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Moves Towards a Community Industrial Policy

Twelve years after it was founded, and having completed the transitional period which saw the common market for goods come into being, the Community is starting on a new stage of growth. It is imperative to work out a common industrial development policy to build up what might be termed a EUROPEAN INDUSTRIAL FABRIC, in order to ensure (a) the irreversible foundations for Western Europe's economic and, shortly, political unity, (b) continued economic expansion and (c) a reasonable degree of technological independence with regard to the major non-member countries.

These are the opening lines of an important memorandum on the Community's industrial policy which the Commission of the European Communities recently submitted to the Council of Ministers. It consists of five parts in all:

- general principles and guidelines;
- situation of industry in the Community;
- improvement of firms' environment;
- Community industry's capacity for adjustment;
- promotion of the advanced technology industries.

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PASSING THE CUSTOMS UNION AND FARM POLICY MILESTONE

It has perhaps not been realized how dangerously the Community would be threatened with "OBSOLESCENCE" if it did not succeed in advancing beyond its present stage of customs union and farm policy. Today, customs duties are no longer the only nor even the principal instrument of commercial policy; in the new advanced technology industries, foreign competition takes the form of investments and technology rather than of direct exports. Hence, as experience has shown, THE INDUSTRIES WHICH MAKE USE OF THE MAJOR NEW TECHNOLOGIES DO NOT HAVE THE BENEFIT OF THE CUSTOMS UNION - being independent for their development upon government funds and public orders - except insofar as they succeed in BREAKING THE STRAITJACKET OF NATIONAL COMPARTMENTALIZATION. Economic integration has not yet sufficiently affected the structures of firms and the leader industries.

It is certain that the industrial policy of the highly developed economies will have to be increasingly orientated towards QUALITATIVE AIMS, related to the NEW MODEL CIVILIZATION which the European Communities must help to bring into being. These aims are as follows: the progressive reduction of the multifarious gaps which still divide men up according to their socio-professional, regional or national groups; the improvement of working conditions and cultural standards; the preservation of an increasingly threatened natural environment; the fight to prevent excessive concentrations of power or economic activity, and solidarity with less privileged geographic areas of the planet.

In view of these aims the Commission proposes the following FIVE BASIC GUIDELINES for the Community's industrial policy:

- COMPLETION OF THE UNIFIED SINGLE MARKET, in order to enable all firms and all products to benefit fully from the existence of a large market. To this end the Commission requests:
 - THE RAPID REMOVAL OF THE TECHNICAL BARRIERS TO INTRA-COMMUNITY TRADE (only one directive in this sense was approved in 1969, whereas 44 had been proposed) and the adoption of common methods of analysis and standardization of regulations for the protection of natural environments, in order to ensure that scattered national initiatives do not lead to the APPEARANCE OF NEW RESTRICTIONS.
 - FREE ACCESS TO PUBLIC CONTRACTS: the practice of reserving these contracts for firms of the same country deprives certain key industries in the Community of the advantage offered by a large common market. The sectors hit include notably industries producing certain capital goods and public transport equipment and, more generally, those manufacturing many types of technologically advanced equipment. Here public contracts account for the bulk of the output of the firms concerned. But DE FACTO FRAGMENTATION OF THE MARKET IS STILL THE RULE, and, as open tendering is impossible, compliance with the Treaty is extremely difficult to ensure. Nuclear power plants and aviation are cases in point. The Commission proposes that arrangements should be made to CONCERT PURCHASING POLICIES in these sectors, the aim being not to impose new restrictions upon buyers, but rather to alleviate those to which they are now subject, and to ensure the EFFECTIVE ESTABLISHMENT OF A SINGLE MARKET IN TECHNOLOGICALLY ADVANCED PRODUCTS.

- UNIFICATION OF THE LEGAL, TAXATION AND FINANCIAL

SYSTEMS, in order that industry may draw all the advantages it is entitled to expect from the existence of the Community. The following measures are needed here:

- rapid adoption of the "European company" statute, of a law governing corporate groups, of the "groupe-ment d'intérêt économique", etc;

- tax law concerning mergers, harmonization of tax laws, etc;

- creation of a common capital market, modernization of banking machinery, etc.

- REORGANIZATION OF FIRMS. A higher degree of concentration is needed in many sectors, this being allowed on condition that genuine competition is retained.

A powerful merger movement is already under way in the Community. But it is noticeable that industrialists tend to favour mergers within their own nation or with enterprises of non-member countries, and only to a much lesser degree with firms of another Member State. The conjunction of these two phenomena - DOMESTIC CONCENTRATIONS and TAKEOVERS BY ENTERPRISES OF NON-MEMBER COUNTRIES - could, if not checked, impair or annihilate the chances of achieving a common European policy for industrial development.

The relative lag in European industrial development and the keen competition from outside firms, either through direct exports or through the subsidiaries they have set up in the Community, make the creation of TRANSNATIONAL EUROPEAN ENTERPRISES ESSENTIAL AND URGENT, particularly in the advanced technology industries. This is often impeded by political, legal and psychological obstacles. In order to offset ..//..

these difficulties, the Commission considers that the European Investment Bank could offer AID IN FINANCING THE REGROUPING OF FIRMS in different Member States.

In the advanced technology sectors, the size of the public contracts for which firms are invited to tender lays increasingly heavy responsibilities on the public authorities. The Commission therefore suggests that COMMUNITY DEVELOPMENT CONTRACTS be introduced, priority being accorded to firms which have decided to engage in transnational cooperation and reorganization.

While the Commission condemns the so-called "fair return" principle, it is nevertheless aware of the need to maintain some balance between the industrial interests of the Member States in such delicate matters. But the BALANCING OF INTERESTS SHOULD BE ON THE WIDEST POSSIBLE BASIS, and the Commission proposes that REGROUPINGS IN PROGRESS OR PLANNED SHOULD BE EXAMINED, IN THE APPROPRIATE SETTING, if a Member State or the Commission so requests.

- THE ORGANIZATION OF THESE ADJUSTMENTS, which must be speeded up in the interests of industrial, and hence of economic and social progress.

The considerable reduction of the labour force in some sectors must be offset by the creation of new employment in more dynamic industries. It is therefore necessary to encourage as vigorously as possible the INDUSTRIAL EXPLOITATION OF NEW DISCOVERIES AND OF TECHNOLOGICAL FORECASTS, together with the reinforcement of action taken in a regional planning context. In order to complete the measures now being adopted, and in particular the reform ..//..

of the Social Fund, the Commission insists on the need for improved business management and calls on Community industries to take the initiative in creating a "EUROPEAN MANAGEMENT AND TRAINING FOUNDATION".

- EXTENSION OF COMMUNITY SOLIDARITY TO COVER ECONOMIC RELATIONS WITH NON-MEMBER COUNTRIES. In particular, the Community should take action in the following fields:

export credits and subsidies;
non-tariff barriers;
protection of the natural environment;
raw materials and energy supplies;
promotion of investment;
statute for multinational companies;
technological cooperation.

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The Special Case
of Advanced Technology Industries

The advanced technology industries have a chapter to themselves in the memorandum of the Commission of the European Communities on the Community's industrial policy.

For these industries, innovating capacity and industrial power are not only trump cards in economic competition, but the INDISPENSABLE CONDITION FOR ACCESS TO CERTAIN PRODUCTS. In other words, there are minimum thresholds of industrial, financial and technical power below which the production of certain technologically advanced goods is doomed to failure or to permanent unprofitability. Among these products may certainly be ranked large nuclear, electronic, aviation and space ..//..

equipment. Tomorrow, other sectors will in turn come under this law of the minimum threshold.

Insufficient Development of the Community's Advanced
Technology Industries

The tables given below show that:

- in the aviation and space industry, the total turnover of American firms represented in 1967 MORE THAN 13 TIMES that of the Community's firms, which in this field is scarcely greater than that of British companies.

AVIATION AND SPACE INDUSTRIES

(1967)

	Turnover (millions of dollars)	Payroll
<u>EEC</u>		
Messerschmitt-Bölkow-Blohm	164	19,000
Sud-Aviation + Nord-Aviation + Sereb	500	40,500
Dassault-Bréguet	330	12,600
Aeritalia (Fiat avio + Aerfer)	62	7,800
Aer Macchi	11	1,200
VFW + Fokker	146	15,600
Others	<u>556</u>	<u>68,500</u>
<u>TOTAL COMMUNITY</u>	<u>1,769</u>	<u>165,200</u>
<u>UNITED STATES (aerospace industries only)</u>		
McDonnell-Douglas	2,798	134,000
Boeing	2,862	141,800
General Dynamics	1,510	69,000
Others	<u>16,088</u>	<u>823,200</u>
<u>TOTAL UNITED STATES</u>	<u>23,258</u>	<u>1,168,000</u>
<u>UNITED KINGDOM</u>		
Rolls Royce (aerospace)	605	73,400
BAC	439	36,500
Hawker-Siddeley	364	48,000
Others	<u>202</u>	<u>90,000</u>
<u>TOTAL UNITED KINGDOM</u>	<u>1,610</u>	<u>248,000</u>

ELECTRICAL, ELECTRICAL ENGINEERING AND/OR ELECTRONIC FIRMS

(1968)

	Turnover (millions of dollars)	Payroll
<u>Germany</u>		
Siemens	2,187	256,400
AEG Telefunken	1,463	146,400
<u>France</u>		
CGE	1,102	77,000
Thomson-Brandt	1,016	76,000
Schneider SM	1,100	70,000
<u>Italy</u>		
Montecatini-Edison	2,316	142,000
Olivetti	593	60,700
<u>Netherlands</u>		
Philips	2,685	265,000
<u>Belgium</u>		
ACEC	<u>128</u>	<u>13,750</u>
<u>TOTAL FOR THE 9 COMMUNITY FIRMS</u>	<u>12,590</u>	
<u>United States</u>		
General Electric	8,382	306,100
IBM	6,889	241,900
Westinghouse	3,296	138,000
RCA	3,014	125,000
General Dynamics	2,662	100,400
North American Rockwell	<u>2,639</u>	121,000
<u>TOTAL FOR THE SIX AMERICAN FIRMS</u>	<u>26,882</u>	
<u>Japan</u>		
Hitachi	2,282	154,200
Nitsubishi Heavy	1,807	95,300
Natsushita Electrical	1,688	73,100
Tokio Shibura Electric	1,598	128,000
Nippon Electric	<u>529</u>	
<u>TOTAL FOR THE FIVE JAPANESE FIRMS</u>	<u>7,904</u>	
<u>United Kingdom</u>		
General Electric + English Electric	2,155	233,000
Hawker Siddeley	918	98,000

- in the vast field of electricity, electrical engineering and electronics, the six leading American firms in 1968 achieved a combined turnover of 27,000 million dollars, i.e., more than twice that of the nine principal Community firms (12,600 million dollars). The five leading Japanese firms alone showed a turnover of almost 8,000 million dollars.

If one considers HEAVY ELECTROMECHANICAL EQUIPMENT (turboalternators) separately, the overall disparity is less pronounced, but the unit capacity of the two American giants (General Electric and Westinghouse) is three times that of the biggest Community firm (KWU) and SIX TIMES that of the next two (BBC Mannheim and CGE Alsthom).

- No very exact figures are available concerning DATA PROCESSING. It appears, however, that in 1968 the total turnover of the Community firms (excluding subsidiaries of American firms) did not exceed 130 million dollars, whereas that of the American firms amounted to 8,750 million, or 67 TIMES THAT FIGURE.

- EUROPEAN EFFORTS AT TECHNOLOGICAL COOPERATION typically featured a complete absence of homogeneity, without any general collating of the industrial methods and results. This, in the Commission's view, is the basic reason for the disappointments experienced. A study of the experiments attempted reveals that they cannot have been organized according to the most rational financial and industrial planning, they were not managed in accordance with the rules of efficiency only and, lastly, their purpose was specific projects and not the development of strong industrial enterprises; they had very little positive effect on the restructuring of the enterprises, for whom they have proved dead-end adventures.

- FENCED-OFF MARKETS

The markets for advanced technology products, including those which stem from international cooperative schemes, have not really benefited so far from the broadening which should have ensued on the forming of the Community. In actual fact any orders for these products are almost entirely reserved, in each country, for its own industry if it has one.

The reasons for this are manifold, the chief one undoubtedly being the tendency of governments to ensure that their own industry can depend on any existing domestic outlets.

It is no exaggeration to say that THERE IS NO REAL COMMON MARKET - or free internal movement, or protection from foreign competition - for advanced technology goods. The support given to the leader industries, on the national basis, has not offset the effects of this fencing, which it has incidentally helped to set up. The widening competitiveness gap between Europe and the United States in this sector is likely, if not remedied, TO LEAD WESTERN EUROPE INTO SPECIALIZATION IN TRADITIONAL PRODUCTS, which would in the long run jeopardize her hopes of expansion and her technological independence.

- THE COMMISSION'S PROPOSALS

1. COMMUNITY CONTRACTS FOR INDUSTRIAL DEVELOPMENT.

The cost of developing a prototype Mach 3 bomber is over a thousand million dollars; the development of fast breeder reactors will probably require two thousand million; the development of a large-capacity long-haul subsonic aircraft or an IBM 360 type of computer represents about a thousand million dollars. Nobody will deny that it is growing daily more difficult for the individual countries ../..

of Western Europe to raise that kind of money. COOPERATION IS IMPERATIVE. Moreover, it must be based on STABLE FINANCING and must be so organized as to encourage the growth of COMPETITIVE INDUSTRIAL STRUCTURES. To this end the Commission proposes the award of Community industrial development contracts for the production of new plant or equipment which can be marketed and can be regarded as viable commercial propositions in the long run.

2. PRACTICAL OPERATION OF A COMMON MARKET IN THE ADVANCED TECHNOLOGY SECTORS. Faced with the well-nigh impenetrable hiving-off of the national markets for advanced technology products, the Commission proposes that for a start purchasing policies should be concerted; this, to be effective and practicable, should cover a sufficient number of sectors and an adequate volume of orders.

3. COMMON POLICY TOWARDS NON-MEMBER COUNTRIES. Cooperation with non-member countries is necessary and has already been entered into by the Community States. These, however, negotiating by ones or twos, cannot defend their interests as efficiently as if they were backed by Community solidarity; in certain cases, they may even appear to be competing against one another alongside the non-member countries. Hence the Commission believes it is urgent to define a common policy for technological and industrial cooperation.