An industrial strategy for Europe

European File

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In September 1983 the European Commission published an important memorandum on ways of improving the international competitiveness of Community industry. About 36% of the working population of the Community is employed in the industrial sector. Their jobs depend on the importation of raw materials and the sale of finished products, partly on the European market, partly to the rest of the world. This process must now take place against a background of halting economic growth, increasing international competition and the rapid changes forced by technological progress. In these circumstances, the maintenance and strengthening of the competitive position of European industry is a vital imperative. Only in this way can it hold onto and conquer a sufficient share of the market to help bring a lasting solution to unemployment, which now affects 13 million Community citizens.[1]

The Community: a vital industrial zone

To maintain or sharpen its competitive edge, European industry must overcome a range of disadvantages in relation to its major rivals:

- ☐ An ageing industrial fabric, whose renewal has been retarded by a prolonged investment famine and widespread inadequacy of profits since the 'second oil shock';
- ☐ A weakening trading position, both on markets for traditional products and certain branches of high technology;
- ☐ Manufacturing infrastructure less flexible than in the United States or Japan, bringing unprecedented problems of retraining and unemployment.

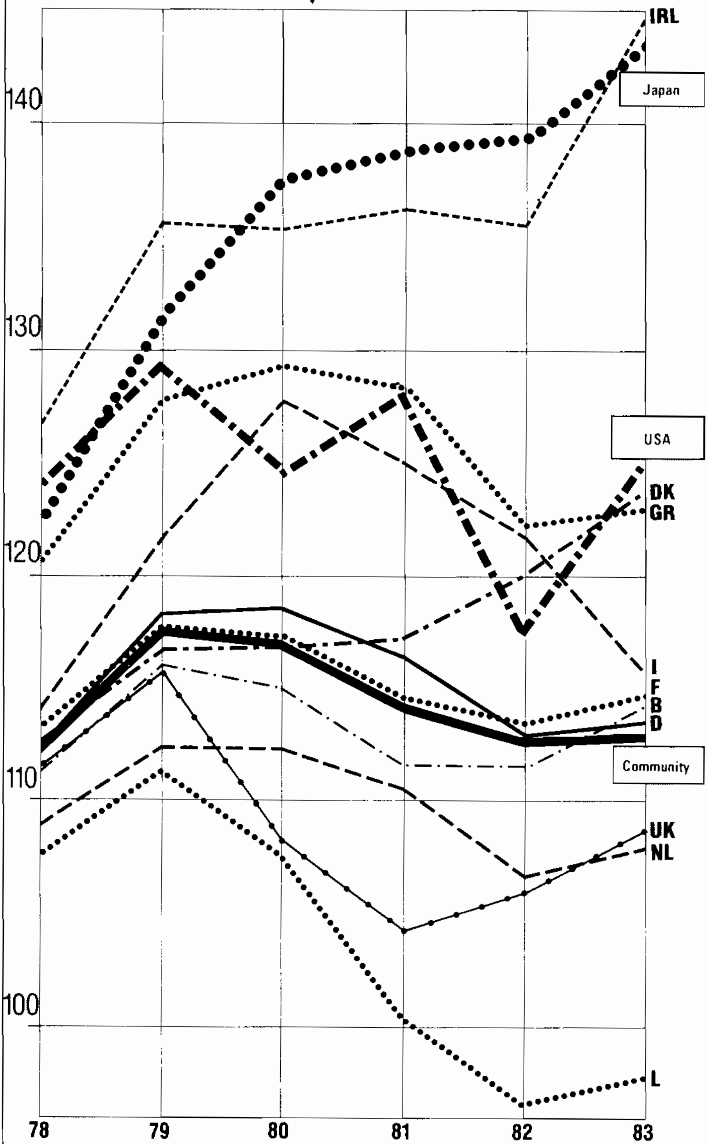
European industry nevertheless holds a number of trump cards: the scale of the Community-wide market (273 million potential consumers); an advanced scientific and technological capacity; and a lengthy industrial tradition.

The Community must gradually become a single industrial entity. To take full advantage of the possibilities offered by mass production, economies of size and innovation and investment on a Community-scale, a common industrial strategy is needed. Its aim must be to generate the conditions which will improve the competitive position of Community industry by creating a genuinely European industrial zone.

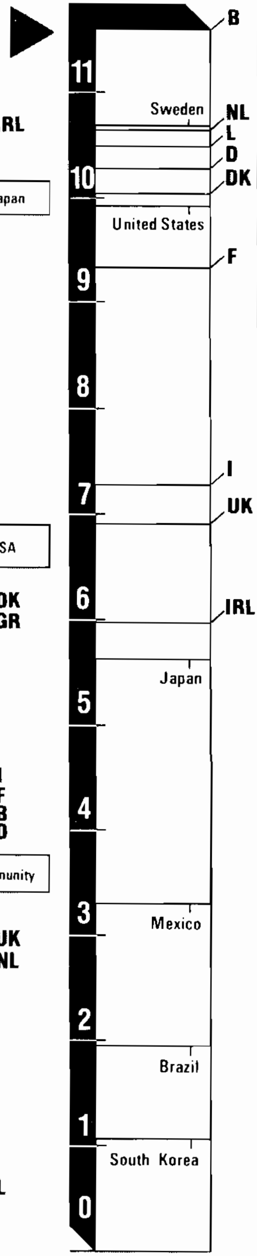
It is true that the EEC Treaty contains no specific mandate for tackling industrial problems, unlike the ECSC Treaty which provides for a transfer of coal and steel policy from national to Community level. The industrial responsibilities of the Community were nevertheless spotlighted in a 1970 report on 'Community industrial policy'. This has provided a basis for discussions on ways of strengthening Community solidarity and structural cohesiveness through the integration of

[1] This file updates and replaces our No 10/81.

Trends in industrial production* by volume in the Community, the United States and Japan (1975 = 100)



Hourly cost of labour in manufacturing industry (1981, in ECU)**



* Except the building industry.
Source: Eurostat.

** Comparable figures not available for Greece.
Source: Eurostat and US Department of Labor — Bureau of Labor Statistics.

policies for trade, monetary affairs and competition. Everyone now agrees: the industrial problems of the Member States must be studied and tackled together:

- ☐ Firstly, because the solidarity of the Community could be at risk if industrial problems were dealt with at national level and undermined the economic foundations of the common market itself. A European approach is all the more necessary in an area such as industrial restructuring. The Member States have the financial means to assist the necessary structural changes. But the Community has the legal means to shape restructuring policy. Such is the case, for example, in the Community's monitoring of national aids to industry. This ensures that the subsidies make a genuine contribution to the restructuring of industry, without distorting competition. The same is true for the Community's common trade policy, which must take account of the capacity of a given industry at a given time to face up to the competition which could result from trade agreements with non-Community countries.

- ☐ Secondly, because a large part of Europe's industrial future lies with high technology industries (for example, aerospace, data-processing, telecommunications, biotechnologies), with the manufacture of sophisticated equipment (such as machine tools) and industries which spring from new forms of economic activity (such as ways of reducing the waste of scarce resources, the protection of the rural and urban environment, housing and transport infrastructure and new forms of energy. The development of these sectors requires enormous investment and a large potential market. Both these elements make action at Community level indispensable.

Community industrial strategy must therefore improve the business environment, partly by working towards the integration of the European market and partly by promoting the necessary changes in the structure of manufacturing industry.

Strengthening the common market

The fundamental objective of the Treaty of Rome was to guarantee continuing peace and prosperity in Europe by integrating the Member States, and first of all their economies. This integration presupposes the elimination of all barriers to trade, in order to establish a single market for consumers and industries alike. For the latter, a single market is a potential salvation: it offers them substantial economies of scale and strengthens their productivity and export position.

Many barriers to trade – such as internal customs duties – have been abolished but others remain.[1] To offer new opportunities to manufacturing industry, the Community is working towards:

- ☐ The elimination of technical barriers to trade created by divergent national regulations on quality standards, contents, processing and checking of goods.

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[1] See *European File* No 12/83: 'From the European customs union to the internal market'.

The European Court of Justice has ruled that any product legally manufactured and marketed in one Member State must have free access throughout the Community, except for overriding reasons of public health and security. This case-law gives the European Commission fresh grounds for removing unjustified barriers and encouraging ministerial decisions on the harmonization of national legislations (up to now, the Community's Council of Ministers has agreed about 175 directives on industrial goods, ranging from cars to chemicals and machine tools but this process is too slow). Alongside this traditional work – which will be extended in the years ahead – the Commission intends to develop a policy for the prevention of new trade barriers, as well as a Community standards policy, which will be an important new step towards an integrated European market for manufactured goods. A significant advance was made in this area with the adoption by the Council of a directive setting up machinery for mutual exchanges of information on standards and technical regulations. Going still further, the Commission has asked the ministers to adopt a series of guidelines on cooperation between national standards bodies.

☐ The opening up of public procurement markets: two Community directives specify that public authorities (whether national or municipal) must open up their tenders, above a certain figure, to Community, not simply national competition. The European Commission intends to extend the scope of these directives and streamline their operation.

☐ Harmonization of company law: efforts in this area are designed to integrate the Community's industrial fabric by easing links between companies within a uniform legal system. Community directives already standardize conditions for setting up limited companies, ensure the transparency of the balance-sheets of joint stock companies and guarantee identical protection to workers in all Member States in the case of mass redundancies or bankruptcy. In addition, the European Commission has tabled draft directives which aim to remove tax barriers to the merger of companies in more than one Member State and to create a joint and flexible legal framework – 'European common interest groupings' – which will ease cross-frontier cooperation between firms in different Community countries. In the field of industrial property rights, the Member States have agreed a European patents system: the European Commission intends to extend this to a European trade-marks law, which will abolish one of the most serious obstacles to the free movement of goods.

☐ Healthy competition: the European Commission is determined to prevent the re-emergence, through cartel agreements between companies, of 'invisible frontiers' within the Community. It is also active in preventing companies from abusing their economic strength by eliminating rivals and is determined to fit national aids into a Community perspective.[1] At the same time, it is sensitive to the particular problems of certain sectors of industry and the implications for employment. Nor are the interests of small and medium-sized industries

[1] See *European File* No 2/83: 'European competition policy'.

forgotten. The Community also recognizes the need to encourage certain types of cooperation, especially in the research field.

The European Community actively supports the development of industry in other ways:

- ☐ By encouraging industrial investment. The European Commission urges Member States to promote investment, especially in manufacturing industry, partly by redeploying public spending towards productive investment, partly by adopting financial and tax measures likely to boost the liquidity of companies and stimulate the formation of new capital. The Commission is also striving to achieve financial integration in the Community in order to encourage the use of savings to benefit manufacturing industry and employment. The Community already has a number of instruments, which under different headings unite to promote investment. From its early days the Community has contributed enormously to investment in the restructuring of the coal and steel industries. The European Investment Bank gives long-term loans under its borrowing powers. Since 1979 this has been extended to loans through the New Community Instrument (NCI) for investment in industries in the poorest regions, the modernization and conversion of businesses, the employment of new technologies, energy savings and productivity improvements. The European Regional Development Fund (ERDF) gives grants for infrastructure improvements and investments which create and protect many thousands of jobs in industry and the services in lesser favoured regions. Specific development programmes have also been launched for regions depressed by the slump in steel-making, shipbuilding and textiles.

- ☐ By giving priority treatment to small and medium-sized businesses and innovation. Small and medium-sized businesses give our economy the flexibility to cope with the varied and complex demands of our society;[1] they offer the best chance of recovery to struggling regions and the best hopes of innovation. The latter plays a vital role in the current recession; its potential contribution to economic growth demands active Community assistance. For this reason, the EIB, the NCI and ERDF are turning increasingly to investment in small and medium businesses. The NCI may shortly have favourable loans available for innovative small and medium-sized businesses.

- ☐ By encouraging scientific and technological research. The Community's framework research programme aims to increase and diversify joint research programmes by the Community and its Member States, for reasons of reduced cost and increased effectiveness.[2] One of the main objectives of this multiannual programme, promoting cooperation between the finest laboratories in Europe, is to increase industrial competitiveness.

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[1] See *European File* No 6/83: 'The Community and small and medium-sized enterprises'.

[2] See *European File* No 8/83: 'Towards a European research and science policy'.

- By developing cooperation with the rest of the world. The Community faces twin economic necessities. It must import the majority of its raw materials and find external markets for its manufactured goods. The strengthening of relations with other countries and the elaboration of new forms of cooperation, especially in the industrial field, are therefore a major imperative. It is also in the interest of non-Community countries to strengthen their cooperation with the world's largest trading bloc.[1] The Community has therefore signed preferential trade agreements with about 80 countries, most including clauses on industrial cooperation. Similar clauses also figure in a number of non-preferential agreements signed by the Community. During the Tokyo Round (1975-79) organized by the GATT (General Agreement on Tariffs and Trade), the Community also negotiated a greater harmonization of customs duties in developed countries and a gradual dismantling of tariffs by an average of 30% before 1987. Other improvements have been achieved outside the tariff field. Agreements have been signed with a number of GATT countries on: technical barriers to trade, anti-dumping duties, subsidies and countervailing duties, public procurement markets, import licensing procedures and the aerospace industry. The aim is to shelter the Community from protectionist trends which could threaten its exports.

Action in specific sectors

The Community is also attempting to solve specific problems in each sector of industry.

The recession has revealed structural problems in certain industries throughout the world. Surplus capacity and the diversion of jobs to other parts of the world has forced the need for rationalization. The aim is to achieve a stable or reduced level of production which will allow European industry to meet international competition without overdue reliance on national subsidies. This can be accomplished partly by reducing capacity and partly by increasing productivity. If this restructuring programme were undertaken in an uncoordinated fashion, it would run the risk of being undermined by the actions of other countries or other companies. A triple task therefore befalls the Community: to assist in the restructuring of industry, to help solve social and regional problems by replacing lost jobs with new ones, and to ensure that national subsidies to struggling industries do not simply export the problems to neighbouring countries. National rescue measures are only permitted if they do not involve an increase in capacity, if they are transitional and pave the way for long-term solutions and if they are restricted to the companies with the most acute social problems.

The Community must not degenerate into a casualty ward for ailing industries. To lay the foundations for a sound future for Europe, the Community must promote growth industries. In this sector, the opening up of markets and the pooling of

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[1] See *European File* No 8/82: 'The European Community in the world' and No 19/83: 'The external trade of the European Community'.

industrial capacity are often essential to achieve the necessary scale to meet international competition. Public subsidies are sometimes necessary, but, whether national or European, they must aim at the expansion of a given sector within the framework of Community cooperation.

Some examples are cited below of the Community's activities in a number of industries, chosen according to their importance and the urgency of the problems they pose.

☐ Steel: there are about 470 000 steel-workers in the Community, compared with 790 000 in 1974. Many of these workers are part-timers or live under the threat of further redundancies. The causes of their problems are: the fall in demand caused by the world recession, the emergence of new steel-producing countries and the structure of the European industry, where overproduction is compounded by ageing equipment and low productivity. The Community has a plan for the restructuring of the industry to increase its competitiveness and guarantee the long-term survival of as many jobs as possible. Since 1977 steel companies have been given a breathing space to allow them to modernize through voluntary production cuts, minimum or recommended prices, fixed at Community level, agreements between the Community and exporting countries and Community aid for the retraining of redundant workers. But the acute economic problems of the present day — in 1983 European steel consumption had fallen by 19% since 1979 — have further reduced the utilization of capacity and led to a new collapse in prices, exacerbated by the breakdown of the voluntary discipline of producers. In these circumstances, the European Commission was forced to adopt tougher measures.[1] Production quotas were introduced to reduce steel output from its 1979 level of 141 million tonnes to 109 million by 1983, a cut of 23%. The aim was to achieve a better balance of supply and demand, ensure a fair distribution of the burden of sacrifices, halt the fall in prices, revive investment capacity to permit the modernization undermined by short-term financial losses, safeguard the maximum number of jobs and eventually restore market conditions which would allow a rapid return to a system based on the self-discipline of producers. Community strategy also involves the monitoring and gradual abolition of national aids, the reduction of capacity, the surveillance of imports from the rest of the world and a contribution to aids for retraining and regional regeneration, which must accompany any restructuring programme (for example, temporary unemployment subsidies, early retirement, creation of new jobs).

☐ The motor industry: this industry uses 20% of Community steel production and employs two million workers directly and four million indirectly (or, altogether, about 14% of the Community's industrial workforce). The energy crisis has encouraged the production of cars with low fuel consumption, the proliferation of electronic devices, the standardization of technical norms and, consequently, a growing internationalization of the automobile market. In

[1] See *European File* No 16/82: 'The European steel policy'.

1983, the Community produced 10.7 million vehicles (9.6 million cars and 1.1 million trucks, vans and buses). The Community remains ahead of the United States (9.2 million vehicles) but has fallen behind Japan, which is now the world's foremost motor manufacturer, producing 11 million vehicles a year. The share of the market taken by the Japanese, the most highly automated manufacturer, rose between 1977 and 1983 from 5.5% of all United States sales to 21% and from 3% of Community sales to 8.7%. The Community has been attempting to achieve a better balance of trade with Japan and to persuade the Japanese to recognize their responsibilities for the world economy: not only as an exporter but also as an importer and contributor to investment and the creation of jobs. It is, nevertheless, up to European manufacturers to increase their productivity and their share of world markets and their production of commercial vehicles, where better opportunities exist on the European market than for private cars. The industry can also take more advantage of the existence of the common market, notably through increasing their cooperation, with Community and national aid, in the fields of research and the development of machine tools and electronic components.[1]

☐ Textiles and clothing: this industry accounts for 10% of the Community workforce but, since 1973, has lost more than one million jobs. Many of these jobs belonged to women and were located in small and medium-sized firms in poorer regions where they made a substantial contribution to the local economy. The industry is characterized by a wide diversity of production, varied but generally stagnant demand and low-cost competition, mainly from low wage mass production factories of the newly industrialized countries of the Third World. Imports from non-EEC countries accounted for 45% of the Community market in 1982, compared with 18% in 1973. European firms must therefore concentrate on less vulnerable products. To ease this adjustment, the European Commission has negotiated a moderation of low-price exports from 26 countries within the framework of the Multifibre Arrangement, renewed in December 1981. In addition, the Community is financing research and development programmes and grants subsidies for the retraining of workers and the regeneration of the worst-hit regions. This support is, however, limited. It is chiefly up to the industry itself to find the means, in the medium term, to recover its international competitiveness.[2]

☐ Pulp, paper and board: the Community cannot supply its own requirements for wood and has to open its frontiers to raw materials, but also finished products, from Northern Europe and America, which enjoy comparative advantages, particularly in energy costs. A vicious cycle is therefore created: a reduction in Community capacity, a gradual decline in the proportion of Community consumption it can satisfy (especially for run-of-the-mill paper and cardboard), and a worsening of the already substantial trade deficit in this sector. In these circumstances, the Community is attempting to make the most of its resources

[1] See *European File* No 1/82: 'The future of the car industry'.
[2] See *European File* No 7/82: 'The European Community textile industry'.

of wood and used paper and to encourage the necessary restructuring and modernization of machinery.

☐ New information technologies: computers, new electronic components (such as microprocessors), databanks and modern telecommunication techniques are gradually transforming our countries into an 'information society'. The market for information technologies is expanding rapidly but Community industry is supplying only 20% of its domestic market for advanced electronic circuits. It is lagging behind its principle American and Japanese competitors in claiming its rightful one-third share of the world market. To remedy this state of affairs, we must take full advantage of the benefits of the gradually uniting European market: the harmonization of standards and technical procedures, the progressive opening up of public procurement markets to all Community firms (the European potential here matches that of the United States), the strengthening of Community aid to technological development and the coordination of national subsidies. The European Commission has made a number of proposals which aim to establish a joint strategy for Member States, firms and both sides of industry. With the assistance of the relevant national government departments, it has already set up Euronet, the first major European network for the long-distance transmission of computerized information. It is launching the Esprit programme, a Community strategy for research and development in information technologies, which aims to build the technological foundations for a European industry fully competitive with the United States and Japan within 10 years.[1]

☐ Pharmaceuticals: this is another sector which could provide the basis for industrial growth. The European Commission is seeking the harmonization of the remaining national regulations which impede the free movement of goods and prevent the establishment of a large Community domestic market.

☐ Energy and the environment: investment in energy savings, the creation of new energy forms and the protection of the environment can have a significant innovative impact and create many new jobs. The European Investment Bank and other Community financial instruments have substantially increased their aid for investments of this kind. The Community is also supporting a variety of research and demonstration projects in energy saving and new energy generation techniques.[2] ■

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[1] See, amongst others, *European File* No 18/82: 'Euronet Diane: towards a common information market' and No 8/84: 'From Esprit to the biosociety: the European Community and new technologies'.

[2] See, for example, *European File* No 14/83: 'The European Community and environmental protection' and No 1/83: 'Community demonstration programmes in energy saving and alternative energy sources'.

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