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THE INDUSTRIAL POLICY OF THE EUROPEAN COMMUNITY

1. INTRODUCTION
2. BACKGROUND
3. PRESENT SITUATION AND PROSPECTS OF THE COMMUNITY'S INDUSTRY
4. THE COMMUNITY'S INDUSTRIAL POLICY
 - 1) Objectives
 - 2) Means
5. EEC-CHINA RELATIONS

1. INTRODUCTION

It is for me a privilege and a pleasure to speak to you this morning at a moment when relationships between China and the Community are being developed at all levels, not least of all at the industrial level. It is my hope that this Business Week, by facilitating the establishment of contacts at the practical working level will make a positive contribution to the development of these relationships to our mutual benefit.

Before you get down to work at the sectoral level I believe it would be useful for you to spend a little time looking at overall industrial policy in the Community. This will help you to appreciate the general context in which are placed the specific sectoral matters with which you will be particularly concerned later in the week.

It is for this reason that I am very pleased to have the opportunity to present a short paper on industrial policy in the European Community and, of even more importance, to discuss it subsequently with you in order to clarify any aspects which may not appear to be very clear.

There will, in fact, probably be many such aspects which puzzle you for the Community is a very unique creation which is in constant evolution, with the powers and responsibilities of the different parties within it, especially in the industrial area, being modified over time in a variety of ways in response to changing conditions.

2. BACKGROUND

The industrial revolution began in the north-western part of Europe in the latter half of the 18th century. From small beginnings it spread, during the following two centuries, across the rest of Europe, producing, through successive phases, a range of goods and services of ever-increasing sophistication from simple wool and cotton textiles to lasers, micro-chips and three-dimensional X-ray machines.

Although it started here industrialization is, of course, not confined to Europe. Other industrial powers have established themselves, such as the United States and, more recently, Japan. In the developing world new industrial centres are emerging - the so-called NICs (newly industrialised countries).

Although we have not kept the almost dominant world role which we had achieved at the beginning of this century we have maintained our position as a major economic power alongside the USA and considerably ahead of Japan.

In 1979, for example, our Gross Domestic Product, at market prices, reached 1748 000 million ECUs which was greater than that of either the USA (1729 000 million) or Japan (738 000 million).

We would not have been able to achieve this success without the creation of the European Communities - the European Coal and Steel Community in 1952, the European Atomic Energy Community and the European Economic Community in 1958.

From the 1950's till the early 1970's the development of the Community was marked by high growth, low inflation and almost full employment. For example, the Gross Domestic Product of the Six grew, at constant prices,

by 90% during the period from 1960 to 1973; unemployment remained low throughout the period - 1.5% in 1961, 2.1% in 1973.

The period was also one of considerable structural change as, with the progressive elimination of tariffs and quotas intra-Community trade, particularly in industrial products, developed significantly (Exports of the Six grew at an annual rate of around 9.7%).

The successes which the Community experienced at that time led to a general belief that we had reached a stage of automatic and relatively stable economic growth.

The explosion of oil prices put an end to this belief and during the past few years there has been a deterioration in the economic situation, with low (even negative) growth rates and increasing unemployment.

3. PRESENT SITUATION AND PROSPECTS OF THE COMMUNITY'S INDUSTRY

Faced with a changed environment the Community, fortunately, possesses a number of important strengths - a long industrial and commercial tradition, good infrastructures, a skilled workforce, a high level of technology.

Although industrial sectors which produce low value-added goods are very vulnerable to competition from the new industrialising countries, the Community is by and large in a satisfactory position for products which need much skilled labour and which consequently embody high technology, e.g. aircraft and nuclear power. Our position with respect to research-based products, such as computers, telecommunications and micro-electronics, needs to be further strengthened.

Our prospects for renewed growth will, however, depend to a considerable degree on our ability to overcome certain problems with which we are faced.

Among the main problems are:

a) the rigidities inherent in long-established industrial structures.

Many regions of the Community are heavily dependent on those traditional industrial sectors which are most vulnerable, in a free-trade environment, to competition from the developing countries. The considerable investments - in infrastructures, plants and machinery, education and training - which have been made in these sectors and regions in the past are not well adapted and cannot easily be adjusted to respond to the changed needs and circumstances of today.

b) the relative level of overall labour costs. The cost of labour is a key factor in the cost structure of many industrial sectors, and in particular of those sectors which produce low-skill, low-value-added goods. The European Community is still deeply involved in a number of these sectors.

It is not, therefore, surprising that, in conditions of free trade and given the relatively high level of overall salary costs, even for the lowest paid, that a number of labour-intensive industrial sectors within the Community should be particularly vulnerable. Investments aimed at increasing the productivity of labour in these sectors only afford temporary respite since the technology is freely available to lower-wage countries as well. Retraining of the people involved for other higher-skilled jobs would afford a solution if such job opportunities were abundant. Unfortunately we are passing through a period when such opportunities are relatively scarce. As a consequence we are particularly sensitive to anything which might increase the pressure on such sectors.

- c) limited availability of internal sources of many raw materials. The Community depends on other countries for more than three-quarters of its raw materials needs. The major part of these imports come from other industrialised countries. As dependence on a very small number of suppliers renders our industry vulnerable to external changes, we need to widen our sources of supply for raw materials.
- d) our dependence on high-priced and potentially scarce energy resources, much of it imported. About a third of total Community energy consumption is used in industrial processes. Although in the majority of sectors energy only accounts for about 10% of production costs, a few major sectors are very intensive energy users (e.g. energy represents 30% of crude steel costs in the Community) and account for about half of all energy used in industry. Some industrial products are themselves major energy users, e.g. transport vehicles account for about 15% of total energy requirements. In addition, certain industrial products use petroleum as a raw material, e.g. feedstock in the chemical sector. As you can see, therefore, our industry uses a great deal of energy. Our dependence on non-Community sources of supply has had a major impact on the Community's overall balance of payments. It has

rendered us very vulnerable to increases in energy prices. This in turn has weighted heavily on programmes to stimulate economic growth. It will also impose fundamental structural changes in energy-intensive sectors, such as automobiles and chemicals.

The Community's industrial policy aims to overcome these difficulties.

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②

1) Steel

2) Energy

3) ~~30%~~ <

4. THE COMMUNITY'S INDUSTRIAL POLICY

1. Objectives

The Community's industrial policy is based essentially on the principles of a liberal market economy.

Although no specific references to industrial policy are to be found in it, the EEC Treaty established the framework within which general industrial development would take place, that is, the creation of a customs union, a common internal market as free as possible from barriers to trade.

The approach of the ECSC Treaty is somewhat different as it is concerned with the two basic sectors of coal and steel. It contains provisions for regulating, in these sectors, production and prices on the one hand and investment, financing, reconversion and readaptation on the other hand. It, also, is committed to the principles of a free market and the primary responsibility of the enterprises.

Within this framework - the creation of a common internal market based on liberal market principles with the essential role being played by private enterprises - a primary objective of the Community, in the early years, was to facilitate and encourage the adaptation of enterprises to the Community-scale market.

At a subsequent stage, marked by the so-called Kennedy-Round of trade negotiations in GATT, the objective was to make the Community more open to the world market by pursuing an open trade policy. This was done by reducing our tariffs by 33% on industrial products. We continue to pursue the objectives of creating a common internal market and of pursuing an open trade policy. We believe that this is the best way to encourage the

adaptation of enterprises to the Community-wide market and the world market.

However, these objectives were conceived and developed in a relatively stable and economically prosperous period. Since 1973 the environment has changed considerably and we are faced with an unstable and difficult situation in which major changes are required both internally and externally.

For this reason another objective of industrial policy has gradually been elaborated in recent years. This is to promote the conditions which are necessary to stimulate continuous innovation by industry in response to an ever-changing economic situation.

It is recognized that in mixed economies such as ours the primary role in industrial activity is played by privately owned and controlled enterprises, that decisions regarding the demand for and the supply of goods and services are largely determined in the market place, that the essential role of public authorities at all levels - local, regional, national and community - is to ensure that the economic, social, fiscal and legal framework within which enterprises operate encourages them to adapt to market opportunities in a positive manner, that the limited resources available to public authorities should be used primarily to support the efforts of the dynamic enterprises not to provide artificial support to static or declining enterprises.

The Community as such has a fundamental role to play in achieving this objective. It must ensure that obstacles to innovation, and in particular those which fragment potential markets, for example those markets in which public administrations are the principal customers, are reduced or eliminated.

2. Means

A variety of means are available to help the Community achieve the objectives of creating a common internal market, of pursuing an open trade policy, of facilitating and encouraging the adaptation of enterprises to the Community-scale market and of promoting innovation.

Customs duties between Member States have been eliminated long ago. A common external tariff is being applied. But this is not enough to create a common market: there are many barriers to trade due to considerations of health, security, environment, etc.

Many of these barriers can only be eliminated by the harmonisation of the different rules and regulations applicable in Member States. To carry out this work the EEC Treaty provides for the issuance of directives and regulations. We are determined to pursue this task relentlessly. We believe that the adaptation of enterprises only makes sense if it is carried out on a Community-wide scale. It is only in the way that the rigidities inherent in long-established industrial structures can be overcome.

However, the suppression of barriers is not enough. Common rules on the conditions of competition and the type and level of aids granted by the Member States are directed at avoiding the distortion of competition in intra-Community trade.

In the current situation of low (or negative) economic growth and of rising unemployment there is a strong tendency to develop a variety of interventionist measures. Given the range of problems and the number of often conflicting interests involved it is easy to understand the tendency, at various levels, to look to protectionism in one form or another as a way of

trying to manage the problems and to appreciate the difficulty in obtaining the necessary political consensus for a common industrial strategy.

The Community is, however, firmly set against resorting to overall protectionist measures to solve the structural problems which have been accentuated by the current crisis.

The contribution which the Community was able to make to the success of the last trade negotiations in GATT - Tokyo Round - demonstrates our willingness to pursue an open trade policy. Our heavy deficit on current account shows clearly that our market is not closed.

A number of Funds facilitate the adaptation of enterprises: the Regional Fund which helps to improve infrastructures and to make investments in the poorer regions; the Social Fund which addresses itself mainly to the retraining of workers; the funds established by the ECSC Treaty which are used to help to restructure the coal and steel sectors.

Another of the means available to the Community is to borrow money on the capital markets and subsequently to make loans to investors. This is being done by the European Investment Banks and the New Community Instrument which was created in 1979.

In addition to the legal and financial means cited above the Community Institutions, and in particular the Commission, are placed in a central position which gives them ^{the} means to analyse objectively the problems with which the Community is faced and the policies which have been implemented to deal with them and, of even more importance, to act as a catalyst for the development of long-term Community strategies.

Given the real successes which we have achieved since the 1950's in the unique and even audacious task of voluntarily creating a genuine Community, I have no doubt that we will succeed in achieving our industrial policy objectives by these and other means which will be developed as the need arises.

5. EEC-CHINA RELATIONS

China can help us in various ways. As I mentioned earlier the Community is heavily dependent on the outside world for its supplies of raw materials and energy. This need of ours can provide a market for you.

We have on the other hand a wide range of industrial products which could be of great help in the development of your country.

I know that you want to export not only your raw materials but also finished products. We pursue, as you are aware, an open trade policy. Nevertheless, we have had to make some temporary exceptions to our free trade policies, particularly in the textiles and steel markets. We have tried to ensure at the same time that such exceptional measures are accompanied by positive policies to help the sectors involved to restructure within a reasonable period of time.

In April 1978, we signed an important trade agreement with China.

In July 1979, we concluded to everyone's satisfaction an agreement on textile products and, as of January 1st, 1980, China has the benefit of duty free treatment in the EEC for most industrial and certain agricultural products.

The considerable development of trade between the EEC and China since 1978 has resulted in a positive trade balance for China in 1980. The Community has greeted with the greatest interest in the flexibility shown by China in recent years with regard to international trade practices. This demonstrates clearly your willingness to develop international trade to the utmost extent in order to help modernise your economy.

We have noted with particular interest that in its new 3-year adjustment strategy, the Chinese government intends to favour certain sectors for which the Community is able to supply the necessary equipment. Amongst these we have noted raw materials sectors, such as oil, coal and non-ferrous metals, basic infrastructure projects concerning energy, transport, communications and ports, low investment sectors, such as light industry, textiles, leather and skins.

The Community well understands China's difficulties as it also is going through a difficult period. However, the understanding that we are able to bring to these difficulties lies within two limits. The first is that China should continue to "give favourable consideration to imports from the Community" even if 1980 saw a certain downturn in your imports from us (- 25 % compared with 1979). The second is that China should continue to maintain an equilibrium in its foreign trade with Japan, the United States and the Community.

We very much hope that this "Business Week" will contribute to achieving these objectives and that at the end of it we will have clearly identified the areas where the enormous potential for EEC-China trade can be exploited and the areas where the main problems are to be found.

China's difficulties in its adjustment policy have brought about the cancellation or suspension of a certain number of very big industrial projects, the best known of which from a European point of view being the steel complex of Baoshan (near Shanghai) (1) and the chemical factory of Nanching.

(1) This project was for the construction of a steel complex capable of producing 6 million tons per annum. The estimated cost was 4.5 billion U.S. dollars. Contracts were signed with the Japanese and Germans (Schloeman-Siemag for a cold-rolling mill worth 650 million dollars); Mannesman-Siemag for a seamless pipe plant (220 million dollars). Seven contracts worth 1.2 billion dollars were cancelled and 13 others worth 650 million appear on the point of being so.

This has brought about a certain malaise which transcends the business circles directly concerned by casting uncertainty into the minds of other industrialists interested in investing in China.

The latest events do not just have financial consequences. What is at stake is the immense capital of confidence that China has succeeded in building up with European industry.

Speaking as a friend of China, I feel we ought to be able to reassure potential investors in the course of our forthcoming discussions.

No industrial manager should leave Brussels on the tenth of April with doubts still in his mind. Nothing would be worse than to see such a person taking a defensive attitude. Once doubt is installed it is difficult to dislodge it. I am afraid that such attitudes would have an effect on our firm and fundamental friendship.

I know that negotiations are taking place to find the best way to amicably resolve the effects of your recent decisions. I also know that these negotiations are progressing satisfactorily but they should not have the result of requiring Europeans to apply to China the provisions on insurance credit.

If by misfortune it became necessary to apply these provisions, serious obstacles would be created to the harmonious development of our future trade relations.

In the interests of all, therefore, such an extremity should be avoided. This had to be said by a friend of China and so I have done.

It was gratifying to hear Vice-Premier Gu Mu state in his illuminating speech yesterday that "Certain people have misunderstood the political and economic situation in China to mean that little business can be done with China" and that "this shows a lack of farsightedness".

For the Community, the "Business Week" is a testimony of the political importance it attaches to development of its relations with the People's Republic of China. I think its success will be felt by all as a sign of mutual confidence. We must work at it during these coming ten days to achieve this.

This "Business Week" is occurring at a propitious moment, as it enables the Chinese authorities to explain in depth to the Europeans their new policy of readjustment.

It will be possible for participants in this "Business Week" to discuss the industrial sectors that have become priorities in this new plan. These contacts will constitute an extremely valuable indication of the possibilities of cooperation in the medium-term between the Community and China.

The careful allocation of time we have proposed as between the light industry and heavy capital equipment sectors has been designed to ensure that the maximum possible benefit be drawn from the week's activities and that the "Business Week" will be a complete success.