THE UNCOMMON MARKET:

EUROPEAN POLICIES TOWARDS A CRISIS INDUSTRY - CLOTHING IN THE 1970s

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THE UNCOMMON MARKET:

EUROPEAN POLICIES TOWARDS A CRISIS INDUSTRY - CLOTHING IN THE 1970s

Perhaps the most critical legacy of the 1970s has been the need to manage the social and economic consequences of a number of European industries in crisis. Adjustment is by no means a new phenomenon to the industrial world, nor exclusive to the European Community; witness the large scale movements of factors of production that have characterized most of the advanced economies in the last century and a half. These adjustments were never painless nor costless, but were often undertaken over relatively long periods of time and in an environment where the full extent of social disruptions was not immediately absorbed by the prevalent political systems. It is evident that these conditions no longer hold. The increasing rate of change of change itself, aided by advances in communications and transportation and the rising international mobility of all factors of production, has been one of the principal characteristics of post-war industrial development. New entrants, through diversification or technological change, or because of the emergence of competitors from the newly industrializing countries, have threatened the market position of traditional firms with serious consequences for trade and employment throughout Europe. But equally significant has been the growing acceptance by both governments and the public in general of the proposition that the State has a dominant responsibility for employment and social welfare, one that transcends growth and efficiency considerations. While strongly contested by conservative politicians and economists (and successfully so in certain recent European elections) the welfare costs of operating an open, liberal economy are increasingly brought into question.

The European response to this challenge in a number of their maturing industries must be examined in the light of past policies and objectives. Three different, often contradictory, although at times simultaneous approaches can be distinguished. First and foremost has been the EEC's commitment to a policy of fostering competition between member country firms. The guiding principle, embodied in the Treaty of Rome, has been that no behaviour shall be condoned which distorts or is detrimental to competitive forces, whether caused by private or public entities within the Community. Second, the EEC has found it occasionally necessary or expedient to provide protection from external competitive forces to a number of industries, temporarily reversing its liberal trade position, yet consistent, to the extent possible, with the maintenance of internal competition. Third, the European landscape is littered with attempts to coordinate industrial development policies, whether applied to growth or declining sectors, investment incentives and disincentives, regional development, etc. Throughout the debate, serious conflicts have emerged between those who favour an open and competitive evolution of industry structures, in spite of short-term social costs, and those who would erect temporary protective barriers in order to bring about a gradual adjustment, often within the framework of a "crisis cartel". The choice between these policies has been difficult and fraught with disagreement within the Commission, and it has suffered from an incomplete understanding of the likely economic and social consequences.

Europe's experience with the steel industry provides a good example of the range of policies employed and the difficulties encountered with any attempt at supranational rationalisation of a crisis sector. From the beginning, the European Coal and Steel Community had among its fundamental objectives the strengthening of competitive pressures by lowering trade

barriers between member countries and establishing supervised supranational rules on pricing and sales[1]. It was soon evident, however, that any "illusions that the creation of the ECSC would overcome national identity and bring about pan-European specialisation were quickly exploded"[2]. No supranational plan to control overcapacity and investments emerged and in July 1966, France vetoed a proposal to replace national subsidies with Community financing that would have enhanced greatly the EEC's capacity to rationalise the industry. Soon thereafter, external competitive pressures, mainly a deteriorating steel trade position with respect to Japan, moved the member countries to reconsider the need for common action, but this time in the direction of increased protection[3]. In December 1971, the first "voluntary" export restraint programme was signed between the ECSC countries plus Britain and Japan, covering the period 1972-1974. The relief from competitive pressures, coupled with the absence of any coordinated strategy of rationalisation, reinforced government intervention in each national industry and institutionalised the problem of underutilised, unprofitable capacity.

The deepening crisis after 1974 led to national pressures on the Commission to present an anti-crisis plan designed to coordinate action and investments, production, prices, external trade and social issues[4]. The resulting legal cartel, Eurofer, and a market-sharing plan arranged by Commissioner Henri Simonet in 1976[5] were followed a year later by a more extensive plan drawn by Commissioner E. Davignon[6]. Revised once in December 1978, and again in December 1979, the Davignon plan combined a "restructuring" objective with import restraint designed to reduce external competitive pressures on prices. Under the plan, imports have been frozen at about 10% of the EEC market and prices for steel products have risen about 20-30% since 1977[7]. Over 110,000 jobs have been eliminated between 1974 and 1978, that is, 14% of total

employment in the industry. France has led the way in scrapping old capacity (65,000 jobs lost by 1979), with Belgium and Britain currently undergoing a similar process. Productivity has risen to the point where a number of the provisions of earlier accords were lifted in the 1980 measures, yet there continues to be broad disagreements on the merits of the programme[8].

On balance, the measures applied over the last two years seem to have restored some degree of competitiveness to the industry allowing certain lessons to be obtained from the experience. First, it appears evident that a policy of protection and mild encouragement will not result in significant restructuring unless governmental intervention policies are also harmonised and brought into line with the general objective. Arguments about "breathing space", "infant industry" or "modernisation" often associated with demands for temporary protection and sectoral subsidies are vacuous, as long as each state is free to pursue its own policies for whatever economic or social objectives it considers imperative. Under these circumstances, and if protection is granted, only the rigorous application of the Community's competition policy in terms of Articles 92 and 93 of the Treaty can safeguard the general interest. If, on the contrary, effective restructuring is to occur, it must be the result of an expression of political will by all parties which combines unity of purpose with the means to execute it. Our intent in this paper is to examine the record of industrial adjustment policies that have been applied to another industry in crisis- clothing - with drastically different characteristics to those of steel. The first section below examines the development of the EEC's policy towards clothing and textiles over the early and mid 1970s with its emphasis on protection and the maintenance of competition. The second section traces the adjustment or crisis policies employed by each of the

major EEC producers through the late 1970s. Finally, the last section considers the Community's most recent attempts to coordinate policy and their implication.

I

THE EVOLUTION OF EEC POLICY, 1970-1977

The essence of the EEC's policy on textiles and clothing throughout the 1970s was based on the two main tenets also found in the Community's early approach to the steel industry: protection and the maintenance of internal competition.

Protection and the Multi-Fibre Agreements

The post-war history of international trade in clothing and textile products has been characterized by increasing quantitative controls on trade by the major importing nations. The trend began in the United States in the mid 1950s, as the US textile and clothing industries began to suffer from increased competitive pressures in cotton goods from Europe, and, particularly, Japan. In 1956, US President Eisenhower persuaded Japan to exercise voluntary restraints in their cotton textile exports to the United States. By 1960, US authorities became convinced that a multilateral approach was necessary and sought to enlist the support of some key European nations in convening a conference of both importing and exporting countries under the auspices of the General Agreement on Tariffs and Trade (GATT). Lengthy negotiations followed, culminating in the signing of a series of agreements restricting trade in textile goods in the interest of "orderly" market growth and development[9].

The first of these agreements, the Short-Term Agreement (STA), which covered a one-year period from October 1961, was intended to give the importing countries some breathing room while a long-lasting agreement regulating international trade in cotton textiles was negotiated. This was accomplished with the signing of the Long-Term Arrangement Regarding International Trade

in Cotton Textiles (LTA) on February 9, 1962, covering a period of five years from the expiration of the STA. The LTA "continued the attempt to balance the need for increased access to the industrial national markets for exports from the developing countries, in order to facilitate the latter's economic expansion and development, with the need to prevent market disruption in importing countries". In 1962, the LTA was signed by nineteen governments. Subsequently, its scope was extended and its provisions made specific through the signing of multiple bilateral agreements concluded directly between pairs of importing and exporting countries. The United States led the way by signing 22 bilateral agreements strengthening the provisions of the LTA. The original agreement was renewed in 1967 and in 1970, and by 1973, 82 countries were signatories of the LTA.

The impact of the LTA was quickly felt throughout the importing countries as the rate of increase of imports of cotton textiles stabilized. The 1960s, however, coincided with a major shift in consumption from natural fibers to man-made fibers and, particularly, to synthetic fibers such as nylon, polyesters and acrylics. The exporting countries were quick to capitalize on this development and shifted their production to man-made fiber products often incorporating fiber of US or European origin. The United States, for example, saw its imports of cotton textiles almost double from 1960 to 1970, while imports of man-made fiber textiles increased by more than ten times the 1960 level. Faced with this situation, the United States again led the importing countries in restricting trade in man-made fibers by negotiating bilateral agreements in 1971 with five Asian countries - Japan, Hong Kong, Taiwan, South Korea and Singapore. Shortly thereafter, negotiations started under the GATT to replace the now ineffective LTA with a broader arrangement covering all textile products.

By 1974, a new agreement was signed by 50 countries controlling trade in most textile products. The basic features of the Multi-Fibre Agreement (MFA) were very similar to those of the LTA. Importing countries would seek consultation with exporting countries to avoid market disruption in the importing countries defined as "the existence of serious damage to domestic producers or actual threat thereof. Such damage must demonstrably be caused by...:

(i) a sharp and substantial increase or imminent increase of imports of particular products from particular sources...;

(ii) products (which) are offered at prices which are substantially below those prevailing for similar goods of similar quality in the market of the importing country...

and not by factors such as technological change or changes in consumer preferences...".

The extent of any import limitations was determined in the same way as in the LTA; yearly increases in imports of products under restraint being fixed at not less than 6 percent, other than in exceptional cases. The MFA comprised cotton, wool and man-made fibre textiles and textile products; it was designed to supersede all bilateral agreements in non-cotton textiles trade that some countries had negotiated outside the LTA in the early 1970s, and to consolidate all fibre trade into one agreement. The MFA allowed for non-negligible increases in textile imports from developing countries at a time when consumption in the developed markets was stagnating and unemployment rising fast. As the economic crisis worsened, pressures increased to renew and strengthen the agreement before its expiration at the end of 1977.

Deep divisions soon surfaced between the United States and the EEC, and within the EEC, as to the terms for renewing the MFA[10]. Following the 1973 accord, US negotiators speedily concluded comprehensive bilateral agreements with most large exporters. The EEC, on the other hand, was committed to a unified stance and had to seek internal agreement on such complex issues as "burden sharing" (who will take how much) within the EEC prior to negotiating any bilaterals. The resulting delays meant that for the two years immediately following the implementation of the MFA (1974-1975), United States' imports of textiles and clothing grew by only 3%, while EEC imports increased by 41%. European industry was dismayed at these results and political pressure in certain countries - Britain and France in particular - was running high in favour of a much more restrictive agreement.

By 1977, the EEC claimed it had lost 430,000 jobs in the textile and clothing industries to import competition while the MFA was in force[11]. The real picture was not that clear, however, since many of these job losses had occurred in the synthetic fibre sector (particularly in France, Holland and Germany) as a result of over-investment and excess capacity, and other losses could be attributed to the general depressed levels of demand throughout Europe. On June 18, 1977, France followed Canada's example of one year earlier and invoked Article 19 of GATT allowing for emergency trade measures to restrict imports of men's shirts, women's blouses, T-shirts and cotton thread. The French claimed that they had lost between 80,000 and 90,000 jobs in the textile industry since 1974, and that extraordinary measures were necessary. Within four days, the EEC Commission had in effect told France that it could not unilaterally limit imports under EEC trade rules but followed this action with a series of restrictive measures of its own having the same effect[12].

In December 1977, a new and more comprehensive agreement was signed which classified textile goods in five groups depending on the level of sensitivity of developed country markets to imports of the particular goods. Specific import quotas were negotiated for imports of the most sensitive products for all the main importing countries, totalling from four to about 40 products depending on the exporting country. For products not subject to specific quotas, an import threshold was established in each case and for each exporter which, once reached, might trigger a consultation procedure originating from the importing country and aimed at establishing a quota. The threshold level was expressed as either the 1976 or 1977 import level plus an annual increase of between 0.2 to 4% depending on the product group. This procedure, called the "basket procedure", applied only to the countries having signed the MFA and having no preferential trade agreement with the EEC. Special provisions were made for certain countries such as those with which the Community had preferential agreements and for Eastern Europe.

Those products considered the most sensitive, representing more than one half of EEC imports, were nearly frozen, permitting only a 0.2% increase in imports per annum. For other products certain quotas were also established and, whenever no specific quotas were determined, basket provisions would prevail. EEC quotas were then distributed among member countries according to existing trade flows, and published in the EEC Official Journal, broken down per exporting country, per member country and per product[13]. Items

subject to import quotas specified for each EEC country could not be re-exported freely to other member countries. By invoking Article 115 of the Rome Treaty, any member country whose market was flooded by such goods could isolate it, a procedure employed 48 times in 1977 and 157 times in 1978, mainly by France, the Benelux and Ireland. Finally, a Surveillance Body was established by the Arrangement to supervise its implementation.

All told, these regulations added up to a nearly inscrutable maze of restrictions which had the further aggravating characteristic of being in a constant state of flux. Yet, while having the potential of providing significant protection to their respective domestic industries, each country was free to implement the agreements with whatever degree of zeal suited it best. Basket provisions, complaint and recourse procedures, escape clause actions and the like could be undertaken with widely varying speed and effectiveness, providing each government in effect with a powerful policy tool to be employed at will.

The Maintenance of Internal Competition

The founders of the European Community, in their overriding concern for the creation of a broad and unimpeded market, chose to emphasize the removal of all obstacles to trade among member countries. Not satisfied with a design that would simply eliminate trade barriers, they sought assurances that member states would not provide special aids to their domestic firms if this were "to distort competition...insofar as it affects trade between Member States". Yet, the same articles in the Treaty that contain these safeguards from excessive state intervention in industrial affairs (Articles 92 and 93), also recognize that specific circumstances may give rise to state aids that "may be considered to be compatible with the common market". The definition of this ambiguity has consumed a

considerable amount of time and energy in recent years.

For the first twelve years after its creation, the Commission's efforts in the area of competition were mainly centered on the development of jurisprudence concerning the application of Articles 85 and 86 of the Rome Treaty. The key regulatory decree (No 17) was issued by the Council of Europe on February 6, 1962, establishing the terms and procedures under which anticompetitive behaviour by privately-owned corporations would be sanctioned or prosecuted. Two years later, the first Commission decision on horizontal agreements was issued on 11 March 1964: the case "Grosfillex-Fillistorf" was judged under the negative findings provision (article 2 of regulation 17) whereby certain agreements submitted to the Commission's review could be considered compatible with Article 85. Case activity was light in the early years with only nine decisions emerging in the period 1964-1967. It soon accelerated with the number of decisions reaching 8, 10, 7 and 16 in each year between 1968 and 1971. Yet it was not until 1971 that the first two "dominant position" decisions ("GEMA" and "Continental Can") were issued under Article 86. In addition the Commission also issued several similar decisions under Articles 65 and 66 of the ECSC Treaty, and there were numerous proceedings before the Court of Justice emanating from these decisions. Throughout this active period, however, increased governmental intervention in both key leading sectors and declining industries, as well as in regional development schemes, began to preoccupy the Commission's Competition Division, leading to a major review of policy involving both the competition and industrial areas and, particularly, their interrelationship.

The Commission in their First Report on Competition Policy recognized the potential for conflict as member countries chose to intervene in sectoral policy to correct market failures or to alleviate social problems. The issue that confronted the Commission then was the same that was to dominate textile policy for the rest of the decade: how to make legitimate needs for intervention compatible with the maintenance of competition[14]. The problem was particularly acute in terms of regional aids where after two years of negotiations the Commission agreed on ceilings for certain "central" areas, and on the principles of "transparency", specificity - both regional and sectoral - and measurability[15]. But equally difficult were the issues raised by sectoral aid programmes which were a priori in direct conflict with the competition objectives of the Treaty.

In 1970, the Commission had issued a memorandum on "Industrial Policy in the Community" which tried for the first time to air these conflicts publicly[16] This was followed by a proposal to create an Industrial Policy Committee within the EEC's structure[17], and by an attempt to seek a broad consensus under the aegis of a conference on "Industry and Society within the Community" organized in Venice in April 1972[18]. From these discussions emerged a set of guidelines on sectoral aids which included the following elements[19]:

- assistance must be selective in terms of firms and sectors with a significant potential for positive adjustment;
- it must be temporary and diminishing over time so as not to encourage dependency and continue to provide a stimulus for change;
- it must be as transparent as possible in order for its impact on competition to be assessed correctly; and
- it must be consistent with the stated objectives while no stronger than absolutely necessary.

The Commission recognized the danger that, in taking a position on sectoral aids, it may in fact encourage their use. It felt, however, that it was more important to seek "coherence among national programmes in order to obtain an optimal development of the Community's interests".

These general views had already been reflected in the guidelines issued on 22 July 1971 on aids to the textile sector[20]. After reviewing the importance of the sector to the Community and its highly competitive nature, the Commission concluded that any aid to the industry must fall within a given framework:

1. Rising productivity should be the basis upon which the industry would remain sufficiently competitive, even in a market that would be increasingly open to imports from developing countries.
2. Governments should assure the necessary conditions for this transformation to take place, while mitigating the social or regional difficulties that might result from it.
3. The Community's trade policy should encourage a gradual opening of the internal market consistent with the need for restructuring the sector in the medium term. Within this context, the document set a pace for the establishment of preferential tariffs for developing countries within a five-year period and criteria for the progressive elimination of all quantitative restrictions.
4. The Commission would undertake certain common projects in such areas as research and development, the use of social funds, regional assistance and the creation of an "observatory" capable of providing the industry with timely and relevant data for adjustment purposes.

5. Finally, the Commission would continue to monitor national aids to the industry with the purpose of:
   a. opposing all aids having a direct impact on costs or prices, or which would result in capacity increases;
   b. favouring instead subsidies for collective projects, reductions in installed capacity, shifts in product orientation away from competitive lines, and vertical integration or horizontal concentration; and
   c. discouraging investment subsidies, even when their objectives were to be modernization, except where severe social conditions prevail, and then only if their application were temporary, limited to seriously affected areas, targeted to firms with difficult restructuring problems and granted only after an assessment of the Community's interest.

Since 1969, the Commission had been involved in a series of actions concerning the impact of state aids on competition in the textile industry[21]. In June 1970, it expressed certain reservations about Italian draft law N° 1011 granting reductions in the social security contributions paid by textile firms[22]. This marked the beginning of a continuing tug of war between the Commission and the Italian government which served to define the practical limits of the 1971 guidelines. The major issue surrounding Law 1011, adopted on 1 December 1971, concerned point 4-a. above: the Italian aid would have a direct incidence on operating costs and, therefore, on prices and competition[23]. On 31 July 1972, the Commission simultaneously allowed the Italian government to extend an extraordinary aid programme to industry in certain areas seriously affected by the current economic crisis, and opened procedures against Law 1011 under Article 93-2 of the Treaty[24]. A year later, the Commission issued an Interim Decision abolishing the specified reductions

in social charges benefitting the industry, arguing that[25]:

> "The aid in question is operating aid to which the Commission is generally opposed on the grounds that it is not an effective incentive to recipient firms to carry out the necessary reconversion operations. In the particular case of the Italian textile industry, the operating aid is not consistent with what should be the aim of resolving the structural difficulties apparent in certain branches or firms, since it is granted indiscriminately to all textile firms. Furthermore, this type of aid is liable to have a direct effect upon competition and intra-community trade, since it is reflected immediately in the cost price and, consequently, in the competitiveness of firms..."

The Italian government appealed the decision to the Court of Justice and was turned down on 2 July 1974. Law 1011 was subsequently ammended, and on 7 March 1975, the Commission closed its case on the basis that the modifications adopted by the government rendered the programme compatible with the Treaty[26]. Thus, a major keystone of the Community's policy on restructuring was firmly established.

A second area of conflict concerned the competitive effects of large-scale governmental intervention through state holding companies. First raised in early 1972 upon the creation by Italy of GEPI, a holding company designed to enter into salvage operations particularly in the textile industry in the Mezzogiorno, the issue was highlighted in a statement by Mr A. Borschette, the Commissioner responsible for competition policy where he claimed that "the Commission is paying close attention to the effects on competition of temporary holdings taken by State-controlled bodies..."[27]. The first skirmish on this front took place in parallel with the action on Law 1011, as the Commission also opened procedures 93-2 against draft Law N° 946, increasing by 15 billion lira the budget appropriations for the Istituto Mobiliare Italiano in order to provide aid in favour of "industrial firms which are experiencing difficulties". Eventually abiding by the 1972

framework, the Italian government agreed to limit IMI loans to restructuring projects being undertaken under existing programmes or with prior notification to the Commission[28]. The Commission then closed procedure 93-2 on 24 June 1974, but left the broader question of takeovers by state-owned holding companies open for future resolution.

The third area of contention involved the granting of export aids. Here the Commission was on very solid ground as it initiated 93-2 proceedings against the Italian government in early 1976 for providing export assistance to companies in the toy, textile and footwear industries. Arguing that these measures were incompatible with the basic principles of the Common Market, the Commission decided on 8 September 1976, to require that the Italian government adopt the necessary measures to ensure that the Istituto de Commercio Estero discontinue any export assistance in sales to other member states[29]. Again, a strong precedent was established on this issue.

Not all decisions were negative nor reactive, however. In December 1975, the Commission concluded it had no objections to a British scheme of aids in favour of its clothing industry after the government assured the Commission that there was "no question of increasing production capacity". A month later, the Commission also found the Dutch government's reorganization measures for the textile industry compatible with the guideline's requirement for no capacity increases[30]. Prior to these decisions, the Commission had moved to consolidate the 1971 guidelines (which it did in January 1974) and, most importantly, to launch its first common programme on research and development for the industry. Approved in September 1974 by the Commission and confirmed by a Council decision in April 1975, the programme proposed to tackle three main projects (thermal treatment of chemical fibres, processing of textiles by organic solvents and fire-proofing) for which the Community

would contribute 250,000 UA, corresponding to one-third of the total expected expenditure[31]. With this programme, and the UK and Dutch decisions, the Commission appeared to signal an alternative to disruptive subsidy schemes in the direction of positive adjustment policies.

Unfortunately, events outran good intentions. By mid-1977, the industry was in deep crisis, particularly the fibre sector. The Commission obtained an agreement on a blanket prohibition against any aids for investment in synthetic fibres, and the Directorate on Industrial Affairs opened talks on the possible formation of a crisis cartel. Action in the clothing industry, however, was centered on the MFA negotiations. By mid-December, the European Parliament warned that "the Community textile industry can remain strong and an efficient employer only if urgent steps are taken to restrict the detrimental effects of imports from low-cost countries", and that failing a successful conclusion of the MFA unilateral action should be taken[32]. The prospects for a "gradual dismantling of quantitative restrictions" as called for in 1971 were never worse, and the task of positive adjustment policies was never more urgent.

II

NATIONAL POLICIES TOWARDS THE CLOTHING INDUSTRY

Considerable attention has been paid recently to the Community's approach to the crisis affecting textiles and synthetic fibres in particular[32]. Much less is known, however, about the problem of rationalization and restructuring in the clothing sector, although its impact on trade and employment is nearly as large as that of textiles[33]. More so than in textiles or fibres, any attempt to arrive at a coordinated approach to deal with the crisis in the clothing industry has had to contend with a very wide range of national attitudes, conditions and programmes. The very nature of the sector - many small and medium-size firms operating in a broad range of product lines - renders a homogenous approach difficult and impractical. The differences in ideology and industry performance across Europe have also contributed to the problem's complexity. Yet, two facts are common to all the six EEC countries studies: employment losses have been heavy in the post-1970 period, and the worsening industrial climate since 1974 has left little room for passive approaches that did not take into account rising social tensions. As a result, national programmes proliferated since 1974-1975 and the scope for a unified Community response diminished.

Table 1 shows the extent of the job losses experienced by the clothing industries of the six countries from 1970 through 1978. While all showed a common tendency towards decline, the figures show a marked deterioration beginning in 1974, as well as some substantial differences in the extent to which each national industry was affected.

Table 1

Employment in the Clothing Industry, 1970-1978[a]
(in thousands)

	Belgium	France	Germany	Italy	Netherlands	UK
Total Employment						
1970	77	322	374	207	49	333
1973	87	321	355	216	34	331
1978	59	266	260	201[b]	17	280
Net change in %:						
1970-1978	-23.4%	-18.4%	-30.5%	-2.9%[b]	-65.3%	-15.9%

[a]See Appendix A for sources.
[b]Data are for 1977.

This precipitous drop in activity in the midst of a general economic crisis was to elicit a similar reaction in most countries: an attempt to safeguard employment. The first element of this reaction, protection from external competition, has been discussed above. A powerful alliance of industry, worker representatives and regional politicians could easily make common cause in a more strict MFA. The second reaction, direct intervention to save jobs, was less obvious to implement, involved much higher measurable costs, and did not always have the support of a broadly-based constituency. Yet all of the six countries proceeded to intervene directly in their industries, often at a significant cost. This is not the place to examine the relative merits of each form of intervention[34]. Instead, we propose to describe the measures each country employed to deal with the situation with a view to assess the role of a coordinated Community policy.

Belgium

Badly affected by the crisis, Belgian clothing manufacturers began to pressure their government in 1974 to obtain some kind of relief. To present their case, the manufacturers used the long-standing Conseil Professionel du Textile et du Vêtement, a tri-partite body especially concerned with facilitating communication between government, industry and unions. The government's initial response in 1975 was to provide direct relief in the form of a 15,000BF interest-free loan per worker to companies in the clothing sector under several conditions. First, the companies benefitting from the loan programme must agree to maintain employment during the year following June 30, 1975, at a level of at least 90% of their labour force as of that date. Second, they had to transmit each year to the Ministry of Economic Affairs a copy of their financial statements, and must refund the loan before distributing any profits to their shareholders. The loans were payable in any case by June 1983. Subscriptions were, however, rather modest and the Commission refrained from taking any action, apparently on the basis of the gravity of the social situation[35].

The continuous deterioration of the employment and trade situation led the government to formulate in October 1977, the outline of a Safeguard Plan aimed at restructuring the clothing industry. While the Plan did not create any specific assistance instruments, it elaborated guidelines and recommended certain specific actions to improve the competitiveness of the clothing and textile industries. The emphasis was placed on high technology and non-standardized production, as the plan explicitly acknowledged that Belgian manfuacturers were unable to produce undifferentiated goods economically.

The main features of the Safeguard Plan were:

1. It called for a new and more restrictive MFA, better control of certificates of origin and of existing trade agreements, and reserving 80% of the outward processing quotas to national producers[36].
2. A second interest-free loan of 15,000BF per worker would be made available in 1978 (20,000BF per loan per worker to firms not having benefitted from the earlier loan). This new loan was to be used to pay part of the social security charges incurred by the companies. The face amount of these loans, however, represented less than 10% of the annual labour cost per worker and were reimbursable, which resulted in an effective subsidy of 1-2%.
3. The assistance provided by the Economic Expansion laws would be available only to firms rationalising their production processes within the framework of a comprehensive restructuring plan. The granting of assistance to firms which sought simply to expand production capacity would be stopped.
4. Measures to promote exports such as improved export credit facilities and subsidies given to the industry association by the Belgian Foreign Trade Office to help Belgian producers to participate in foreign fairs, and to promote Belgian products abroad.

The Commission reacted on 29 March 1978 to the Plan by initiating proceedings under Article 93-2, particularly against the interest-free loans. The Commission argued that its adoption infringed on the notification provisions of Article 93-3 and that there was insufficient information on the selective criteria to be applied (if any) to the granting of assistance.

Soon thereafter, the Commission spelled out its requirements on selectivity, adding that any firm benefitting from the loans would have to accept a timetable for reconversion, that the government must announce a general programme of restructuring for the sector within six months and that there should be no compounding with other assistance schemes (eg. regional programmes). On 2 March 1979, after noting the Belgian government's acceptance of these conditions, procedure 93-2 was closed[37]. In order to fulfill its obligations, the government then launched a major study of the clothing sector by an international consulting firm to aid it in developing criteria for selection. This study, as well as other aspects of the Plan calling for the creation of a specific administrative structure within the Department of Economic Affairs, was still pending in early 1980. Yet, Commission officials were confident that an effective 5-year plan to restructure the sector would soon emerge[38].

France

Since the controversy elicited by the parafiscal tax imposed by France on sales of certain textiles in the late 1960s, modified after a negative Court of Justice decision in 1970, no new action had been undertaken by the French government in direct support of the industry. This was partly due to the strong position of the clothing industry in terms of its international performance throughout the period. By 1973, French net exports of clothing represented 9% of domestic consumption, up

from 7% in 1970; also French goods enjoyed a reputation unsurpassed for qulaity and design. It was felt that this distinctiveness would more than compensate for high costs and the stable employment figures shown in Table 1 verified this. After the crisis, however, both French employment and net trade in clothing deteriorated rapidly. The government's reaction consisted primarily of providing strong support to the industry's demand for protection in the 1977 MFA negotiations[39]. Other than this, clothing firms could make use of general programmes aimed at productivity improvements, and benefit from general and regional industrial development schemes.

Among the various schemes offered by government agencies, reduced-interest loans for investment by small firms were the most significant for the clothing industry. In 1976, for example, nearly 10% of all loans granted under this programme benefitted clothing and textile firms (40 million FF out of 460 million FF). Although assistance was granted only in relation to a restructuring programme presented by the firms, the grants represented a significant proportion of total investments by the clothing industry of nearly 600 million francs during the same year. In addition, a total of 508 million FF in premiums were granted for regional investment programmes in 1976, fostering the creation of 35,700 new jobs, and 4.5 billion FF of private investments benefitted from tax reliefs, creating another 31,365 new jobs. Clothing firms received about 9% of these, which was not out of proportion with their economic significance.

Increases in value added per worker during the 1970s had not been particularly impressive among French clothing manufacturers. The government's response centered on CETIH (Centre d'Etudes Techniques des Industries d'Habillement), a research institute established in 1948 and financed by a

special parafiscal levy on the domestic industry (covering 60% of its budget), governmental subsidies and corporate research contracts and services. The Centre's programmes focused on improving productivity through product quality, the organisation of production and manufacturing technology. To diffuse its findings and better assist firms in their implementation, the Centre ran a number of training programmes for all levels of management in the firms, and offered help directly to any firm requesting assistance[40].

None of these programmes had been subject to objections on the part of the Commission, either because they conformed with the guidelines set for state aids to industry in general, or to clothing in particular, or because the amounts and impact were judged of insufficient importance. In December 1979, however, the Commission started 93-2 proceedings against an amendment to the French regional development aid scheme and, most important, against a draft Decree proposing an aid scheme for the textile and clothing industries. The scheme, about which little was yet known, would be funded by a single parafiscal charge levied through the VAT machinery; it would finance joint research (CETIH and others) and "facilitate the modernisation of textile and clothing firms with a view to improving competitiveness". Presumably, the Commission wanted to ascertain that the scheme was in accordance with its sectoral guidelines[41].

Yet, the Commission had been surprisingly quiet on an "arrangement" sponsored by the French government in February 1978. Noting the existing imbalance between manufacturers' and retailers' profit margins (a retail margin of 60 to 80% was common practice for standard goods, and higher margins prevailed for goods with higher fashion content), the government felt that this situation encouraged a proliferation of small clothing shops selling at relatively high prices while large, volume-oriented retailers turned to imported goods. With this in mind, the Ministry of Industry sponsored an agreement between the respective industry associations representing retailers and clothing manufacturers which proposed that each association would recommend to their members a series of policies that would reduce the internationalization of competition (presumably, beyond the EEC). Given the voluntary nature of the proposals, it was probably felt that they would be of little consequence.

Germany

There have been no direct subsidy schemes for the German textile and clothing industries. To conclude from this observation that the sector has succeeded in adjusting without governmental assistance is to ignore the large impact that trade protection and other general assistance programmes have had on the industry. The German clothing industry is somewhat of an anomaly in the free-trade oriented German economy. Since the early 1960s, the industry has enjoyed one of the highest effective protection rates of any sector in Germany (averaging about 21% during the early 1970s), a distinction it shares with textiles, iron and steel, non-ferrous metals and pulp and paper[42]. In addition, it has been estimated that the quantitative restrictions imposed on a large number of clothing products represent a tariff-equivalent level of protection of 45%[43]. The German government, however, has never felt

comfortable with this level of protection[44], particularly in view of its dependence on developing countries for a significant share of their export earnings and its ability to absorb displaced workers into other industries[45]. Thus, there is reason to suspect, as industry representatives have claimed privately, that Germany has been less meticulous in implementing the dispositions of the 1977 MFA than its European partners.

At the end of the American aid, German authorities utilised the infrastructure set up to channel assistance from the Marshall Plan for their own assistance programmes. This was made possible by a law voted in 1953, the ERP-Development law, which grouped under its umbrella all governmental intervention towards industry. In 1978, total assistance under the ERP-Programme amounted to DM 3,365 million, 95% of which was distributed through five main programmes: assistance to small businesses (DM975 million), assistance to structural adaptation (DM412 million), an environmental control programme (DM365 million), special aids for Berlin (DM703 million) and export promotion and development assistance (DM725 million). The proportion of these funds allocated to the textile and clothing industries varied from year to year, but one estimate is that between 1969 and 1972 as much as 45% of the available funds were granted to the two sectors, a figure disproportionate to their economic weight by any measure[46].

Each province (or Land), however, enjoyed substantial latitude to manage its own industrial assistance programmes. Subsidies to industrial investment and loan guarantees to firms not able to borrow directly from commercial sources were standard features of these programmes. There were more than 108 different programmes run by the eleven German provinces in 1978. Table 2 summarizes the main areas of activity covered by these programmes for each province. It is difficult

to assess the impact of all these programmes on the evolution of the industry without further detailed studies. One can note, however, the particular emphasis of the Bavarian programmes towards assistance to small firms to promote both investment and exports, which may partly explain the exceptionally good relationship of the clothing industry to this province[47]. Since all regional programmes were managed locally, they favoured small firms that might otherwise be scared away by the cumbersome administrative framework surrounding national programmes. The federal organisation of the German State appeared to be favourable to the survival of small firms, a fact that had, thus far, escaped detailed attention by the European Commission.

Table 2

Germany: Main Assistance Programs Run by the Provinces, 1978

		Baden-Wirttemberg	Bayern	Bremen	Hamburg	Hessen	Niedersachsen	Nordrhein-Westfalen	Rheinland-Pfalz	Saarland	Schleswig-Holstein
Industrial Investments	Subsidies	X	X	X	X	X	X	X	X	X	X
	Loans		X		X			X			X
	Interest subsidies										X
Small Firms Investments	Subsidies		X								
	Loans	X	X			X	X	X		X	X
	Interest Subsidies			X	X		X		X		
R&D subsidies		X						X			
Export guarantees		X					X		X		
Export guarantees for small firms			X							X	
Loan guarantees		X	X	X	X	X	X	X	X	X	X
Liquidity assistance to small firms		X									
Employment creation subsidies								X			

Italy

The Italian economic miracle of the 1960s had begun to show signs of stress by the decade's end; and the severe regional problems in Central and Southern Italy were already fostering a turbulent set of conditions for industry before the 1973-1974 crisis. In 1961, 22.9% of clothing employment was located in the South. After a decade of special programmes to promote industrial development in the Mezzogiorno, only 18.5% of clothing employment could be found there. As growth began to slow down in the early 1970s, the industry, with its high labour incidence and regional significance, became the object of many direct interventionist policies by the government, as well as the beneficiary of general laws designed to encourage industrial activity in general and in the South in particular. The most significant mode of intervention, however, one that was unique among other EEC countries, was the high level of direct state participation in the industry through the acquisition of bankrupt and failing companies.

The direct intervention by the state in the textile sector began with the acquisition in 1957 by IRI (one of the two largest state-owned holding companies with diversified investments throughout Italy) of a cotton manufacturing firm near Naples which had lost over 10 billion lire between 1950 and 1955[48]. In 1962, the Italian petrochemical giant holding company, ENI, acquired Lanerossi, one of the most important textile-based groups in the country headquartered in Venice. ENI's diversification strategy was soon subject to the difficulties experienced by the textile sector since 1969, and the object of increasing pressures for state intervention. Numerous salvage operations took place between 1969 and 1973 during which time the Lanerossi group volume of operations

more than doubled to over 200 billion lire in sales and over 23,000 employees. By 1977, this group controlled about 8.5% of Italian wool textile production, 4.5% of clothing production, and 2.3% in cotton goods. The clothing sector alone accounted for about 32% of sales and 45% of employment of the Lanerossi group.

During the late 1960s, there was considerable debate in Italy as to the appropriateness of the traditional salvage approach undertaken by the government in other industrial sectors. The result was the creation of Gepi, a public financial holding company, owned by IRI, ENI and two other state holdings, whose task was to devote itself exclusively to salvage operations. Gepi was to acquire companies in bankruptcy, put into practice a restructuring or reconversion plan, and resell the companies to private owners as soon as possible. Soon after its creation, a considerable proportion of Gepi's resources were directed towards the textile and clothing sector in both central and southern Italy. Political pressures became paramount as the recession deepened in 1975 and elections were called. The original limits placed on Gepi that it should not acquire more than 30 companies were soon forgotten. By late 1975, it owned 110 bankrupt enterprises employing over 40,000 people of which about 50% were in the textile and clothing industries.

As Table 3 indicates, losses at both the Lanerossi and Gepi clothing groups were staggering through 1977. Their combined losses in 1977, on a per capita basis, represented approximately 52% of their average labour costs. It was not surprising, therefore, that the loudest ctiticism of the State's public holdings (which had reached 11% of total clothing industry employment by 1978) came from the private sector, which claimed they were unable to compete on an even basis with these heavily subsidized firms. The Commission, on the other hand, heavily preoccupied by the rescue efforts for the synthetic fibre sector,

Table 3

Public Ownership in the Italian Clothing Industry, 1974-1977

	ENI-Lanerossi-TESCON				GEPI			
	1974	1975	1976	1977	1974	1975	1976	1977
N° of companies owned	4	5	5	n.a.	21	24	n.a.	n.a.
N° of employees	8678	10686	10468	10371	9093	8566	8400	8021
Sales (billion lire)	46.4	56.8	104.2	129.8	45.5	52.4	69.0	98.0
Net losses (billion lire)	2.0	10.7	11.0	44.0	10.4	19.5	14.1	12.8
Margin on sales (%)	(4.3%)	(18.8%)	(10.6%)	(33.9%)	(22.9%)	(37.2%)	(20.4%)	(13.0%)
Losses per employee:								
- (million lire)	L 0.23	L 1.0	L 1.05	L 4.24	L 1.14	L 2.28	L 1.68	L 1.60
- (dollars)	$ 355	$ 1536	$ 1263	$ 4810	$ 1760	$ 3491	$ 2018	$ 1809

Source: "Risultati delle aziende pubbliche italiane del settore abbigliamento", Associazione Italiana Industriali Abbigliamento, February 1979.

had not pursued its earlier concerns about the growth of state-holdings and their potential impact on competition.

In August 1977, a new law (No. 675) was adopted to replace most existing legislation dealing with industrial expansion and adjustment, particularly Law No. 1011[49]. It created a new inter-ministerial body, CIPI, in charge of coordinating industrial policies and responsible for its administration. The new legislation established a Fund for industrial restructuring (2,630 billion lire or about $3 billion over 3 years) and a Fund for improvements in labour mobility. The law also reorganised the structure of direct public intervention in industry, limiting, for example, Gepi operations to the South of the country. In December 1976, the Commission opened proceedings under Article 93-2 against the Industrial Reconversion Fund. By December 1977, however, the Italian government had agreed to keep the Commission informed on CIPI's criteria for allocating the Fund's resources, on actual annual disbursements, and on the sectoral and regional distribution of all such grants[50].

One of CIPI's first tasks was to sponsor a study of the clothing and textile industry, published in June 1978 under the title "Sistema Moda". The future strategy, according to the report, should be based on the quality and creativity of the fashion "Made in Italy", and on a diversification programme into new product/market niches. The industry's structure should evolve towards greater integration of financial and commercial functions together with greater scale and specialization at the plant level. To achieve these goals and to maintain the level of employment and the trade balance surplus, the following

measures were proposed:

- the fiscalisation of social charges (ie. their absorption into the general tax system) and a stronger enforcement of fiscal and labour legislation; and
- credit facilities to encourage diversification of clothing and textile firms within and outside the sector. These facilities would be granted only under the condition that inefficient plants be closed down and that requesting firms certify that they are not investing abroad in outward processing plants and are observing all relevant tax and labour laws.

A third element of Italy's policy of structural assistance consisted of a special fund designed to keep workers at their posts through periods of temporary slack. The Wages Integration Fund (Cassa de Integrazione Guadagni - CIG) provided up to 50% of the workers' wage losses for a maximum of one year over any two-year period in case of either redundancy or short hours, provided they were retained as employees by their companies. The number of man-hours thus subsidized had increased drastically through 1978 (about 3.5 million per month), particularly in the clothing and footwear industries. Later that year, the Italian government introduced a scheme to reduce the burden of employers' contributions to health insurance which followed the general lines of CIPI's strategy. The scheme, however, favoured female employees by granting their employers a much larger exemption (64.000 LIt per month vs. 24,500 LIt for male employees). The Commission considered the differential treatment to be a "state aid within the meaning of Article 92-1 of the Treaty" since it

would reflect positively on firms in the textile, clothing and footwear industries which were predominantly employers of female labour. Therefore, in December 1979, the Commission opened procedures under 93-2 against the tax-relief programme[51].

Netherlands

Until the end of the 1960s, any assistance provided to industry by the Dutch government was intended to promote certain broad economic objectives, particularly the expansion of industrialization. Beginning in 1970, a number of industrial sectors showed signs of declining competitiveness which induced the government to reconsider the scope for assistance to these ailing industries. As a first step, a series of sectoral analyses were launched in order to recommend appropriate intervention programmes. A 1972 report on the prospects for the clothing industry predicted that trade with developing countries would expand on a broad scale. Since "the Netherlands play a leading part in promoting trade with LDCs because of its traditional free-trade policy, its many ties with overseas countries and... because the Netherlands are a gateway for the entire North European foreign trade", protection was judged unlikely. Outward processing, competing with imports and not with home production, should be given preferential treatment, according to the industry's view, in addition to some general measures to improve productivity, export sales and employment[52].

The recommendations of the 1972 report were not designed to cope with the near collapse of the industry occuring after 1973. The employers and the unions asked the government for immediate assistance, and established a tri-partite group of advisors called the "Steering Group". The group published its recommendations in a 1974 report in which they advocated drastic limitation of imports, quantitative restrictions on outward processing, financial assistance from the government, wage subsidies,

and subsidies for phasing out non-viable firms. The proposed programme, if implemented, would have represented a financial burden of 60 million fl. for the government over three years. After much debate the following set of measures emerged from these discussions:

1. A subsidy of 1000 fl. per worker (about 6% of average yearly labour costs) was granted to clothing firms under the condition that they would not decrease employment during 1975 by more than 10%. A total of 20.2 million fl. was granted under this scheme. The following year, a 600 fl. subsidy was granted under the same conditions, leading to additional disbursements by the government of 11.4 million fl.
2. A licensing system was set up to control imports of clothing from outside the original six EEC countries.
3. A tri-partite organisation, WERCON, was created to facilitate re-employing dismissed clothing workers within or outside the industry, and a second tri-partite body, STRUCON, was charged with improving the clothing industry's structure.

The members of STRUCON were the employers, the unions, the concerned Ministries and NEHEM. This last organisation was also a tri-partite body, founded in 1972 as an independant foundation, funded by the government to promote and restructure industry in the Netherlands along more competitive lines. NEHEM's roles were to provide the necessary analysis, act as the operational and administrative arms, and define the lines along which the restructuring of the industry would take place. Final decisions, however, were left under the responsibility of STRUCON. NEHEM divided the industry into seven main branches and prepared a report for each one. The main purpose of these studies was to judge and guide the adjustment plans presented by individual firms in order to benefit from the financial assistance that would be made available. Once a

company's plan would be approved by STRUCON, assistance would be channelled through two schemes:

1. The Kaderregeling Confectie-Industrie had been adopted in 1976 to improve productivity and product quality, decrease production costs and promote cooperation between firms. The instruments employed were credit facilities and subsidies for projects of more than 50,000 fl. for machinery, equipment and consultant expenses (the subsidies were limited to a maximum of 20% of the expenses incurred and could not exceed 250,000 fl.).

2. The Aktieplan Confectie-Industrie established an agreement procedure between NEHEM and the companies, and provided flexible assistance instruments which included subsidies of 40 to 50% of expenses related to an approved restructuring effort, the capacity to facilitate and expedite any subsidies granted through the Kaderregeling scheme, and subsidies of up to 66 2/3% of the cost of general interest projects undertaken directly by STRUCON in areas such as R&D and technological improvements, automation, improvement of work methods and working conditions, new product/ market research, export assistance, etc.

The budget earmarked for these schemes amounted to 15 million fl. for the Kaderregeling for the 1976-1978 period (an additional 10 to 15 million fl. was allocated for 1979-1980), and 11.5 million fl. for the Aktieplan for the 1979-1980 period.

On 26 October 1977, the Commission opened procedures under 93-2 against the Dutch programmes for the clothing industry. It argued that it was the third such measure since 1975 and that, although its aims appeared to be in line with the Commission's objectives, insufficient details were available

for a judgement to be made on what the competitive effects would be. The Dutch government responded with assurances that the scheme was not designed to create new capacity or support inefficient firms and agreed to maintain the Commission informed on the application of the scheme during the 1978-1980 period, particularly in terms of the number of firms aided and the size and number of investments undertaken. On 27 October 1978, the Commission lifted the procedure and permitted the schemes to go into operation[53].

The depth of the recession moved the government to intervene in other ways in order to sustain employment. To this end, the Employment Fund was created in 1974 to provide loans without guarantee and capital assistance to ailing firms, especially in depressed regions and not linked to any restructuring programme. In addition, all existing programmes aimed at promoting investment in the Netherlands had been consolidated in April 1978 by the Investment Account Bill (Wet Investeringsrekening or WIR) which encompassed many different measures dealing with employment, small-scale enterprises, regional development, town and country planning and other major projects[54]. Clothing firms had not made much use of this legislation, however, since the terms of the Kaderregeling and Aktieplan were more favourable to them.

United Kingdom

Britain has probably the longest history of intervention in the textile sector dating from the adoption of the Cotton Spinning Act of 1936. This attempt at industry rationalization, also aimed at reducing excess capacity, was followed by various other measures in the early post-war years, none of which managed to deal effectively with the problems of surplus capacity. The 1959 Cotton Industry Act was the first comprehensive programme of adjustment assistance which clearly "intended to help the industry to adapt to new circumstances in which large-scale imports were a fact of life"[55]. This programme succeeded in reducing considerably the industry's capacity, but it did not halt the continuing decline in employment and trade which had been in evidence since 1924.

The economic situation in Britain in the mid 1970s was probably as serious as at any time during recent history: its external sector was dangerously out of balance, industry was in disarray, inflation ran at more than 25% annually, and unemployment continued to rise. Within this context, the clothing industry was able to benefit from a series of governmental measures of an emergency nature as well as from a general sense that a coherent long-term strategy was essential to overcome Britain's economic malaise. Four major aspects of the evolving relationship between the industry and the government deserve note.

The first measure corresponded closely to similar programmes adopted in Belgium, Italy and the Netherlands, as described above, whose intent was to preserve employment. The Temporary Employment Subsidy was an emergency measure adopted by the government in August 1975, in order to encourage companies to deter or at least defer threatened redundancies affecting 10 or more workers in any given establishment. The programme made a direct grant of £20 per week for each worker kept in full-time employment who would, in the absence of the subsidy, otherwise be made redundant. The subsidy was payable for a full year at its normal rate and extendable for six months at £10 per week. In December 1975, the Commission declared it had no objections to the TES as long as the structure of beneficiary firms were sound and the programme were temporary in nature[56]. It soon became clear, however, that the textile and clothing industries were the major beneficiaries of the TES. Nearly half of all TES applications received through July 1978 came from these sectors and payments to them under the job support scheme totalled more than £100 million in the first three-year period under operation. It was estimated that more than 80,000 workers in the textile and clothing industries (or just under 10% of total employment in both sectors) were being kept in their jobs by the programme. Considering that annual TES payments per worker represented 59% of the average annual earnings per employee in the clothing industry (and 37% of the value added per employee), it was not surprising when the EEC Commission reconsidered its earlier position.

By the end of 1977, the Commission had raised several objections to the scheme: it had been renewed six times, TES assistance had been made available throughout the country, and the budgetary allocations had risen from £7 million in 1975 to a projected £431 million for 1978-1979. In the Commission's view the TES was maintaining firms artificially alive in declining sectors and this,

given the concentration of aid in textiles, clothing and footwear, had clearly anti-competitive effects. After three months of intensive negotiations, the Commission approved a one-year extension of TES subject to several conditions[57]:

- funding for 1978-1979 would be reduced to £135 million which compared with £222 million for 1977-1978;
- the textile, clothing and footwear sectors would be limited to £55 million (vs. £106 in the previous year) of assistance;
- for these three sectors, assistance would be limited to 70% of workers for the first six months, and 50% for the subsequent six months;
- any extension of TES beyond six months would have to be accompanied by a restructuring plan;
- new recipients were limited to a maximum of twelve months of assistance; and
- no firm or division of a firm could receive assistance more than once.

These restrictions were intended to alleviate the potential displacement effect of the programme and render it consistent with other similar decisions[58]. In addition, the Commission imposed a strict monitoring system of quarterly reports and prior notification for significant cases, and made it clear that no extension would be granted beyond March 1978. With these decisions another loophole in the Community's competition policy was effectively narrowed if not closed.

After the November 1975 launching of Britain's "new industrial strategy", a series of deliberations were held within the Clothing Industry Economic Development Committee, one of the 37 sectoral EDCs which had re-emerged under the aegis of the NEDC-NEDO complex. The tri-partite clothing EDC developed a sectoral strategy whose aims were:[59]

"-continuing to accelerate improvements in productivity;
-ensuring an effective control over the rate of penetration of the home market (as a basis for renewed confidence for investment in the UK industry);
-a concerted approach to expand exports substantially."

There were a number of aspects to the EDC's strategy, the kingpin of which was the Clothing Industry Development Scheme (CIDS) introduced in late 1975 under Section 8 of the 1972 Industry Act[60]. The Scheme sought to encourage production rationalization and a greater concentration of activity in more efficient units without an increase in available capacity. Financial assistance was made available at varying rates for consultants services, new machinery designed to increase productivity and projects involving reorganization or restructuring.

The CIDS was to operate selectively using as criteria a judgment by the Department of Industry as to whether the project under consideration was consistent with the objectives of the industry strategy "was commercially and technically viable, was appropriate to the firm's resources, and will significantly improve productivity and efficiency." The government allocated £20 million to CIDS to subsidise 50% of corporate expenditures in the first category above (consultants) and 20% (later increased to 25% after December 1976) in the latter two (hardware and restructuring). It was clear that by the closing date of 31 December 1977, enough applications had been received to guarantee that the full amount allocated would be spent. By the end of 1979, it was expected that the industry would have invested over £50 million to

supplement the government contributions.

The existence of the Clothing EDC provided a platform for the creation in 1978 of the Clothing Industry Productivity Resources Agency (CIPRA) which was to harness and develop the technical research available to the industry from many different fields. With a five-year initial funding of £450,000 from the CIDS, CIPRA was to act as a broker for services and a communications centre promoting marketing, product and technical research and innovation. CIPRA was expected to become partially self-financing after an initial 3-year period when its modest fees were expected to cover 50% of its costs.

Import protection was the third element in the government's approach to the industry[61]. The basket provisions and trigger import levels included in the 1977 MFA had been major victories for the industry which did not view the arrangement as being protectionist, but rather as permitting "an orderly expansion of imports" at rates "greater than the growth in the domestic market". Evidence of the government's determination to ensure that the agreements were enforced was the sympathetic reaction of the Department of Industry to the requests for action put to them by the British Clothing Industry's Council for Europe when trigger levels or other limits stipulated by the MFA accords had been exceeded. Based on analysis of imports in January-March 1978, the first three months under the new agreement, the industry found 93 instances (product categories) involving 27 countries which were judged as import areas of current concern. The Department agreed to either exert pressure on the EEC to operate the basket extractor mechanism and introduce quotas (eg. imports

of trousers from Singapore, India and the Philippines), open bilateral negotiation with certain countries (eg. Malta and Portugal), or continue to survey the situation closely. This close support contrasted sharply with the situation described above as applying in Germany.

Finally, there were a number of general and regional development programmes available to clothing firms. The 1972 Industry Act had provided significant resources to industry (over £2 billion) since its inception either for job creation (Section 7) or regional development (Section 8) In general, however, clothing firms had made little use of these programmes (£19.5 million, or less than 1% of the total) due to their relative small size, their inability or unwillingness to deal with the required paperwork, and a regional distribution not heavily biased towards the special development areas qualifying for benefits.

III

THE PROSPECTS FOR A COMMUNITY APPROACH

The diversity of programmes and approaches exhibited by the countries above are nonetheless often punctuated by common objectives. This in turn seems to have led member governments over time to emulate each other, either as a way to deal with problems which were common to all or in response to each other's competitive moves. Such an escalating effect has been very much present in the Commission's proclamations on the competitive impacts of state aids throughout the last decade. In walking that thin line between a system gone out of control and recognition for the legitimate needs of states to ameliorate social conditions, the Commission has had recourse to occasional lapses in its vigilance over the competitive system. In general, however, it has succeeded in limiting the scope of subsidies to certain specific instances, and it has more or less consistently applied its guidelines to the broad range of programmes that the member governments have conceived to deal with the crisis of their respective clothing industries.

Clear precedents have been established in a number of areas beyond those discussed earlier: prohibitions on the use of parafiscal taxes and export subsidies, and limitations on any subsidy that results in capacity expansion[62]. Perhaps the most problematic, yet straight-forward issue confronted by the Commission since 1973 has been the attempt by almost all governments to protect employment by direct means. That issue first surfaced in Belgium, Britain and the Netherlands in 1975 under different forms, all of which were designed to keep redundant workers in their jobs. It soon escalated in terms of the level of support involved and through its continuous use. The Commission was faced with a series of programmes that although clearly based on short-term social problems, were having a dramatic sectoral impact, either by design or

coincidence. Forced to intervene on these grounds the Commission appeared to compromise on a policy whereby employment maintenance programmes were judged acceptably only under two conditions: that they are truly temporary, and that their sectoral impact be clearly controlled. The more recent decisions on the Irish EMS (see footnote 58) and Italy's CIG programmes confirm it. Yet one aspect of the issue remains open: the role of state holdings in maintaining employment artificially, a problem the Commission has been unwilling to tackle directly.

A second common thread in the national experience has been the relatively poor utilisation of regional schemes by the clothing industry, with the possible exceptions of Belgium and France. Even in Germany, it was the various Land programmes that seemed to be utilized effectively, and not the federally-run regional assistance schemes. This is regrettable for two reasons. First, local aid programmes appear to be more suited to a critical problem of adjustment, that is, transferring resources to other economic activities within the region; priorities can be more easily established and control exercised. Second, there is an acceptable justification for regional aid -income distribution- which is not as clearly evident in sectoral programmes or which at least is confused by questions of efficiency and distortion of competitive forces.

Also there seems to have been a veritable explosion of sectoral studies in the last five years. Under the constant badgering of the Community and the evident need for sound restructuring criteria, each country's adjustment programme has required a realistic assessment of the domestic industry, its strengths and weaknesses, and its potential for adjustment. Italy's Sistema Moda and the Netherlands' sectoral studies are probably the most complete

efforts in this direction, although Belgium's forthcoming analysis promises to be comparable. If nothing else, the preparation of these studies has helped raise the consciousness of domestic firms to the adjustment problem, improve the data base available to all, and increase the likelihood of a more adequate cost-benefit analysis on protection and subsidisation.

The Community's Policy, 1978-1980

In balance, therefore, one can say that the EEC Commission has succeeded in limiting the abuse of state aids by its member governments in a declining sector with one of the highest potentials for social disruption. The positive balance, on the other hand, is less impressive. Considering only the clothing sector, the Commission has proceeded recently along three dimensions: further elaboration of its industry guidelines to encourage restructuring, launching two common programmes (research and information), and serving as a forum for consensus.

The first and only attempt to date by the Commission to influence directly the adjustment process concerned its recommendation in September 1976 for a concerted approach to the ladies' stockings and tights sub-sector. Excess capacity at the time was estimated at 45% of installed capacity, and the Commission began a series of consultations with member governments on how to limit or reduce capacity in the sub-sector so as to avoid the threat of destructive price competition. Since then, the Commission's attention shifted to the crisis in the more important synthetic fibre sector where a number of crisis plans were elaborated, none of which fully satisfied the Competition Division.

A number of important steps in this direction were taken in 1978. In May, the Commission sent to the Council a Communication[63] outlining its policy on industry aid schemes. It underlined the three basic principles that aid should be only of an emergency nature, it should not remove the element of risk to the private capitalist, and it could not preserve the status quo. Two months later the Commission re-interpreted its 1971/1974 guidelines and sent to the Council a document entitled "General Guidelines for a Textiles and Clothing Industry Policy". The report confirmed the Commission's position on all major issues established throughout the 1970s and re-affirmed its commitments to three objectives[64]:

> "1. Companies' own industrial drive (is) the prime mover of progress and adaptation in the industry... This implies close coordination between the policies of the Member States and adherence to a framework of aids (that) do not distort the conditions of competition but do facilitate the necessary adaptations.
>
> 2. Greater competitiveness... might in some instances require cuts in the present number of jobs. It will, therefore, be necessary to provide aid for converting undertakings, job creation, retaining and other social measures...
>
> 3. The industry must be fully integrated into the international trade system..."

On this last point the document insisted that "the very stringent agreements (negotiated in the MFA) give the Community industry a breathing space until 1982 - an opportunity which it <u>must</u> use to launch, or speed up, its efforts to adapt to the conditions of both Community and international competition", and that "there is no doubt that workable competition is the fastest and most reliable instrument for adapting an industry made up of so many undertakings".

With this in mind, the Commission has intervened directly whenever it saw instances of market failure obstructing adjustment, due precisely to the small size and large numbers of firms in the clothing industry. One such area is research and development. In April 1979, the Commission launched the second common R&D programme covering five areas (garment physiology, knitted fabrics, wool spinning, upgrading of linen usage and pollution control) over three years. The Commission allocated a budget of 8 million EUA to which industry contributions would be added[65]. By early 1980, after extensive industry consultations, a third programme was in preparation covering six major themes over 3-4 years. The emphasis on this programme was to be on operations (eg. reducing idle time and microprocessor applications) for which a major consulting firm had been engaged. With a Commission contribution of 15 million EUA from 1982 onwards, the programme was expected to yield significant productivity increases with concomitant losses in employment.

The second area for community action was "improving the flow of economic and commercial information" that would enable firms to assess their own strategies for adjustment. The various national studies cited above have been useful, but an on-going effort to collect and harmonise industry data had been under discussion for some time. In 1978, the Commission proposed a quarterly report with up-to-date, detailed production and consumption data. Again, after extensive consultations, it appears that a data bank will soon emerge organized by the Union Textile de France with the collaboration of the Commission and both major industry associations.

In both of these areas, as well as in preparation for the forthcoming negotiations for the 1981 MFA, the Commission, under the leadership of Commissioner Davignon, has launched a major series of meetings and consultations between EEC officials, academics and industry and labour

representatives in all branches. Beginning in November 1978, over a dozen official meetings have dealt with the selection of topics for research, the development of the information data bank, the MFA and its renegotiation, the level of Community funding and a number of specific problem areas such as the issue of country of origin and the problems that may be posed by the Community's future enlargement. The impact of these meetings seems to have been extremely positive in both directing the Community programmes and reinforcing a feeling of accomplishment and progress.

The Choices for the Future

In her analysis of the British experience with the textile and clothing industries, Carloline Miles concluded that adjustment assistance was useful and effective in facilitating the contraction of declining industries, but less appropriate to solve the problems of diversification and resource occupation[66]. These are truly two different aspects of the problem requiring diverse approaches, and it is critical that the Commission's policies bear it in mind.

The first task calls for a delicate balance between policies designed to ease the movement of resources from the industry, and measures that will encourage defensive actions and investments by those firms in the sector with the best chances for success. Protection is of course the preferred vehicle for achieving an "orderly" transition, but, in addition to its allocative and distributive costs, it lifts the necessary adaptive pressures from all firms in the sector. This is particularly the case if the expectation of industry is that protection will be extended as long as the adjustment has not been completed. The renewal of the MFA in 1977 and the expectations of its renegotiation for 1978 have removed an important motivational tool from the Community's arsenal for adaptation. A longer-term, finite period of transition should, therefore, be incorporated in the 1981 agreement and accompanied by

measures that will assist those worst affected. The latter is fully within the scope for national programmes that can aid in scrapping old capacity and in providing relief to displaced workers. Early retirement plans, relocation and retraining assistance and other specific programmes of this nature can ease the pain of the adjustment process without affecting either competition or resource allocation.

There is room also, within the adjustment process for positive policies that will correct market failures or encourage defensive investment. The clothing industry offers a good illustration of these in the areas of innovation and information. More could probably be done to facilitate mergers and rationalisation through better information and fiscal incentives, without running afoul of competition restrictions, in such an atomistic sector. The Commission appears to have made a good start in this direction. The future should see a somewhat larger trade stick to go with the carrot of community funding for common interest programmes.

The second task, to promote the diversification of industry into new areas of economic activity, is much more complex. Sectoral policies are ill suited to deal with this problem, as the conditions prevailing in each industry, country and region are significantly different and peculiar to each instance[67]. At the limit, adjustment is a regional problem, not a sectoral problem. There is clearly no adjustment "problem" in areas with high rates of economic growth and scarce resources, at least, not a long-term problem calling for any intervention. But when certain regions already characterised by weak activity and under-utilisation of resources and dependent on a few sectors suffer a major setback in one of these sectors, the nature of the problem changes drastically. Thus, the vehicle to deal with the question of reallocation of resources should be the Community's regional policy. That an industry such

as clothing, with a high content of semi-skilled labour, becomes non-competitive in the central areas of Europe should not be surprising, nor is it an indication that the same applies to the periphery[68]. A certain natural displacement of industry should occur within the Community and not only internationally.

The Commission's role here is very difficult and has not been clearly stated. Its position, most recently confirmed in its action against the French scheme in December 1979, is that regional policies must not alter the basis for sectoral competition. In the case of heavy regional dependence on the affected sector, the Commission proposes to guard against any "displacement" effect that will transfer the problem to competing firms in other countries' central areas. The objective of any regional policy is to facilitate the development of new activities in economically depressed regions. Would not the argument also apply to safeguarding or revitalising old activities[69]. Should the periphery not be favoured in maintaining whatever portions of mature industries will remain within the industrial world?

The experience of Britain, France and Germany seems to indicate that locally managed programmes yield the best results in transferring resources to new activities. Obviously, national guidance and assistance (eg. in attracting foreign investors) and special infrastructure programmes can be of great importance. Programmes that aid specially small and medium size enterprises with venture capital and other incentives are also likely to facilitate this process. The Commission needs to re-examine its role vis-a-vis these programmes, irrespective of their sectoral impact, and look for greater reliance on regional schemes to attract new economic activity or restructure old ones to the periphery. Whatever the balance struck, the principles of transparency and measurability must be maintained. Only then can the costs of alternative policies be made explicit, and the choices enlightened by public debate.

Notes

[1]See, for example, Michael Adler, "Specialization in the E.C.S.C.", Journal of Common Market Studies, Vol. 8, No. 3 (March 1970), pp. 175-191; and, for the earlier period, Louis Lister, Europe's Coal and Steel Community (New York: Twentieth Century Fund, 1960).

[2]J.E.S. Hayward, "Steel" in Raymond Vernon (ed.) Big Business and the State (Cambridge: Harvard University Press, 1974), p. 269.

[3]For an excellent summary of the history of protection in the steel industry in Europe, the United States and Japan, see Ingo Walter, "Protection of Industries in Trouble - the Case of Iron and Steel", The World Economy, Vol. 2 No. 2 (May 1979), pp. 155-187.

[4]Bulletin of the European Communities (hereafter Bull.EC) No.12, 1976, points 2257-2259.

[5]The Economist, 12 February 1977, pp. 81-86.

[6]Bull.EC 12-1977, points 1.1.1.-1.1.4.

[7]The Economist, 24 November 1979.

[8]Bull.EC 12-1979, points 1.1.1.-1.1.6. For a critical view of the steel cartel and its impact on welfare see Kent Jones, "Forgetfulness of Things Past: Europe and the Steel Cartel", The World Economy, Vol.2, No.2 (May 1979), pp.139-154. A more optimistic view can be found in The Economist, 12 April 1980, pp. 72-73.

[9]See, US International Trade Commission, The History and the Current Status of the Multifiber Agreement (Washington DC: US Government Printing Office, January 1978.

[10]For a detailed account of the negotiations on the 1977 agreement and each party's position see Chris Farrands, "Textile Diplomacy: The Making and Implementation of European Textile Policy - 1974-1978", Journal of Common Market Studies, Vol.13, No.1 (September 1979), pp.22-39.

[11]In a major trade policy statement, the Commission argued that "since 1971, 370,000 workers have left the textile industry and 160,000 have left the clothing trade" and that "the main cause lies in the rapid growth of imports". See Bull.EC 7/8-1977, points 1.5.1.-1.5.3.

[12]Bull.EC 6-1977, point 2.2.24; and 7/8-1977, point 2.2.37.

[13]See, for example, Official Journal L348 and L357 (1977); and L42, L96 and L212 (1978).

[14]For a detailed analysis of the Community's competition policy, particularly with respect to the textile industry, see J.S.Chard and M.J.Macmillen, "Sectoral Aids and Community Competition Policy: The Case of Textiles", Journal of World Trade Law, Vol.13, No.2 (March-April 1979), pp.132-157.

[15]European Commission, First Report on Competition Policy (Brussels, April 1972), pp. 116-124.

[16]European Commission, Industrial Policy in the Community, Memorandum from the Commission to the Council (Brussels, March 1970).

[17]Bull.EC 6-1971, Part 2, No.21.

[18]For a summary of the internal views on these issues see the opening statement to the Conference by Mr. R. Toulemon, Director-General for Industrial, Scientific and Technological Affairs at the Commission, Bull.EC 6-1972, Part 1, pp.15-39. It may be interesting to note that the Conference recognized that "If the Community accepts an international division of labour which is more favourable to the developing countries, it must also facilitate the internal structural changes that will result from this", Bull.EC 5-1972, Part 1, p.31.

[19]EC, First Report on Competition Policy, op.cit., pp.131-132.

[20]Bull.EC, 9/10-1971, Part 2, No.78 .

[21]One of the first cases concerned not the nature of the aid itself but its financing. The French government had imposed a parafiscal tax on the sale in France of certain textile products, irrespective of origin, in order to finance a research and development programme for the industry. The Commission argued that such a levy was incompatible with the free trade provisions of the Treaty: while the cost was proportionally distributed between imported and domestic production, the benefits accrued mainly to French manufacturers. Furthermore, any increase in foreign sales in France would result in a larger share of the programme being financed by non-French companies. Eventually, the Commission's position was upheld by the Court on 25 June 1970, setting a major precedent against the indiscriminant use of parafiscal taxes. Bull.EC 9/10-1969, chapter V, point 15, and 8-1970, Part 2, point 15; and EC First Report on Competition Policy, op.cit., pp.142-144.

[22]Bull.EC, 8-1970, Part 2, point 17.

[23]It should be noted that indirect labour costs (eg. social security charges, paid holidays and other benefits) represented about 47% of total hourly labour costs in manufacturing in Italy. This compared with about 40% in France, Belgium and the Netherlands, 37% in Germany, and 20% in Britain, according to a 1977 survey reported in The Economist, 4 February 1978, pp. 90-91.

[24]Bull.EC, 9-1972, Part 2, point 23. Three months later an objection was also raised to the application of the extraordinary aid procedures to all textile firms, particularly those employing more than 500 workers, Bull.EC, 12-1972, Part 2, point 19.

[25]Bull.EC, 7/8-1973, point 2114.

[26]Bull.EC, 3-1975, point 2117.

[27]Bull.EC, 2-1973, points 1401-1408.

[28]Bull.EC, 6-1974, point 2120.

[29]Bull.EC, 3-1976, point 2116; 4-1976, point 2112; and 9-1976, point 2108.

[30]Bull.EC, 12-1975, point 2133, and 1-1976, point 2111.

[31] Bull.EC, 9-1974, point 2229, and 4-1975, point 2256.

[32] See, for example, Chard and Macmillen, op.cit.; The Economist, 6 May 1978, p.96, 29 July 1978, pp.40-47, 11 November 1978, pp.58-60, and 27 January 1979, p.69; Le Nouvel Economiste, 12 December 1977, pp.55-57 and 22 October 1979, pp.62-63; and Business Week, 25 February 1980, p.66.

[33] According to the EC's own statistics (1975 industrial survey for establishments employing more than 20 persons), the clothing industry accounted for 4.3% of all employment in industry and 2.2% of industrial value added. These figures compare with 6.9% and 3.8% respectively for the textile sector. See, EC, "General Guidelines for a Textiles and Clothing Industry Policy", COM (78) 362 final, Brussels, 20 July 1978, Table I, Annex I.

[34] For an attempt at such an analysis see J. de la Torre and M. Bacchetta, "Decline and Adjustment: The Failure of State Intervention in the European Clothing Industry", Journal of World Trade Law, forthcoming.

[35] The situation was quite different, however, with respect to the Economic Expansion Law first proposed in 1969 in order to replace two earlier Acts which dated from 1959 and 1966. The laws provided for low interest loans, subsidies and special premiums to promote investment and job creation. Due to its general applicability, the Commission opened a procedure according to Article 93-2 in June 1970. Since the programme was defined without reference to specific regions and the Belgian government did not want sectoral specificity to remove the instrument's subtle flexibility, the Commission agreed to operate on the basis of a system of previous notification for any significant (over 15% subsidy or more than 3 million UA investment) usage. The law adopted in December 1970 provided assistance for investments worth 635 million BF in 1971 and 438 million BF in 1972 in the clothing sector alone. After a drop in use during the recession, the Expansion laws were again in vogue with the clothing industry in 1976 and 1977 (investments of 363 and 129 million BF respectively under the schemes), which gave rise to significant concern as to their compatibility with the stated guidelines for the industry. By 1980, however, no action had been taken by the Commission in this respect.

[36] The purpose of this last measure was to promote the use of outward processing as complementary to national production. It had little practical impact, however, as its application was limited to those countries that had not yet negotiated bilateral agreements with the EEC and which, therefore, did not exert a direct control over the licensing process.

[37] Bull.EC, 3-1978, point 2.1.27 and 3-1979, point 2.1.30.

[38] Personal interviews, 11 March 1980. It should be noted that on 7 September 1979, the Commission raised no objection to the creation of an Industrial Redevelopment Fund whose objective was to assist industrial conversion towards new and high-technology sectors in areas affected by declining industries. On any loans for restructuring, the Belgian government agreed to abide by procedures established by the Commission:

- if no restructuring plan is drawn, assistance is limited to six months and no interest-free loans under the 1970 Economic Expansion Act are possible;
- if a plan exists, any assistance must conform to the terms of the plan, and
- pre-notification must be followed whenever the affected firm employs more than 300 people, or 150 people in "sensitive" sectors such as textile, clothing and footwear.

See Bull.EC, 12-1978, point 2.1.44; and 9-1979, point 2.1.28.

[39]Farrands, op.cit., p.28; The Economist, 5 March 1977, pp. 86-87.

[40]In its 1972 Annual Report, CETIH claimed that "90% of any productivity gains would probably be the result of improved methods and only 10% might be attributable to investment in plants", a philosophy which characterized the French approach to the sector's restructuring in general.

[41]Bull.EC, 12-1979, point 2.1.50.

[42]U. Hiemenz and K.v.Rabenau, "Effective Protection of German Industry" in W.M. Corden and G. Fels (eds.) Public Assistance to Industry, (London: Macmillan, 1976), p.18.

[43]A.D.Neu, "Protection of the German Textile Industry" in Corden and Fels, op. cit., p.181.

[44]For an indication of their views see Farrands, op.cit., p.37. He cites that: "The German solution, strongly emphasized by Count Lambsdorff (West Germany's Economic Minister) to the embarassment of colleagues who wished to tread more softly, is a return to a more liberal market (in the 1981 MFA negotiations)". This was recently confirmed by Count Lambsdorff in an address given at the Trade Policy Research Centre in London on 17 December 1979. See his "Goals for the 1980s - Competition, Price Stability and Adjustment", The World Economy, Vol.2, No.4 (February 1980), pp.415-425.

[45]It is significant in this sense to note that between 1973 and 1976, while 172,000 jobs were suppressed in the clothing and textile industries in Germany, the number of registered unemployed workers in these sectors rose only by 18,000 to 31,000 workers.

[46]Chard and Macmillen, op.cit., p.149. Neu, however, states that "there is no evidence that (the clothing and textile industries) received more support than other industries", op.cit., p.165.

[47]Indirect support for this view can be obtained from the fact that from 1972 to 1976, employment in the clothing sector in Bavaria decreased by 16,000 workers, or 15% of total industry employment, while the national average was more than 30%. One study reported that in 1975 at least seven of the top 49 textile firms were receiving land subsidies; cited in G. Shepherd, "Industrial Adjustment and Intervention: Textiles and Clothing in Britain and Germany" manuscript, U. of Sussex, 10 October 1979.

[48]For the following seven years, the company lost an addition 24 billion lire, an indication of things to come for the record of state intervention in the industry. For a detailed account of this record, see F. Coltorti and G. Mussati, GEPI e TESCON: Due interventi delle partecipazioni statali (Milan: Franco Angeli Editore, 1976).

[49]Law No.1011, the subject of the long-running dispute between the Commission and the Italian government described on pages 15-16 above, was finally abrogated in August 1977. During nearly six years of operations, 29 billion lire of subsidised loans were granted to the clothing sector for 121 projects, and 265 billion lire to 890 projects in the textile sector.

[50]Bull.EC, 12-1976, point 2130, and 12-1977, point 2.1.59.

[51]Bull.EC, 12-1979, point 2.1.47.

[52]Krekel, van der Woerd and Wouterse, "Perspectief onderzoek Confectie-Industrie", Rotterdam, 1972.

[53]Bull.EC, 10-1977, point 2.1.26, and 10-1978 point 2.1.46.

[54]In May 1977, the Commission acted against two Dutch proposed programmes - WIR and a regional aid scheme known as IPR - as incompatible with the Commission's guideline on general and regional aid programmes. Regions were defined too widely, premiums for different aspects overlapped each other, and the aid was available to old investments which rendered it "operational aid" in the Commission's views. Both programmes were eventually modified to suit the EEC's objections. Bull.EC, 5-1977, points 2.1.19-2.1.21, and 5-1978, point 2.1.28.

[55]For an analysis of these early programmes see C. Miles, Lancashire Textiles: A Case Study of Industrial Change (Cambridge University Press, 1968) and her "Protection of the British Textile Industry", in Corden and Fels, op.cit., pp.184-214.

[56]Bull.EC, 12-1975, point 2132.

[57]Bull.EC, 1-1978, point 2.1.16, and 3-1978, point 2.1.24.

[58]A few months later, for example, the Commission approved Ireland's Employment Maintenance Scheme without specific conditions (Bull.EC, 7/8-1978, point 2.1.41). When it was renewed a year later, however, the Commission imposed four conditions: it limited the budget to £4.5 million and assistance to less than 50% of workers, it required pre-notification when more than 125 workers were to be covered, and it declared the synthetic fibre sector ineligible for the programme. Bull.EC, 7/8-1979, point 2.1.32.

[59]Clothing EDC, "Clothing Industry Development Proposals" (London: National Economic Development Council, 1975).

[60]There were a total of thirteen different industry schemes negotiated over several years by the NEDC and the government involving a total allocation of £268 million. The schemes were managed by the Department of Industry which was responsible for processing applications and controlling the disbursement of funds.

[61]See C. Miles, "Protection of the British Textile Industry", op.cit., pp.193-5; V. Cable "British Protectionism and LDC Imports", ODI Review, No.2-1977, pp. ; and Farrands, op.cit.

[62]Chard and Macmillen share this assessment although they question the delays with which the Commission has enforced its views (op.cit., pp.154-5).

[63]EC "Commission Policy on Sectoral Aid Schemes" COM(78)221, final (Brussels, 25 May 1978). The previous month the Seventh Report on Competition Policy had severely attacked state aids as a major problem in maintaining competition in the Community.

[64]EC "General Guidelines...", op.cit., p.6.

[65]Bull.EC, 4-1979, point 2.1.20.

[66] C. Miles, "Protection of the British Textile Industry", op.cit., pp.210-2.

[67] An interesting set of propositions on the factors affecting the relative ease with which different sectors can adjust to changing conditions is offered by Lawrence G. Franko, "Adjusting to Export Tariffs of Newly Industrialising Countries: An Advanced Country Perpsective", manuscript, Centre d'Etudes Industrielles (Geneva, May 1979).

[68] In fact, the evidence is that Ireland has been attracting considerable amounts of textile investment from British, German, French and US companies in the last twelve months (personal interviews, 11 March 1980).

[69] G. Fels, "Overall Assistance to German Industry" in Corden and Fels, op.cit., pp.113-5, calls for a new approach for regional assistance that provides incentives "based on the skill intensity of new projects or upon the research and development investments associated with them" instead of the traditional capital investment orientation of such programmes.

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