INDUSTRIAL POLICY IN THE EUROPEAN ECONOMIC COMMUNITY : CRISIS AND CHANGE

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N° 81/08

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Dépôt légal : 2ème Trimestre 1980

Imprimé par l'INSEAD, Fontainebleau, France.

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JUNE 1980

ACKNOWLEDGEMENTS

In the preparation of this paper, I have received the assistance of a number of people. I should like particularly to thank Jonathan STORY who was unfailingly generous with his time and a constant fountain of helpful suggestions.

I wish to thank the INSEAD Library Staff for their gentle patience in allowing me not only the free run of the stacks but also to continue my research when the library was otherwise closed. The members of Le Centre d'Etudes Prospectives et d'Informations Internationales (CEPII) provided me with a great deal of documentation and access to unpublished research.

I am very grateful to the officials of the Directorate General for Industrial Policy in Brussels who received me twice; they answered my questions frankly and were very helpful in confirming information. The Library staff of the Commission was more 'sympathique' than any itinerant researcher could hope.

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I assume, of course, complete responsibility for the final text.

Kenneth S. COURTIS

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INTRODUCTION

When considered from the uncertain economic perspective of 1980, the mood of the 60s and the beginning of the 70s mirrors that of the early 1900s as described by Keynes.

> "What an extraordinary episode in the economic progress of man that age ... The inhabitant of London could order by telephone, sipping the morning tea in bed, the various products of the whole earth, in such quantity as he might see fit, and reasonably expect their early delivery upon his doorstep; he could at the same moment and by the same means adventure his wealth in the natural resources and new enterprises of any quarter of the world, and share, without exertion or even trouble, in their prospective fruits and advantages ... But most important of all, he regarded this state of affairs as normal, certain, and permanent, except in the direction of further improvement, and any deviation from it as aberrant, scandalous, and avoidable ..." [1]

The modern episode of rapid economic progress that came to an end by 1974, was a period of similar great ambition, seemingly continuous economic expansion, prosperity and well-being. Western Europe, reborn from the ashes of war, exuberant with energy and bounteous optimism, prepared to meet "le défi américain". In Brussels, blueprints for the future were prepared. The technological gap would be closed. Although not specifically mentioned in the Treaty of Rome and never clearly accepted by the Council of Ministers, a proposed European industrial policy was drafted.[2] Grand designs were elaborated for rapid growth in the lead industries of nuclear energy and uranium enrichment, heavy mechanical and electrical equipment, computers, aeronautics and space. The self-confident idiom of political debate was that of the quality of life; the human and social goals of economic development were mapped.[3]

Since 1974, however, the stakes, scope and nature of European industrial policy have all changed radically, as the time frame for decision has collapsed from some vaguely specified future to the pressing urgency of the present. The rhetoric and easy optimism of the 60s and early 70s have been replaced by the hard terms of a new reality imposed by changes in the international competitive environment, in the terms of international trade, in the business conditions of many sectors, and, more generally, the development of a new international division of labour.

By the end of the 70s, the new code words of European industrial policy had become crisis cartels, anti-dumping, rationalisation, reference prices, retraining, unfair competition, quotas, administered market shares, declining industries, depressed regions, excess capacity, restructuring, subsidy, adjustment, orderly change.

This paper analyses European industrial policy as we enter the 80s. It begins with an analysis of the economic realities and the social and political forces behind the changing focus of European industrial policy and examines briefly the context of industrial policy formulation at the European Community (EC) level. Subsequently, it turns to the new sectoral pattern and emphasis of European industrial policy. Finally, the paper evaluates the evolution of European industrial policy in the latter part of the 70s and considers its importance for the 80s.

I THE ECONOMIC CRISIS AND EC INDUSTRIAL POLICY:

1.1 NEW ECONOMIC REALITIES

The first flash of the energy crisis not only brought the previous phase of expansion to an end but also accelerated an already profound transformation of the international economic structure. As the full force of change broke into the open, economic realities appeared suddenly transformed and with them new and different social and political forces came to bear on the formulation of EC industrial policy.

This first part of the paper discusses the structural changes of the international economic environment that rendered Europe so vulnerable to crisis, the nature and immediate consequences of the 1973 shock, and the underlying, long-term problems that now confront EC industrial policy makers.

1.1.1 The Developing Vulnerability to Crisis

Both the stability of the international monetary system and the belief that "the dollar was as good as gold" had been critical to the tremendous expansion of international trade and investment during the 50s and 60s. During this period, as tariffs fell significantly, all of the highly industrial countries had become increasingly involved in international trade, while simultaneously many industrialising countries adopted export-oriented development strategies.

In western Europe, exports increased much more rapidly than did the economy as a whole. By the end of the 60s, trade represented a substantial portion of the GNP of all EC members. Although almost half of this trade was intra-EC, no region

TABLE I

VOLUME OF EXPORTS AS PERCENTAGE OF GNP FOR SELECTED EC MEMBER COUNTRIES

Country	1951	1960	1970	1976
Belgium	24%	30%	48%	60%
France	8%	10%	13%	16%
W. Germany	8%	13%	18%	24%
Holland	16%	24%	37%	48%
Italy	4%	7%	14%	17%
U.K.	14%	13%	16%	20%

Source: *The Economist*, January 14, 1978.

of the world had become as critically dependent as Europe upon exports and the continued stability of the international monetary system. However, the abandonment of Bretton Woods and the upheavals induced by the successive dollar devaluations signalled not only that the conditions of such stability had been undermined but also that the ability of the international monetary system to contain the quickly changing structure of international wealth and economic power had been eroded.

By the end of the 60s, just as demand began to turn down in many of the industrial sectors that had fuelled expansion,[4] European based industry was confronted with both sharp wage increases and stiffening international competition. Many EC producers were compelled to cut margins in order to keep foreign, as well as domestic markets.[5] Yet, when economic activity spurted ahead in 1972 and the first nine months of 1973, several sectors confidently added still further capacity.[6]

When the oil crisis did occur, it caught industrial Europe both unprepared and highly vulnerable. In the context of monetary instability, an increasing dependence on exports, weakening long-term demand, a building overcapacity, profits

TABLE II

NET PROFITS AFTER DEPRECIATION AS A PERCENTAGE OF NATIONAL INCOME OF SELECTED EUROPEAN COUNTRIES

Country	1965	1970	1977
France	24.7%	22.6%	16.9%
West Germany	20.1%	13.5%	7.5%
Italy	11.2%	8.8%	8.2%
U.K.	12.3%	8.7%	5.2%

Source: *Etude Economique, Royaume-Uni*, OCDE, March, 1979, p. 35, and *Statistics of the IMF.*

being squeezed between increasing labour costs and a more intensely competitive international environment,[7] the European economy, although booming, had become fragile in a strategic sense, unable to support an additional serious shock without incurring very severe economic dislocation. That shock came in late 1973.

1.1.2 The Immediate Consequences of the Crisis

Almost everywhere in the Community, balance of payments moved heavily into deficit and unemployment surged as the economy shuddered into severe contraction. As European governments began to inject massive amounts of new money into the economy in order to reduce the deflationary crunch of the equally massive oil price increases, the inflationary spiral that had been building since 1969 suddenly sprung beyond control.

Although the crisis has been worldwide in scope,[8] its macroeconomic impact has differed from one EC member to another. Italy and the UK struggle with double digit inflation and general stagnation. In West Germany and in the Benelux countries, inflation has remained lower, but investment has languished and growth sagged. Belgium and Ireland, in particular, have experienced very high levels of unemployment. In France, inflation has remained strong and equilibrium in a fragile

external position has been maintained at the expense of private consumption and more than one-and-a-half million unemployed. Figure 1 presents a comparative synthesis of the macroeconomic effects of the crisis.[9]

TABLE III

MONEY SUPPLY GROWTH AND INFLATION PER ANNUM

IN SELECTED EC COUNTRIES

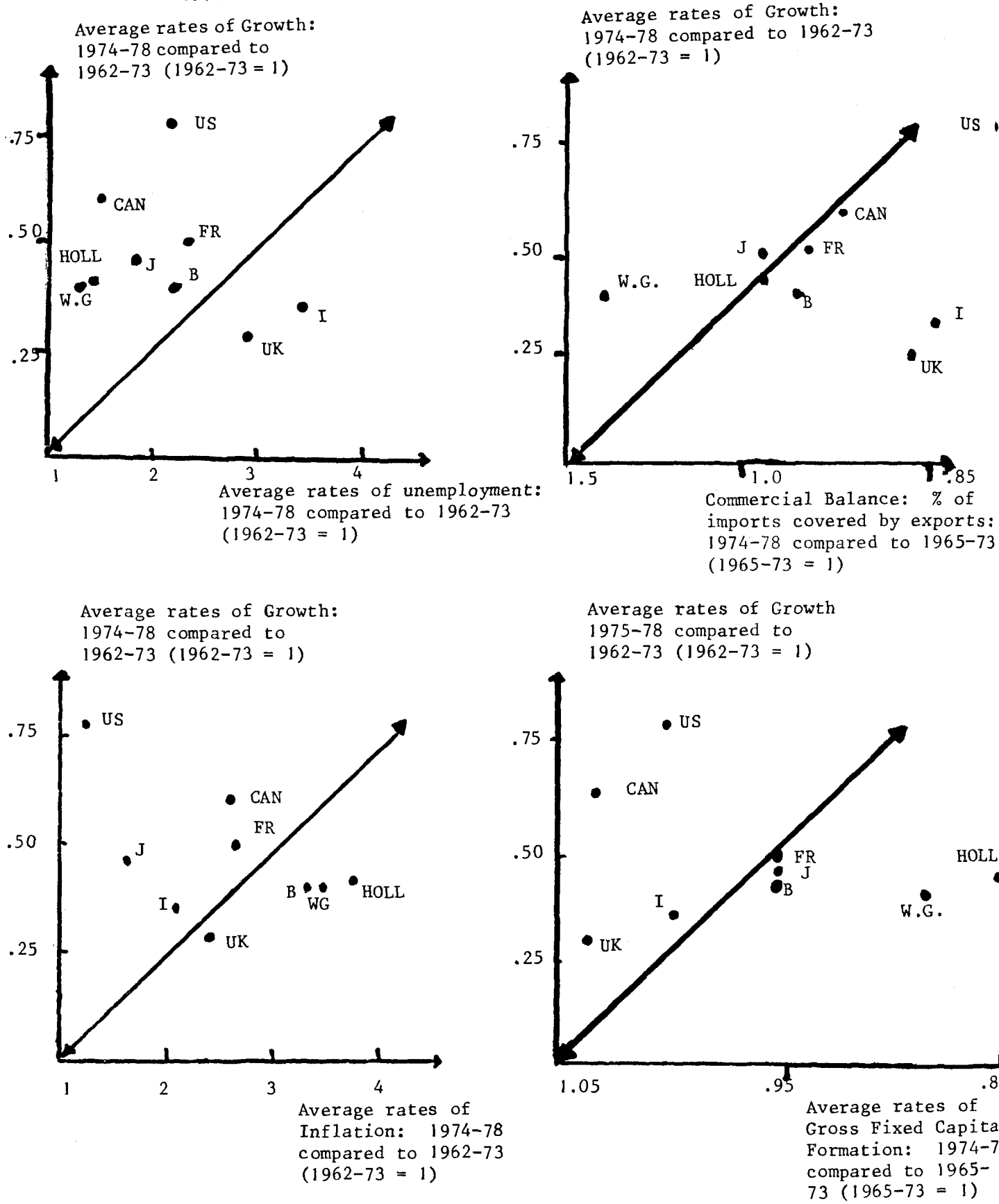
	France	W. Germany	Italy	U.K.
Money Supply				
1960-1973 (average)	10.2%	8.1%	15.7%	5.4%
1973, IV Quarter	26.4%	16.9%	28.2%	33.7%
Inflation				
1960-1973 (average)	4.4%	3.2%	4.5%	4.7%
1974, III Quarter	11.0%	6.0%	15.1%	27.0%

Source: IMF

1.1.3 Long-Term Aspects of the Crisis

As the macroeconomic effects of the crisis have come to play on the long-term structural problems of European industry, the Community, as a whole, has lost ground in almost all the major world markets. It is against this background of Europe's weakening international competitive position that the general significance of the energy crisis must be measured, for it signalled a reversal in the established terms of trade between industrial producers and raw material suppliers. Suddenly, European economies were confronted with the problems of adjustment to new business conditions. Such adjustment implied the radical restructuring and even decline of certain traditional industries, as the conditions of competition and, more particularly, the cost structure of entire sectors changed fundamentally.

FIGURE I - GROWTH AND RATES OF INFLATION, UNEMPLOYMENT AND GROSS FIXED CAPITAL FORMATION, AND COMMERCIAL BALANCE COVERAGE IN SELECTED COUNTRIES: 1974-78 COMPARED TO 1962-73.



Source: *"Le Monde"*, IMF, OECD, UN Data.

TABLE IV

WORLD INDUSTRIAL COMPETITION. 1973-1977

MARKETS	Competitors				
	EEC	USA	Japan	LDCs	EE *
USA	-----		+++	++++	0
EEC	-	-	+	+	0
Comecon	0	0	++	0	----
LDCs **	-	-	+	+	+
Japan	0	0		0	--
LDC ***	+	+	+	--	0

*Eastern Europe **Non-oil producing LDCs ***Oil producing LDCs

Key: + Gain of one point, 1973-77. - Loss of one point, 1973-77.
0 Stability.

Source: CEPII, 1979.

Exemplary in this regard is the chemical industry, a sector in which European firms had established a strong, worldwide position. Oil represented less than 45% of variable costs (mainly feedstock and fuel) in petroleum based chemicals before October 1973. By 1977, it had risen to approximately 75%, and has risen still further with the 1979-80 oil price increases. As innovations came to a plateau in the industry, source costs, production efficiency and scale of operation became critical for competitive edge in all but the fancier, up-market segments of the industry. These new conditions favoured the entry of eastern European producers and some of the oil-rich developing countries into the bulk chemical, first derivative segments of the market. Meanwhile, the sinking dollar and the low, administratively maintained US oil and gas prices, together with the effects of scale and production efficiency, gave international competitive advantage to American producers. The European chemical industry, attacked from all sides and caught with an enormous surplus capacity, was soon campaigning for a crisis cartel and "temporary" protection.[10]

Although the pattern, dynamics and magnitude of change vary from industry to industry, what was occurring in chemicals was about to happen, or had already done so, in a wide variety of other sectors which represented the traditional areas of employment and economic strength within the Community.[11]

In some countries and sectors, adjustment began quickly, while in others, both the ability and the will to adapt have been weak. Certain European economies have found themselves more exposed than others to changing competitive conditions and, in addition, internal structural rigidities have weakened their ability to respond forcefully to the new constraints of the international environment. On occasion, national interest and security have been invoked to justify protection against "social dumping", as sectoral pressure groups have been able to lever trade, industrial and national economic policy into alignment with their own particular interests.[12]

Labour mobility from declining industries to sectors of new growth has been less fluid than the easy factor flow of the theoretician's model. Although its amplitude varies significantly among EC members, the situation has deteriorated everywhere since the beginning of the crisis, save the UK where it was already acute.

TABLE V

INDUSTRIAL LABOUR MOBILITY IN SELECTED COUNTRIES

Country	Mobility Index*	
	1970-73	1973-76
France	.38	.32
W. Germany	-	.70
Japan	.48	.39
U.K.	.23	.24
U.S.A.	.29	.23

* The index varies from 0 to 1; 0 represents complete labour immobility and 1 indicates perfect mobility.

Source: CEPII, 1979.

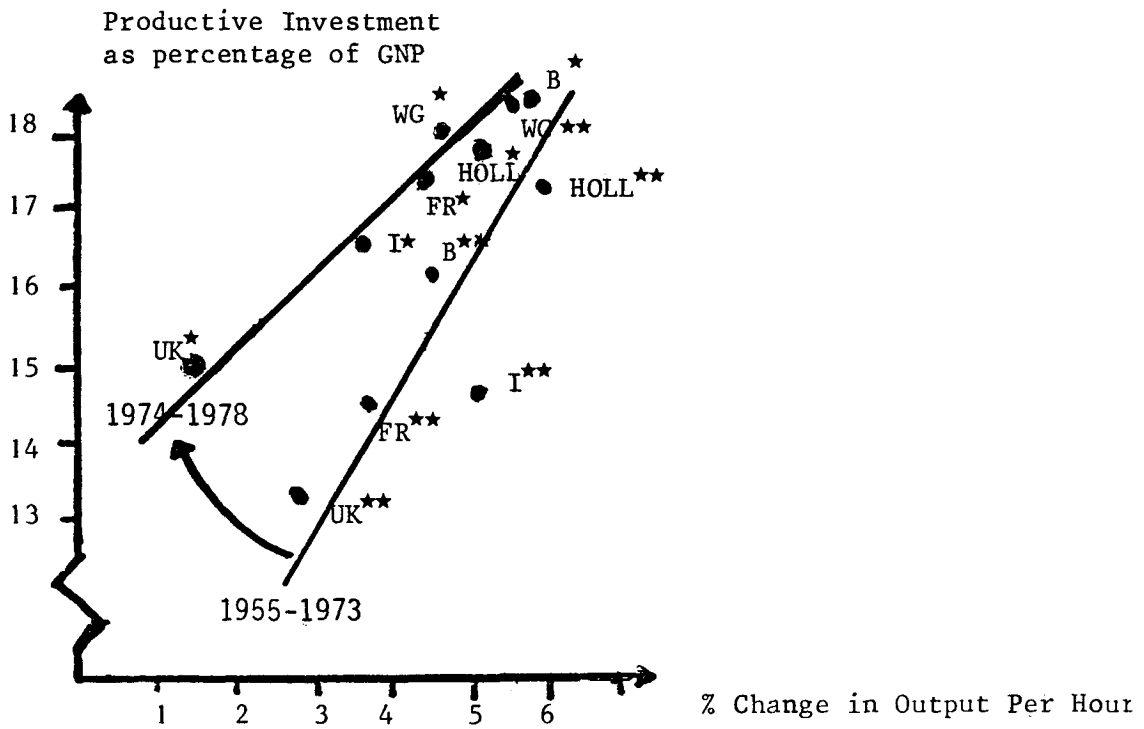
In addition to the general immobility of labour comes the problem of the frequently tight regional concentration of declining industries. Examples would be textiles in Lancashire, the Lorraine-"Coeur d'acier", shipbuilding and repair in Hamburg, Marseille and on the Clyde. Further, it is in the declining industrial sectors that labour is often most strongly organised, militant and linked to political parties. Allowing the effects of market forces to provoke the collapse of whole regions is not only politically adventurous, but in the absence of concertation and a local consensus built about a coherent plan for adjustment including positive prospects for retraining and employment, its bitter social consequences render change even more difficult.

From the late 60s developed a gradual redistribution of income away from profits and investment to wages and salaries. A resulting increase in private and public consumption, accompanied by sporadic bursts of monetary expansion, maintained inflationary growth in the early 70s. But by the late 70s, wage increases, in the absence of appropriate productive investment, had far outstripped advances in productivity in most EC countries.[13] Also, there is increasing evidence - industrial sabotage, high rates of absenteeism, growing number of days lost through sick-leave - that the task-based assembly line organisational structure of much of industrial production has attained its productive limit.

Reversing these trends of productivity will require massive investment in process R & D, new plant and equipment.[14] In addition, as Figure II reveals, the productive investment/gain in output curve has shifted up and flattened since the beginning of the crisis in comparison to the previous period. Although the situation varies throughout the Community, an overall one point gain in output per man/hour requires a larger relative proportion of GNP being committed to investment today than in the past, as well as the minimum level of investment required in order simply to maintain current productive levels. Furthermore, while the nature of much required investment has changed[15] and its scale and risk increased, the return on productive capital has fallen, leading many investors to prefer other - often inflationary - forms of investment.

Finally, one has to superimpose on this situation a reversal in international debitor/creditor relationships as Community member States become more and more dependent on petro-dollars to finance balance of payments deficits - and in the process push many Third World countries to the fringes of the money markets - and European industry relies increasingly on these same short-term, highly volatile funds for long-term investments. Not only has this situation kept interest rates under

FIGURE II - COMPARISON OF PRODUCTIVE INVESTMENT AND GROWTH IN SELECTED EC MEMBER COUNTRIES, 1955-1973, 1974-1978



★ 1974-1978

★★ 1955-1973

Source: Calculated from IMF, UN, OECD data.

pressure - and thereby increasing the cost of capital - but also, it has forced many European companies to assume higher levels of financial risk than in the past.

Since the beginning of the crisis, the economies of several EC member countries have been seriously damaged. Some have experienced radical dislocation at the sector and regional levels. Today, the problems are of a different nature than in the past.

In these conditions, national policies of demand management and counter-cyclic measures have proved inadequate to restore real growth and full employment and to stimulate structural change. Further, as the recent Maldague Report indicates, the crisis has reduced the capacity of many of the small Community members to adopt purely national solutions to these problems.[16] The imbalanced impact of the crisis and the wide differences in the adjustment process from one EC country to another has placed new strains and demands on the Commission. Some have even questioned the notions of a "common market" and free trade, touch-stones of the Treaty of Rome.

It is within the context of these new realities that both the role and focus of EC industrial policy have changed, and that have come to play the underlying dynamics that shape European industrial policy formulation.

1.2 THE CONTEXT AND FOCUS OF EC INDUSTRIAL POLICY FORMATION

Political legitimacy and a clear mandate are critical to the formulation and implementation of industrial policy.[17] Yet, although the essential economic logic of the Treaty of Rome is clear - national markets being too small to ensure the development of internationally competitive European firms, the realisation of a common market would provide the basis for deeper industrial development and economic growth - its political dimensions are less evident. Indeed, as Robert Toulement and Jean Flory note, there is nothing in the Common Market treaty for industrial policy.[18]

The following section of the paper analyses the ambiguous policy context of EC industrial policy and discusses how its focus has been transformed since the onset of the crisis.

1.2.1 The Context of EC Industrial Policy Formulation

The highly fragmented interests and widely divergent pressures of nation-states, organised political and social forces, trade associations, special interests, external pressures along with diffuse responsibility and administrative power, weak financial resources, bureaucratic inertia and often contested authority constitute the political context of EC industrial policy formulation. Even within the Commission, the divisional responsibility of industrial policy is rather vague as some of the key mechanisms for the formulation and implementation of policy - competition, tariffs and trade, regional development, fiscal policy, company laws, economic and social policy - lay outside the control of the

Directorate for Industrial Policy. In the absence of a clear mandate for action, such dispersion of responsibility for industrial policy not only reduces policy impact but also results in permanent bureaucratic jealousies and in-fighting upon which competing outside interests play with great dexterity.[19]

Proposals elaborated by the Commission to increase its power or, simply to redefine and concentrate its administrative authority which do not run aground somewhere in the European Council, are usually vitiated of all their force by the time they leave the Council of Ministers. Although it is frequently believed that the Commission's policy-making capacity is caught up in political and legal tensions between the member states and the proponents of political union, the reality is often both less grandiose and much more complex.

Although it is recognised that lasting solutions to the type of problems discussed above must be, at least in part, European, most member states see more risk than return in clarifying and developing the Commission's authority in the area of industrial policy. For to do so would imply transferring additional power to Brussels. However, as Steven Warnecke observes, it is an open question for many as to whether such a transfer would in fact "lead to effective political and administrative infrastructure to formulate policies and resolve conflicts among the new constellation of regions, classes, parties and economic interests it would bring into existence".[20] Consequently, EC industrial policy is formulated within the context of constantly contested legitimacy. This situation has rendered the ambitious industrial policy projects of the past patent non-starters and allows the Commission the possibility for action in only the very particular circumstances of generalised consensus among Community memebers.

Though the Treaty of Rome established formal political equality among member states, in reality differences in their economic strength and development are enormous. This imbalance between political authority and economic power undermines, still further, the Commission's ability to formulate a viable European industrial policy. The economically strong countries are reluctant to channel through the Commission, to other areas of the Community, the massive funds necessary for industrial restructuring and generally more balanced economic development, without, at the same time, increasing their political power in Brussels. The weaker countries, for their part, feel that exchanging political power for industrial development funds would only increase their already uncomfortable dependence on the stronger Community members. Consequently, as the Commission has found itself unable to deal directly with the problems of uneven industrial development, except through the promotion of market integration, member states have implemented their own competitive national industrial policies.[21]

When the Common Market treaty was adopted, it was widely believed that country specialisation would develop within the Community on the basis of comparative advantage. However, such specialisation has been slow to occur. Indeed, during the 60s and early 70s, in conditions of rapid economic growth and the development of competing industrial policies, the industrial structures of the major EC member countries became increasingly similar.[22] In addition, competition between them has intensified further as the importance of exports relative to total GNP has increased and growth slowed.

Proponents of the Community argued that a common market would encourage the development of large firms organised on a European-wide basis. Large European wide firms have developed, but the core of their control remains firmly national.[23] Furthermore, as the development of strong national positions in particular industries has been considered of importance for strategic reasons, as well as for assuring future national economic growth, an increasing identity has developed between perceived national interests and the destiny of particular firms. EC industrial projects which are perceived as impinging on the interests of such firms are doomed from the outset.

Finally, as economic and foreign policy have become more closely linked, the repercussions of international political rivalry now have a constant potential for destabilising the economic and political relations between EC members, thus rendering agreement on Community industrial policy even more difficult and fragile.

Against this background, national governments, to the extent that they are sensitive to intense local and divergent international pressures and, in the final analysis, remain responsible to national electorates, have not always been convinced that their own best interests would be served within the context of a stronger EC industrial authority.

In this context of ambiguous mandate and contested political legitimacy, the two essential conditions of the Commission's strategy of development were stable economic relations between member states and generally balanced economic relations throughout the Community. However, since the onset of the crisis, those conditions no longer exist.

1.2.2 The Crisis and a Change in Focus of EC Industrial Policy

The crisis marks a transition in the focus of EC industrial policy. In the pre-1974 period of easy growth, Competition Policy was the centre-piece of the Commission's strategy to ensure general economic development and to strengthen

the Community's international competitive position. It was felt that the free play of market forces would achieve the most efficient allocation of resources and maximise general economic welfare. Adjustment took place within the context of growth and occurred with little apparent pain. Where such was clearly not the case, special and regional aid was granted.

The force of the new economic realities shaping the international environment, however, have shattered the basis of the Commission's pre-1974 strategy. As competition between member countries has intensified, charges of dumping, non-tariff barriers to trade and unfair subsidy have been made. Those hardest hit and least able to respond have pressed the Commission to make exception to the general rules on competition and the free movement of goods and to elaborate a strategy for protection, adjustment and orderly change. Otherwise, tougher, unilateral national measures were threatened.

The obvious consequences of an upward spiral of competitive subsidisation, national protection and beggar-thy-neighbour trade policies have been judged, within the Commission, to be far greater than the eventual risks of a more pragmatic approach to competition policy and the adoption of an active strategy of industrial rationalisation and protected structural change. Furthermore, although the effects of the crisis have been very uneven from one country to another, its impact has dispelled illusions that, somehow, member countries form self-contained entities, sheltered from the winds of change. As the crisis has deepened and the nature of its consequences for a number of key industrial sectors have become more evident, a consensus has developed - member states having come to share the Commission's view - that simply national solutions are no longer sufficient.

Since the beginning of the crisis, industrial problems of a new type have been thrust up to the European level for which Community solutions have had to be found. Paradoxically, it is within the context of the changed conditions imposed by the crisis that both political legitimacy and a clearer mandate for EC industrial policy have evolved. The second part of this paper analyses the pattern of the new EC industrial policy that has emerged since the onset of the crisis.

II THE PATTERN OF THE NEW EC INDUSTRIAL POLICY

2.1 THE FRAMEWORK OF THE NEW EC INDUSTRIAL POLICY

The Directorate General has elaborated a new framework for EC industrial policy based on the following considerations.[24]

1. Industrial rationalisation and structural change signify the reduction and even the abandonment of certain traditional industrial activities and the adoption of a level and pattern of investment that will permit the development of defendable positions in industries of future growth.

2. Programmes of industrial rationalisation must be developed on the basis of a clear understanding of market conditions and a consensus between the Commission, national governments, business and labour, such that the necessary changes may occur as quickly and as easily as possible.

3. The major objective of EC industrial strategy is the modernization of productive capacity throughout Europe with the view to reinforcing the Community's unity and to maintain its openess towards international free trade.

4. In addition to specifically industrial policy aspects of the new strategy, Community competition policy, regional development assistance, trade and tariffs, social aid, energy programmes and general macro-economic policy must be brought to play in a manner that will reinforce the impact of EC industrial policy.

5. The social consequences of structural change must be dealt with in parallel to industrial rationalisation. Adjustment and retraining aid must be provided for those in the declining industries so that the transition will occur with minimum social hardship and political tension.

What has been the sectoral pattern of this new industrial policy? What is its legal framework? What is the extent of its political legitimacy? What policy measures have been brought into play? These are some of the questions that the following part of the paper attempts to answer.

2.2 THE SECTORAL PATTERN OF THE NEW EC INDUSTRIAL POLICY

The Commission has become actively involved in several industrial sectors and has employed a wide variety of policy measures. Table 6 (EC Industrial Policy Measures by Industrial Sector, 1975 - 1980) provides a synopsis of Commission activity. Appendix 7 presents a detailed sectoral account of policy measures and describes working examples of EC industrial policy. From this data, three distinct sectoral types emerge:

EC INDUSTRIAL POLICY MEASURES BY INDUSTRY - 1976-1980

POLICY MEASURES	Steel	Shipbuilding and Repair	Textiles and Apparel	Synthetic Fibres	Basic Petroleum Chemicals	Plastics	Oil Refining	Nuclear Energy	Computers and Components	Telematics	Aeronautics	Space	Military Hardware	Footwear	Pulp and Paper	General
1. "Crisis Cartels"	★			★	●	●	●									
2. Rationalisation:																
(i) Direct Subsidies	★	★	★													★
(ii) Investment Funds for Restructuring	★		★										●			★
(iii) Restrict State Aids to Sectors in Overcapacity	★	★	★	★												
(iv) Investment Funds Tied to Capacity Reduction	★	★														
(v) Worker Adjustment and Retraining Assistance	★	★	★													
3. Orderly Marketing Measures:	★	★	★	★												★
(i) Import Controls:																
a) Quotas																
Bilateral Accords	★		★	●										●		
Multilateral Accords	●		★	●												
b) Countervailing Duties	★		★	★		★							★			
c) Antidumping Duties	★		★	★										★	★	
(ii) Prices - EC Base Prices	★			★												
(iii) Production Quotas by Country	★			★	●											
(iv) Market Sharing Agreements	★			★												
(v) Secret Marketing Deals	?			?												
4. Export Rebates and Subsidies	●	★									●					
5. R & D Funds	★		★					★	★	★	★	★				★
6. Common Technical Standards and Open Public Purchasing Policies									●	●			●			★
7. Formulating Future Sectoral Targets	★	★		★					●	●			●			
8. Promoting Concertation	★	★	★						★	★						★

Key : ★ Implemented ● Proposed ? Unconfirmed reports

Sources: *Bulletin of the European Communities*, 1976-1980; *The Economist*, 1976-1980; Franco, L.G., *op. cit.*; Walter I., *op. cit.*; Farrands, C., *op. cit.*, *Le Monde*, *International Herald Tribune*, various issues; Warnecke, S., "The European Community and National Subsidy Policies", in Warnecke, S., *International Trade and Industrial Policies*, New York, Holmes & Meier, 1978, pp. 143-194; and interviews with officials of the Commission.

Note: Although some discussion has occurred between representatives of the European Committee of Automobile Manufacturers and officials of the Commission, as of June 1980, nothing clear has been decided other than to "consider" the problem of an anticipated flood of Japanese imports.

- first, industries having entered a clear pattern of decline :
  - textiles and clothing,
  - shipbuilding and repair, and
  - steel;
- second, industries experiencing severe problems of transition as they pass from the rapid growth to the maturity phases of their life cycle, or undergo a complete reversal in the dynamics of their cost structure:
  - synthetic fibres,
  - plastics, oil refining and basic petroleum chemicals;
- finally, industries of future growth :
  - computers and components,
  - telematics,
  - aeronautics,
  - space, and
  - military hardware.

2.2.1 Industries in Decline

2.2.1.1 Textiles and Clothing

Textiles and clothing represent a sector that has entered decline in almost all advanced industrial countries.[25] The problems of this industry have been building for years. However, in 1973, as the UK and Ireland (textiles and clothing represented Britain's third largest industrial employer and Ireland's largest in 1973)[26] entered the Community, a number of trends converged, making the EC particularly vulnerable:

- the arrival of new, still more aggressive international competition;
- a downturn in demand growth; and
- the long overdue consequences of traditional low investment in the industry, its fragmentation and under capitalisation.

The 1973 - 1976 period was particularly black for the industry as some 450 000 jobs were lost.[27] International competition seemed poised to intensify still further as many Third World countries, in addition to their lower cost structures, continue to invest massively in the industry. Several have become heavily dependent on textile and mass-produced clothing exports.[28]

By moving up market, developing complete lines, investing in style, production process, marketing and distribution, some firms - notably in Italy - have found it possible to adapt;[29] such a strategy, however, as Farrands notes, requires more sophisticated management than is generally available in most of the industry.[30]

EC industrial policy in textiles and clothing has been developed in two directions:

- first, a concerted attempt has been made to reduce capacity and to rationalise the production that remains. Subsidies, conditional investment funds, restrictions on State aids, adjustment assistance for workers and special regional aid have all been employed to this end;
- second, the EC as a whole, pressed by a coalition of interests, including Comitextil, the industry's trade association, the unions and the governments of France, the UK, Ireland, has been very active in re-negociating the Multifibre Agreement (MFA). The Commission, however, has been divided on the question of a tighter MFA, while the Industrial Policy Directorate remains favourable, the Competition Policy Directorate has argued for a less protectionist position. These internal Commission divisions are reflected in the divergence between the positions of member states: West Germany, Denmark and The Netherlands favouring a liberal position, the UK, France and Ireland pushing for still tighter protection.

Although the MFA has been re-negotiated - largely to the advantage of the industrialised countries - three problems remain:

- the implementation of the agreement;
- what to do about Spain, Portugal and Greece, future members of the Community and large textile and clothing producers; and
- how to cope with the underlying structural problem which, in spite of the MFA, remains largely intact.

2.2.1.2 Shipbuilding and Repair

Shipbuilding and repair is another industry that has entered decline throughout the Community. Although the problem has been developing since the 60s, its gravity has been hidden by strong demand as the market floated buoyantly on a vast expansion in world trade. But when the bottom fell out of the market in the mid-70s, European yards were confronted with a substantial problem of long-term excess capacity. In addition, with freight rates low, the opportunity cost of keeping vessels out of service was reduced and owners were prepared to send their ships to distant locations to achieve lowest cost repairs. Further, the relative newness of the world fleet and technological improvements resulted in less frequent routine servicing.

TABLE VII

THE SHIPBUILDING SQUEEZE: WORLD OUTPUT 1975-1980 *

Producer Area	1975	1980**
EEC	4.4	2.4
Rest of Western Europe	3.2	1.5
Japan	7.7	3.9
U.S. and Rest of the World	4.2	4.4
Total	19.5	11.8

* In compensated grt *(millions)*

** Estimates

Source: *The Economist*, January 31, 1977.

At the same moment that the market entered into decline, new low cost Third World producers moved aggressively onto the market.[31] Often highly leveraged and investing for the long term, these new competitors followed a strategy - as Japan had done in the 60s[32] - of continued reductions in cost per ton (through experience effects) supported by technological improvements, rapid capacity expansions, and world market segmentation beginning with ships of low complexity but moving quickly up to high volume standard ships. Although some segments of the market - those in which quality and sophisticated technology are at a premium - may be defendable for the advanced countries, shipbuilding is the kind of basic industry in which many Third World countries have a competitive advantage.[33]

Throughout the Community, therefore, shipbuilders are squeezed from both the demand and supply ends of the market. But, since shipyards build for a world market,[34] resorting to traditional protectionist measures is not possible both because of GATT obligations and the possibility of retaliation. Consequently, the emphasis of Commission action has been in the area of rationalisation and capacity reduction (see Appendix 7 for details).

Instead of encouraging capacity reduction in a systematic and planned manner, most national governments in the EC, however, have balked when confronted with the social and political difficulties of restructuring an industry which is often regionally very concentrated and has a long tradition of very militant trade-union activity.[35] As no workable consensus have been reached on coordinated cuts, the impact of the EC rationalisation programme has been blunted, and national governments have become locked in a desperate subsidy race to keep local yards afloat.

The increasing importance of direct state interest in shipbuilding countries where a very delicate balance of power between government and opposition has existed since the onset of the crisis (the UK, West Germany and Italy) has, without doubt, been a factor in the Commission's inability to reach an EC-wide agreement on rationalisation.

Recently, the Industrial Policy Directorate has initiated, on its own, a programme to finance shipowners willing to accelerate the renewal of their fleet with the condition that new ships be not more than 50% of the tonnage capacity of those scrapped. The objectives of this programme are:

- to reduce surplus capacity in shipping;
- to create shipyard work; and
- to modernise the EC fleet.

Despite such a policy, five years after the outbreak of the crisis in shipping, consensus remains to be achieved on a coherent European strategy that addresses itself to the new structure of competition, the changing dynamics of doing business in the industry and its long-term decline as a viable industrial sector.

2.2.1.3 Steel

The community's crisis in steel is well into its sixth year. Forecasts for 1980 are for a six-million ton drop in producer output and average operating levels of 70% of EC capacity.[36] Four years after the Davignon plan was adopted in its initial version, the Community's steel industry is still in severe crisis.

In all but the most sophisticated of special steels, key factors for successful competition are:

- minimum efficient scale;
- access to stable supplies of low cost raw materials; and
- proximity to deep water ports.

Productivity is contingent largely on scale and process investment. In addition, in developing countries, low wage labour may be turned to advantage to compensate for a lack of productivity.

Provided one has access to the necessary capital and raw materials, the barriers to entry into the steel industry are, therefore, relatively low. Furthermore, as the developing countries consider steel to be an essential industry providing a basic building block of industrialisation, they are willing to invest, whatever the short-term profit perspective.

It is within the context of these underlying conditions that a structural imbalance which weakens the competitive position of EC producers has developed within the industry. As in textiles and shipbuilding, new, fast-growing competition has entered the market; Japan entered the industry in the 50s and 60s, and the LDCs have been developing significant capacity since the beginning of the 70s. As Table 8 indicates, between 1967 and 1977, relative share of world steel production tripled in the LDCs, while it fell by a quarter in the EEC. In 1979, although total world production increased by only 4.2%, the LDCs increased output by 14%.[37] This trend is likely to continue as of the 140 to 150-million ton capacity scheduled to come on stream by 1985, almost all of it will be outside of the OECD.[38]

TABLE VIII

RELATIVE DISTRIBUTION OF WORLD CRUDE STEEL PRODUCTION

1967-1977

(%)

Producer	1967	1971	1973	1975	1977
EEC	23	22	18	19	19
USA	23	19	19	16	17
Japan	12	15	17	16	15
Other OECD	6	7	11	5	3
Centrally-Planned Economies	31	32	30	35	35
LDCs	4	5	5	9	12

Source: OECD.

The European steel industry has been both very sensitive to imports and geared to exports. Since the late 50s, about a quarter of EC production has been shipped abroad. But on the international markets the Community has started to lose market share; for example, in 1965 EC producers supplied almost half of US imports, but by 1976, that figure had declined to 22%.[39] At the same time, European imports have edged upwards.

By the mid-1970s, these trends had converged to push almost all of the Community's steel production into financial and industrial crisis. Capacity had to be adjusted downward to a level that would satisfy expected internal demand at competitive levels of productivity. Given new international competition, EC dependence on exports also had to be scaled down.

For industrial policy action in the steel industry, the Commission is in a particularly strong position. There is a general consensus among member states for coordinated action. The Treaty of Paris (1951) and the statutes of the ECSC confer to the Commission both the political legitimacy and the legal authority for such action.

Rationalisation has taken the form of the Davignon Plan.[40] The plan includes:

- the creation of the "crisis cartel", Eurofer;
- quarterly production quotas by country;
- the orderly rundown of inefficient surplus capacity (usually the older inland plants deserted by the market);
- Community intervention to prevent the construction of new capacity and to ensure that investment is designed to modernise and upgrade productivity;
- minimum domestic selling prices, sanctioned through a system of fines and deposit requirements;
- import controls based on a "basic price" duty mechanism for the products and negotiated bilateral agreements;
- Community funds for retraining, income maintenance, and investment.

Through a stepwise increase in prices and with wide-ranging production and market controls, it was hoped that industry profit margins could be restored and that sufficient time could be gained to permit far-reaching modernisation.[41] The ultimate goal was to return to a predominantly market-orientated European steel industry, capable of supplying competitively the Community's internal needs. To attain this objective, the Commission, through Eurofer, was also to coordinate national rationalisation programmes for the industry.[42]

Analysed from a certain perspective, the Davignon Plan has enjoyed an apparent success. By 1979, imports had been frozen at 10% of the market, down from 14% in 1976. Prices have been boosted by more than 30% since 1976; the production of some products has become profitable, thus alleviating the immediate financial strains on many firms. Overcapacity has been trimmed a little, although a problem of surplus production remains.[43]

But not everyone has been enthusiastic about the plan. Within the Council of Ministers disagreement has deepened: the West Germans, supported by the Dutch and Danes, have been reluctant to maintain minimum prices and production quotas, while Britain, France, Belgium and Luxembourg defend both protection and cartel with considerable vigour. Meanwhile, the Italian government, caught between its own vested interests in the loss-making nationalised sector and the pressures of the highly efficient and profitable Bresciani Producers in the private sector, seems to be both for and against.

Absurd situations to which the Davignon Plan does not address itself have developed. For example, at the very moment the EC was inundated with surplus production capacity, the Commission helped to finance a direct-reduction plant in Italy and imposed a ban on scrap exports because of a Community shortage.[44] Further, the timing and effectiveness of national restructuring plans differ widely from country to country throughout the Community.[45]

Market forces have also made the plan difficult to hold together. A number of abuses have developed:

- price-cutting of 15% up to 25% has been widespread;[46]
- secret discounts have been frequent;[47]
- a system of false invoicing has developed (products are described and sold as low grade when in fact they are not);[48]
- "bonus tonnage" may be added to deliveries, thus reducing the orders' effective price to beneath minimum allowable prices;[49]
- "late" delivery may be scheduled so that penalties paid by the producer to the customer result in a net price lower than the permissible minimum;[50]
- a system of false exports has also developed (shipments, way-billed for export and so qualifying for a discount, are delivered to customers within the Community);[51]
- production has systematically exceeded targets.

As this type of practice develops, the credibility of the plan has been weakened.

In addition to the competitive pressures that tend to play havoc with a supplier cartel where the market is the world, structural differences between the steel industries of member countries increase the difficulty of making the plan work. In this regard, it is interesting to observe that the attribution of EC funds for adjustment and retraining assistance has become grossly unbalanced (see Table 9). This situation, if left to continue, can only undermine support for the plan.

TABLE IX

PROPORTION OF TOTAL EEC STEEL PRODUCTION AND OF COMMISSION EXPENDITURES OF ADJUSTMENT AND RE-TRAINING ASSISTANCE FOR STEEL-WORKERS BY MEMBER COUNTRIES. 1974-1979

Country	Proportion of Total Steel Production*		Proportion of Adjustment and Retraining Assistance for Steelworkers**	
France	17.6	46.1	41.9	91.9
U.K.	15.9		40.0	
Belgium	9.1		7.8	
Luxembourg	3.5		2.2	
W. Germany	32.0	54.2	6.6	8.1
Italy	17.8		1.3	
Netherlands	3.9		0.2	
Denmark	0.5		...	
Ireland	...		...	

* Total steel production in EEC, 1974-1979; 788,580 thousand metric tons.

** Total Commission expenditures for Adjustment Assistance for Steelworks, 1974-1979; 107.4 million EUA.

Sources: OECD, The European News Agency; *The Economist* and *Le Monde*, various issues, and interviews with officials of the Commission.

Although the plan has had some success, it remains an open question, however, given the diversity of the problems facing steel producers throughout the Community, whether the difficulty of implementing a single, European-wide policy may not be seen as compromising the plan's overall, long-term success.

2.2.2 Industries in Transition

Chemicals and their derivatives, - synthetic fibres, synthetic rubber and plastic - automobiles, and oil refining are typical of this category. After a phase of rapid growth, such industries seem to have entered a period of maturity. As growth in demand has slowed, changes in the structure of costs and in the conditions of doing business in many of these sectors have favoured the entrance of new competitors.

As indicated earlier, Table 6, there has been some discussion of Commission action in plastics, basic petroleum chemicals, oil refining and automobiles, but its main efforts in this area have been directed to synthetic fibres.

2.2.2.1 Synthetic Fibres

In synthetic fibres, the dynamics of the situation are clear enough. Demand, which had grown at 15% to 25% during the 60s and early 70s, flattened. More geared to exports than any other of the major competitors in the industry, as Table 10 indicates, European producers are particularly vulnerable to a weakening of demand.

TABLE X

SYNTHETIC FIBRES: EXPORTS AS A PERCENTAGE OF PRODUCTION AND MAJOR MARKETS - 1976.

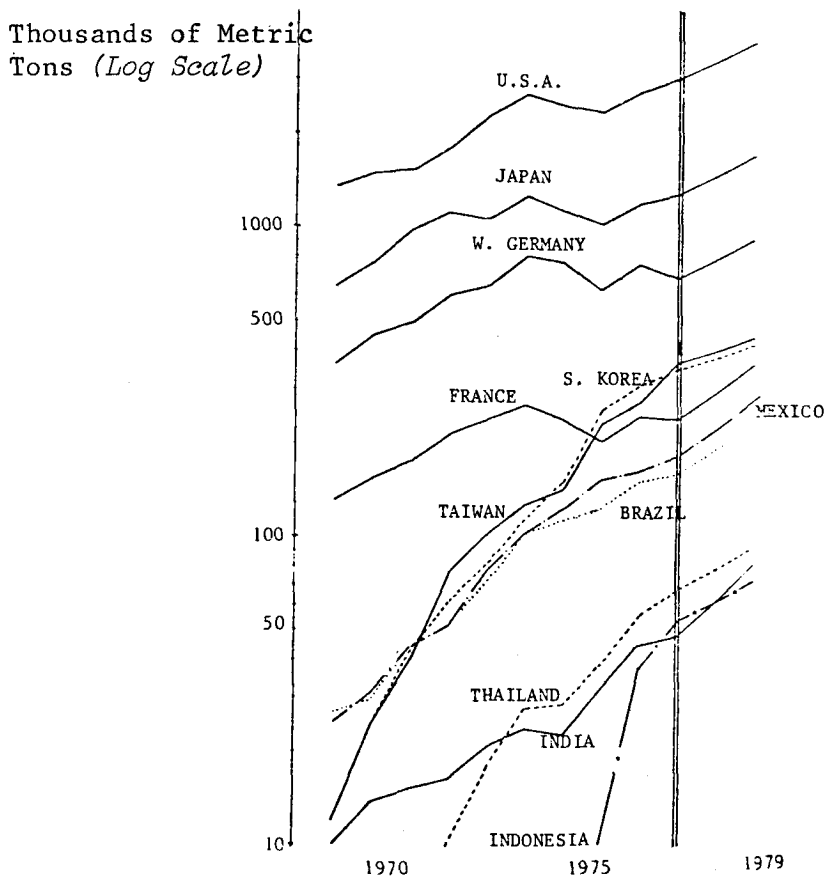
Producers	Exports as a % of production	Exported to:				
		EEC	USA	Japan	Comecon	Others
EEC	17	-	12.7	3.7	20.9	62.7
USA	9	36.3	-	7.0	1.2	56.2
Japan	14	5.8	5.8	-	5.8	82.7
Comecon	3	57.9	2.6	5.2	-	31.6
Others	12	50.0	31.8	13.6	4.5	-

Source: Prepared from data presented in "Survey on Chemicals", *The Economist*, April 7, 1979.

The downturn in the market is in part the result of the situation in Euroepan textiles and apparel, the major market of synthetic fibres, and also the consequence of intensified international competition. Almost 85% of European exports are concentrated in two markets, the Comécon countries and "Others", composed mostly of the Third World countries. But in these markets not only is there stiff competition from American and Japanese exporters, but also these are areas where local production, as Figure III indicates, is expanding very rapidly. In this regard, South Korea is exemplary. In 1966, 90% of the Korean synthetic fibre market was supplied by imports; by 1976, South Korea had become a net exporter of synthetic fibres.[52] Although perhaps not quite as quickly as South Korea, many other developing countries - Mexico, India, Indonesia, Brazil - are also establishing solid positions in the industry.

FIGURE III

SYNTHETIC FIBRE PRODUCTION IN SELECTED COUNTRIES - 1967-1979



Source: CEPII, 1978, p. 76.

The cost structure has also been reversed. Because of the rise in oil prices, variable costs, as we have seen above, have become decisive. Here again, the European producers are at a disadvantage compared to their competitors in the US, Comecon and some of the oil-producing countries. For example, the cost advantage represented by US price controls on oil and natural gas - from which napatha, synthetic fibre's basic feedstock, is derived - has permitted American producers, in just two years (1977 - 1979), to double their share of the EC market. In addition, these higher costs have led to an increased substitution threat from natural fibres, notably cotton and wool.

As scale economies and process efficiency remain important, however, the newest and largest plants have the lowest operating costs. Capacity tends to increase in blocked steps at five-year intervals. A producer who misses a step finds himself very quickly at a competitive disadvantage. Consequently, there is constant pressure in the industry to invest in new and ever larger unit capacity.

Taken together, these trends pushed the EC synthetic fibre producers into serious crisis. By 1977, the industry found itself at 30% overcapacity and with still more on the way (Italy has scheduled an additional 200 000 tons of capacity by 1981), with three months of inventory overhanging the market, and prices having dropped 20% and losses close to $2 billion.[54]

In this context, the eleven major EC synthetic fibre producers met with the Director General of Industrial Policy to work out a common approach to dealing with the slump. It was agreed to establish a "crisis cartel"; however, because of the cartel's doubtful legality, it was decided not to seek legal authority immediately.[55]

The principal objectives of the cartel were:

- to cut capacity, especially in Italy; in exchange, market shares would be frozen and Italian producers would be accorded a large portion of future market growth;
- to restrict further state aid for the creation of new capacity;
- to impose countervailing duties on "unfair" import competition;
- to increase sales and, subsequently, prices, in part, under the protection afforded by the MFA; and
- to fund a Commission assistance programme for an estimated 20 000 redundancies.

Since the creation of the cartel, capacity has been cut from 3.2 to 2.7 million tons per year, and employment trimmed. Behind the protection of the MFA, prices have increased modestly; however, sales have come under still more intense pressure, especially in the export sector. Profitability has not been restored yet; 1979 losses were $650 million. Although the market share of the Italian producers has increased, they have never fully accepted the cartel.

From the outset, the cartel has divided the Commission and the Council of Ministers. The proponents of the cartel maintain that without such protection, the industry would be unable to overcome the crisis without enduring permanent damage. Many others have felt, however, that the challenge the cartel poses to the Treaty of Rome is such that they have refused to accord it legal authority. Still others believe that the industry has the means to adjust on its own and would be better to do so.

After long and bitter debate, Mr. Vouel, Commissioner for Competition Policy, outlawed the market sharing provision of the cartel in 1979. In its place, a gentleman's agreement had developed under which the northern European producers buy for resale to their own clients some of Italian production.

In July 1979, the Commission agreed to continue to support redundancy assistance and a new two-year programme to reduce capacity by another 15%.

The crisis in synthetic fibres developed so suddenly that the Industrial Directorate, invoking "force majeure", was willing to overlook the legal irregularities of the cartel. Indeed, there was little else the Commission could do. Whereas in steel, Brussels has a remarkable range of policy measures at its disposition, in synthetic fibres it finds itself very limited. However, believing that the problems of the industry were those of transition rather than decline, a temporary cartel and protection were accepted.

The underlying strength of the EC synthetic fibre industry is greater than that of steel, shipbuilding or textiles. Fourteen of the world's largest chemical firms are controlled from Europe. Although the international market pressures are not likely to abate, EC producers are able to develop new positions, defendable in a world market. But the very strength of a number of European firms is one of the weaknesses of the industry as a whole. Fewer, larger, more efficient firms would be sufficient and would offer, perhaps, a more solid position of long-term strength for an industry that is entering maturity. The cartel has afforded the time for a breather; but it is not clear that it addresses itself to the fundamental problem of an industry in transition.

2.2.3 Industries of Future Growth

Before 1974, the rhetoric of EC industrial policy was laced with the jargon of high technology lead industries, although the Commission enjoyed very little practical success in these areas. For reasons discussed in the section above, national governments have been unwilling to become involved in Community projects under the umbrella of the Commission.

Yet without comprehensive and coordinated programmes and massive investments, Europe, dispersed and divided, could become a victim of the changing international environment, finding herself squeezed between Japan and the US, on one side, and the industrialising countries on the other. Today, EC governments have begun to recognise this danger and, although unwilling to hand over power on vital national issues to Brussels, most would admit that in many cases an EC solution would be preferable.

It is within the context of this contradiction and in the light of past experience that the Commission has developed its industrial policy towards industries of future growth such as computers and components, telemactics, aeronautics, space, energy and military hardware. To the extent that its long-term goal is the development of world-scale European competitors in these industries, the present policy is not very different from the past. However, the immediate goals of today's efforts are more pragmatic; they include:[56]

- the creation of conditions and structures favourable to industrial cooperation[57]
- the pooling of R & D and experience; and
- applications development.

To attain these short-term objectives the Commission has developed measures:[58]

- to harmonise technical standards throughout the Community;
- to open national public-sector procurement to all qualified European firms;
- to develop sector targets for particular industries in concertation with representatives of business and state;
- to fund R & D; and
- to organise concertation between firms within the same industry in order to promote specialisation, cooperation and the pooling of efforts.

For the longer term, in the absence of consensus among member states, the Community has been able to do little more than to stake out its position in what are believed to be growth industries of the future.

CONCLUSION

The emphasis of EC industrial policy since the mid-70s has been on industries in crisis. It has been, therefore, by nature, defensive, geared to adjustment and decline. Confronted with the problems of massive unemployment and the pending bankruptcy of a number of major firms, Community funding has been inversely related to prospects for future growth. During this period EC industrial policy has been specific rather than general, reactive rather than positive, a combination of technocratic and corporatist approaches, a precarious balance of economic rationality and political realism.

The crisis has confronted EC industrial policy with problems of a nature different from those envisaged in the Treaty of Rome. Nevertheless, it is within the limits of the power that the Treaty accords that the Commission must formulate industrial policy for implementation.

The Community is limited essentially to five sorts:

- trade policy;
- social and regional assistance;
- investment grants (on a relatively small scale in comparison to today's needs);
- special aids to small and medium-size firms attempting to become European in scope; and
- special agencies (e.g. ECSC, CSA, Euratom).

These policy instruments have often been inadequate, even inappropriate, for dealing with the problems of the crisis, but the Commission has had no other choice.

Although there is some measure of agreement throughout the Community that the Commission has an industrial policy role, there is little common understanding as to what that is or should be. The authority and legitimacy of decisions must be frequently negotiated.

Within this context, the Commission has built a delicately balanced consensus at three levels on the nature of EC industrial policy in response to the problems of the crisis:

- Community-wide protective measures must be non-permanent and designed to permit rapid but orderly adjustment;
- policy must be designed so as to avoid a massive national descent into protection;
- policy must be elaborated in concertation with interested parties.

In the latter part of the 70s, EC industrial policy has been concerned with industries in crisis or decline. It would be easy to criticise, to say that a more positive industrial policy should be followed (or no industrial policy at all). "Protect an industry and you may save it from death but you are not encouraging it to get out of the wheel-chair and back on its own feet. Still less are you encouraging other and younger industries to rise in its place."[59] In the present situation, however, that is beside the point. Europe has more than six million unemployed, and many major industries have found themselves suddenly threatened. It is in this context that EC strategy of adjustment must be evaluated.

The strategy of adjustment is based on the assumption that adjustment, in fact, will occur. To be successful, such a strategy must be based on:

- a genuine consensus;
- the will to change;
- a short to intermediate time horizon; and
- adequate funding.

Otherwise, the strategy of adjustment risks becoming a strategy of cosy agreements, and the consequences of the crisis change in both scope and nature.

In the 70s, EC industrial policy has tried to respect these conditions and in the cases of steel and synthetic fibres has had a certain success. But orderly adjustment is not a viable long-term strategy, especially for an economic community that needs to trade to survive.

In the short term, trade can be 'controlled', crisis cartels made to function, industries protected, wages and profits subsidised. In the long term, however, the European Community can do very little to block the development of the new international division of labour, to reduce the rate of the change in the international competitive environment, to affect the reversal in the terms of international trade, or to stem the flood of new technology.

As the dynamics of competition change, Europe's traditional position in many industries has weakened. In textiles and mass apparel, low-wage competition is pushing Europe to withdraw. In shipbuilding, the decline in the market and changing business conditions have rendered Europe's position untenable. Many of the capital and raw-material-intensive industries are moving through a period of transition. Synthetic fibres is becoming a mature industry. European steel has entered a phase of decline. As the barriers to entry to these industries fall and variable costs become more important, European competitors must adopt

strategies based on the development of internationally defendable intra-sector positions. The knowledge-intensive industries, in these conditions, become the key to assuring the future economic growth and development of the European community. But to become successfully established in these industries, Europe must generate the technological impetus and investment sufficient to compete with Japan and the US.

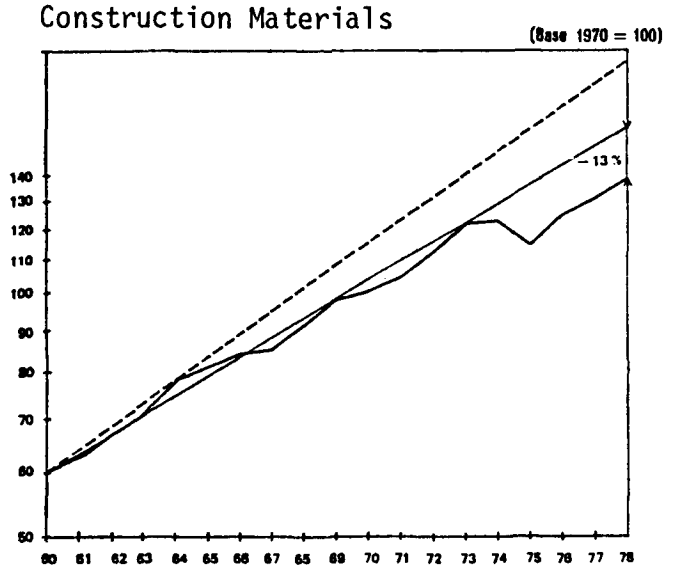
Major and rapid shifts in resources across industries, regions and countries are occurring. Purely rational economic solutions and the autonomous working of the market in these conditions are unable to provide a basis for fair and politically acceptable change. Today, the costs of change and the risks of the future must be shared collectively. Politically, consensus on industrial strategy must be built.

As the question of industrial development moves to the centre of political debate, the future evolution of the Community will be increasingly linked to EC industrial policy of the 80s.

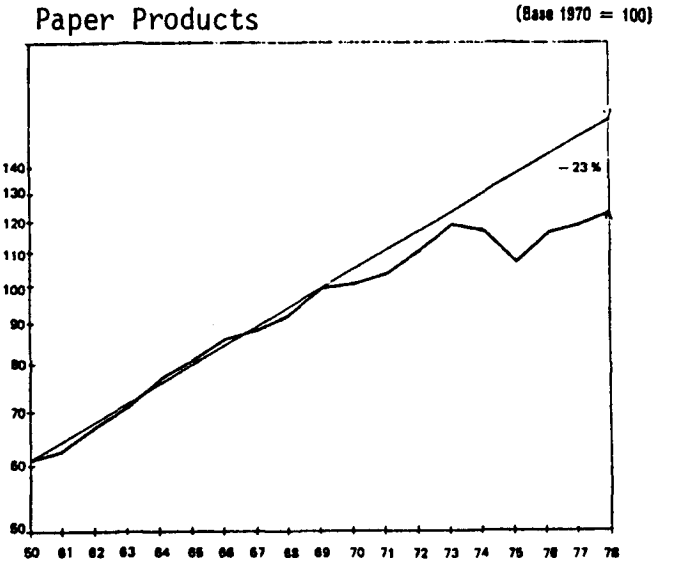
APPENDIX 1

EVOLUTION OF WORLD DEMAND IN VARIOUS INDUSTRIAL SECTORS

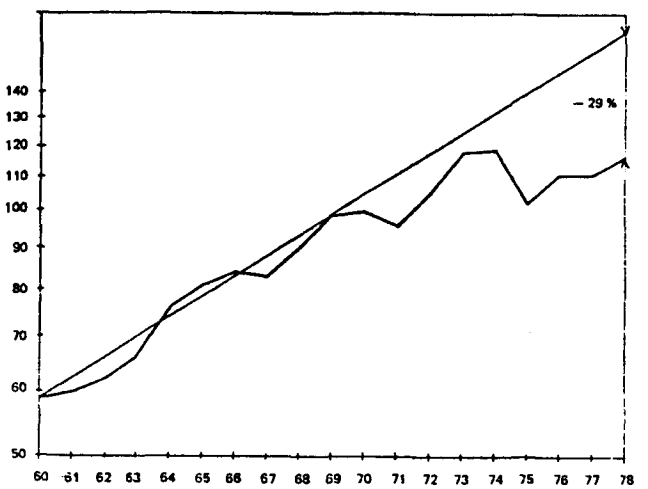
Construction Materials



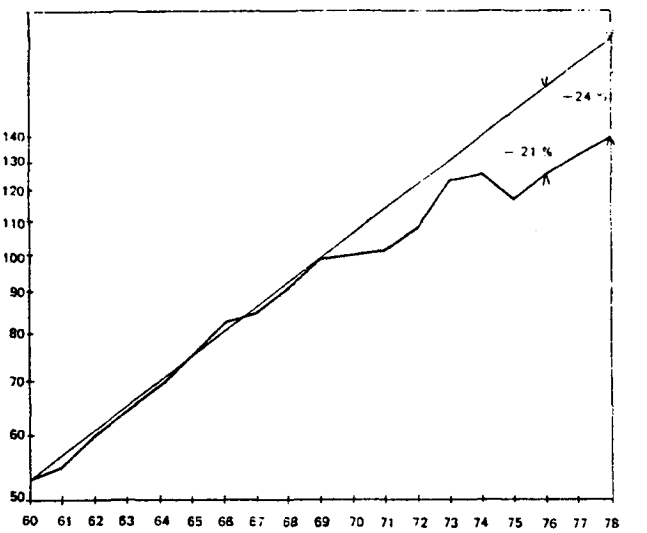
Paper Products



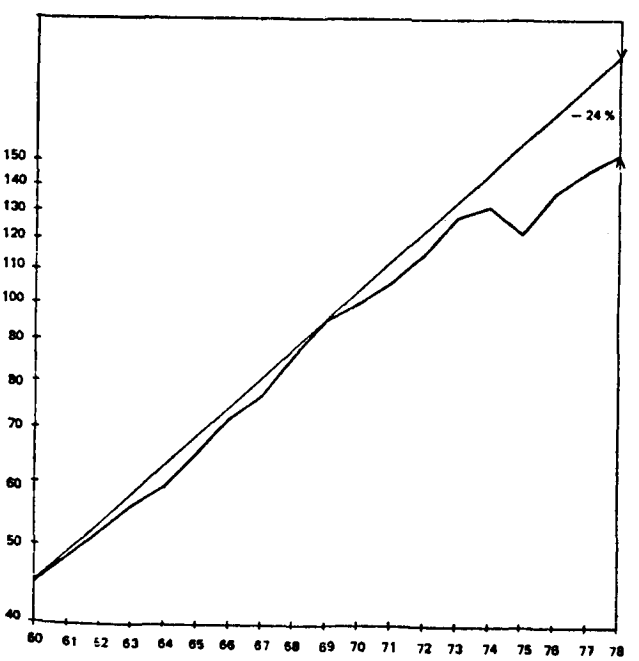
Steel and Metal Products



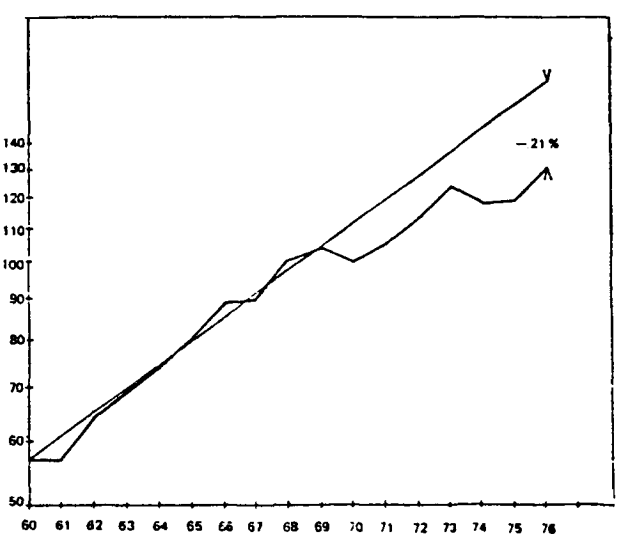
Electromechanical Products



Chemicals



Transportation Equipment



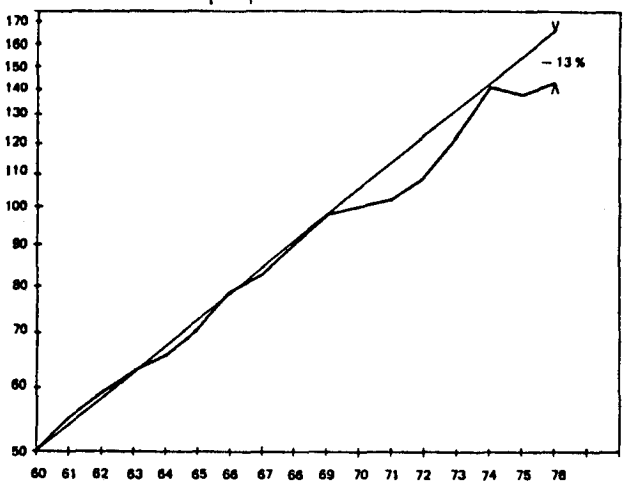
Source: CEPII, 1980.

APPENDIX 1 (cont'd)

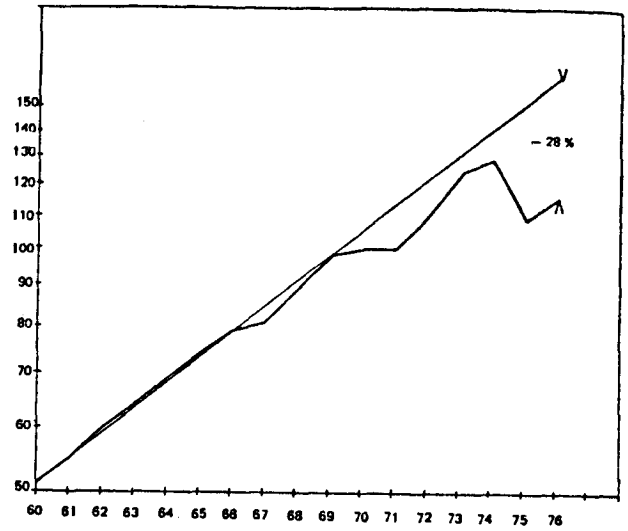
EVOLUTION OF WORLD DEMAND IN VARIOUS INDUSTRIAL SECTORS

High Precision Electrical Equipment

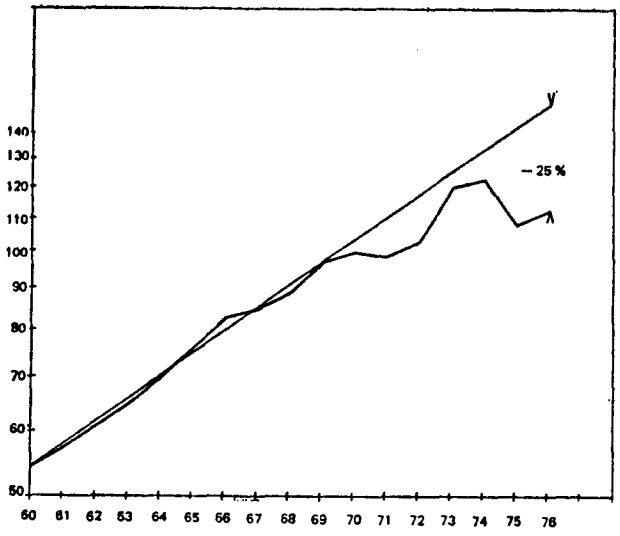
(Base 1970 = 100)



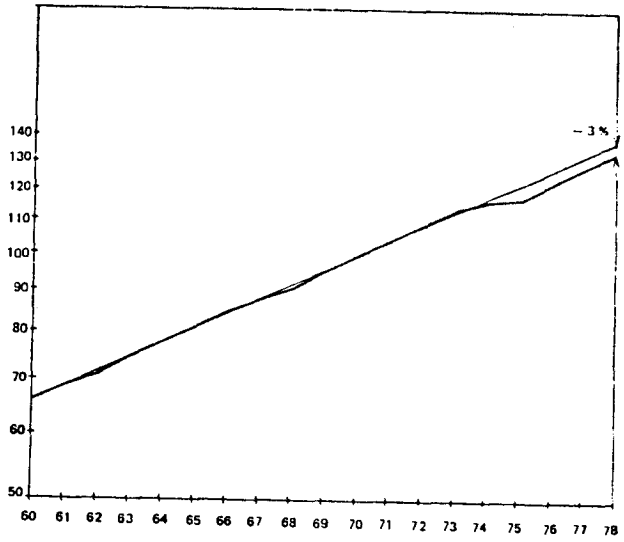
Consumer Electronics



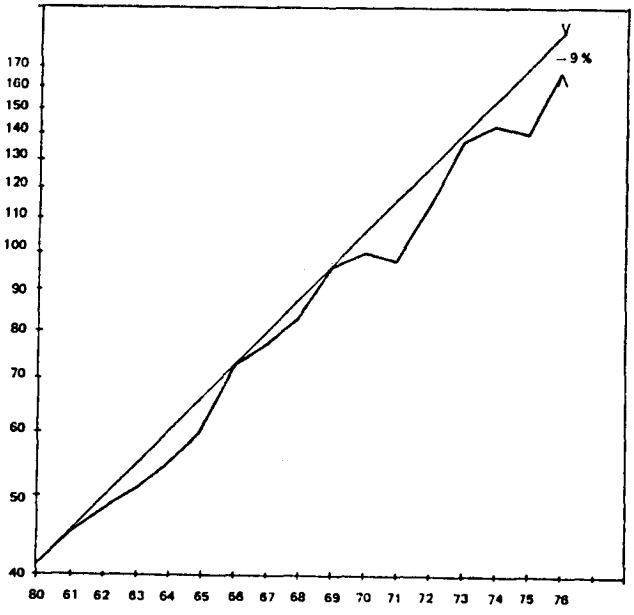
Machine Tools



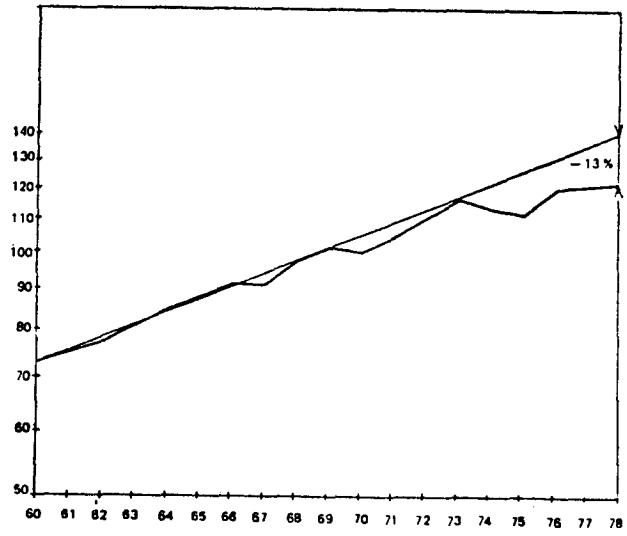
Food Products



Data Processing Equipment



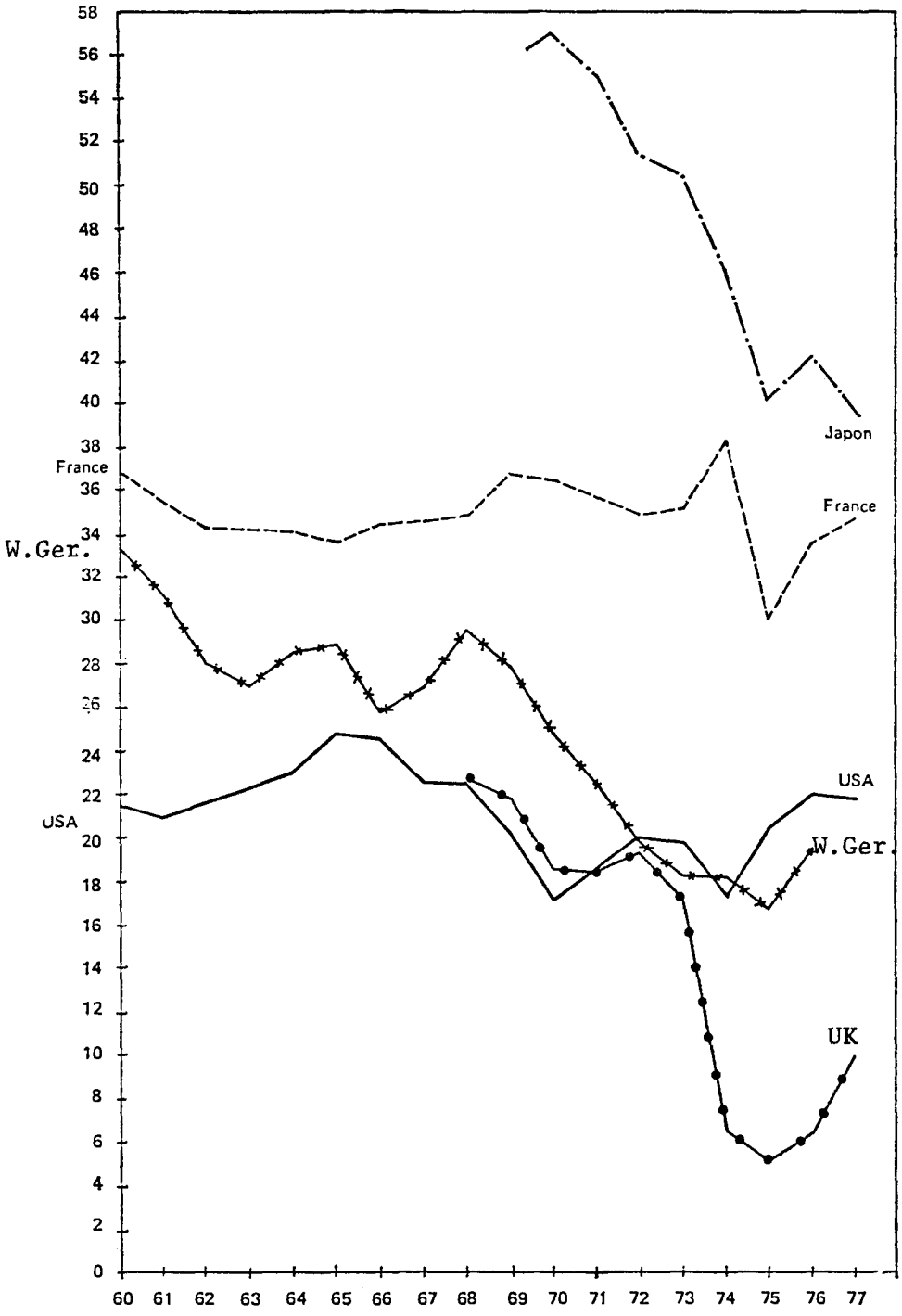
Textiles, Clothing, Leather



Source: CEPII, 1980.

APPENDIX 2

THE EVOLUTION OF GROSS MARGINS OF THE MANUFACTURING SECTOR IN SELECTED COUNTRIES, 1960-1970



Source: *"Economie - Perspective Nationale"*, No. 1, January, 1980, p. 79.

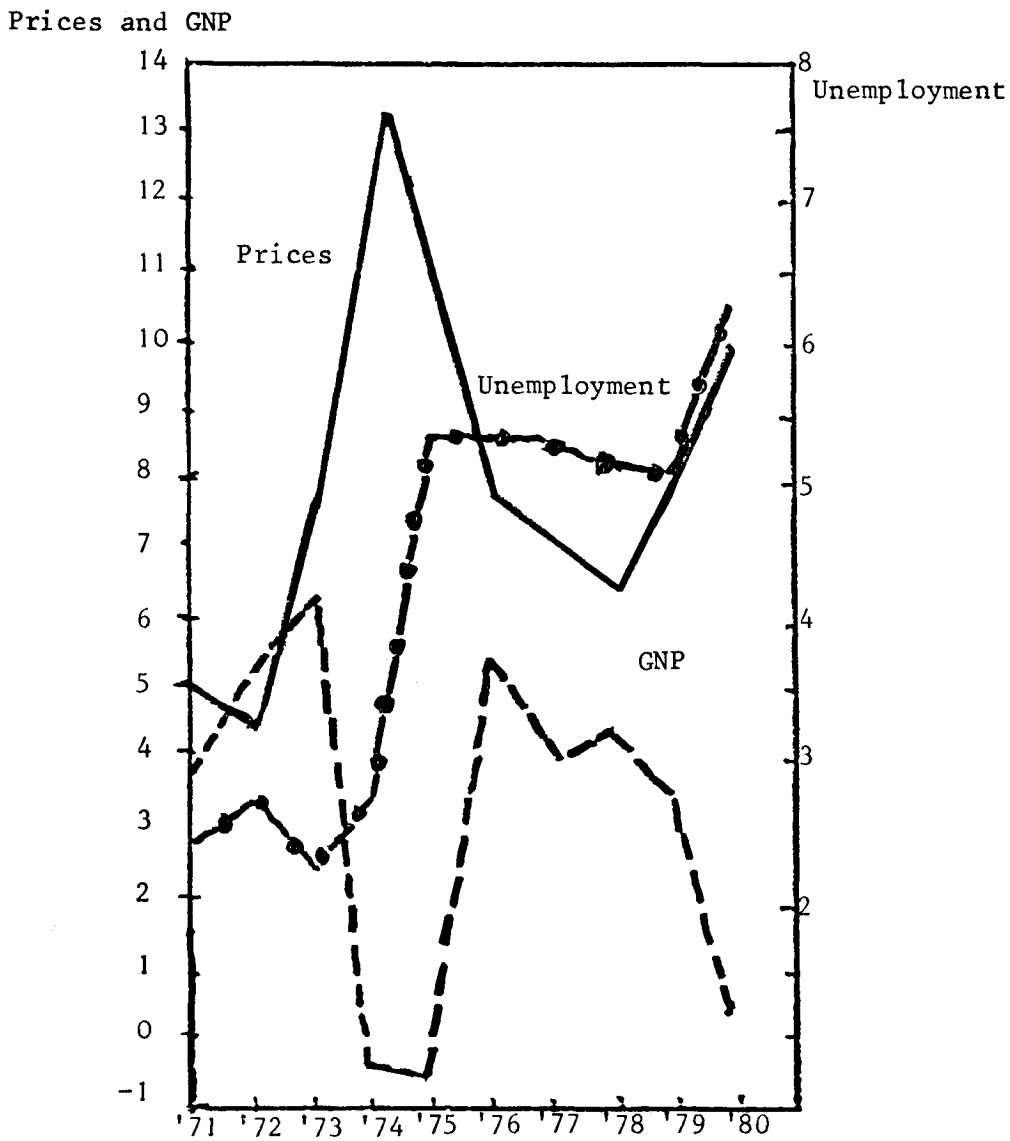
APPENDIX 3

PRODUCTION IN OECD and LDCs: AVERAGE GROWTH RATES PER ANNUM, 1960-1978

	L D C s		O E D C	
	GDP	Industrial Production	GDP	Industrial Production
1960 - 1973	4.7%	5.9%	4.2%	4.8%
1973 - 1978	5.4%	6.9%	2.6%	1.5%

Source: UN Statistical Year Book and Monthly Bulletin

PRICES, GNP AND UNEMPLOYMENT IN SEVEN MAJOR OEDC COUNTRIES



Source: *"Le Monde"*, May 17, 1980

APPENDIX 4

A) Commercial Balance: Percentage of Imports Covered by Exports for Selected EC Member Countries, 1965-1978

(%)

Country	'65	'66	'67	'68	'69	'70	'71	'72	'73	'74	'75	'76	'77	'78
Belgium	98	102	102	101	102	108	108	108	106	103	102	98	96	97
France	-	-	103	101	94	102	106	105	102	92	103	91	96	102
Germany	109	115	123	123	118	107	118	119	124	102	120	117	117	118
Holland	89	91	96	93	96	93	96	104	106	102	105	105	100	100
Italy	110	105	100	111	105	98	104	105	83	72	97	89	100	105
United Kingdom	96	99	90	100	99	100	96	94	82	72	85	87	96	97

Sources:

International Financial Statistics, I.M.F.; Etudes Economiques par pays, OCDE; Statistical Yearbooks, United Nations.

B) Inflation: Change in Consumer Prices for Selected EC Member Countries, 1965-1979

(%)

Country	'65	'66	'67	'68	'69	'70	'71	'72	'73	'74	'75	'76	'77	'78	'79
Belgium	4.1	4.3	2.9	2.6	3.9	3.9	4.3	5.4	6.9	12.7	12.8	9.2	7.1	4.5	n.a.
France	2.7	2.7	5.5	4.5	6.2	5.8	5.5	6.2	7.4	13.8	11.7	9.6	9.6	11.1	12.2
Germany	3.3	3.5	1.6	1.7	1.8	3.3	5.3	5.4	6.9	7.0	6.0	4.5	3.9	2.6	5.2
Holland	5.8	5.7	3.4	3.8	7.3	3.8	7.4	7.9	8.0	9.6	10.4	9.2	6.8	4.5	4.6
Italy	4.3	2.4	3.7	1.5	2.5	4.8	5.0	5.7	10.8	19.1	16.9	16.8	17.0	12.1	14.8
United Kingdom	4.5	3.9	6.6	4.7	5.3	6.0	8.3	6.5	8.8	17.3	23.5	16.5	15.9	8.2	22.0

Sources:

International Financial Statistics, I.M.F., Etudes Economiques par pays, OCDE; Statistical Yearbooks, United Nations.

APPENDIX 4 (cont'd)

E) Private Consumption as a Percentage of GNP in Selected EC member countries, 1965-1979

(%)

Country	'65	'66	'67	'68	'69	'70	'71	'72	'73	'74	'75	'76	'77	'78	'79
Belgium	n.a.	70	70	69	70	68	66	66	66	66	65	67	67	67	66
France	60	60	60	61	61	60	60	60	59	61	62	62	61	61	60
Germany	56	56	57	56	55	54	54	53	54	56	56	56	56	56	55
Holland	58	58	58	57	57	57	56	57	53	55	58	58	58	59	59
Italy	64	66	66	63	63	64	64	65	65	66	65	64	64	63	62
United Kingdom	63	63	63	63	62	61	61	63	61	62	60	60	59	59	58

Sources:

International Financial Statistics, I.M.F. Etudes Economiques par pays, OCDE; Statistical Yearbooks, United Nations.

F) Gross-Fixed Capital Formation as Percentage of GNP in Selected EC Member Countries, 1965-1979

(%)

Country	'65	'66	'67	'68	'69	'70	'71	'72	'73	'74	'75	'76	'77	'78	'79
Belgium	24	24	26	25	23	23	25	25	23	24	26	23	23	22	23
France	23	24	24	23	23	23	23	24	24	24	23	23	22	21	21
Germany	26	25	23	22	23	26	26	26	25	22	21	21	22	23	23
Holland	25	25	26	26	27	24	26	24	23	22	21	20	21	22	23
United Kingdom	18	18	19	19	18	18	18	18	19	20	20	19	18	18	18

Sources:

International Financial Statistics, I.M.F. Etudes Economiques par pays, OCDE; Statistical Yearbooks, United Nations.

PRINCIPAL ECONOMIC INDICATORS FOR SELECTED EC MEMBER COUNTRIES, 1965-1979

C) GNP: Economic Growth of Selected EC Members Countries, 1965-1979 *(in percentage)*

Country	'65	'66	'67	'68	'69	'70	'71	'72	'73	'74	'75	'76	'77	'78	'79
Belgium	3.8	2.8	3.9	4.3	6.4	6.4	4.2	6.0	6.4	4.9	-1.8	5.4	0.9	2.5	2.9
France	4.8	5.2	4.7	4.3	6.7	5.7	5.8	5.4	5.5	3.2	0.0	4.9	2.8	3.7	-
Holland	5.2	2.6	5.5	6.0	6.6	6.4	4.2	3.6	4.5	3.0	-2.0	6.8	2.8	2.4	2.9
Italy	3.2	5.8	7.0	6.3	5.9	5.0	1.5	3.1	6.8	3.4	-3.6	5.7	1.7	2.2	-
United Kingdom	2.5	2.2	2.6	3.6	1.6	2.3	2.0	8.1	7.0	-1.9	-1.6	3.0	2.4	3.0	2.7
E.E.C.	-	-	-	-	-	-	-	-	5.7	1.7	-1.7	4.9	2.3	2.6	3.5

Sources:

Agence Europe, FMI, OCDE, UN.

D) Rates of Unemployment in Selected EC Member Countries, 1968-1978 *(in percentage)*

Country	'68	'69	'70	'71	'72	'73	'74	'75	'76	'77	'78
Belgium	4.5	3.6	2.9	2.9	3.4	3.6	4.0	6.7	8.5	9.8	8.2
France	-	-	-	2.6	2.7	2.6	2.8	4.2	4.4	5.1	5.6
Holland	1.9	1.4	1.1	1.6	2.7	2.7	3.6	5.2	5.5	4.9	5.1
Italy	3.5	3.4	3.2	3.2	3.7	3.5	2.9	3.3	3.7	7.2★	7.6★
United Kingdom	2.5	2.4	2.6	3.5	3.8	2.7	2.6	4.2	5.7	6.2	6.5
EEC	-	-	-	-	-	-	2.9	4.4	5.0	5.5	5.8

Sources:

Agence Europe, FMI, OCDE, UN.

★ In 1977, Italy changed the basis of calculations.

APPENDIX 5

PRODUCTIVITY AND LABOUR COSTS

A) Unit Labour Costs and Productive Output Increases in Selected EC Member Countries - 1970-1978

Country	% Rise in Output per Man / Hour	% Rise in Unit Labour Costs *Local Currency*	% Rise in Unit Labour Costs *US $*
Belgium	75	67	167
United Kingdom	18	197	138
Denmark	55	74	138
France	49	105	152
Germany	51	57	185
Italy	42	207	127
Holland	61	73	189
U.S.	23	54	54
Japan	47	112	264

Source: Citibank, *Monthly Economic Letter*, August 1979.

B) Comparative Industrial Productive Output Per Man/Hour in Selected EC Members Countries - 1978

	Index
U.K.	1.0
Japan	1.46
France	1.50
W. Germany	1.92
U.S.	2.24

Source: *Le Monde*, April 12, 1979, p. 29.

APPENDIX 6

INDEX OF UNDER-UTILISATION OF PLANT CAPACITY IN THE EEC

(in %)

Country	1973	1974	1975	1976	1977	1978
Belgium	- 2	8	54	51	61	60
W. Germany	4	26	52	32	37	37
France	- 22	- 20	39	22	26	28
Holland	3	10	52	43	45	43
Ireland	...	7	25	21	4	5
Italy	10	13	57	41	40	48
Luxembourg	- 27	- 21	51	72	72	69
EEC	- 4	13	49	30	36	38

Source: "The European Economy in 1979", European News Agency, Brussels, 1979, p. 48.

APPENDIX 7

EC INDUSTRIAL POLICY MEASURES BY INDUSTRY - 1974-1980: DETAILS AND EXAMPLES

I - STEEL

Measures	Description
▪ Crisis Cartel	• *Eurofer*, December 1976.
▪ Rationalisation	• Through stepwise price increases, capacity reduction and investment will permit to restore profits and to resist new international competition. • Sectoral restructuration. • Rationalisation of the production. • Investment funds and direct subsidies: e.g. - 86 million EUA for French reconversion programme (*IHT* - 11/10/79). e.g. - 12.5 million EUA for Istitu di Ricerca Finsider per la Riduzione Oliretta Spt. to finance direct reduction plant. (*BEC*, no. 2, 1979). • Promote mergers: e.g. - Italsider and Ita-Tubi - 2/14/1978; - GKN and three small UK firms, 12/8/1979; - Usinor and Chatillon Neuves Maisons, 6/15/1979. Restrict State aid to sectors in overcapacity: e.g. - Italy and Italsider (*BEC*, no. 6, 1979). • Investment funds tied to Plan objectives. • Worker adjustment and retraining assistance: o The Commission does not actually provide redundancy payemnts but uses its money to maintain workers' income, to retrain them and to help them find new jobs. o National Governments must put up equal amount. o 110,000 jobs lost between 1974-1978 - 100,000 more to leave industry in early 80's. o 100 million EUA allocated in EC budget, 1980 (*The Economist*, 2/16/1980). o Special regional aid to assist reconversion (*BEC*, no. 12, 1978).
▪ Orderly Marketing Measures	• Import controls: 9 countries provide 85% of EC steel imports. Negotiated quotas and accords to limit import growth, based on 1976 levels. These accords have been very useful; indeed, EC producers have been able to undercut imports in a number of product sectors. In January 1980, quotas lifted on Brazil S. African and South Korean imports.

Measures	Description
	• Multilateral: A possible international regulation of the world steel market has been discussed (see Jones, K., *op. cit.)*.
	• Import duties on 140 different steel products entering the EC below agreed basic prices. e.g. applied on imports from the GDR, Rumania, Spain, Poland, Bulgaria, Brazil, S. Korea and 13 other countries during January and February 1978 (*The Economist*, 2/15/78, p. 46).
	• Prices: Minimum domestic selling prices. All prices and deliveries must be registered (*BEC*, no. 10, 1979, and *J.O.*, 12/8/1976). Non-respect of minimum prices may be sanctioned. e.g. - Biesician fined and required to deposit 25% of the value of shipments. Biesician producers obliged to sell through an agency in which EC participates. (*The Economist*, 6/10/78).
	• Production quotas by country: Quarterly production quotas fixed for EEC with country breakdown.
	• Market sharing agreements: The Plan requires each producer "to apply an identical coefficient of reduction in order to put community solidarity into practice". (E. Davignon, *BEC*, no. 1, 1979, p. 70).
	• Secret marketing deals: Ingo Walter suggests that this is the case, and cites a evidence the non-penetration of the UK market by other EC producers (*Steel Week*, 10/23/1978) and the stability of US exports to EC in spite of 17% - 55% price advantage. See Walter, I, *op. cit.*).
▪ Export Rebates	• A system of rebates on steel used in manufacturing exportable processed steel goods has been suggested by E. Davignon. (*European Report*, 18/2/1978).
▪ R & D Funds	• 62 million EUA allocated for technical research projects (*BEC*, no. 2, 1979).
▪ Formulation of Sectoral Targets	• Production and employment targets, 1980-1985-1990.

Measures	Description
▪ Concertation	• Mostly informal meetings in Brussels.

II - SHIPBUILDING AND REPAIR

Measures	Description
▪ Rationalisation	• Direct subsidies: The EC has budgeted for a 100 million EUA production subsidy funds. Subsidies range up to 15% of price (*The Economist*, 12/31/1977, p. 84). But demand is so slack that the Commission is unable to use all the funds budgeted... • Restrict State aid to sectors in overcapacity: ○ Ceiling in State aid to shipbuilders (*BEC*, no. 1, 1979, p. 70). ○ Limit on national subsidies: up to 30% of price of any contract (*BEC*, no. 3, 1979, p. 54). On the whole, these limits are not respected as member countries have become locked in a subsidy race. • Worker adjustment and retraining assistance: 60,000 jobs to disappear in this sector. 52 million ERA have been budgeted (*BEC*, no. 2, 1977). • Regional aid: special funds have been allocated to the regions of Marseille and the Clyde. • Financial support for EC shipowners willing to accelerate the renewal of their fleet on condition that the new ships represent 50% of the tonnage scrapped. *Objective:* reduce oversupply, create shipyard work and modernize EC fleet (*BEC*, no. 1, 1979, p. 70, and no. 3, p. 35).
▪ Export Assistance	• Export subsidies (see above, Direct subsidies).
▪ Concertation	• Some effort has been made as the Commission has tried to stop the subsidy race, but largely informal and irregular.

Measures	Description
▪ Formulation Targets	• Reduce capacity from 4.4 million qrt to 2.4 million by 1980.

III - TEXTILES AND CLOTHING

Measures	Description
▪ Rationalisation	• Direct subsidy has been granted to hasten reorganisation, especially small firms. • Investment funds for restructuring: from 20% to 40% investment funds required for mergers, joint ventures or restructurations; case by case approach: e.g. - Belgium, 1978-1979 (*BEC*, no. 2, 1979, p. 44).
▪ Orderly Marketing Measures	• Restrict State aid to sectors in overcapacity: o Restriction of investment funds: e.g. - Belgium, 1979: Government requested to refrain from subsidies that would result in increased capacity without rationalizing production. o Disallowance of more than short-term textile wage subsidies: e.g. - EC ruled that Britain's TES (Temporary Employment Subsidy) up to 40% of wages) must be modified to comply with the fair competition rules. The subsidy must not be concentrated only on the textile sector, but spread more evenly (50% of TES accorded to textiles sector, yet it only represents 4.2% of total employment). If TES lasts for more than 6 months, the firm must present a rationalisation programme. If more than 100 workers are concerned, the EC must be notified. (*The Economist*, 1/14/1978 and 2/4/1978). • Worker adjustment and retraining assistance. • Special Regional Aid

Measures	Description
	• Multilateral Accords: o Multifibre Agreement (MFA), 1973, replaced Long-Term Agreement (LTA) and renewed in 1977. The MFA is designed to regulate world textile trade and allow orderly but managed change. Covers cotton, wool, textiles and textile products and man-made fibres; signed by over 50 countries. o Rate of increase of textile imports from non European sources is fixed, monitored and controlled. In 8 most "sensitive" product groups - covering 62% of imports - no growth is permitted, but overall rate is 6%. o Quota by product and by country: once quota achieved imports controlled. For others a system of trigger thresholds and a "basket extractor" applies.
	• Bilateral Accords: In compensation with the MFA, the EC has signed bilateral accords with 32 countries covering particular situations and products. Also, special import agreements have been signed with Greece, Spain and Portugal, future members of the EC. (*BEC*, no. 2, 1979).

IV - SYNTHETIC FIBRES

Measures	Description
▪ Crisis Cartel	• Established in 1977 by the 11 major European fibre producers and worked out with the understanding of the EC Directorate General for Industrial Policy in order to deal with problem of 30% overcapacity, new international competition and huge losses.
▪ Rationalisation	• Agreement on phasing out of older, less efficient plants. • State members requested to discontinue until July 1981, all aid that might result in increased capacity. (*BEC*, no. 6, 1979, pp. 40-41). • All State aid to be related to restructuring objectives. • Special regional aid exemptions, notably for Southern Italy.

Measures	Description
▪ Orderly Marketing Measures	• Bilateral Accords: Some discussion has been held with US and Comecon producers (*The Economist*, 4/7/1979).
	• Multilateral Accords within the framework of MFA - See Textiles above.
	• Countervailing and antidumping duties: e.g. - 7% to 27% duties imposed on US imports of acrylic fibres. (*The Economist*, 11/24/1979).
	• Base Prices: Agreed minimum prices established within the framework of the cartel.
▪ Orderly Marketing Measures	• Production quotas by country.
	• Market shares frozen, based on 1977 figures - with an upward correction being applied for Italian producers. This measure has been watered down since 1977, mainly on the insistance of the competition Directorate General. Secret agreements - some discussion of their possible existence (see Farrands , C., *op. cit.*).
▪ Formulating Sectoral Targets	• Commission has pushed for a target-based plan: reduce capacity by about 30% for 1981-1982, when crisis in sector is expected to reach its peak. (*BEC*, no. 1, 1979).

V - BASIC PETROLEUM CHEMICALS

Measures	Description
▪ Crisis Cartel	• The Council of European Chemical Industries Assocation (CEFIC), especially under French and Italian instance, discussed with EC the setting-up of a cartel similar to that of synthetic fibres (see *The Economist*, 6/3/1978). No official action yet.
▪ Orderly Marketing Measures	• In lieu of a cartel, the CEFIC has suggested that production quotas by country be worked out with the EC. No official action yet.

VI - PLASTICS

Measures	Description
▪ Crisis Cartel	• European plastic producers have proposed such a cartel to the EC. Similar problems: over-

Measures	Description
	capacity, large inventories, new international competition and losses. No official action yet.
■ Orderly Marketing Measures	● Antidumping duties have been imposed on American and Comicôn imports, 1978, 1979 (see Franco, L., 1980 (2), *op. cit.*, p. 46).

VII - OIL REFINING

Measures	Description
■ Crisis Cartel	● European refiners have discussed such a cartel (see Franco, *ibid*, p. 46) with EC. No official actin yet.

VIII - NUCLEAR ENERGY

Measures	Description
■ R & D Funds	● EC financing of nuclear research on problems common to all members: ○ 1980-1984 - 53.47 million EUA allocated for radioactive waste management and storage. ○ 1980-1984 - 20 million EUA for research on the plutonium cycle (*BEC*, no. 2, 1979, p. 60).

IX - COMPUTERS AND COMPONENTS

Measures	Description
■ R & D Funds	● EC funding of research into new uses of computer, on common European computer languages, technical standards and general research coordination in order to avoid the overlapping of national research programmes. ○ 1979-1983 - 30 million EUA allocated, of which 20% earmarked for research on standard languages, 20% for common standards in European administrations and defense contracting, 60% for new computer use research.
■ Common Standards and Open Public Purchasing	● Working with the European Committee for standards and the European Commission for Electrotechnical standardization. The EC (DG3) has encouraged the development of common European

Measures	Description
	computer standards as a basis of public procurement policies open to all "qualified" European firms. The proposal has become stuck on the precise definition of qualified European firms. (See *The Economist*, 4/5/1980).
▪ Sectoral Targets	• A general target of European production equal to European sales has been formulated. (See *Le Monde*, 2/8/1980).
▪ Concertation	• A "summit" of European companies and the EC (DG3) was held recently to discuss standardization and cooperation between firms (see *Le Monde*, 2/8/1980).

X - TELEMATICS

Measures	Description
▪ R & D Funds	• Action similar to computers, above.
▪ Common Standards and Open Public Purchasing	• Action similar to computers, above. In addition, the Commission has encouraged the national P.T.T.s to standardize contract specifications and to open contrasts to bidding from all European controlled firms.
▪ Concertation	• EC has attempted to bring P.T.T.s and companies together for discussions development development of specifications and common programmes: e.g. 8/2/1080 and *The Economist*, 4/5/1980.

XI - AERONAUTICS

Measures	Description
▪ Export Subsidies	• Export financing and interest subsidies have been discussed (see Franco, L., 1980, *op. cit.*, p. 46).
▪ R & D Funds	• Funds have been accorded to various prospects. *Ibid.*

XII - SPACE

Measures	Description
▪ R & D Funds	• In addition, to present ESA research, larger programmes have been proposed (See *BEC*, no. 4, 1979, p. 89).

XIII - MILITARY HARDWARE

Measures	Description
■ Rationalisation	● The DG3 has encouraged European wide specialization in defence production. To this end, an outside consultant is to report in 1980 with a list of concrete objectives. (*The Economist*, 12/6/1980).
■ Orderly Marketing Measures	● The Commission has imposed 5% to 10% custom duties on arms contracts with US in hopes of establishing a more equal two-way flow between US and EC in arms sales and of encouraging closer European production cooperation. ○ 10% tariff on F-16 aeroplanes imported by Belgium, Netherlands and Denmark, 1978. ○ 10% tariff on 1,039 American armoured vehicles imported by Belgium, 1978 (see *The Economist*, 12/1/1980 and 28/7/1979).

XIV - FOOTWEAR

Measures	Description
■ Orderley Marketing Measures	● Bilateral Accords (see Franco, *op. cit.*, 1980 (1), p. 11). ● Antidumping duties (*ibid*).

XV - PULP AND PAPER

Measures	Description
■ R & D Funds	● Study of supply and demand factors affecting EC undertaken by EC and industry. Financed by EC (*The Economist*, 6/6/1979).

APPENDIX 8

TEXTILE AND APPAREL INDUSTRY

A) Jobs Lost in the EEC Textile and Apparel Industry - 1973-1976

Country	Textiles		Apparel		Total
	Numbers	%	Numbers	%	
Belgium	17,000	*52*	16,000	*48*	33,000
Denmark	4,000	*50*	4,000	*50*	8,000
France	41,000	*85*	7,000	*15*	48,000
W. Germany	94,000	*53*	84,000	*47*	178,000
Ireland	3,000	*43*	4,000	*57*	7,000
Italy	41,000	*79*	11,000	*21*	52,000
Luxembourg	-	-	100	*10*	100
Netherlands	13,000	*41*	19,000	*59*	32,000
U.K.	60,000	*75*	20,000	*25*	80,000
Total EEC	273,000	*63*	165,000	*37*	438,000

Source: *The Economist*, October 15, 1977.

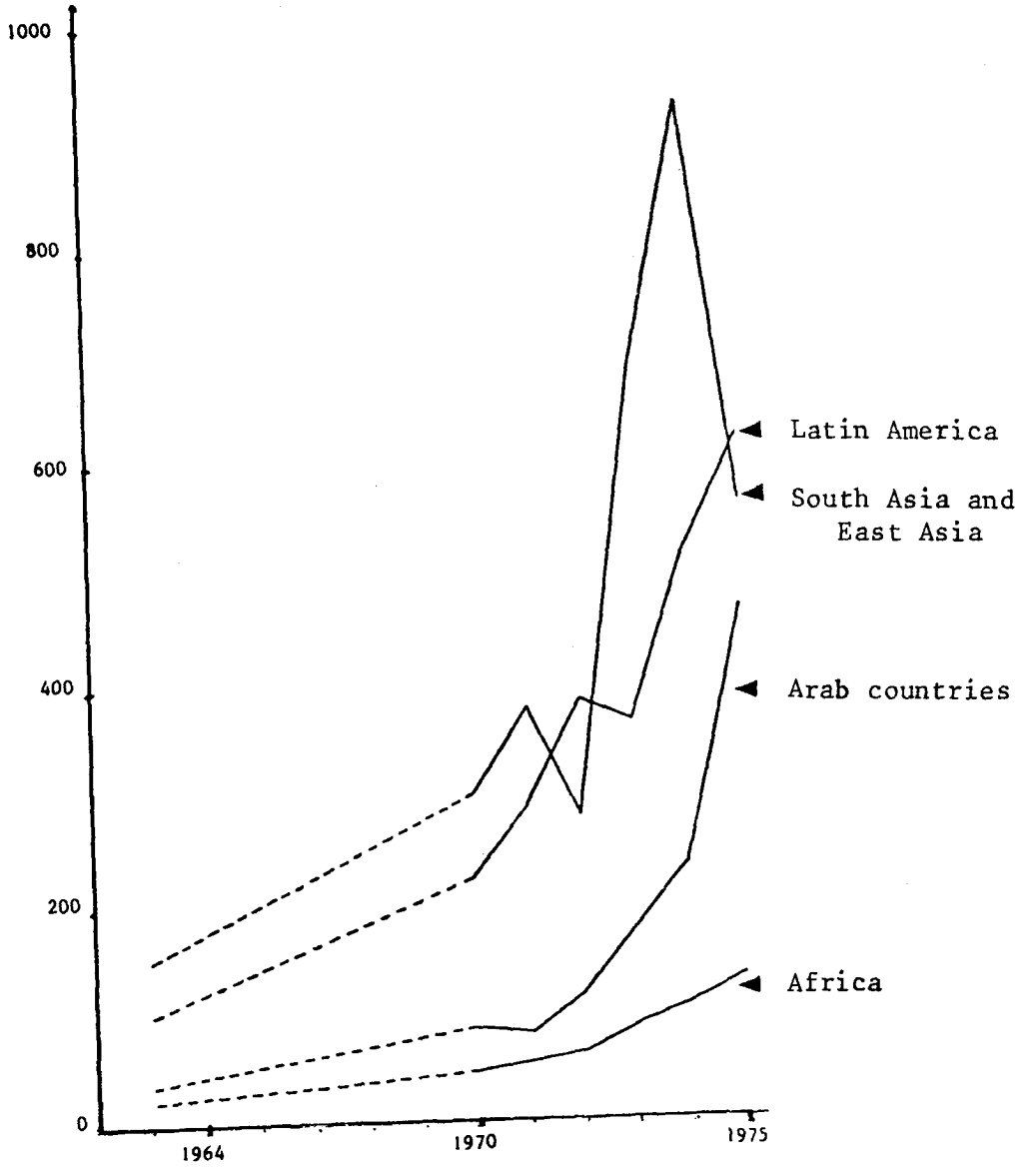
B) Textile and Apparel Exports as a Percentage of Total of Exported Manufactures of Selected Third World Countries - 1974

	%		%		%		%
Pakistan	74	Thailand	26	Brazil	22	Egypt	72
India	44	Elsalvador	40	Guatemala	27	Morocco	47
Hong Kong	44	Columbia	35	Mexico	15	Tunisia	21
South Korea	38						

Source: CEPII, 1978, p. 117.

APPENDIX 8 (cont'd)

C) Third World Textile Machine Imports - 1964-1975



(in mios. dollars)

Source: O.E.C.D.

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International Herald Tribune, Le Monde, The Financial Times, various issues.

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1. Keynes, John Maynard, The Economic Consequences of Peace, London, 1919, cited in Richard T. Griffiths, Government, Business and Labour in European Capitalism, London, Europotentials Press, 1977, p. 15.

2. Industrial Policy in the Community, prepared under Guido Dolonna di Paliano, Brussels, Commission of the European Communities, 1970.

3. In April 1972, Altiero Spinelli, Industrial Commissioner of the EC (1970 - 76), organised the Venice Conference on industry and society. Representatives from labour, business and government participated in the conference, the principal themes of which were (i) collective needs and quality of life, (ii) industrial development and the reduction of social and regional needs, and (iii) the EC in a new world of technical progress, multinational corporations and the industrialisation of the Third World.

4. Demand began to weaken in a wide variety of sectors, ranging from machine tools, steel and metal products, pulp and paper to transportation equipment and consumer electronics. See Appendix 1: Evolution of World Demand in Various Industrial Sectors.

5. Table 2 presents combined net profit results for both the export and domestic sectors. However, given the importance of the export sector in most EC countries' economies, the trend is clearly evident. For additional information, see Appendix 2, The Evolution of Gross Margins of the Manufacturing Sector in Selected Countries, 1960 - 1970.

6. Commenting on the synthetic fibre group which was later to experience acute problems of surplus capacity, The Economist noted that industry "investment is like a pursuit cycle race. One minute the competitors are standing in their pedals. Next minute everyone goes pell-mell, with a Bourbon tendency to ignore the lessons of history". The Economist, 7 April, 1979.

7. Furthermore, as many of the newcomers to international markets did not always use the same measure in evaluating the rationale for investment, the time horizon on profitability, the level of profit expectations nor of what constituted acceptable rates of leverage as traditional western firms (see BCG Report on Sweden, 1978, p. 69), both the structure and, more importantly, the dynamics of international competition had started to change. European firms would have to adapt, however difficult that may be.

8. Although not directly the subject of this paper, it is interesting to note that, in spite of the crisis, the LDCs have maintained very robust growth rates since 1973. See Appendix 3, Production in OECD and LDCs, 1960 - 1977 and Prices, Unemployment and Growth in the Seven Major OECD countries, 1973 - 1980.

9. See Appendix 4, Principal Economic Indicators for Selected EC member countries, 1965 - 79, for a detailed breakdown of the macroeconomic trends before and during the crisis.

10. The Economist, 7 April, 1979, and 27 October, 1979; "Europe-Etats-Unis: la guerre des fibres", Le Nouvel Economiste, 22 October, 1979. In fact, the industry is confronted with structural overcapaicty, as in today's new factor cost conditions, and the efficiency of competition, much of the existing European plant has become too cost inefficient to run.

11. A by-no-means exhaustive list of such sectors would include steel, shipbuilding and repair, clothing, shoes, textiles, pulp and paper, consumer electronics, civil engineering and construction, motorcycles and automobile assembly.

12. See Vincent Cable, "Britain, the 'New Protectionism' and Trade with the Newly Industrialising Countries", International Affairs, Vol. 55 (1), 1979, pp. 1 - 17.

13. See Appendix 5: Productivity and Labour Costs. The exact effect of these productivity and wage trends vary in accordance with the relative cost structure of particular industries. Nevertheless, coupled with the devaluation of the dollar and the Yen they posed a constant threat to the competitive position of several EC countries.

14. It is not evident for everyone that new investment is required as, paradoxically, there seems to exist severe plant overcapacity throughout Europe. See Appendix 6: Index of Under-Utilisation of Plant Capacity in the EEC. However, in many industries overcapacity is more apparent than real as much of existing plant, based on factor costs of pre-1973, is no longer competitive. For an interesting analysis of this problem, see Alain Barrère, "La crise n'est pas ce que l'on croit", Le Monde, 14 and 15 February, 1980.

15. In this regard, the BCG Report on Sweden notes that "in many of the knowledge-intensive businesses that are providing industrial growth today, capital investment in plant is less significant than a range of other investments such as R & D, application engineering, marketing and distribution, and labour training ...". However, the authors of the report caution that as this type of investment has traditionally been lumped with current expense and consequently, does not appear in aggregated investment data, national accounts may not reflect accurately the real proportion of GNP being accorded to investment. See A Framework for Swedish Industrial Policy, Vol. I, November 1978, pp. 70 - 71.

16. Maldague, P., L'évolution des structures sectorielles des économies européennes depuis la crise du pétrole, numéro spécial d'Economie Européenne, Communautés Européennes, Luxembourg, 1980.

17. Political legitimacy may be defined, here, as including both a widely shared consensus throughout the Community about the appropriateness of an EC industrial policy and, more specifically, the active acceptance and support for its implementation among the major social and political forces (National Governments, the Commission, Business and Labour) that such a policy directly concerns.

18. The authors write that: "Rien pour la politique industriells : pas de règles particulières, pas de base juridique pour arrêter des dispositions spécifiques concernant l'industrie. Celle-ci est soumise aux seules dispositions générales du traité : libre circulation des marchandises, libre circulation des capitaux,libre droit d'établissement, libre circulation des personnes, interdiction des aides et respect des règles de concurrence." See R. Toulemon and J. Flory, Une Politique Industrielle pour l'Europe, Paris, PUF, 1974, p. 79.

19. A typical case in point: "... But there was strong opposition ... to change. So Mr. Vouel changed sides and took up the cudgels against Mr. Davignon ... When the Commission discussed the option last July, there was a rebellion against Viscount Davignon, led by the two German commissioners, Mr. Brunner and Mr. Haferkamp, and Britain's Mr. Tugendhat, backed by free-marketeers, both inside and outside the Commission. In the end, the cartel was neither approved nor blocked. Now the decision is postponed once more ... Mr. Gundelach, the farm commissioner now says that the Commission should extricate itself from any involvement ... Viscount Davignon clearly feels that his reputation now stands or falls with Commission approval ...". The Economist, 11 November, 1978.

20. See Steven J. Warnecke, "Industrial Policy and the European Community", in Steven J. Warnecke and Ezra N. Suleiman, eds., Industrial Policies in Western Europe, New York, Praeger, 1875, p. 173.

21. In this regard, Warnecke writes that "for strictly domestic reasons, the weaker states were concerned that trade liberalisation without counterbalancing EC or national policies would have economically and politically destabilising effects. The stronger states were concerned that if they did not engage in some form of policy towards industry they would not be able to maintain their competitive edge in the face of industrial policies of other member states." Warnecke, Steven, J., ibid., p. 174.

22. Commenting on the results of their research on the evolution of the industrial structures of western Europe's ten largest countries, the authors of a UN Report note that "les mesures de la similitude des structures par branche indiquent un degré élevé de concordance entre les pays; ce degré de concordance ne varie que légèrement suivant les classifications utilisées et leur niveau d'agrégation ... En outre, les grandeurs mesurées montrent que la similitude des structures s'est accentuée tout au long de la période étudiée ...". See Structure et Evolution de l'Industrie Européenne, ONU, New York, 1978, p. 44.

23. The Colonna Report draws attention to this problem and concluded that the problems were essentially of a legal and fiscal variety. However, more substantive reasons were advanced to explain this phenomenon. See Renato Mazzolini, "Behavioural and Strategic Obstacles to European Transnational Concentration". Columbia Journal of World Business, Summer 1973, pp. 68 - 78.

24. The Director General for industrial policy has been particularly active in speaking and writing on the EC's new industrial strategy. He gives a clear and particularly succint expression of the Commission's policy in Davignon, E., "Ebauche d'une stratégie européenne pour surmonter la crise industrielle", Etudes et Expansion, N° 3, 1977, pp. 557 - 562.

25. Textile machinery, synthetic fibres, clothing and textiles as such compose, together, what is usually described as the textile industry. As the four sectors are interlinked at many levels, it is sometimes difficult to differentiate clearly one from another. Section 2.2.1.1 of the papaer analyses textiles and clothing; Section 2.2.2 discusses synthetic fibres. Textile machinery is mentioned only indirectly.

26. Farrands, C., "Textile Diplomacy: The Making and Implementation of European Textile Policy, 1974 - 1978", Journal of Common Market Studies, Vol. 18 (1), September 1979, p. 26.

27. Although some have argued that these figures are inflated as they may include layoffs in the synthetic fibre sector, such quibbling is beside the point, given the magnitude of the problem. See Appendix 8 (A) - Jobs lost in the EEC Textile and Apparel Industry, 1973 - 1976.

28. See Appendix 8 (B) - Textile and Apparel Exports as a percentage of Total Exports of Selected Third World Countries, and Appendix 8 (C) - Third World Textile Machine Imports, 1964 - 1975.

29. Some American firms have adopted successfully such a strategy. See de la Torre, J., et al., Corporate Responses to Import Competition in the US Apparel Industry, Georgia, Georgia State University Press, 1978, pp. 203.

30. Farrands, C., op.cit.

31. Many of the new Third World producers have not only been aggressive, they have also been highly successful. By late 1978, seven of them (South Korea, Taiwan, India, Singapore, Brazil, Argentina and Peru) had sufficient orders to last them four years, compared to a world average of seventeen months. EEC yards, meanwhile, were operating at less than half capacity. The Economist, 25 November, 1978.

32. See Rapp, W.V., "Strategy Formulation and International Competition", Columbia Journal of World Business, Summer 1973, pp. 98 - 112.

33. But this advantage may be only temporary. The development of robot welding, for example, could transform the cost structure of the industry in favour of highly industrialised countries with an advance in automatic production equipment. The only thing permanent is the economics and competitive dynamics of shipbuilding, as in any other industry, however, is change.

34. In 1979, 42.8% of EEC ship production was exported. Le Monde, 15 April, 1980.

35. See, for example, "Marseille: Port in a Storm", The Economist, 24 February, 1979, for an account of the regional problems posed by rationalisation in shipbuilding.

36. Financial Times, 11 November, 1979.

37. See Le Monde, 22 January, 1980. The two Third World growth leaders in 1979 were Venezuela with 59.9% increase and S. Korea at 53.1%. Among industrialised countries, Japan increased production 9.4%, Canada 9%, W. Germany 11.6%, and the EEC as a whole 5.77%.

38. The Economist, 31 November, 1977.

39. The Economist, 12 November, 1977.

40. Appendix 7 presents a detailed account of the Davignon Plan and examples of its application. Also see Table 6.

41. Modernisation is a costly business: it involves the buying-off of workers with early retirement, shorter work weeks, severance pay and more than 200 000 redundancies, massive writing-off of the value of existing assets, not to mention the required high investments in new plant equipment and process research.

42. For an outline of the Belgium plan, see "Le plan de restructuration de la sidérurugie est définitivement approuvé", Le Monde, 2 January, 1980; for W. Germany, see "Comment l'acier allemand a vaincu la crise", Le Monde, 13 February, 1979; for the French plan, see "La crise de la sidérurgie", Le Monde, Dossiers et documents, March 1979, and "Une paix chèrement payée", Le Monde, 25 July, 1980; for the UK rationalisation efforts, see The Economist, 7 January and 14 January, 1978, and "A Policy for British Steel", The Financial Times, 6 May, 1980.

43. The Economist, 24 November, 1979. Present forecasts are for a 20-million ton production surplus - 14% of current output - in 1983. See The International Herald Tribune, 10 November, 1979.

44. Direct-reduction plants transform iron ore to metallic iron that is as acceptable to electric furnaces as scrap. In Italy, those having the most pressing need for scrap are the Bresciani; it is curious that the Commission should be subsidising raw material sourcing for the very people who have been the most recalcitrant to the Davignon Plan. See Bulletin of the European Communities, N° 2, 1979.

45. For example, the French plan: although both capacity and employment have been scaled down, and productivity increased from 9 man-hours per ton in 1977 to 8 man-hours per ton in 1979, most of the plan's new investment to date has been to pay off the bankers and redundant workers. No serious attempts have been made to develop greater energy efficiency, a key to future competitivity; little has been invested in process R& D - 16 times less than the Japanese - and one of the consequences of the type of redundancy plan adopted has been that the work force has, on average, aged (88% of the work force is now over 30). Meanwhile, Peugeot has announced that it has shelved its projected plant in Longwy, the tripartite (Labour, State, Business) regional committees have become inoperative, and the State has forced Fos and Dunkerque to buy CII-Honeywell-Bull computers, although they have been judged highly inefficient for the use to which they are being put. The long-term perspectives of such a plan are far from clear. See The Economist, 19 January, 1980, Le Monde, 22 May, 1980 and Le Monde, 1 March, 1979.

46. Data gathered by the author during interviews.

47. See Walter, I., "Protection of Industries in Trouble: the Case of Iron and Steel", The World Economy, Vol. 2 (2), May 1979, p. 176.

48. The Economist, 14 July, 1978.

49. See Jones, K., Forgetfulness of Things Past: Europe and the Steel Cartel", in The World Economy, Vol. 2 (2), May 1979, p. 151.

50. Ibid.

51. Ibid.

52. In addition, the South Korean domestic market grew more than three times during the same period. See CEPII, 1978, op. cit., p. 74.

53. In Italy, American fibre imports increased six times and in the UK threefold. At the same time, the American government has prohibited the export of naphtha - which would allow EC producers to enjoy the same advantage as their American competitors. See The Economist, 24 November, 1979.

54. See The Economist, 31 December, 1977, and 11 November, 1978.

55. In fact, the legal authority for the cartel seems doubtful in the light of Articles 85 and 86 of the Treaty of Rome. See Table 6 and Appendix 7 for a description and examples.

56. Although this paper is concerned primarily with Commission administered industrial policy, it must be noted that European industrial cooperation can take the form of bilateral state projects (e.g. Concorde, Ariane, ...) of inter-firm projects (e.g. automobile R & D) or of mixed-state company projects (e.g. Airbus).

57. See Davignon, E., op. cit.

58. See Table 6 and Appendix 7 for description and examples.

59. The Economist, 14 October, 1978.

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80/01 "Identifying cognitive style determinants of retail patronage, by Christian PINSON, Arun K. JAIN and Naresh K. MALHOTRA, January 1980.

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