SPEECH BY CHRISTOPHER TUGENDHAT, COMMISSION OF THE EUROPEAN COMMUNITIES, TO CONFERENCE ON "INDUSTRY & THE WORLD ECONOMY" IN NEWCASTLE-UPON-TYNE, TUESDAY 9th SEPTEMBER 1980 at 10.00 a.m.

The title of your Conference today, 'Industry and the World Economy' offers scope for a very wide-ranging and very long speech. I intend, however, to confine myself to a few purely introductory remarks on the subject which you will be discussing throughout the day.

Let me say at once that I think it is absolutely right to place the achievements and the problems of industry in the North-East and in the UK as a whole in the context of what is happening to industry elsewhere in the world. Developments in the shipyards of Japan and of South Korea, or the steel mills of the Ruhr Valley and of Pennsylvania, or the decisions of the Organization of Petroleum Exporting Countries (OPEC) are not irrelevant events in far-away places. They affect the jobs of working people throughout the United Kingdom, including Newcastle-upon-Tyne.

The industries of Western Europe are facing common problems which have called into question the continued increase in standards of living which ten years ago we took for granted. Industrial production in the European Community increased by 63% between 1963 and 1973, but in the next five grew by only 7%. Our industries have

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had to cope with a more than four-fold increase in the price of oil since 1973, with increases in raw material costs, with an unstable international monetary system, and with additional competition from newly industrialized countries with lower manufacturing costs.

How do we overcome these difficulties and establish a viable future for our industries? I do not believe the answer lies in protectionism, nor in the indefinite subsidization of out-dated industrial structures. The criteria for industrial success in the latter part of the twentieth century are not the same as those which applied one hundred years ago.

Measures which inhibit our capacity to adapt and to modernize only undermine our prospects of becoming competitive once again. If a country such as the UK, no longer one of the richest nations in Europe, were to embark on a policy of protection and subsidization to compete with its neighbours it would only make the problems worse. That is a game two or more can play and there are other countries which have greater resources at their disposal for retaliation.

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The objectives of public policy must be, I believe, to ensure continued adaptation and modernization of existing industries, the development of the high technology industries vital to the future of Europe, and the encouragement of new small businesses which can help to diversify and strengthen the industrial base. At the same time we must take account of the social impact of these changes, helping the older industries to achieve the necessary restructuring in an orderly fashion and over a reasonable period, providing assistance for those who need retraining, and cushioning the impact of the recession on the depressed regions. We need also to prevent dumping on our markets of products which exacerbate difficulties of problem sectors of industry.

In all of these matters the European Community has, I believe, an important role to play. By uniting the trading power of the nine Member States it creates the most powerful trading bloc in the world, capable of securing far better trade terms for our industries with third countries than any of us could achieve separately, and capable of resisting general protectionist tendencies in world trade while providing shelter for industries which need time to adapt. By setting up a framework of rules for trading relations between the nine Member States which seeks to establish fair competition between our industries it limits the scope for an escalating war of overtly and covertly subsidized competition which would harm us all.

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By setting up the European Monetary System it has sought to stabilize currency rates and aid investment. By encouraging co-operation on high-cost advanced technology industries, and providing the necessary large home market, it can help to ensure that Europe does not fall behind its competitors. And through its various financial instruments, limited though these still are, the Community can make a useful contribution to the infrastructure and industrial development needs of the regions.

On this last point, the use of the Community's financial instruments, I want to add a few remarks. The European Community has a Regional Fund and a Social Fund which operate in parallel with, and as a complement to, national policies in the same fields. The European Coal and Steel Community also uses its funds to assist in modernization or reconversion of its industries and to help the regions where they are located. The European Investment Bank and the New Community Borrowing and Lending Instrument provide loans on favourable terms for infrastructural and industrial projects, primarily in the problem regions.

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The UK is a major beneficiary under all these instruments and though the amount of money available for grants under the Regional and Social Funds is still relatively small it can, if well directed, make a significant contribution in areas of need. The Regional Fund, for example, has in recent years been contributing to total regional development expenditure in the UK at a rate of around 10%. And since we are in Newcastle perhaps I can mention an example of Social Fund activity in providing a grant of some £3 million for training of staff on the Tyne Metro, which I had the pleasure of visiting yesterday. Of greater national importance, of course, is the Social Fund contribution to youth employment schemes.

The European Coal and Steel Community is seeking to make a contribution to resolving the current serious problems of the steel industry, which are all too familiar in the North East. In 1979 grants of some £15 million were made for retraining steel workers in the UK (almost half of total spent in the Community for that purpose) and between 1975 - 1979 loans of £400 million were provided to help create new employment for redundant steel workers and for modernization of the steel industry in the UK. I hope the Community will also be able this year to make a significant contribution towards helping with the problems of the UK steel industry.

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The borrowing and lending activities of the European Community have become increasingly important in the last few years, and because of the Community's high credit rating on the international money markets loans by the European Investment Bank and the New Community Borrowing and Lending Instrument can be provided on favourable terms to assist industrial investment. Last year loans of £2,000 million were provided, and a large proportion of these went to the UK.

An important point in using these various instruments is to ensure that their activities are properly co-ordinated and focussed on areas where the need is greatest. The fact that regions eligible for assistance are automatically defined by national Regional Development Programmes, which has led to 55% of the surface area of the Community containing 35% of its population coming within this definition, underlines the difficulty of developing any clear Community-wide Regional Policy. In the Commission we are, however, seeking to secure a clear focus for our activities. In connection with the Kielder Dam for example the activities of the Regional Fund (grant of £27.4 million) and the European Investment Bank (loan of £43.3 million) have been combined to provide 55% of the total cost of the scheme.

These activities are important and will continue. But action, whether at national or at Community level to encourage growth industries providing new jobs is at least as important as action taken to help industries in trouble. In the aerospace industry, in data processing and telecommunications, and in the development of new energy resources, the opening up of markets and pooling of industrial capacity in the European Community will be necessary to reach the scale required by international competition. Working together we can, I believe, adapt to the new demands of our time and develop a solid base for future economic growth.