

COMMISSION OF THE EUROPEAN COMMUNITIES

SECRETARIAT

The Community's industrial policy

Commission Memorandum to the Council

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On 20 March 1970 the Commission submitted to the Council a "Memorandum on the Community's industrial policy".

The Commission feels that this Memorandum could usefully form a basis for a detailed discussion within the Community, to be held with the other Community institutions, namely the Parliament, the Council, the Economic and Social Committee, the ECSC Consultative Committee and the European Investment Bank, and with the organizations representing the economic and social forces of the Community.

The Memorandum comprises:

- (1) A first document¹ outlining the principles which have guided the Commission and setting out the general guidelines which it proposes;
- (2) A second document consisting of four parts. The first part describes the situation of industry in the Community. The guidelines put forward in the first document are developed and explained in the following three parts: the improvement of the conditions in which firms operate in the Community, the ability of the Community's industry to adjust, and the promotion of technologically advanced industries.²

¹ The document contained in this Supplement.

² The full text of the Memorandum will shortly be published separately in a single volume.

PRINCIPLES

Founded twelve years ago, the Community has just emerged from its transition period, during which a common market in merchandise was brought to completion. It now enters on a new phase of progress. A common industrial development policy encouraging the creation of a European industrial "fabric" is indispensable if three vital objectives are to be achieved: the establishment of firm foundations for the economic — and soon the political — unity of Europe, the maintenance of economic growth, and a reasonable degree of technological independence of major world powers.

Immediately after the merger of the institutions, the Commission decided to review industrial development problems in the Community. In submitting to the Council the result of its work, it hopes to provide a valid response to a long-felt need and make a useful contribution to the strengthening of the Community. By doing so the Commission hopes to help prepare the Community for the admission of new members.

For if there is one field in which it is absolutely necessary to strengthen and deepen the Community with a view to enlargement, it is the field of industrial policy. But it would be a mistake to postpone such action till new members join. The Six must, on the contrary, make it as clear as possible to the newcomers how the founder members would like to see the Community develop.

Far from complicating or slowing down enlargement, efforts in this direction might, on the contrary, facilitate it and speed it up. In the largest country among the candidates, the public is wondering what real benefits joining the Communities would bring. The attraction exerted by the Community is exactly proportionate to its vitality. The reduction of the common customs tariff, the fact that it is lower than the British tariff, the cost of the agricultural policy — these are all factors which inhibit enthusiasm and engender apprehension. On the other hand, it is safe to assume that a Community which succeeded in working out an industrial development strategy would be much more attractive to hesitant outsiders.¹

It has perhaps not been fully realized that the Community could well begin to show signs of obsolescence if it failed to advance beyond the present stage of customs union and agricultural policy.

Today, customs duties are no longer the main, much less the only, instrument of commercial policy. In the new technologically sophisticated industries, competition from outside makes itself felt more through investment

¹ See recent report by the Council of the Confederation of British Industries.

and technology than through direct exports. Customs duties afford no protection in this respect. Their effect is in fact to attract investment from outside, which is often in Europe's interest but which could also be harmful if the current discrepancy between United States investment in Europe and European investment in the United States continued to grow and if this trend discouraged genuinely European firms from branching out into the new sophisticated areas of industrial activity.

If account is also taken of the tariff cuts made under the Kennedy Round, the cuts envisaged for the benefit of the developing countries, and the fact that duties have never afforded effective protection from state-trading countries, it must be conceded that the customs union, though still essential to everything else, must be supplemented as soon as possible by new instruments for common action.

The industries serving the private consumer are the ones that have benefited most from the customs union. Experience shows that the industries exploiting the new great technologies do not benefit from the customs union, because, dependent as they are for their development on public funds and orders, they have failed to break out of the cages formed by the structure of each state.

Having started in the coal and steel sector, integration was ostensibly extended to the rest of the economy in 1958. In actual fact it is confined to trade in articles for mass consumption, trade in certain capital goods and to the organization of the agricultural markets. It has not so far had sufficient impact on the structure of firms or on the growth industries.

And only in respect of tariffs has the Community succeeded in achieving unity vis-à-vis non-member countries and thus in effectively safeguarding its interests. There is an urgent need to extend the solidarity of the Community countries to the other fields under public responsibility where international economic rivalry is felt today; these include investment, competition, technology and patents, the object being, as in respect of trade, not to create a closed and inward looking Community but to step up the efforts to co-operate on equal terms, and therefore profitably, with the large partners outside the Community.

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It is difficult to give a definition of industrial policy other than in terms of objectives. If the general well-being is to be improved, industry must be able to make the most of the Common Market, as an entity, and as an entity permitting large-scale operations. This first point shows at once the ties which bind, and must bind, industrial policy to the other aspects of economic policy and to the other common policies.

In the first place, industrial development is essential to economic and social progress, since it is the key to the provision of goods and of employment. But general economic policy in its turn determines industrial development, whose pace and steadiness will largely depend on the results obtainable through regulating overall supply and demand, co-ordinating economic policies and establishing monetary union.

Secondly, the dynamism of the market must be supported by a set of properly adjusted measures enabling the structures to adapt to the inherent momentum of the economy. This includes promotion of the new technologies through policy on science and technology, monitoring of the structures of production through competition policy, adjustment of the conditions of trade through commercial policy, and adjustment of the infrastructures through transport and energy policy.

The industrial policy recommended in this Memorandum is deliberately directed to the future, i.e. to expansion and progress in the broadest sense. Too often the term industrial policy has been used to refer to measures designed to keep alive activities that no longer have any prospect of competing in a modern world. The scale of the Community and the solidarity among the Member States that is gradually building up in all fields must contribute to a much more dynamic development, i.e. not only to faster growth of production and consumption but also to better use of manpower and better living and working conditions.

The steps taken under industrial policy thus dovetail with the regional policy measures, principally aimed at a harmonious distribution of economic activities over the territory of the Community, care being taken to avoid excessive concentration in any given areas.

Similarly, industrial development and the dynamism of the market must be made compatible with social and human requirements. Employment policy must ensure a dynamic adjustment of manpower supply and demand.

For industrial policy in highly developed economies must increasingly pursue qualitative objectives related to a specific way of life which the European Communities must help to promote.

To lay down qualitative objectives for economic and industrial development and outline a European model would go beyond the scope of this Memorandum. The Commission proposes to deal with this crucial subject in a later document.

These objectives, on which it should be easy to reach agreement, are a narrowing — with improvements for everyone — of the disparities of all types that still separate men according to the social or occupational group and the region or nation they belong to, the improvement of working conditions and the level of education, the protection of a natural environment which is in

growing danger, the struggle against excessive forms of concentration of economic power or activities, and solidarity with the less favoured regions of the world.

Among the questions that are being put with increasing insistence, particularly by a younger generation which expects them to be dealt with at European and indeed world level, there are several on which the Commission would like to make some short comments here and now, setting out the ideas which have guided it in the preparation of this Memorandum.

1. Better working conditions and proper appreciation of their services, particularly for those doing manual work, are indispensable if the young are not to turn their backs on industry. This is why the productivity gains should not be obtained through more difficult working conditions or a faster tempo of work but through an organization designed not only to reduce the stress on workers but also to make their work more interesting. Negotiations between both sides of industry at Community level should in future facilitate progress in this field; they would also have the advantage of reducing the danger of competition being distorted.

2. There is now a need for more active participation by workers in the selection of development targets and in the operations of firms. The Commission is convinced that industrial expansion could be speeded up if two series of conditions were fulfilled. So far from conflicting, these conditions are in fact complementary. On the one hand, private enterprise and competition must be recognized and encouraged and the profit motive accepted; on the other hand, economic development must at all levels be guided by objectives agreed jointly.

For these conditions to be fulfilled, there should be better understanding by all concerned of the ways in which progress is achieved. Looked at from this angle, participation is not only a requirement for man's progress but also a factor contributing to industrial efficiency. Participation must be introduced progressively and in varying forms at all levels. The Commission itself held numerous consultations before adopting this Memorandum; it will endeavour to encourage as broad a discussion as possible with all groups concerned. It does not see how the policy advocated here can be successfully implemented unless men and women in all walks of life have been given an opportunity to obtain full information and put forward their views.

3. So far the process of integration in the Community has had very little impact on education. The lack of harmonization in this field constitutes an obstacle to the free movement and freedom of establishment of executive staff and consequently to economic and industrial unification. During what have so far been unsuccessful discussions on the establishment of a European

university, the need for closer co-operation among Europe's universities has been acknowledged. It is on this road that rapid progress is now needed, though new establishments may also be needed for the training of certain kinds of specialist. The objective of a European policy on education should first of all be to promote the mutual recognition of diplomas and then to reconcile some measure of harmonization of methods and syllabuses (which is necessary to facilitate an exchange of teachers and students) with maintenance of fruitful diversity in this field. Better solutions to the difficult problems posed by the crisis in education should also be sought out jointly, at Community level. Encouraging adaptation of an older outlook to the new forms of solidarity required in the modern world and enabling people to derive greater benefit from the new techniques and increased leisure made available by material progress should become jointly pursued objectives. The needs of economic development do not, as is often believed, call for increasingly utilitarian and specialized training. In fact, what is wanted is a basic education designed to enable people to readapt and adjust, i.e. change their occupations at adult age. It is not overbold to claim that humanist and economic requirements can be fully reconciled, indeed this may well be a vocation for which Europe is particularly well prepared.

4. Another urgent problem that has arisen is that of the protection of the natural environment. This must be tackled by the Community and at international level. Failure to do so would lead not only to a delay in the search for better solutions but also to the reappearance of distortions of competition and of obstacles to the functioning of the common market. Efforts made so far to harmonize national regulations on the protection of workers, consumers or the natural environment have been undertaken mainly with a view to ensuring the free movement of goods (removal of technical barriers). In future they will have to be part of an environment policy, the need for which is being felt more strongly every day. One implication is that social considerations will be given more weight when industrial development is being pursued. The national accounts as at present drawn up fail to deduct from industrial production the negative effects of environmental blight and thus mask the importance of "external diseconomies". Such a policy would inevitably impose certain constraints on industry, yet at the same time provide glittering opportunities for the future. But there is a great deal to be done before these goods are reached: not only must collective equipment be improved and expanded, but common rules must be established, new apparatuses designed, new products made available, and town and country planning must be given much more attention.

Such considerations and measures should be regarded as the natural concomitants of a European industrial policy aimed not only at an increase in the quantity of goods made available to consumers but also at a qualitative improvement in man's living conditions.

5. Lastly, policy on the industrial development of Europe could not be conceived without due regard being paid to the need for a more harmonious distribution of the world's wealth. Here, the Commission should like to emphasize that to promote industrial development in the developing world is in Europe's interest as well as being a matter of common justice. The Community, like all advanced countries, can only benefit from an increase in the number of prosperous trading partners and the more rational utilization of its own resources that would result from a commercial policy more favourable to the development of certain industries in the developing countries. In addition to the special effort it is making to assist the associated European and African States, the Community must be ready to accept the progressive and orderly transfer of certain industrial activities to the developing countries. It must take account of this need when working out its long-term plans in all fields and when choosing, in respect of individual industries, the measures that are to accompany or promote the necessary improvements.

The almost unlimited resources made available to man by modern technology are mitigating, to an extent not fully realized, the old conflicts of interest. In a world where man has more and more powerful facilities at his disposal, it is becoming possible to harmonize interests and desiderata which in the past seemed utterly irreconcilable.

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Before presenting and discussing the basic guidelines of its Memorandum, the Commission wishes to clear up the misunderstandings that derive from the vagueness of the term "industrial policy".

First of all, the Commission makes no claim whatever to settle all problems of industrial development arising in the public sector and at Community level. For one thing, its members are fully aware of the fundamental and indispensable contribution that private enterprise and competition make to expansion. The industrial policy which the Commission recommends is therefore designed more to free industrial dynamism from the fetters which still exist than to impose new constraints. In no case does it contemplate the establishment of complex administrative machinery adding to the formalities — the "red tape" — which the national authorities are sometimes forced to use in the industrial sector. In fact, the main aim is to eliminate the obstacles to development which result from the imperfections of the customs union and the fact that the economic union is at present incomplete. Secondly, the Commission is convinced that many problems will have to remain under national or even regional responsibility. The measures taken by the Community must, however, be designed to make the steps taken at that level more consistent with each other and therefore more effective.

Another misunderstanding may derive from the conflicting needs of certain Member States. The more industrially developed appear to fear that

under the mantle of industrial policy the Community may wish to compel them to curb their growth so as to make the pace of development more uniform. Others, by contrast, appear to be afraid that elimination of the remaining obstacles may, to their detriment, prove a spur to industrial combination. Rejecting the argument that these objections are self-contradictory, the Commission recognizes that they are wellfounded. It has endeavoured to deal with them by seeking a compromise between the Community's general interest, of which it is the guardian, and the need for some measure of equilibrium between the specific interests of the Member States, which it would have been unrealistic to neglect in the name of the common interest.

A third source of confusion lies in the fact that all industrial policy has a "horizontal" aspect — that of industry in general — and a particular aspect — that of the specific industry. Some consider that the horizontal approach is too theoretical and prevents any effective analysis beyond the stage of general economic policy, while for others any policy dealing with specific industries suggests the planned economy, protectionism or even Malthusianism. Although an industrial policy seeking to help the structures develop rather than to preserve them is essentially horizontal, it must nevertheless be tailored to the specific conditions obtaining in the various industries. Although forward planning and research and development are necessary in all industries, two types of industry call for special attention at Community level: the industries in difficulties, whose adaptation must be arranged and facilitated, and the growth industries, which must be given a better framework in which to develop.

Interpreted erroneously, this finding may in its turn lead to a further misunderstanding. May there not be a tendency in certain countries to concentrate official support on the two extreme types, at the expense and to the detriment of the run-of-the-mill, traditional industries that pay their way and seldom appeal to the government for help? In stepping up the efficiency of public intervention in the two marginal fields, the emphasis which the Commission places on the problems of adaptation or promotion is in fact designed to ensure more efficient use of public funds, thus reducing costs and consequently easing the burden which public support measures place on the economy as a whole.

A glance at the various Chapters of the document will suffice, incidentally, to dispose of any notion that an industry has had to be either ailing or glamorous to merit attention from the Commission.

Lastly, two types of firm raise special problems: the nationalized undertaking and the small firm, including the very small. In this document the Commission has not dealt with specific industries and it has also preferred to avoid any separate examination of the problems of these two types. However, it may revert to specific questions, as appropriate, at a later date. The

Commission's view is that these enterprises have a valuable contribution to make to the development of the Community.

The nationalized undertakings do not all have the same backgrounds in the various member countries. Their size and their functions vary with the country and the field they operate in. When they are operating in competitive sectors, the authorities should not grant them special advantages that result in distorting competition. These corporations, too, must contribute to the multinational integration of the structures of industry and of the great public services of an industrial or commercial nature. They must make a special contribution not only to growth but also to the improvement in labour relations and to the multinational integration of the structures of industry and of the main public services of an industrial or commercial nature.

The small firms are sometimes apprehensive as to the future. Despite the trend towards concentration, the scale and the diversity of industrial expansion leaves much room for them, as can be seen from the example of the United States, where medium-sized firms are making an important contribution to technological innovation and the dynamism of the economy. It is even probable that the more exacting demands of the consumer, the need for maintenance services for more and more complicated equipment used by individuals and the concern about the quality of the environment will give small firms and particularly individual tradesmen new opportunities for development.

GENERAL GUIDELINES

Following the principles just outlined, here are the five basic guidelines proposed in this document:

- Completion of the single market.
- Unification of the legal, taxation and financial framework.
- Restructuring of firms.
- Measures to organize change or adaptation.
- Extension of Community solidarity in matters of external relations.

I. *Completion of the single market*

The first objective of any Community industrial development policy must be to enable all firms and all industries to avail themselves to the full of the benefits of a large market without internal frontiers.

Completion of the Community internal market entails the removal of technical barriers to trade, free access to public contracts, and the elimination of tax frontiers within the Community.

1. Removal of technical barriers

Disparities not yet eliminated between national rules on the protection of workers, consumers or the natural environment are helping maintain the barriers to intra-Community trade and compelling managements to adapt their products to requirements that vary from one Member State to another.

After protracted negotiations, the Council adopted a general programme on 28 May 1969 offering the Member States the assurance of a balanced process of harmonization. This programme included a timetable, but harmonization is already well behind schedule because the experts have not been able to advance as rapidly as was hoped. Only one of the 44 directives that should have been approved in 1969 under the programme was actually adopted.

The Commission therefore appeals to the Council — and what is needed is the political will — to see that the work is speeded up and repetition of the same technical discussions at the various stages of the procedure is avoided as much as possible. If it were confirmed, however, that the rules of the

Treaty of Rome on the harmonization of legislation, which provide for unanimous decisions, do not allow decisions to be taken at a reasonable pace, a revision should be envisaged on the occasion of the merger of the Treaties.

Industrial development can be a major threat to the natural environment on which human life depends. Of late this fact has been more fully appreciated and as a result a new dimension will be added to the problem of "technical" regulations. Today, a need emerges not only for harmonization of current regulations in the member countries but also for the new regulations that are more effective and more realistic. This is a task that allows of no improvisation and must be solved in an international effort that is not confined to Western Europe.

While reserving the right to revert to these questions later, the Commission wishes to draw the Council's attention, at this stage, to:

- (1) The need to avoid the adoption by the member countries of measures that follow no orderly pattern and in fact create new barriers;
- (2) The importance attaching in this respect to the proposals on the setting up of a common standards bureau with a view to the adoption of common methods of analysis and standardization;
- (3) The value of concerting the Member States' attitudes in respect of the work that has been started in this field by several international organizations, particularly in the Council of Europe and OECD.

2. Free access to public contracts

The allocation of public or semi-public contracts to home industry only may appear to be in line with the immediate industrial interests of each of the Member States. This practice, however, robs certain key industries in the Community of the advantage offered by a large domestic market. The industries suffering are some capital goods industries (public transport equipment in particular) and, more generally, the industries manufacturing many types of technologically advanced equipment. They are operating under conditions that are less favourable to development than those enjoyed by the industries manufacturing ordinary goods for private consumption.

Since 1 January 1970 these practices have been entirely illegal. However, the directives designed to ensure free access to public contracts will be implemented all the more effectively if the objective of the establishment of a single market is supported by the purchasing agencies. In a field like this, a change of outlook is indispensable if the legal requirements are to be properly complied with.

The Commission therefore asks the Member States to give detailed instructions to the public procurement agencies on their duty to comply with

the rules of the Treaty and to contribute their share to the effective establishment of the single market by choosing the best supplier irrespective of nationality. The Commission intends to draw up and publish detailed statistics on public contracts placed with enterprises from other Member States. It asks the Member States for their full support in this task.

In certain industries, particularly in the technologically advanced industries, public contracts are an important market for the firms concerned. Here, a concerted public procurement policy could make a decisive contribution to industrial progress at Community level.

In these industries, market fragmentation has not yet been broken down, and since open tendering is not feasible, it is extremely difficult to verify whether or not the Treaty is being complied with. Certain major private purchasers are also subject to political, psychological, financial or social pressure to buy home-produced goods. In a fragmented market, however, it is impossible to ensure the healthy growth of technologically advanced industries. Thus it is precisely in the sectors where open markets are needed most that it is proving most difficult to establish them.

The Council acknowledged the importance attaching to a concerted policy on purchases of technologically advanced products when it adopted the Second Medium-term Economic Policy Programme. What is now needed is implementation.

The Commission proposes that arrangements should be made to concert purchasing policies in these industries and that certain private buyers should also be invited to take part. If this is to be effective, the principle would have to be approved by the Council and concerted procurement encouraged by the Governments; its aim would not be to impose new constraints on purchasers but rather to alleviate present difficulties. This would help ensure the effective establishment of a single market in technologically advanced products without excluding firms from non-member countries (provided genuine reciprocity is accorded) while taking into account the need for approximate equilibrium in the technological and industrial development of the various regions of the Community. To this end, the Commission intends to submit to the Council an annual progress report.

3. Elimination of the tax frontiers

Tax frontiers contribute to market fragmentation. As long as they exist, neither investment strategy nor purchasing and marketing policy can be fully geared to the common market. Hence, harmonization of indirect tax methods (TVA, excise duties) and alignment of the rates are indispensable. Until this has been done frontier controls and tax compensation regulations within the Community cannot be eliminated.

The Commission recalls the need to ensure the effective implementation of the decisions already taken and to avoid any further postponements.

II. *Unification of the legal, taxation and financial framework*

If managements are to draw all the advantages they are entitled to expect from the existence of the Community, it is essential that the drive to harmonize and unify the institutional framework in which firms operate should be stepped up. There is much to be done before firms wishing to do business in all Community countries can enjoy all the benefits of a genuine domestic market. They still have to cope with a large number of legal, fiscal and financial difficulties.

1. The legal framework

Companies run into great difficulties when they wish to co-operate or combine across the frontiers.

There being no legal framework for a "European incorporated company", real mergers are very difficult to achieve. Firms wishing to amalgamate must either resort to solutions that are too complex for general use or change nationality within the Community, a change often hampered by psychological considerations.

However, firms can now step up co-operation across the frontiers by making more of existing opportunities, analysed in detail in this document. While stressing the need for closer supervision of combinations that are liable to be detrimental to effective competition, the Commission confirms that the use it makes of Article 85 of the EEC Treaty leaves considerable room for co-operation between enterprises.

The Commission considers the following necessary:

- (a) Completion of the work on the "Statute" of the European company and its adoption with the least possible delay.
- (b) Adoption by all Member States of legislation governing corporate groups (at present this exists only in Germany).
- (c) Approximation of the company law of the member countries.

The following should be studied:

- (d) The establishment of "joint enterprises" in industries outside the nuclear field; this would facilitate industrial co-operation, in particular between nationalized corporations;

- (e) The adoption by all the Member States — perhaps even at Community level — of the arrangement known as the *groupement d'intérêt économique* (a type of organization which at present exists only in France).

2. Tax harmonization

In this field, the most urgent need is for the Council to adopt the directives on the taxation of mergers and on the arrangements for parent and subsidiary companies submitted to it by the Commission on 15 January 1969.

Progress in harmonization of taxes is also necessary if the conditions of industrial competition are to be as uniform as possible from one member country to another.

3. The financial framework

To expand at the right pace, Community firms must borrow on a large scale. Direct or indirect access to the sources of outside finance is impeded by a number of obstacles arising from the structure of the member countries' capital markets and the lack of any genuine common capital market. The scale on which the public authorities use the capital market and the outflow of savings for the benefit of companies from non-member countries are helping to aggravate this situation.

In addition to the proposals already put forward in the monetary and financial fields, the Commission:

- (a) Recalls the need to modernize banking and financial machinery in most of the Member States.
- (b) Is studying ways and means of improving the taxation arrangements applicable to financing in the form of risk capital.
- (c) Recommends that a larger volume of capital derived from Euro-issues be placed at the disposal of Community firms via the national and Community financing agencies. The Commission will set out its views on this subject at a larger stage.

III. *Industrial "restructuring"*

If the Community is to maintain its policy favouring competition from outside, Community firms must be able to face outside competitors on equal terms. There is no doubt that in certain cases a higher degree of concentration is needed to ensure optimum development, provided workable competition can be maintained.

A general merger movement is already under way in the Community, notably in those Member States where firms are operating well below optimum scale. On the whole, the Commission welcomes this development; but to encourage as many amalgamations as possible within a country while discouraging transnational links or regroupings would be very dangerous.

For one thing, the market provided by a single country is often too small and, particularly in the technologically advanced industries, many firms cannot possibly expand to viable size without combining with firms from other countries.

Secondly, the trend towards a single national company in each of the large sectors where concentration is necessary for reasons of technology, finance or external competition, would certainly mean that in case of difficulties pressure would be brought to bear on the governments concerned. It would not be easy for the authorities to ignore this kind of lobbying and the companies concerned would be liable to come under direct government control. This would spell the end of all prospects of a common market in the product concerned.

The only international links that are being established at a comparatively rapid pace are those between Community companies and firms from non-member countries, generally from the United States. More often than not these links consist in a Community firm being purchased by, or brought under the control of, a more powerful company from a non-member country. While acknowledging the value of link-ups with firms from outside the Community, the Commission believes that the search for better equilibrium in this field should become a Community objective.

The combined influence of two phenomena, concentration within individual countries and absorption of Community firms by companies from non-member countries, could, if no special care is taken, reduce or even eliminate the opportunities for building up a common European development policy in the advanced technology industries.

Accordingly, the Commission finds that there is a need:

- (a) To eliminate in all sectors the obstacles hampering the formation of European transnational companies, and
- (b) For this purpose to deploy in the advanced technology sectors the public funds available for industrial development.

The expression "European transnational companies" is to be taken to refer to firms that not only operate in several countries but whose capital and management are also drawn from several countries and whose centre of decision is located in Europe. The task is to render possible, and indeed promote, the formation of such companies, which need not necessarily employ capital and personnel from all six member countries or from member countries

only, but which should be able to face up, in Europe and on the world market, to competition from the big American corporations.

Unification of the legal, fiscal and financial background would help facilitate the establishment and legal regulation of such companies. Certain positive measures can already be envisaged.

For the moment the Commission is not thinking in terms of the establishment of a public organization operating at Community level something like the Industrial Reorganization Corporation in the United Kingdom or the Institut de Développement Industriel to be set up in France.

It would, however, like to see close co-operation arrangements built up between all public or private organizations engaged in promoting mergers and amalgamations. Only if these arrangements proved insufficient or ineffective should other measures be envisaged.

The Commission feels, however, that the European Investment Bank could provide immediate help by offering financing facilities for the amalgamation of firms from different Member States. The Commission has also decided to use for this purpose, under the Treaty of Paris, the appropriations which it administers itself.

These measures must nevertheless be kept within narrow limits if they are not to be discriminatory. They are justified by the special difficulties that stand in the way of such operations, compared with amalgamations within a single country or even, so it would appear, compared with amalgamations with firms from non-member countries. Nor should the measures be restricted to the largest companies. The Commission takes the view that to accord blanket support to all amalgamations would be contrary to the needs of a sound industrial policy, since medium-sized firms are often more dynamic, more flexible, and more eager to seize new opportunities or exploit innovations than very large ones.

It is nevertheless in the technologically advanced industries that the need for the establishment of transnational firms is strongest if European technological co-operation is to be efficient. The scale of public financial aid and the fact that the funds made available to firms under the policies on research and technological development come from national government sources, the current fragmentation of the markets as regards public and semi-public contracts, and considerations of prestige are all factors which, over and above the factors mentioned in the previous chapter, are preventing European companies operating in these fields from linking up across the frontiers.

Efforts by governments alone or in association with other governments have so far been almost exclusively directed at the development of prototypes, while in most member countries insufficient attention has been given to strengthening the industrial structures. To change this situation and help

establish competitive industrial structures through the execution of technological programmes must be considered a major objective of the Community's industrial policy. For this objective to be attained, technological development programmes must be financed by new methods which help to avoid the hazards inherent in intergovernmental financing and escape the disastrous principle of the "fair return". For this reason the Commission suggests that Community development contracts be introduced — with priority for firms which have decided to engage in transnational co-operation and restructuring.

Europe's industrial development in these sectors is lagging behind. Competition from outside — either in the shape of direct exports or from foreign-controlled subsidiaries (which are undeniably making a valuable contribution to the development of the Community's economy) — is keen. Therefore in the Commission's opinion the Council should give special attention to this proposal.

The Commission intends to take immediate steps to analyse, for each of the main technologically advanced industries (nuclear power, aviation and space, electronics, data processing), the development of the industrial structure and solutions most likely to reconcile the requirements of efficiency with those of competition. It will submit its conclusions to the Member States and the firms concerned.

Economic interpenetration across the frontiers necessarily also takes forms other than that of the merger or absorption. These forms are analysed in this document. The Commission has no desire that any of them should be privileged. Its desire is only that all should be available to firms and that the very large number of obstacles which impede genuine mergers between enterprises of differing nationalities should be eliminated.

While the Commission is opposed to the principle of a "fair return", it is nevertheless aware of the need to maintain approximate balance between the industrial interests of the Member States in such sensitive matters. It would, however, be a very great step forward if the Member States would agree that the balancing out of interests should be on the widest possible basis. This principle, which guides the Commission's suggestions under point I (procurement), also applies to the restructuring of industry and to technological development. The Commission therefore proposes that amalgamations in progress or planned be examined, by an appropriate committee or board, if a Member State or the Commission so requests. The overall distribution of industrial development contracts, in relation with the place where they are executed, should also be examined regularly by the Council.

IV. Measures to organize change and adjustment

Change must be speeded up if there is to be industrial progress, itself the key to economic and social progress. The indispensable processes of

change must, however, be organized in such a way that account is taken of the specific conditions prevailing in the Community. If this were not done failure would be inevitable.

The large number of redundancies in some industries must be offset by the creation of new jobs in other, more dynamic industries. This is the reason why industrial exploitation of innovation and technological forecasting as well as the strengthening of the regional policy measures must be encouraged as much as possible.

Lastly, the need for industrial adjustment means that an effort must be made to improve the methods of management and of training the future executive staff and managers of enterprises.

1. Changes in employment

The figures given in this document show the scale which the changes in employment have already reached. This is not only a matter of the drift of farm workers from the land to the secondary or tertiary sectors but also one of considerable shifts within the industrial sector itself. To quote one figure only, almost 500 000 workers have left the textile industry in the past ten years although during the same period the turnover of this industry has gone up appreciably. Even this figure is only a pale reflection of the scale of changes within the textile industry itself. As against this, employment in mechanical and electrical engineering has risen by 1 600 000 units.

Far from slowing down, this movement will gather additional momentum in the years ahead. As a result, many workers will be forced to change jobs, but it should also be possible to improve the working conditions, earnings and skills of the largest possible number of workers.

A most energetic and wide-ranging policy will be needed to keep hardship entailed by these changes to a minimum and to ensure that maximum benefit is derived from them.

Measures are needed affecting directly firms and individual industries, but also at State and Community level. The various types of measure are discussed in detail in this document.

Here, the Commission wishes merely to stress the importance of forecasts, the value of negotiations between both sides of industry, the importance of regional policy and the urgent need for a reform of the Social Fund.

Changes are less difficult to cope with if their necessity has been foreseen. Enterprises have therefore the duty to inform their workers as much as possible in advance, where they are able to do so, of any reductions or changes in employment arrangements that they may have to introduce.

Similarly, where a whole industry or region is liable to run into difficulties, discussions should be held between both sides of industry and with the regional or national authorities with a view to organizing the changes so that they can be as smooth as possible.

The Commission is itself endeavouring to work out valid forecasts of changes in employment for the greatest possible number of industries. Although many difficulties still remain to be overcome, results are already available in respect of certain industries.

The Community must, however, make a more direct and more positive contribution to the solution of the problem of change. The planned reform of the Social Fund and the memorandum on regional policy meet this need.

Apart from specifically social or regional objectives, it is essential from the angle of industrial policy that the occupational mobility, and in some measure also the geographical mobility, of labour should be encouraged. The various types of aid to improve labour mobility (occupational training, redundancy pay, removal allowances, housing allowances) are an indirect aid to industry and as such generally more valuable than most types of direct aid, which are too easily diverted to the wrong purpose and lend themselves too easily to escalation.

The Commission therefore emphasizes:

- (a) The urgency attaching to a reform of the Social Fund making it an efficient instrument of adjustment and promotion and enabling the Community, which tends to be held responsible for the changes, to make a positive contribution to the solution of the human problems raised by them;
- (b) The need for better co-ordination of the regional policies (cf. memorandum on regional policy), with the emphasis to be more on location-of-industry problems than on direct investment aid.

The Commission also intends to make supervision of the various forms of direct aid to firms, including aid of a regional character, more efficient.

2. Industrial applications of innovation

Dynamic industrial development and adequate job creation depend on prompt industrial exploitation of the results of scientific and technological research.¹

To this end, the Commission makes three recommendations that can be acted upon immediately:

¹ The problems of the organization and promotion of research and of certain aspects of technology lie outside the scope of this Memorandum. They will be dealt with by the Commission at a later date.

- (a) Regular meetings at Community level of leading specialists in technological forecasting with a view to joint study of the new opportunities opened up to industry by the changes in technology and needs; these meetings should help to integrate technological forecasting and overall economic forecasting at Community level;
- (b) A joint examination of the criteria governing the allocation of research work among public research institutes, universities and industry, and of ways and means of improving these links; this examination has been started in the working party presided over by M. Aigrain;¹
- (c) An effort to improve the dissemination of technical knowledge in the Community after an examination carried out industry by industry, or by type of firm, of obstacles hampering this work.

3. Improved business management and recruitment of staff for middle and top management

The document analyses the principles of management which the Community firms should adopt. They may be summed up as follows:

- (a) There is a need for long-term objectives (European firms tend to leave this to the public authorities);
- (b) Attention should be focussed even more on marketing than on production;
- (c) There is a need for an analysis of the cost efficiency of alternative decisions or for quantitative management methods having a scientific basis;
- (d) The personnel should at all levels participate in the decisions and the progress of the enterprise.

The shortage of certain technical supervisory staff (particularly in data processing), the inadequacy of the management schools (in terms of both number and quality) and the need to adapt the general education system to the requirements of an industrial society are discussed in the document.

In addition to the measures already adopted at national or European level in this field, the Commission would like to see Community firms take the initiative by creating and financing a European management and training foundation, which would:

- (a) Provide a centre, closely linked with the universities and specialized institutes, where modern management techniques and their appropriateness to the special conditions of Western Europe could be studied;

¹ The problems of the organization and promotion of research and of certain aspects of technology lie outside the scope of this Memorandum. They will be dealt with by the Commission at a later date.

- (b) Forecast industry's needs for management specialists and possibly other specialists and inform the specialized institutes and universities of these needs;
- (c) Develop contacts at Community level between industry and the universities in all fields of mutual interest.

Although this initiative should in the Commission's opinion be left to industry, government support would appreciably enhance its prospects of success.

V. Extension of Community solidarity to cover external economic relations

The Community is already the world's largest trading power. Membership of the candidate countries would involve a further appreciable strengthening of this position.

The Community's responsibility for the development of world trade is therefore considerable and is bound to grow. The Community must take this into account in shaping its commercial policy.

International economic relations, however, are extending to new fields today. This process had barely begun at the time the Treaty was drafted, so that Community solidarity has not yet been organized in these fields although they are of vital importance from the angle of industrial development.

1. Commercial policy

Owing to the general expansion of the world economy, the Kennedy Round tariff cuts have so far been implemented under the best conditions.

Even after enlargement, the Community will, however, be unable to embark upon new tariff cuts unless it has assurances that there will be an effective reduction in the main disparities that still exist for a large number of items between the common external tariff and those of its main competitors.

The ways and means of effecting a progressive and organized transfer of certain industrial activities to the developing countries will be the subject of subsequent studies and proposals: it is in the Community's interest to open its doors wider to exports from the developing countries. This change, which is in large measure already under way, particularly under the association agreements, and which should be completed successfully by UNCTAD, should, however, be planned as precisely as possible so that the industries concerned know in advance within what time-limits they will have to adapt themselves to a new situation. The Commission will submit proposals to the Council for the various industries concerned.

2. New problems

A number of new problems that are of vital importance for the development of the Community's industry will not be solved satisfactorily if the Member States fail to acknowledge the need for and organize solidarity in these fields.

- (a) *Export credit and subsidies:* Development policy is being used as an excuse for an aggressive trade policy that in the end is detrimental to the industrialized countries as well as the less developed countries. The drive to concert policies, already under way in the credit insurance field, should be stepped up considerably. The Commission proposes in particular that the Member States should lay down a binding deadline within which the proposed common policy in the field of credit insurance has to be adopted;
- (b) *Barter operations and investment in state-trading countries* are developing in complete disorder, without a sufficiently careful review at Community level of what is being obtained in return. The new commercial policy arrangements adopted should help to overcome these difficulties, failing which they would have to be reinforced;
- (c) *The non-tariff barriers*, particularly the rules governing public contracts, are already being dealt with in detail by several international organizations. This means that the problem of eliminating these obstacles between the Six and of working out a common attitude towards the partners in the rest of the world is all the more urgent.
- (d) The same is true of the problems raised by *the protection of the natural environment*;
- (e) *The need for regular and reliable supplies of raw materials and of fuels* raises, in respect of some products, problems which can be solved at national level only at the risk of jeopardizing the common market in case of crisis;
- (f) *Investment across the frontiers* is bound to develop more and more. Far from favouring protectionism, the Commission believes that this trend is a good thing provided an appropriate equilibrium is sought between incentives to outside investors to invest in the Community and corresponding incentives for Community investment in the major non-member countries. It also considers that implementation of the guidelines set out under part III above should help dispel the fears as to the way outside investment is developing in the Community.
- (g) *The development of multinational companies* raises tax and competition problems on which negotiations will have to be held with the major non-member countries in the years ahead. The Commission intends to make arrangements for these problems to be studied in close co-operation with the experts of the Member States.

(h) *Technological co-operation* with the non-member countries is indispensable. The way, however, in which it has so far been pursued — incidentally the same may be said of co-operation within the Community — has led to very serious miscalculations, the causes of which are analysed in detail in the document. The search for better co-ordination of technological co-operation within the Community cannot succeed unless a similar effort concerning relations with non-member countries inside and outside Europe is made.

In these various fields, the Commission is resolved to do everything within its power to improve the arrangements to safeguard the interests of the Community and of Community industry. It believes, however, that the Member States must show more determination in the matter of solidarity before precise proposals can be worked out that go beyond those set out in this document.

The prospect of an enlargement of the Community, lastly, prompts the Commission to emphasize that the lines of action and conclusions set out in this document would not only remain fully valid in an enlarged Community but that the case for them would be stronger still.

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The Commission believe that this Memorandum on industrial policy should serve as a starting point for a broad discussion with the authorities of the Member States and with the various organizations concerned. It would like to see the Council:

1. *Speed up some of the work already in hand, and more particularly work on:*
 - (a) The establishment of the single market, including measures to concert the policies on public or semi-public procurement, notably in the sectors of advanced technology;
 - (b) Harmonization of the legal, taxation and financial framework (company law, tax harmonization, patents, progress in the establishment of a common market for capital);
 - (c) The commercial policy, including harmonization of export credit arrangements.

2. *Adopt proposals already before it, for instance:*
 - (a) The reform of the Social Fund;
 - (b) The measures proposed in the Memorandum on regional policy;

- (c) The statute of the European company;
- (d) Certain tax directives.

3. *Examine and approve certain new policy-principles or measures, including:*

- (a) The preparation of European legislation to protect the natural environment, co-ordination of the work being done in this field, and steps to concert policies concerning the work undertaken in other international organizations;
- (b) The adoption of measures enabling the setting up of "transnational" European companies in certain sectors;
- (c) Community development contracts for the industrial promotion of new technologies;
- (d) The procedure for concerted agreement on industrial combination;
- (e) The annual examination by the Council of the results of the efforts to concert purchasing policies;
- (f) Assistance by the European Investment Bank to transnational amalgamations;
- (g) Joint use of technological forecasts, and rational organization of the dissemination of knowledge;
- (h) An effort at concerted and joint action in the new fields of external economic relations.

* * *

Lastly, several of the points made in this document are intended for the firms themselves and do not call for decisions by the Council. The attainment of some of the objectives can nevertheless be considerably facilitated by Government action. This is particularly true of the plan to set up a European management and training foundation.

Following the consultations which it will hold with the various organizations concerned and in the light of the discussions of the Council, the Commission will, as appropriate, provide further details and supplement these proposals.

The first two categories of decision mentioned above correspond broadly with the implementation of the first medium-term economic policy programmes. As for the new considerations and guidelines, it will be for the Medium-term Economic Policy Committee to consider whether they can be written into the third programme, now under preparation. There are, however, some urgent measures concerning specific industries which derive from the guidelines in this Memorandum; appropriate proposals will be submitted to the Council in the very near future.