# Relaunching Europe: A new Community for industry and employment

European File

Unemployment in the Community stands at a level of around 10 million. Considering that over the past 10 years the number of available jobs has increased by only 2 million compared to 5 million in Japan and 19 million in the USA, this is perhaps not so surprising. Some other signs of the European 'malaise' are:

- considerable vulnerability in the energy sector. Half of our energy supplies come from outside and Europe remains the world's largest oil importer. Whilst oil prices continue to rise, energy investments, which are the key to our security, have come into question due to the uncertainties of price, taxation, technological risks, profitability and public reactions. At the most, energy investment by Community countries over the past decade amounts to only 2.2% of gross domestic product compared to 3-3.5% in Japan and 4% in the United States;

- a badly-directed and poorly-exploited research and development effort. Europe spends twice as much money on research as Japan, but Japanese researchers have registered four times as many patents. With public expenditure at half of ours, Japan has managed to catch up with the United States of America and take 40% of the world microprocessor market, whilst the Community can scarcely achieve 10%;

- a relative decline in European competitiveness. Between 1960 and 1980, unit labour costs have increased on average by 8.7% in the principal Community countries, by 7.4% in Japan and by 3.9% in the United States of America. The profitability of our factories is decreasing along with our share of world exports. Energy imports apart,

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3/82
February 1982

our trading surplus has remained the same, while the USA's and Japan's has increased. In short, we have not adapted to change as well as our principal competitors.

And yet, the creation of the common market in 1958 led the way to 15 years of industrial and economic progress; our competitors have done better since then. This is because in Japan, for example, the market strategies of the major industrial groups are worked out in close consultation with the public authorities. In the United States, industry effectively exploits its vast domestic market and also benefits — particularly by way of public contracts — from the spin-off from the public research and development effort, which is considerable.

In contrast, companies dealing with Europe do not always find the continental market they need. While the external customs tariff in the Community is relatively low, non-tariff barriers to domestic trade are of increasing importance. Public interventions in the economy — which have tended to multiply during the economic crisis — fragment the industrial market-place, give rise to the permanent risk of protectionism and lead to a waste of public funds which are increasingly in short supply. Public authorities think twice about placing an order with or giving support to a company from another member country. To retain some limited national support, companies do not fully utilize the Community dimension. As they consequently lose the benefits of the continental market, they become less able to face the economic crisis.

The scope of industrial policies and the largely national structure of our companies represents some of the principal obstacles to investment and to competitiveness. It is time for the Community to adopt its own industrial strategy, comparable to those of its competitors, if it does not want to follow perpetually in their shadow. And this strategy must be a growth strategy. Faced with increasingly sharp international competition, the modernization of our productive capabilities has been made both more necessary and more difficult by the economic crisis. It needs economic growth which will make change more acceptable to entrepreneurs and to employees.

Europe can currently not expect such economic growth to come from an upturn in external demand or through boosting domestic consumption which would be difficult to accomplish given current levels of inflation and public deficits. It would indeed be the most competitive of our competitors who would be the first to benefit. The productive investments needed to modernize our industry have yet to be made.

Investment is a gamble for the future. To invest, the entrepreneur needs, above all, confidence, coherence and continuity. The Community can play an important role in strengthening this confidence. Through its work in the economic and monetary areas first of all: the European monetary system limits exchange rate fluctuations between European currencies and must be strengthened; the Community's medium-term economic programme outlines foreseeable changes and measures to be implemented over the coming years. The Community also has to provide the forum for systematic analysis of the outlook for industrial policies, as well as for consultation with industry and trade unions. Finally, it must encourage coordination based on precise guidelines.

Since such action will be more effective if conducted in parallel at the European level (by simultaneoously investing the funds which they allocate to energy saving, the Ten could create 350 000 to 500 000 new jobs by 1985). It will be even more effective if accompanied by a further confidence and profitability factor: the creation of a truly European industrial market-place.

The non-European approach is too expensive. To counter the economic crisis, the European Commission has suggested launching a 'Second Generation Europe', to undertake and successfully complete an operation whose impact will be comparable to the creation of the common market 25 years ago. This is the implication of the proposals made by the Commission in response to the mandate conferred by the Community's Council of Ministers in May 1980.[1]

## Investments and policies

To ensure effective industrial redeployment, investment must be revived in new technologies which can raise productivity, competitiveness, and therefore sales, leading – in a second stage – to more jobs. Investment must also be made in those activities which immediately create new jobs and which accord with Community priorities: environmental protection, improved links between member countries and, above all, energy and research whose progress, in many cases, determines the progress which can be achieved elsewhere.

☐ *Energy*. National and Community efforts should concentrate on the main common objectives of increasing our energy security and thereby guaranteeing the future of our economy. The priority topics for European action are consequently the following:

- encouraging investment in energy saving and diversifying energy supplies with greater use of coal, gas, nuclear and new energy sources. The capacity of the Community's financial instruments must be strengthened. Total investment needed in diversification and energy saving in Europe up to 1990 stands at between 500 000 and 750 000 million ECUs;[2]

- the rationalization of energy pricing and taxation to make them more transparent (and equalize competitive conditions) and to make them reflect to a greater extent the cost of developing alternative resources (which will stimulate investment);

- strengthening solidarity in relation to the rest of the world: the Community dimension can help us ease external constraints. Some of the priorities here are improving the mechanisms dealing with supply deficits, however small; concluding agreements with uranium, gas or coal exporting countries; aid for developing the resources of the Third World with its growing energy requirements.

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[1] See *European File* No 16/81: 'The 30 May mandate and the relaunching of the European Community'.
[2] 1 ECU (European currency unit) = about £0.57 or Ir. £0.69 (at exchange rates current on 14 January 1982).

□ *Research and development.* Now it is more than ever indispensable to prepare for the future, but given their short-term budgetary problems, most Community countries — France being an exception — tend to limit their research effort and do not accord it the necessary priority. The financial credits available are not always fully utilized: the dispersion of national efforts is increasing both the gaps and the duplication of effort; links with industry are not sufficient and are too often maintained on a sectoral basis.

Hence the idea of defining a European research strategy to enable Member States to coordinate their policies and put the accent on the long term, the continuity of effort and on projects of common interest. Integrating research conducted in national laboratories and at the Community's Joint Research Centre is particularly warranted when it enables costs to be reduced, when the scope of the project exceeds the capacity of one single country, when it represents a technological and industrial gamble, or when it necessitates agreements with external partners such as the United States or Japan. Europe therefore offers additional possibilities: above the financial problems of individual countries, it guarantees the continuity to prepare for the major changes foreseeable over the medium or long term; it enables us to reinforce our 'strong points' by bringing together high-level international teams; it offers the possibility of commercial outlets in a larger market. The priority sectors for such action which would require a doubling of Community research funds, are:

- industry: reorganizing key sectors (chemicals, automobile, etc.) and developing new technologies (bio-technologies, data processing, communications and automation);

- energy: nuclear safety, nuclear fusion and also energy savings, research into alternative fuels, exploitation of the energy potential of agriculture, protecting the environment in the event of greater use of coal;

- research benefiting the Third World in the areas of agriculture, food, energy, raw materials, etc.;

- the relationship between technological development and social change, so as to make such development as acceptable as possible.

□ *Innovation.* New technologies, telematics, biological research, etc., will be required to play an increasing role; they will revolutionize current production methods and create new opportunities in sectors such as agro-food, energy, space industries. But innovation is all too often thwarted by insufficient exploitation of the results of the research, by bureaucratic procedures, by unfavourable economic conditions or taxation systems, by the persistence of national barriers, etc. To stimulate innovation it is necessary to:

- improve the environment for companies. Taxation systems and high-risk investment finance facilities must be improved particularly for small and medium-sized companies. Financial investment by the Community and Member States must be better coordinated and favour innovatory investments particularly in the worst-off regions;

- create consultative mechanisms to facilitate a European approach for the development strategies of certain key sectors. A 'round table' forum has been constituted for the new information technologies enabling representatives from industry and from the Commission to examine together the response which should be made to international competition. Similar approaches could be envisaged for other key technologies;

- provide Community support in areas where the European dimension will create greater effectiveness due to the size of the projects, the risks involved or the size of the market needed. The Community already gives support to pilot projects aimed at demonstrating the industrial and commercial viability of the new energy sources. In essential areas such as microelectronics, financial aid and regulatory measures should encourage cooperation amongst European producers — the first directly, and the second indirectly — so that they can effectively face external competition;

- facilitate discussions between the social partners along the lines of those undertaken at the European level concerning telematics, so as to better evaluate the effect of the new technologies on employment and social change.

☐ *Employment.* The measures and investments discussed above will strengthen European industry but will not immediately create all the jobs that are needed. The European Commission is therefore pushing for complementary measures:

- we must develop, with the aid of Community funds, the job potential that exists in the environmental area, in that of the large infrastructure projects where the investment creates considerable demand for industrial products as well as in small and medium-sized companies, cooperatives, etc., for whom access to finance, to innovation and to external markets should be facilitated, particularly by the creation of specialized services;

- the job market should be made more flexible and the issue of working hours pursued. On the other hand, growing numbers of young people should not be left unemployed whilst the shortage of certain qualified people is an obstacle to industrial development. The European Social Fund should be able to increase its contribution to training or retraining the labour force. It should intervene so that in five years' time, all young people between 16 and 18 years of age will be able to avoid being unemployed and benefit from new opportunities for education, training or vocational training. It should be possible to facilitate the access of 19 to 25-year-olds to jobs by way of recruitment premiums, flexible working hours, training workshops leading to the creation of small and medium-sized companies;

- in the least developed regions, where backwardness is often increasing, and outside investments can no longer be relied upon, regional policy must intervene with the principal objectives of creating jobs as well as strengthening the productivity and economic potential of the areas through local resources and initiatives. Development programmes combining Community and national finance should promote modern, labour-intensive programmes, small and medium-sized industries, craft industries, services, rural tourism, etc., by supporting not only material but also intellectual investment (research or information centres, market studies, management improvements).

## A European industrial market-place

Improving the industrial and employment situation depends first of all on the company. To remove the obstacles which hinder investment and innovation, confidence must be developed in the opportunities offered by a market of continental dimensions. European companies must be offered effective incentives in this market so that they are the first to participate.

☐ *The domestic market.* Amongst the Commission's most significant proposals should be mentioned:

- the obligation for governments to avoid unilateral measures and to consult each other before introducing new regulations likely to present an obstacle to trade;

- the institution of close collaboration between national standards institutes. Rather than belatedly pursue a long and difficult harmonization procedure during which our companies are prevented from embarking on large-scale production and supplying neighbouring countries, European norms and standards must be defined at the outset. In those areas where our industry is strong, even world standards can be envisaged;

- the adaptation of legal provisions to help the constitution of European limited companies and industrial groups, as well as harmonizing company taxation particularly in the event of transnational mergers;

- the simplification of frontier formalities to reduce or abolish border controls both for companies and for individuals: increases in fiscal exemptions, the replacement of customs documentation by a simple commercial invoice, simplification of VAT payments and the collection of statistical data.

☐ *Competition.* It is at the European level where rules of fair competition must be respected from now on. In consequence, any consideration of the position or behaviour of a company should take account of the situation in relation to external competition and imports. Public assistance should be an exception to the free play of market forces and form part of the Community's regional or sectoral objectives. Assistance for research and innovation must avoid any form of discrimination according to the national origin of companies. Aid for sectors in difficulty should be accompanied by restructuration measures as, for example, the Community has instituted in the steel sector so that the companies concerned can adapt themselves over a period.

☐ *Public markets.* Purchases by public bodies represent 10% of the Community's gross domestic product. Their influence is decisive in growth sectors of the future such as telecommunications, data processing, energy, transport, etc. But each country has a tendency to save its contracts for national companies while the profitable development of advanced technology requires a vast market. The Commission opposes such market restrictions which are contrary to the European Treaties and to the interests of taxpayers. It suggests the unification of public supply policies through consultation and through the creation of European organizations specializing in areas such as telecommunications, military supplies, etc.

- *Community purchasing*. Just like other public services, the Community institutions can themselves stimulate the development of new products and services for their own needs which are produced to European standards and are capable of successfully countering American and Japanese competition. Together with national PTTs, the Community has created the Euronet network which enables interrogation via terminals of interconnected European data banks at a constant price whatever the distance. This service could be extended to include information on markets and industrial structures which is often vital for companies and governments. A further project aims to create the basis of a future European telecommunications network by interconnecting the telephone exchanges, telecopiers, computers, etc., of the different locations of the Community institutions with national capitals.

- *Coherence of Community action*. The Community also stimulates the development of European companies by reinforcing — as it has done in the steel and automobile sectors — the coherence of its various policies (competition, research, standardization, external relations, etc.), so that they combine their efforts to facilitate adjustment to new technological, energy and international realities. The contribution of the Community's financial instruments should be strengthened in this respect giving priority to resolving the energy constraints as well as to projects concerning small and medium-sized companies, particularly in the high technology areas.

The coherence and development of the domestic market has no connection with 'European protectionism'. The great industrial battles over telematics and bio-technology can only be waged at world level. To be able to sell its products, Europe must remain open to international competition and encourage the development of the Third World. But, as with the case of the steel and textile sectors, it can demand its industrial partners to make a contribution equivalent to its own. And so that our companies are not handicapped in relation to their competitors or prevented from collaborating with each other across national boundaries, the time has also come to coordinate our national export and foreign investment policies. This could permit our firms to open up new markets, have access to raw materials or new technologies, increase their competitiveness, strengthen their links with trading partners who depend on our supplies. Here also, as in the areas of energy and science, reinforcing Europe's joint actions could enable it to create closer and more equal relations with third countries.

△

The decline of our industries which presents great risks to employment, must be reversed as a matter of urgency. By proposing new European policies backed by suitable resources as well as the creation of a veritable European industrial market-place, the European Commission wants to instil confidence in the key people in the economy. The revival of investment, industry, the economy and employment on the one hand and a European revival on the other, appear inextricably interlinked ◘

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*Correction*

*European File* No 19/81: *'The fifth economic policy programme 1981-85': page 6, 22nd line, please read: 'zones of probability' (instead of 'profitability').*

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Office for Official Publications
of the European Communities
L — 2985 Luxembourg

ISSN 0379-3133

Catalogue number: CC-AD-82-003-EN-C