draft time-table contained therein, and the Council Secretariat's document on the practical proposals referred to in the Annexes to the document in question.

32. The Commission felt it advisable to limit the number of new proposals and concentrate on a number of particularly urgent problems.

33. The Commission justifies its decision to limit the scope of its latest action programme on the following grounds:

- since few actual decisions have so far been taken to give practical effect to the document on industrial policy submitted by the Commission in March 1970, it did not seem advisable to present too many additional proposals;
- one of the causes of delay in implementing the industrial policy programme is the slowness of the Council's procedure for adopting the Commission's proposals for directives and regulations. That is why it was felt that only a limited number of priority proposals should be selected;

34. The Commission's new action programme does not appear to provide the necessary decisive impetus needed to give shape and effect to the Community industrial policy which, in view of the European and international economic situation, has long been essential.

It is however felt that, despite its limitations, which the Commission itself acknowledges, this document may make a constructive contribution insofar as it can get Community industrial policy off the ground again and lead to practical implementation in the near future of measures which have already received widespread technical and political approval or at least worked out in the EEC framework.

VI. Conclusions

35. The Conference of Heads of State or of Government held in Paris in October 1972 made the achievement of economic and monetary union its

main objective. All policies at Community level and the various national policies should therefore contribute directly or indirectly to this aim.

36. Industrial policy is of primary importance here. With reference to fixed exchange rates within the Community, joint measures of industrial policy may make it possible to attain greater competitiveness and greater equality between the economies of the Member States. This will avoid imbalances between the economies and consequently eliminate abnormal balance of payment situations, thereby making it possible gradually to establish a fixed parity system. Moreover, with reference to economic union which is a condition of monetary union, industrial policy is also of prime importance in contributing to the realisation of a single market operating as an internal market with free movement of persons, goods, services, capital and companies.

37. In its programme, the Commission described the initiatives it contained as the 'trigger' of a common industrial policy. Guidelines are set out in the form of a programme of action.

In view of the importance and urgency attaching to the implementation of measures relating to industrial policy, we feel that the Commission should have worked out a larger number of practical proposals.

38. Moreover, there is often a disparity between the industrial policy measures proposed by the Commission and they are difficult to harmonize with industrial policy proper. Indeed, many measures fit more easily into the context of fiscal and competition policy.

39. After commenting in general on the contents of the programme of action presented by the Commission a few specific points must be made:

- although the link between industrial policy and policy on the environment is mentioned, no new initiative is proposed on this subject. In view of the urgent need for practical measures in this sector we feel that the Commission should have tackled the problem more effectively;
- while we are glad to see what has been done in the way of liberalizing public and semi-public contracts, we would point out that because of various difficulties the practical results achieved are very few. We feel that in this connection it should be possible at least to speed up the provision of information as planned by the Commission in order to eliminate certain problems of a historical and psychological nature;
- on the subject of the abolition of tariff barriers which are one of the main impediments to the structural reorganization of undertakings, we consider the results achieved in this field to date unsatisfactory for two reasons: Firstly the Commission should have been encouraged to do

more in this sector and new proposals should have been made on at least some of the problems involved; secondly the delays and inadequate results may also be attributed to the fact that the Council has not yet reached a decision on a number of important proposals for directives submitted by the Commission some time ago.

Your Committee joins the Commission in asking the Council to give a decision on this subject before the end of the year;

- as one of the initiatives taken in the industrial field, the European Commission has invited financial institutions supplying funds to industry in conjunction with the European Investment Bank to expand their cooperation in financing programmes.

We consider this action by the Commission to be particularly important in view of the need to adapt sources of finance to the new requirements of European industry which is operating increasingly in markets which are no longer strictly national but European and often worldwide;

- growth of Community exports depends largely on the export credit and guarantee procedures whose harmonization is far from complete.

We recognize the urgent need for action by the Community in this sphere in order to achieve an equal spread of opportunity for the exporting industries of the various Member States from the point of view of granting credit to third countries and to promote a uniform system of guarantees.

We note in this connection that the Commission has not included any new measures in its programme of action. The situation is further aggravated by the fact that the Council has not taken a decision on the proposals made by the Commission some time ago.

