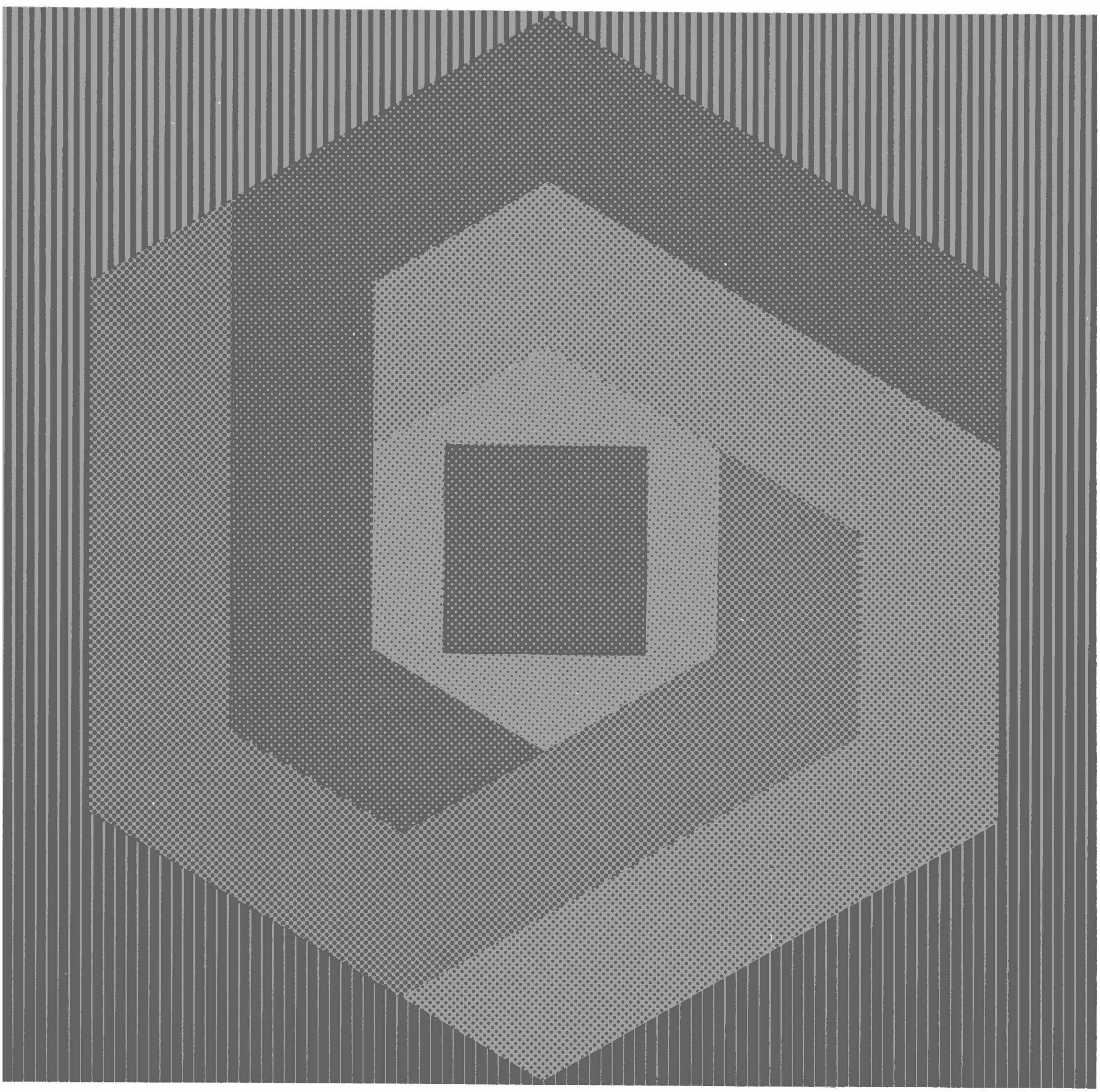
industrial policy and the european community



INDUSTRIAL POLICY AND THE EUROPEAN COMMUNITY

COMMISSION OF THE EUROPEAN COMMUNITIES
Press and Information Directorate General

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INTRODUCTION

In its memorandum of March 1970 on a common industrial policy for the European Community, the Commission gave three reasons why such a policy is required. These are:

— to improve the working of the single Community market through enhanced industrial integration;

— to assure continued economic growth by helping firms and industries to adapt themselves to changing conditions; and

— to achieve a reasonable degree of economic and technological independence from the Community's major trading partners.

Two further objectives have since been added: a better geographical distribution of industry and hence of economic growth within the Community, and the protection of the environment. These objectives, which are matters of social and political choice, are not explicity defined by the Rome Treaty, which makes no mention of any common policy for industry. Under the European Coal and Steel Community (ECSC) and Euratom Treaties, the Community has certain statutory powers over the coal, steel and nuclear industries; but this responsibility is limited. The European Economic Community (EEC) Treaty provides for the establishment of common policies for transport and agriculture; but the need for a common policy for the development of industry was not foreseen.

The reason for this omission is not that the authors of the Rome Treaty were ignorant of the crucial importance of industry for the Community's development. Their policy for industry is summed up in the Treaty's general rules.

The Treaty's theme is the creation of a single market in which free and fair competition at Community level must be guaranteed. It was realized that government aids to industry and other forms of state intervention in the economy could hardly be avoided altogether. But these must remain exceptions, rather than as a means to an end. The transformation of industry should be the spontaneous consequence of the creation of the Common Market, rather than as a process requiring planning.

Long before the end of the 1960s, however, it had become clear that the process of economic integration could not be limited to the establishment of a customs union for industrial goods, a common system of agricultural support and the free movement of labour and capital, helped by a growing degree of fiscal harmonization. This market-oriented concept of economic integration ignored the fact that the industrial development of a modern society—including such questions as the rundown or rationalization of traditional industries, the development of new industries, and the balanced distribution of industrial activity over the country or region as a whole—is to an increasing extent determined by governments.

Even after the removal of tariffs, national authorities can still call on a panoply of instruments, ranging from capital grants and loans through tax incentives of all kinds, to research and development contracts and guaranteed public orders. In the absence of an overall Community policy or machinery for coordinating Member-State strategies, it was inevitable that governments would look to the development of their own industries with the various means at their disposal, however incoherent—or self-defeating—the results.
It is against this background that the growing pressure for a Community industrial policy should be seen.

FIRST STEPS

During the Sixties, the Community became involved with questions of industrial policy mainly from three directions. As might be expected, the need for a common policy first became apparent in the field of trade. In the course of the Kennedy round of trade negotiations in the General Agreement on Tariffs and Trade (GATT) the Community was forced to define which branches of industry stood in need of special protection and should therefore be excluded from tariff cuts. Although these negotiations made the Community authorities more aware of the structural problems of those industries which were particularly sensitive to international competition, the scope for action was limited by the basically outward-looking philosophy of the Community.

Rather more important for the development of the Community's industrial policy was the problem of government aids to industry. The Commission never considered that its role was to eliminate all forms of government aid in the name of competition, while ignoring the pressure on governments to maintain employment, or the need to encourage technological innovation and structural change. On the other hand, the Commission is responsible under the EEC Treaty for seeing that government aids to industry are not allowed to distort competition within the Common Market. In practice this proved far easier said than done.

The major difficulty came from the enormous diversity of national situations and policies, the frequent confusion between aids to particular branches of industry and aids for the purpose of maintaining employment in particular regions, and the impossibility of evaluating with any kind of accuracy the total impact of government aids on a particular sector. To these difficulties must be added the limitations inherent in the legal basis of the Commission's powers.

Under articles 92 to 94 of the EEC Treaty the Commission may intervene only to disallow government aids with an adverse effect on the trade of other Member States. It has no authority to forbid particular aids because it considers them ineffective or self-defeating, nor until recently was it prepared to suggest alternative solutions to the structural problems which the aids in question were designed to solve. Yet without an overall view of the structural problems facing Community industry, and of the most appropriate solutions, the Commission had no valid criteria for judging the legitimacy of either the aims pursued or the means employed by the Member States.

This situation is now changing as the Commission increasingly defines its policy on government aids in the light of the Community's industrial-policy objectives.

Economic coordination

The third factor which contributed to the pressure for a common industrial blueprint was the growing consensus within the Community that better coordination of Member States' economic policies was needed, as their economic interdependence became more marked.

The first medium-term economic policy programme, adopted in 1966, paid little attention to the problems of industry as such; but the second programme, adopted in December 1968, included a chapter on general measures to strengthen Community industry. It also recommended the Community institutions to work out guidelines for the development of specific industrial sectors.

The recognition by governments of the need for a Community industrial policy had already been anticipated by the Commission. The merger in July 1967 of the executives of the ECSC, Euratom and EEC, gave the new Commission the opportunity to set up a separate directorate for industrial affairs, which was subsequently also given responsibility for science and technology, another sector ignored by the Rome Treaty. This development is reflected in the annual reports published by the Commission, which since 1968 have always included a section on the problems of Community industry.

In the course of the last five years the Commission has acquired a considerable knowledge of the problems of particular industries, ranging from the advance-technology sectors, such as aircraft and nuclear power, to the more traditional industries.

The Commission generally studies the structure of the industry, the technological trends, the projections of future demand and the competition from non-member countries. The resulting reports form a basis for consultations with relevant national administrations and the representatives of the industry's employer and trade union organizations. This process has done much to create a greater awareness of the problems and the opportunities facing Community industry. But this sectoral approach does not in itself amount to a true common industrial policy.

ANALYSIS AND GUIDELINES

It was the need for a common industrial policy that the Commission set out to satisfy with its memorandum, submitted to the Council in March 1970. This document did not attempt to analyse the problems of particular sectors but to provide a comparative analysis of industry in the Community and in other major industrialized powers, it also sought to define certain overall guidelines for promoting industrial development in the Community.

The memorandum contained new proposals, some of which were covered by the Rome Treaty, while others broke new ground; but its main purpose was to create a greater awareness that governments and industry alike could not draw the full benefits from the creation of the Common Market unless a common industrial policy was launched.

The proposals put forward in the memorandum reflected five main themes:

1. The removal of the remaining barriers to the establishment of a single market embracing the whole Community;
2. The creation of a unified business environment, involving the harmonization of company law and taxation, and the creation of a Community capital market;
3. The reorganization of industry to take account of the dimensions of the Common Market;
4. The promotion of technological progress in the Community;
5. The need to recognize the social and regional aspects of industrial development.

The creation of a single market

One of the Community's major aims as defined by the Rome Treaty is the free movement of goods within the Common Market. This is not an end in itself, but a means of providing European firms with a domestic market big enough to exploit modern production methods and so enable them to compete more effectively with the industrial giants in the United States and Japan.

The removal of tariff barriers between the Six, completed in 1968, has had a dramatic effect on intra-Community trade, which increased by no less than 250 per cent during the first ten years of the Common Market. (World trade increased during the same period by 90 per cent.) Yet the six Member States are far from constituting a single market with the same characteristics as a domestic market. In some sectors the Common Market can be said to exist on paper only.

The first set of obstacles to the establishment of a unified market are 'technical' barriers to trade. These have two roots: differences between each nation's labour and industrial law, imposed in the interests of safety, public health, the protection of the environment or fair trade; and differences in the technical norms and specifications legally or tacitly applied by industry in each country.

The practical consequence of these divergences is that a product manufactured according to the rules and norms applied in one member country frequently cannot be sold in other member countries without modification. Firms must therefore bear the expense of separate production runs and duplicating stocks. The additional risk and expense often discourage smaller firms from entering foreign markets.

Even larger firms, who can spread the cost over much longer production runs, are unable to achieve full economies of scale. Conversely, the maintenance of national regulations and norms can be an effective means of providing continued protection for domestic industry after tariff removal.

The legal basis for tackling the problem of technical barriers to trade is article 100 of the EEC Treaty, which provides for the harmonization of national laws or administrative provisions having a direct effect on the establishment or functioning of the Common Market. The elimination of technical barriers to trade has proved an extremely difficult, time-consuming process. Even where national regulations are not disguised protectionism, it is hard to overcome the in-built conservatism of national administrations, let alone obtain unanimous agreement on common standards of health, safety or pollution control. Last, but by no means least, action on a case-by-case basis is liable to be paralyzed by the inevitable tendency of governments to insist on reciprocity for every concession made.

Harmonization of technical legislation

In May 1969, the Council of Ministers adopted a general programme submitted by the Commission to harmonize technical regulations over the whole field of industry, including food-processing.

So far, the Commission has submitted more than 50 draft directives in this field. Among the methods used are 'total' and 'optional' harmonization.
Under the first procedure, member states agree on common specifications that replace national standards. Products must conform to the common rules to be sold in the Community.

Under the second procedure, Member States jointly work out common rules that co-exist with national specifications. Products that meet the common standards cannot be refused entry by a member state.

All the methods oblige Member States to adapt their laws and regulations so that Member States' products that conform to the common specifications can be freely imported by partner states in the Community.

The corollary of this is the recognition by each Member State of controls and inspection carried out in others. A Council of Ministers resolution to this effect is annexed to the 1969 general programme. The Commission aims wherever possible to use the specifications drawn up by the relevant professional body and international organization.

It was recognized that harmonization of technical regulations is likely to be a never-ending process. The general programme approved by the Council therefore also included a standstill clause whereby Member States undertook not to introduce new rules during the various stages of the harmonization procedure, and accepted a simplified procedure for modifying directives already adopted, so as to bring them into line with technical advances. In its industrial-policy memorandum, the Commission suggested that Member Governments wishing to introduce new regulations should give precedence to the adoption of a Community directive, so as to avoid creating new barriers to trade.

The rate at which the general programme has been implemented has been slower than expected when it was prepared. In 1969 the Council adopted only one of the 44 directives due for adoption that year. The Council adopted only 20 more in the following years.

The system has its shortcomings. There is the delay involved in obtaining unanimous agreement in the Council on every draft directive put forward by the Commission. This slowness of the Community decision-making process increases the risk of unilateral initiatives by Member States. In addition, implementation of Community rules is entrusted to national authorities, and this is liable to lead to divergent interpretations.

The pressure on governments to introduce unilateral measures is particularly strong in the bid to protect the environment. Either governments take isolated measures, at the risk of creating new barriers to trade, or they hold back from taking the necessary steps to deal with pollution, for fear of penalizing their own industry.

The Commission has since put forward a programme of action for the protection of the environment in which it seeks to overcome these problems and win recognition that it needs a stronger right of initiative.

Another way of speeding up work in the Council of Ministers would be the adoption of grouped, rather than individual directives. This could make it easier to obtain the necessary unanimity, in that Member States would agree on mutual concessions. Such a strategy would in any case correspond to the Commission's views when it was preparing the general programme: instead of trying to solve problems in isolation, the Commission thought it better to present an overall framework that would enable Member States to grasp more effectively all the goals being aimed at in a given sector.

Resistance among producers and consumers

Another obstacle to the establishment of a genuine common market lies in ingrained resistance to competition, found among both producers and consumers. Firms are slow to adapt their products to tastes or requirements of consumers in another country, particularly if they have been used to exploiting more or less captive markets. Consumers often show loyalty to "national" goods and are slow to exploit the greater choice created by the Common Market. However, these psychological obstacles to the creation of a single European market, without ever disappearing entirely, are likely to diminish in time, at least as far as the private sector is concerned.

More serious are attempts by some producers and distributors to limit competition artificially —for example, by using distribution and licence agreements to divide the Common Market into separate national components. Restrictive business practices of this kind are forbidden under article 85 of the EEC Treaty; but their complete elimination is a slow process. The Commission's efforts to enforce the rules of competition are nevertheless an essential element in its overall policy for industry, and in its policy to protect consumers.

Opening public markets

An even more serious threat to the Common Market lies in the tendency of national administrations to favour their local industries when giving out supply contracts, even in advanced technology industries, where national markets are often too small to make local firms competitive. As a result, those industries which stand to gain most from a single market —nuclear power, electrical generators, computers, telecommunications, aerospace, and transport equipment—have hardly benefited from the creation of the Common Market.

Public markets are theoretically already open to competition from all member states. In practice a directive as such is unlikely to have much effect on the close working relationship which usually exists between national administrations and their traditional suppliers (and which is often accompanied by differences in national specifications). Nor is it possible to ignore the political pressures on governments to give preference to home-country suppliers, whether for reasons of industrial development or regional employment.

There is also the delicate problem of reciprocity, since governments are naturally unwilling to open their own public markets to international competition in sectors where their own industry is unlikely to gain, unless they have a reasonable assurance that their industry will be able to benefit from the opening of other Member States' public markets in other sectors.

The Commission has accordingly proposed the adoption of a concerted policy of public purchases covering all sectors of industry, and ranging from simple persuasion backed by the publication of regular statistics to joint purchasing where appropriate. For advance-technology industries, joint public purchases, possibly combined with Community research and development contracts, could be used to encourage the formation of transnational European industrial groups which could compete on equal terms with their American rivals.

Reshaping community industry

The policy's second major objective is to improve structure and, in some cases, the dimensions of Community industry and to reduce the economic disparities between different regions. The Commission's memorandum of 1970 demonstrated that while member states' firms had taken advantage of the Common Market to expand production and increase exports, they had by and large failed to acquire the greater research or financial resources needed to take full advantage of the single market and to compete successfully with non-Community companies in Europe and elsewhere.

Analyzing the experience of the Community's first ten years, the Commission pointed out that American companies had profited most from the creation of the Common Market. This was partly due to their technological and managerial superiority—the subject of anguished debate in Europe throughout the 1960s. It also indicated that American firms were psychologically better prepared to look on a continent as a single market. Because they were not identified with any one European country it was easier for them to plan their operations on a wider basis.

The reaction of European firms to the challenge of increased international competition, caused by the establishment of the Community, was essentially defensive. Numerous firms allowed themselves to be taken over by American companies looking for a bridgehead inside the Community, or sought out American partners in preference to Europeans, hoping to benefit from superior technology, financial resources and marketing ability. There was a wave of mergers between European firms, but for a variety of reasons, including government policy, these mergers took place almost exclusively within national frontiers.

The number of genuine European transnational mergers during the Community's first 15 years can be counted on the fingers of one hand. The process of industrial concentration, which in principle is a desirable consequence of the creation of the Community—has thus taken place within each national framework—though the market within which industry has to operate is increasingly a continental, even a global one. Apart from the threat to competition from a situation where each country's major sectors of industry are dominated by a single national company, this trend can only hinder the emergence of transnational groups capable of competing successfully with other large firms on European and global markets.

The Commission's strategy for dealing with this situation is twofold. The basic long-term aim is the creation of a unified business environment, as regards company law, taxation and access to capital markets, so as to eliminate the institutional obstacles to cross-frontier mergers. The Commission also proposes to intervene directly to encourage inter-European industrial cooperation, including mergers.

Tax harmonization

The creation of a unified business environment means in the first place harmonization of national tax systems. In the long run this will involve the harmonization of turnover tax as well as of direct taxes on company profits and company income, so as to prevent the distortion of competition in the Community.

The immediate aim, however, is the elimination of certain specific examples of fiscal discrimination against cross-frontier mergers or takeovers. The Commission has put forward draft fiscal directives. One deals with taxation of capital gains when the assets of one company are transferred to another. Another concerns taxation on the transfer of capital. Both of these taxes are normally waived or reduced for domestic mergers. Other measures concern double taxation on the profits of foreign branches and subsidiaries, and discriminatory withholding taxes on the branches of foreign companies.

Company law

Harmonization of company law is equally important. Intra-Community links are hindered not only by differing laws on the rights of shareholders and third parties, and the disclosure of financial information, but also by the greater cost and difficulty of international mergers and acquisitions of companies compared with national ones.

Only two measures of harmonization in this sector have so far been achieved—a multilateral convention on the mutual recognition of companies under article 222 of the EEC Treaty, and a directive on the validity of company acts under article 45 (iii) (g), both adopted in 1968. Since then the Commission has submitted draft directives aimed at harmonizing national legislation on increases or reductions of capital, the merger of companies within one country, and the rules for the presentation of company accounts. A further draft directive will deal with the problem of consolidated group accounts. The Commission is also working on a second multilateral convention on transfrontier mergers.

A major obstacle to the formation of genuine European companies is the absence of a common European law. A merged company must operate under the national law of the country of incorporation—which can raise political problems between potential partners. Analysis of existing cross-frontier mergers shows that however for the partners are prepared to take the rationalization of production, research or marketing, ownership and control are based as far as possible on an equal partnership between the two founding companies.

In order to get round this problem, the Commission in July 1970 relaunched its proposal—based on the report of an independent group of experts—for the establishment of a European company statute. This would enable companies involved in a cross-frontier merger to opt for the status of a *Societas Europea* with a common legal personality throughout the Community.

The proposed European company, however desirable as a long-term aim, raises almost as many problems as it solves. These range from the legal basis of the "European company" in Community or national law, the conditions of access, the choice between bearer or nominal shares, the question of tax liability and, last but not least, the provision for workers' representatives on the supervisory board, based on the German *Mitbestimmung* system. The disagreements between Member States on these points, which reflect differing national traditions, suggest that the European company statute will be the culmination of the process of harmonizing company law rather than the first step to it.

Encouraging transnational cooperation

There are nevertheless other ways of encouraging industrial integration across frontiers. In its 1970 memorandum the Commission recognized that the first stage in the emergence of European industrial groups is likely to take the form of cooperation between firms in different Member States, but this could be seriously hindered by an excessively strict interpretation of article 85 of the EEC Treaty banning restrictive business agreements within the Common Market.

Since December 1971 the Commission has been empowered to authorize joint research and development or specialization agreements where aggregate sales of the firms involved represent less than ten per cent of the market or 200 million units of account (about $205 m or £85 m). The Commission can also grant group exemptions for certain categories of agreements dealing with research and development, specialization, standardization of components and the commercial exploitation of industrial property.

To facilitate cooperation between firms the Commission has also prepared a proposal on the introduction by all Member States of *groupements d'intérêt économique* (economic-interest groups), which at present exists only in France. The advantage of this formula is that it enables firms to cooperate for certain specified purposes (for example, joint purchasing, marketing, or research and development) while maintaining their separate legal existence and tax liability. Use of this formula has spread quickly since it was introduced in France a few years ago, which suggest it fills a need.

Joint enterprise status

The Commission has also proposed the extension to other industries of the status of "joint enterprise", which is at present reserved for the nuclear sector.

The Commission's draft regulation provides for the granting of joint-enterprise status in two cases: (i) when these is a total or partial pooling of public-service activities in different member States; and (ii) when it is necessary to encourage activities of major European interest, from the point of view of technological development or the supply of raw materials. There is provision for financial participation by the Community as well as the granting of tax advantages.

The question also arises whether the Community authorities should intervene directly to promote cross-frontier cooperation between Community firms. In its 1970 memorandum the Commission suggested closer cooperation between the various public agencies and private financial institutions concerned with promoting mergers at the national level. In addition, two specific proposals have been made.

The first is for the creation of a European bureau to bring suitable firms together. It would act as an intermediary by providing firms with information about prospective partners in other countries and by advising on the complex problems involved in cross-frontier mergers and share acquisitions. If it proves difficult to set up such a bureau in the Community framework, it may be set up as an independent body sponsored by the Commission or the *Union des Industries des Communautés Européennes* (UNICE).

The second proposal would give the European Investment Bank a direct role in promoting cross-frontier mergers. In its 1970 memorandum the Commission underlined the role played by the Industrial Reorganization Corporation in Britain and the (then only proposed) *Institut de Développement Industriel* in France in stimulating the reorganization of industry, and suggested that the EIB might be encouraged to use its financial resources in the same way. However, even if it was not necessary to modify the Bank's statutes, there would have to be a political decision by Member States to use the EIB for this purpose.

Technological cooperation

The third major objective of the Community's industrial policy is to promote the technological capacity of European industry. In the long run the commanding lead built up by some non-Community countries, especially the United States, in certain sectors of industry could threaten Europe's economic independence. The ability to keep ahead in technical progress is critical in all industries. Technological innovation is as important for traditional industries like steel, shipbuilding and textiles as it is for the more glamorous science-based industries, such as nuclear power, electronics and aerospace.

The first problem is the scale of the research and development effort required to keep European industry in the forefront. In the course of the last five years most Member States have considerably expanded their R and D effort. On the whole their efforts have been on a purely national basis; they have often therefore been wasted through useless duplication. What is required is a common policy at Community level, involving the rationalization of national programmes and wherever possible a pooling of resources.

The Community's record in this respect is less than satisfactory. In the only industrial sector for which the Treaties give the Community specific responsibility—atoms for peace—Member States have reduced Euratom to a secondary role. Since 1967, the Council has been unable to agree on a long-term research programme and the Community has had to manage on one-year programmes renewed each year. European cooperation in the aerospace field has taken place entirely outside the Community framework and has been plagued by crises and withdrawals.

The Council of Ministers decided in December 1967 to launch a general programme of scientific and technological research and industrial innovation, using a working group of the Medium-Term Economic Policy Committee. The group's work proceeded slowly, and the programme finally adopted in November 1971 by 19 European governments is of limited scope.

The enlargement of the Community should provide an opportunity for a new start. The Commission has already proposed the creation of a European committee on research and development, composed of independent high-level experts, to advise Community authorities on aims and priorities. The Community would also have to establish machinery for coordinating R and D policies, leading ultimately to joint research programmes. What is required now is a political decision by Member States.

Advanced technology

To be effective, however, a common policy on science and technology should be integrated with the Community's industrial-policy objectives. This is particularly true for the so-called advanced technology sectors of industry—aerospace, telecommunications, computers, nuclear power—to which the Commission devoted an entire section of its industrial-policy memorandum. From the economic point of view these four industries have the most to gain from the wider market and enhanced Community resources. In practice, however, they have remained the preserve of economic nationalism.

Governments have largely used scarce R and D resources, in order to build up national industries in these sectors, and they have supported them with guaranteed public orders. When they have taken part in international cooperation programmes, governments have often regarded international projects as a means of building up their national rather than a European industry.

This helps explain the two great weaknesses of European intergovernmental cooperation so far: the insistence on the principle of "fair return", with contracts being distributed in proportion to each country's contribution to the common budget, rather than on the technical and economic qualifications of companies; and the tendency of governments to withdraw, or to refuse, continuing finance for a project, for purely national reasons.

One of the basic aims of the Community's industrial policy must be to change this situation. The financial, industrial and even political problems involved in the development of a new generation of aircraft or nuclear reactors are such that at this stage of integration they can be dealt with only through intergovernmental agreements.

It will certainly always be necessary to seek a certain balance of advantages gained by different Member States; but governments should be asked to accept that the principle of the "fair return" should be at the overall level rather than for each project, and also that public funds made available in these three sectors, whether in the form of research and development contracts or guaranteed public orders, should above all be used to encourage the reorganization of European industry into a few viable and internationally competitive groups straddling frontiers. This explains the importance of the Commission's proposals for a concerted policy of public purchases.

From the point of view of Community industrial development, it is important that the problem of the advanced-technology sectors, however dramatic, should not be allowed to distract attention from other sectors of industry. An increasing percentage of all firms' R and D is indirectly financed by governments through R and D contracts, direct grants or loans repayable only in the event of commercial success. At present government R and D grants to private industry are granted within a purely national framework. As a result they constitute a further obstacle to cross-frontier cooperation and the emergence of European groups with adequate resources to match the R and D efforts of American competitors.

One of the key suggestions in the Commission's armoury of proposals for a common industrial policy is the introduction of Community industrial development contracts. These contracts, which would take the form of subsidies repayable in case of success, would be specifically designed to encourage cooperation, as priority would be given to groups prepared to reorganize their activities on a European basis.

As envisaged by the Commission, these contracts would cover both projects of general public interest, for example the development of new methods of transport or anti-pollution techniques, and the development of new industrial processes or products, in which case the initiative should come from private industry. The proposed extension of the joint-enterprise formula and the application of article 85 on restrictive business agreements in a more flexible way should also facilitate R and D cooperation.

Employment

The fourth major theme of the Community's industrial policy is the need to organize changes in the employment structure. The last ten years have seen massive transfers of employment not only from agriculture to industry but also within industry itself. Although some of these transfers have been stimulated by trade liberalization inside and outside the Common Market, many of the most dramatic employment shifts—such as the run-down of the coal industry or the transfer of steel production to coastal sites—have been the result of basic economic trends.

In particular the gap between the most developed and the least developed regions has if anything widened, leading to increasingly severe problems of congestion, and conversely unemployment and migration.

The magnitude of the transfers involved have created enormous political pressures on governments to attenuate economic and social effects. This has led to a startling growth in national aids to industry, both to shore up sectors in difficulty and to stimulate employment in declining or backward regions. In both cases, governments have tended to become involved in ruinous competition against one another, whether in subsidizing non-viable industries or firms, or in competing for new European or American investment.

The Community can intervene at three levels. In the first place, under articles 92 to 94 of the EEC Treaty, the Commission has the role of supervising government aids to industry to ensure that these do not distort competition within the Common Market. The Treaty does not outlaw government aids to particular industries or regions as such, provided they do not affect trade between Member States. In spite of its powers, the Commission was for a long time virtually powerless to impose the rules of competition as a result of a lack of any agreed criteria for distinguishing between legitimate and illegitimate aids.

Regional aids

This situation is rapidly changing. As far as regional aids are concerned, the council has fixed a ceiling of 20 per cent of the cost of any project after tax for aids granted within the central (i.e. highly-developed) regions of the original Community of Six, that is to say everywhere except the Italian Mezzogiorno, the west and south-west of France and the eastern border of Germany—for which special arrangements will be worked out later. Within central regions, government aids may not cover the entire national territory but must be confined to clearly defined areas where the economic justification in terms of unemployment or abnormally low incomes can be established.

The point of this reform, which has been emphasized by the Commission in a series of recent decisions on aids to Rhineland-Westphalia and on the Belgian system of regional aids, is that by limiting the intensity of government help in the developed regions, the Community authorities will make it easier to attract industrial investment to the outlying areas where the need is greatest, such as the south of Italy. But the rules do not preclude generous investment incentives where there is a real unemployment problem, for example in certain traditional industrialized areas dependent on a declining industry such as coal or textiles.

Aids to sectors

For aids to particular sectors of industry, the Commission has gradually established a basic doctrine. To be compatible with the Treaty, aids must be selective and temporary—that is, granted to firms or sectors only to help them rationalize their activities and become viable. Operating subsidies and unconditional aids not tied to any effort at rationalization will be disallowed. In its 1970 memorandum on industrial policy the Commission indicated that government aids could be justified only in these circumstances:

1. When the inertia of the firms involved or the initial handicaps affecting the industry by comparison with foreign competition can be overcome only through direct intervention by the State, in particular by start-up aids to aerospace, computers, and nuclear power;

2. When the common interest requires official intervention in order to stimulate or accelerate the rationalization or restructuring of the firms involved. This applies not only to traditional industries (coal, textiles, steel, shipbuilding) but also to key sectors of the economy such as chemicals, vehicles and heavy engineering;

3. When difficulties experienced by Community industries result from artificial distortions of competition caused by non-member countries (shipbuilding).

In many cases a particular industry will be facing similar if not identical problems in all the Member States. Rather than wait for governments to take the initiative, with the consequent risk that they will merely export their difficulties to each other, the Commission is now prepared to intervene in advance, either by indicating the criteria it intends to apply in a particular sector or by proposing the coordination of national aids at Community level.

In its memorandum of July 1971 on the textile industry, for example, the Commission stated that it would normally be prepared to approve any aid to encourage diversification out of textiles, but aids for modernization would be granted only on condition that they led to no increase in production. In the case of shipbuilding, the Council has agreed to impose ceilings on government aids and export credit terms.

Community finance

The second way in which the Community can facilitate the necessary changes in the pattern of employment and contribute to a more balanced development of the different regions is through the increased use of Community financial resources. Indeed, there is a clear link between Community aids and the limitation of national aids.

Until now the available instruments have been relatively modest. The European Investment Bank has made regional development loans totalling $2 thousand million, particularly in Italy's south, while the ECSC has contributed financially both to the costs of retraining 440 000 workers no longer required by the coal or steel industries and to attracting new industries to affected regions.

The European Social Fund has also contributed to the costs of retraining over 1 400 000 workers in different Member States, though approximately in proportion to Member States' own contributions to the Fund.

Most of the Community's budget has always been devoted to the common agricultural policy, rather than to industry.

The situation is beginning to change. The statutes of the Social Fund have been revised to enable it to play a more active role in financing occupational retraining and labour mobility. The Fund's future interventions will be divided into two—those designed to remedy structural problems as in the Italian Mezzogiorno, and those designed to attenuate the social consequences of policy decisions by Community authorities.

Credits will initially be divided equally between the two categories, but the share going to the second type of intervention will be progressively increased. The Fund's resources are also being increased from their low initial level of less than 50 million units of account (plus 50 million units under the old Fund) to around 250 million units a year (1 unit of account = about £0.44 or $US 1.08).

In addition to the reform of the Social Fund, the Community has set aside 50 million units a year in the agricultural budget for granting interest rebates to stimulate the creation of industrial employment in agricultural areas; while a decision was due to be taken before October 1972 on the creation of a regional development fund, This fund would be of particular interest to Italy, but the new members—especially Ireland and the United Kingdom—can also expect to benefit.

Improved management

The balanced development of industry and employment does not depend only on aids to industry, at the national or Community level. In its 1970 memorandum, the Commission emphasized that the creation of an adequate infrastructure in terms of communications and educational facilities is equally if not more important.

The creation of adequate opportunities also depends on the quality of management; hence the Commission has encouraged the establishment of a European management foundation in Brussels. The Commission has also introduced a system of sectoral consultations with both sides of industry so as to identify production, technology and market trends sufficiently in advance for both management and workers to realize in time the need for adaptation and so plan accordingly.

External relations

The Community's industrial policy would be incomplete unless it was accompanied by a common policy towards non-Member countries. It is clearly undesirable that Member States should be able to favour their own firms in foreign markets, through national export credits or bilateral trade agreements, at the expense of firms from other Community countries. The Rome Treaty requires Member States to apply a common export policy, and this must be extended to cooperation with other member countries in the industrial and technological fields, as this is to an increasing extent replacing the simple trade agreement.

It is also in the interests of Member States to negotiate as a unit with the other major industrialized powers such as the United States, the Soviet Union and Japan. This is particularly true as regards cooperation with the United States in such sectors as enriched uranium, reactor prototypes, space satellites and data-processing—where the Americans are the Community's principal partner and chief competitor. By maintaining bilateral relations, the European countries would perpetuate their present dependence.

Up till now the Community's main experience of acting together in external affairs has been for trade negotiations, whether on a multilateral basis in GATT or bilaterally. There are still large gaps in the common trade policy: both relations with the state-trading countries of eastern Europe and a large part of development aid programmes are conducted on a national basis.

In both fields there is still a great deal of rivalry between Member States. This is equally true in advanced technology sectors of industry, where Member States tend to compete with each other in an attempt to capture foreign markets—generally with only limited success in the face of American competition.

Relations with developing countries

Independently of the natural desire by Member States to retain control of external relations, governments are likely to find themsleves under increasing pressure to act together. In their relations with developing countries, they are faced with demands not just for aid but also for improved market access for industrial exports through generalized tariff preferences, leading ultimately to the transfer of certain labour-intensive industries. A decision on an issue such as this can be taken only at Community level.

Member States also have a common interest in ensuring adequate supplies of raw materials, including energy for their industry. The Commission therefore believes that Member States should adopt a joint policy on purchases of raw materials, such as petroleum, from developing countries; on investments in the Community by non-member developed countries; and on their relations with international organizations that deal with technological issues.

BEYOND EFFICIENCY

The Commission's aim in publishing its industrial policy memorandum was to encourage officials, workers and business leaders to discuss the goals it proposed for the Community's industrial development. A far-ranging debate has started: the Council of Ministers set up a group of national experts in July 1970 to examine the main aspects of the memorandum; at same time, Member Governments, trade unions and employers' organizations have worked out their views. Overall, there has been general agreement on the Commission's ideas.

Following the first reactions, the Commission has started to prepare specific proposals for Community action in different fields. It has, for example, called for the creation of a high-level *ad hoc* standing committee of representatives of national administrations; this group would study the problems of industrial development and help to launch the necessary coordination. The Commission has also proposed that joint-undertaking status be extended—at present the Community Treaties limit this privilege to nuclear-energy undertakings.

The Commission has continued its consultations in order to prepare proposals on the creation of Community development contracts and the introduction of a statute enabling companies to set up Community economic-interest groupings. The Commission has also continued to analyze the problems of particular industries, with a view to formulating specific policy measures. Sector studies include aircraft construction, computers and data-processing, nuclear power and electricity generation, chemicals, textiles, shipbuilding, and paper. Studies are carried out in close consultation with leaders of industry; this could be the beginning of a process of permanent cooperation.

Seeking to promote industrial development, which is the aim of the Commission's memorandum, is far from being an adequate target in the second half of the 20th century.

The Commission also needs to set the qualitative goals of industrial development. In a bid to stimulate joint reflection on this aspect, the Commission in April 1972 invited leading personalities from the enlarged Community to a conference in Venice on "Industry and Society in the Community". Some 300 participants, representing trade unions, employers and national administrations, worked out guidelines along which the Community could develop a specifically European industrial society.

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