

## BUSINESS AND INDUSTRY - THE COMMUNITY'S IMPACT

Speech by Mr Andriessen, Member of the Commission, at the Cork Chamber of Commerce, Friday, 29 October 1982 - (Ireland)

### Introductory remarks

Let me begin by saying how much I appreciate the opportunity of speaking to you today.

I welcome the initiative taken by the Cork Chamber of Commerce in organizing this one-day conference on Ireland and the European Economic Community.

For a small country such as Ireland, faced with a large outside world, the performance of the European Community is of crucial importance.

Ireland has an open economy. This is both its strength and its weakness. The more the economic situation in Europe - and in the world - deteriorates, the more the adaptability of an economy such as yours is put to the test.

When Europe sneezes, Ireland catches a cold.

A conference such as this one therefore provides a good opportunity of looking at current social and economic problems in their European dimension.

Each Member State does of course bear its own responsibility in restoring socio-economic situations which in many cases have got out of hand. But, it is my firm belief that the path to economic recovery cannot be a purely national one.

A European approach to the crisis is in my view essential, both in the interests of the Community's internal cohesion and as a means of maintaining our competitiveness in the world. There is an urgent need to ensure that national policies are aligned more effectively with one another, that combined support is provided at Community level and that the operation of the common market is as efficient as it can be.

But this presupposes that the Member States are also able to put their domestic affairs in order. This is a first requirement; the Community can provide a helping hand in the process.

It also presupposes that the Member States are politically able to rally to a Community approach. This means at the very least that basic matters of conflict must be cleared out of the way. This is a second requirement.

One cannot possibly run a "ménage à 10" efficiently if there is continual squabbling over the housekeeping money.

What happens in the Community (economically and politically) is of major influence on the fortunes of business and industry - certainly in a country like Ireland.

How do we see things in Brussels ?

A conference such as this provides also a good opportunity for exchanging views and experiences. I intend in my introduction to shed light primarily on the European point of view, without however overlooking specifically Irish problems. Ultimately, for a country such as Ireland, hopes of better times ahead lie in better prospects for Europe.

Economic outlook: recession or depression?

Last week, the European Commission brought out its annual economic report, which outlines developments in 1982 and the prospects for 1983.

It certainly does not make cheerful reading.

The Community is entering its fourth year of recession, and the prospects of economic recovery in the years ahead are not favourable.

Economic growth in 1983 is expected to amount to 1.1%. Unemployment is expected to rise further, passing the 12 million mark.

While there are a number of favourable developments, there are also structural handicaps which suggest that the Community might be in danger of entering a long period of very slow economic growth, with all the consequences this would have for employment and budget deficits.

Are we right, then, in saying that what we are faced with is a prolonged depression? I doubt it. We must not talk each other into depressions. We must grasp favourable developments and set a new course in a number of areas where progress has been blocked by the rigidity of our socio-economic structures.

There are indeed a number of positive signs. Firstly, the trend of wages and salaries and of consumer prices. These rose less sharply than expected this year, which has meant a slight improvement in our competitive position.

The Commission expects inflation to ease further in 1983. However, there are still considerable differences between Member States. In Ireland, for example, inflation next year is expected to continue at well above the Community average (13% as against 8.8%).

Secondly, the trend of interest rates. In the last few weeks in particular, there has been a distinct fall in interest rates, although the real interest rate is still too high.

The overall balance of payments deficit on current account has narrowed and the budget deficits, though still much too high, have more or less stabilized. But here again the differences between the Member States are wide.

In short, there is some hope of a slight recovery in private consumption and in investment.

For a real economic recovery, though, we will have to remove a number of structural bottlenecks which seriously impede the process of economic and industrial adaptation in Europe.

The most important of these bottlenecks are heavy public sector debt, the narrow capital base of firms, and the strait-jacket of the welfare state.

The public sector has gradually come to absorb an unduly large share of national income (50% in the Community as a whole, and 60% in the Benelux countries). Social structures have proved too rigid, so that public debt has risen to irresponsible heights, and the market sector has been squeezed.

Practically all the Member States are suffering from the same illness, a sort of "European disease". But the remedies adopted have differed in timing, approach and intensity. This is a serious handicap to efforts to secure greater economic convergence. Cutting back budget deficits is first and foremost the responsibility of national governments. The fact remains, however, that the Community has a duty of coordination and mutual assistance.

We also have to struggle with obsolete industrial structures and overcapacity in a large number of industries. This goes together with a technology gap between ourselves and Japan and the United States, and unsatisfactory market shares in the new sectors.

I believe reindustrialization and positive adjustment are a joint responsibility of business, the Member States and the Community.

The Community's role varies of course with the industry (think of steel, for example); its task is first and foremost to channel, to stimulate and to support the efforts of others.

Lastly, we have to deal with the growing imperfection of our own internal Community market. Here the Community, and the European Commission, have a clear responsibility of their own.

I am firmly convinced that it is a fundamental condition of any economic recovery and improvement in our ability to compete with the rest of the world that the single Community market be made to work as smoothly as possible.

How can the Community help to remove these bottlenecks?

#### Budgetary discipline and economic convergence

We hear more and more often that public expenditure is out of control. This is in part because we were late in waking up to the economic recession. We did not fully grasp the seriousness and the extent of the crisis. It is also in part because the national governments lacked the political power to change course when things began to get out of hand.

If we are to make the necessary changes, some of the sacred cows of our welfare state will have to go. Most governments are afraid to act here since stable government is lacking in most Member States.

I don't want to make any value judgments, but only to point out a fact.

Obviously, when the national effort is lacking it becomes all the more difficult to arrive at a Community approach.

It is also true, though, that the Community and particularly the European Commission provide the right framework, or a good alibi if you prefer, when unpopular but necessary measures have to be taken.

A good example of this is provided by the decision to abandon the system of full indexation in several countries (in Belgium and Italy, and now also in France and Denmark). The Commission's earlier pronouncements regarding indexation have been reflected more and more in the actions of national governments.

Ireland is making a poor showing in this area. The purchasing power of wages and salaries has been maintained despite more expensive imports and higher taxation. This has led to the highest rate of cost inflation in the EMS, with all the consequences this has for the competitiveness of the Irish economy.

I think it is generally fair to say that the Commission's recommendations on macroeconomic policy are beginning to find more and more of an echo, and thus to make some contribution to economic convergence.

The Commission's communications on budget discipline and investment, for example, are certainly more than purely academic exercises: they help to determine policy priorities at national level.

A greater degree of economic convergence is still a basic condition for monetary stability.

But the converse also seems to be true. The monetary discipline to which Member States have committed themselves within the European Monetary System (EMS) has, in practice, proved an important instrument for imposing closer economic convergence: witness the latest realignment of EMS central rates, which was accompanied by explicit undertakings to change national policies. I regard this as a positive development and continue to view the EMS as the best mechanism for achieving closer coordination of national economic policies. And notwithstanding the problems you had to cope with, I do think that Ireland took the right decision in joining the system.

However, all Member States must demonstrate their confidence in the operation of the system. They can best do this by working together to strengthen the system. The Commission, in fact, submitted appropriate proposals quite some time ago.

Lastly, economic convergence cannot be seen in isolation from Community-level solidarity between the stronger and the weaker regions. This solidarity has already been given practical shape within the EMS through subsidized loans to Ireland and Italy, not to mention measures under the Regional Fund, the Social Fund, the Guidance Section of the Farm Fund and the New Community Instrument (the Ortolini facility).

Proposals for channelling the money available under these financial instruments to the weakest regions as a matter of priority already exist or are being drawn up. In addition, the Commission has proposed an appreciable expansion of the individual Funds.

In the case of the New Community Instrument, we recently suggested a new loan facility totalling 3 000 million ECU.

These are all factors of potential benefit to a country like Ireland and capable of smoothing the economic adjustment process in this country.

#### Internal market and industrial policy

As yet, there is no such thing as a European industrial policy. There any more than there is a national industrial policy. There clearly is no single "European industrial policy instrument". What we do possess is an array of instruments which we must use to steer industry and national governments in the right direction.

The main instrument is the common market itself. It is essential that this be maintained and preserved. Then there are the instruments for laying down norms and standards, for harmonizing legislation and for loosening up public procurement policies. (for example, in telecommunications equipment). Commercial policy - which requires very careful handling - and the Community's financial incentives and its social policy are other useful tools for giving guidance. And then, of course, there is competition policy as it is applied in the areas of State aids and anti-trust.

We are becoming steadily more aware of how incomplete the Community's internal market still is. There is a danger that it will become increasingly fragmented by non-tariff barriers that are in place at the moment or may be erected in the future and by the growing threat that certain markets will be "renationalized".

This is a development that works to the detriment of European firms and plays into the hands of our Japanese and US competitors. Firms from those countries enjoy the economies of scale afforded by a large, genuinely unrestricted national market in which they find it easier to operate.



New non-tariff barriers are introduced every day. In this respect, the Member States' inventiveness knows no limits. Compulsory indication of origin and compulsory use of a particular language in customs documents are just two examples.

Work on harmonizing norms, standards and rules is beginning to resemble a two-step forwards, one-step backwards process: no sooner has one matter been settled than another two obstacles loom up.

In some cases, sealing off the domestic market has even graduated to an article of faith. I am thinking here of such strategies as the "reconquête du marché intérieur" or recapturing the domestic market in France. This is not the best way to tackle a serious balance of trade problem; there are more structural reasons to that.

Public-sector intervention in the management of firms is spreading rapidly. Whether in the form of nationalizations, acquisition of holdings or straightforward national aids, this growing interventionism is threatening to break up the Community market. Instead of strengthening the industrial base, it is undermining it.

Cooperation and mergers between European firms - often essential in the interests of restructuring and rationalization - are completely thwarted by such a development. All the abortive joint ventures at European level provide striking confirmation of this. Estel is the most recent example.

The Member States are busy doing a disservice to themselves. It is evident that the Community and the European Commission should construct a dam to stem this tide.

Industry and commerce are sorely in need of a Community framework. National standards should be superseded by Community standards, customs formalities simplified, government purchasing effectively opened up, and capital movements liberalized.

This is the positive side of the matter; for progress to be possible here, Member States must above all be made to realize that we are at present heading in the wrong direction.

The Commission will also need to take determined action against measures that obstruct trade and distort competition.

The Member States must be urged to fulfil their Treaty obligations. The Commission has a responsibility of its own for keeping the Community market open. We shall try to live up to this.

The many obstacles to the smooth operation of the common market thus restrict the advantages which commerce and industry can derive from the single market: firms cannot make sufficient use of economies of scale in introducing new activities, and optimum use is not made of European production factors. At the same time, all these protective measures (for that is what barriers to intra-Community trade are) have the effect of keeping out-of-date production capacity going too long. Too long not so much because it is not socially justified in the short run, but because it delays the modernization process in European industry. If we wish to keep abreast of world competition, and hence to safeguard employment in the long term, we must speed up the positive adjustment of our industries. This is in fact the objective of European industrial policy and also of the macroeconomic policy which the European Commission proposes. We will have to accept the international division of labour and run down labour-intensive industries, leaving them to cheaper producers. At the same time, we must close the technology gap with the United States and Japan since we must of course endeavour to create jobs in Europe to replace those which have been lost. And what is more obvious than to seek our future in new sectors where our market share is insufficient? But we must not become obsessed by these sectors. We are still strong in a number of areas - in industry, and certainly in services too - and it would be bad policy not to direct our efforts to maintaining this position.

Yet maintaining our position does not mean resting on our laurels: adjusting to new developments is an imperative to which all sectors must bow. Our industrial policy is therefore not only, or indeed primarily, geared to advanced technologies. As I said earlier, our industrial policy consists above all in allowing the common market to operate properly, in fair competition with the rest of the world. This will of itself provide the necessary stimuli to the modernization of commerce and industry.

#### State aids policy

This brings me back to state-aids. They certainly affect the proper functioning of the Common Market. On the other hand state-subsidies are needed in restructuring our industry. You would probably all agree that, in many cases, subsidies are in the long term simply money squandered. This is certainly true at times of budget deficits like the present where the same scarce money could also have been spent on productive investments. Many of you are worried by the subsidies granted to your competitors. And yet, I have no doubt that all of your firms have received subsidies and have been grateful for them : regional investment premiums, aid for research projects, aid for specific types of investment, etc.

This gives you some indication of the difficult position in which the Commission finds itself. For, no aids may be granted to firms without the prior approval of the Commission. At this time of economic malaise, characterized by a proliferation of aids, our position is extremely delicate since restrictions on aids often have adverse, direct effects on employment. And so, if the Commission attaches strict conditions to proposed aids, then it does so in the conviction that this will contribute to the adjustment and modernization of European industry.

There is no shortage of other problems. We often have to navigate in conditions of poor visibility : in spite of the obligation to notify proposed aids, we do not have an altogether clear picture of what is going on. This is particularly true where local authorities and indirect forms of aid are concerned. Public enterprises are bound by the normal rules on competition, but the ways in which they interact with one another and the financial relationship between them and the competent public authorities largely elude supervision. But it is precisely in this area that the Commission has, in recent months, been able to deploy a new instrument, the so-called Transparency Directive, under which Member States are required to provide information on their financial links with public enterprises.

I do not intend to go into the subtleties of our aid criteria. I would simply say that aids are tolerated, but only within certain limits and to serve a "higher goal" of general community interest. For example, regional aid may be needed in less-developed areas. Or aids may be granted in order to promote innovative activities and to conserve energy. But the projects which receive assistance must be projects that firms would not otherwise have embarked upon or would have embarked upon but not to the same extent or only at a later date.

Aids to ailing sectors and firms are the most difficult to deal with, since it is precisely here that distortions of competition are most likely to occur. It is the Commission's duty to see to it that the authorities in one Member State do not shift their problems on to the shoulders of the industry and the authorities in another Member State. However, we must also accept that, as a rule, restructuring takes time and that some aid is needed in the course of the restructuring process. Although the Commission possesses the full range of legal powers, it is precisely in relation to this last category of aid that, in practice, its political room for manoeuvre is limited by the Community's waning influence in other fields. A refusal by the Commission to countenance aid in a particular case is difficult to accept, from both a political and a social angle, if the EEC - and by this I mean the Council of Ministers - is not in a position or is unwilling to take decisions in other areas that touch upon competition and industrial policy.

#### Ireland and the Community - the way ahead

Having outlined the general principles of Community policy and its operation in the troubled economic climate which prevails let me now turn to the question of how Ireland has fared since accession to the EEC against this background.

In terms of industry the principal feature of accession must undoubtedly have been that of the possibility of integration into the world's largest free-trade area - currently with a relatively wealthy population of some 270 million and of 317 million with the accession of Spain and Portugal. Since accession Irish trade figures show not only an impressive growth in exports but also a very significant diversification in terms of their destination. In 1971 only 14% of Ireland's exports of manufactured goods went to what you refer to as "continental Europe" while 56% went to the UK. By 1981 there had been a remarkable change in these statistics - to 38% and 34% respectively. This change was also reflected in the food sector, the traditionally strongest sector, where exports to continental EEC, as a percentage of total manufactured exports, rose from 6% in 1971 to 25% in 1981 - the corresponding figures for exports to the UK declining from 71% to 44%. It is clear that these figures reflect the success of Irish industry in integrating itself into Community markets and moving away from over-dependence on one market.

On the other hand, it cannot be denied that integration with the EEC also exposed Irish industry to competitive pressures in certain traditional sectors. Such pressures and their social and economic consequences naturally lead to demands that Governments should take measures to protect their domestic markets. One should realise however that a country as Ireland, with a small and open economy, is highly dependent on exports and imports. Any tendency towards protectionism would therefore not be in the interest of Irish business and industry.

While losses in some sectors, subsequent to accession, were serious, direct access to EEC markets also improved Ireland's attractiveness as an investment base. I am aware that recent reports raise some questions concerning the IDA's job creation programmes. It seems to me however that the results of that organisation's efforts over the last years have clearly demonstrated the attractiveness of Ireland as an investment base. Observations made by other Member States and their development bodies also testify to your success in encouraging investment.

Moreover, the fact that employment in some of the more traditional sectors has declined and been largely replaced by more modern growth sectors, leaves Ireland with a healthier industrial base from which it should benefit considerably when the recession ends. If, however, Ireland is to maintain this element of attractiveness it will have to ensure that it protects its competitiveness in terms of manufacturing costs relative to other countries. Given that GDP here is only around 50% of the European average there is no reason why, with the proper economic discipline, you should not do so.

On the subject of the IDA and state aids I should mention, particularly as the Commissioner responsible for competition policy, and hence for implementing the general principle of the incompatibility of aids with the common market, that the possibility of awarding aids to encourage investment and consequently economic development, was one of the key points in Ireland's accession negotiations. Issues such as this can not be finally resolved until after accession and a protocol "no.30", was therefore annexed to the Treaty. This stated, inter alia, that in applying the Treaties provisions on state aids to Ireland "it will be necessary to take into account the

objective of economic expansion and the raising of the standard of living. One of the main features of this issue was the question of Export Sales Relief (ESR) which was, as an export aid, clearly fundamentally opposed to the principles of a common market. The fact that the Commission had to object to the continuation of this aid was however largely offset by your Government's concurrent decision to lower the rate of project aid on manufacturing from 45% to 10%. This latter decision must indeed have been of considerable benefit to indigenous industry operating in the domestic market.

The discussions on the terms for phasing out ESR were also concurrent with the adoption by the Commission of revised principles on regional aids which set out the basic terms on which the IDA's activities relating to the award of grants are assessed as to their compatibility with the rules on competition. In those principles the Commission included Ireland, along with Northern Ireland and the Mezzogiorno, in the category of regions where the highest level of investment aids may be awarded. Shortly after these matters were finalised your Minister for Industry, Commerce and Energy, in an address to the CII's <sup>(1)</sup> Annual Economic Conference in January 1979 acknowledged that their outcome was particularly satisfactory from Ireland's point of view. Since then the Commission in examining the regional aid systems of the central and more prosperous Member States has taken a very strict line. The advantage thus given to the less developed peripheral regions in encouraging investment is an example of the Commission's efforts to live-up to the objective set out in the preamble to the Treaty of Rome of reducing the differences between the various regions of the Community.

As the Commissioner responsible for controlling the use of national subsidies I am somewhat reluctant to deal with the question of how Ireland has fared with regard to Community subsidies. I am aware that this point was always seen as one of the most tangible benefits of accession. Judged in terms of grants Community membership has in any event been highly beneficial. The amount of subsidy to Ireland from all financial instruments, including agricultural support prices under the FEOGA guarantee section, was for 1981 some E.Irl.551. While one should not put too much emphasis on net transfers in assessing the benefits of membership of the EEC, Ireland's contribution to the budget for that year was E.Irl.112 which leaves a healthy net balance of E.Irl.439. The significance of this figure is put into perspective when one considers that this represents E.Irl.127 per annum per head of population and 4.2% of GDP.

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(1) Confederation of Irish Industry.

Moreover, Ireland has, per head of population benefitted considerably more than other Member States from the Communities principal structural instruments. While you have only slightly more than 1% of the Community's people you received, in 1981, 6.4% of Regional Fund payments, 10.5% of the Social Fund and 9.8% of the FEOGA Guidance section.

Apart from these grants Ireland has also been the recipient of considerable loans under various Community facilities Chief amongst these is of course loans made by the European Investment Bank - Ireland receiving some 8.7% of the Banks' total lending in the Community in 1981. This financing is being used, inter alia, to modernise the telephone and railway net works, to establish new industries, to construct advance factories and for new investment in existing industry. The project ensuring the water supply for the new industrial area here in Cork was also a recipient of a loan from the Bank... as was the Cork harbour development scheme.

In addition to the changes in markets and industrial structures and the benefits derived from the various financial instruments your Governments willingness to join the European Monetary System has also had considerable effects on the Irish business Community. The system will not be perfect, however, without the U.K. joining it.

With entry to the common market and your subsequent diversification in markets, to which I have already referred, Irish business has naturally been faced to an increasing extent with the problems of exchange risk. It cannot be denied that further progress towards economic union in the EEC could have been frustrated by continuing with a system of fluctuating exchange rates. Apart from the specific Community aids awarded in conjunction with your decision to join the EMS, your membership has the more permanent advantage that you now belong to a very stable exchange rate system. Such a system is essential so that business transactions between the Community's closely linked economies can be carried out with confidence.



If however we are to benefit fully from the EMS it is vital that Member States observe the financial discipline which it implies. This discipline provides an important tool for fighting inflation without putting a brake on growth. In this regard I was particularly glad to learn that in your Government's recently published National Economic Plan it is envisaged that the average annual increase in prices in the period to 1987 will be much closer to the expected average rate in the EMS than it was for the period since 1979.

By way of conclusion I should say that it seems to me that the Irish people are now highly conscious of the need for economic discipline. While in general over the period of membership the Irish economy has shown significant growth and increased investment there have been major problems with inflation and balance of payments and public deficits. Your Government's Economic Plan to which I have just referred, calls on the Irish people to accept hard decisions, involving a measure of sacrifice, aimed at solving these problems and ensuring a satisfactory economic and social future for your fast growing population. As the Plan notes, other Governments have also adopted strict measures in the face of the current adverse economic forces. In accepting economic discipline the Irish people will not therefore be alone. More importantly, however, it is essential that the necessary discipline be introduced if Irish business is to maintain conditions competitive with those of its trading partners.



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Brussels, 29 October 1982

SPEECH BY MR ANDRIESEN, MEMBER OF THE COMMISSION,  
TO THE CORK CHAMBER OF COMMERCE IN IRELAND

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Addressing the Cork Chamber of Commerce on 29 October, Mr Frans Andriessen, the Commission Member responsible for competition policy, warned urgently against the danger of a disintegration of the Community's internal market.

He drew attention to a growing tendency towards renationalization of domestic markets, a development which, according to Mr Andriessen, was working to the detriment of European firms and playing into the hands of their Japanese and US competitors, which enjoyed the economies of scale afforded by a large, genuinely unrestricted national market in which they found it easier to operate. "The Member States are busy doing a disservice to themselves", Mr Andriessen said.

The Member States' inventiveness knew no limits when it came to erecting new barriers. Compulsory indication of origin, compulsory use of a particular language on customs documents and other such requirements were being introduced almost daily. In some cases, sealing off the domestic market had, according to Mr Andriessen, even graduated to an article of faith, and he mentioned here the French Government's plans for "recapturing the domestic market".

He went on to say that public intervention in the management of firms was spreading rapidly. "Whether in the form of nationalizations, acquisition of holdings or straightforward national aids, this growing interventionism is threatening to break up the Community market. Instead of strengthening the industrial base, it is undermining it".

He argued that cooperation and mergers between European firms - often essential in the interests of restructuring and renationalization - were being completely thwarted by such a development; all the abortive joint ventures at European level were striking confirmation of this.

He called on the Community to construct a dam to stem this tide. "Industry and commerce are sorely in need of a Community framework. National standards should be superseded by Community standards, customs formalities simplified, government purchasing effectively opened up, and capital movement liberalized. ... for progress to be possible here, Member States must above all be made to realize that we are at present heading in the wrong direction".

Mr Andriessen said that the Commission would have to take determined action against measures that obstructed trade and distorted competition.