Part 2

FOUNDATIONS FOR THE FUTURE OF EUROPEAN INDUSTRY

(Memorandum to EC Commissioner E. Davignon

before the EEC summit meeting at Stuttgart on June 17-19)

MEMORANDUM TO EC COMMISSIONER E. DAVIGNON

(Approved at Amsterdam meeting 1 June 1983)

FOUNDATIONS FOR THE FUTURE OF EUROPEAN INDUSTRY

This memorandum has been prepared by the Roundtable of European industrialists whose members share common views on the future of European industry.

Introduction

- Our countries have the human and financial resources necessary for Europe to play a leading industrial role in new technologies and new patterns of growth for the future. It is essential that opportunities to organise effectively these resources, co-operate and drive towards new patterns of growth – and away from subsidy and protection for obsolete structures – be seized now.

- Industry will remain the principal motor of our economic growth over the next decades, but will need a vastly improved business climate in which to develop and apply new technologies crucial for wealth creation in the future.

- We wish to see an open, innovative industrial Europe, not a Europe which turns its back on the US, Japan and the developing world. However, we are concerned that our international competitors are developing a lead over Europe in certain new technologies: this lead may be irreversible unless political leaders act now. Should they fail to do so, this could endanger Europe's future living standards and position in the world, and might lead to a dangerous disequilibrium in world trade.

We believe that European industry has the will and ability to act to promote new wealth creation in Europe: we are examining ways in which European industry, financial institutions and governments can be brought together so that the investments we consider essential for Europe's future prosperity are made. We take a positive view of the future and believe that we can, through entrepreneurial action, promote the development of competitive industries, new high value-added products, services and jobs in Europe. But we cannot do this unaided: we need supporting political action.

Without help from national governments, we cannot remove the many obstacles in Europe which cause waste of valuable resources, and explain, in part, the weakening position of European firms in world markets. In reality, despite ambitions to liberalise trade, and the measures taken by the EEC, Europe remains a group of separated national markets with separated industrial structures. This prevents many firms from reaching the scale necessary to resist pressure from non-European competitors. The European market must serve as the unified "home" base necessary to allow European firms to develop as powerful competitors in world markets.

It is vital that structural impediments to the realisation of European industrial potential be removed. We share the growing concern in Europe that structural problems could choke off relatively quickly the cyclical upturn in economic activity said to be in store. We do not believe that sustained economic recovery is possible in Europe while structural deficiencies persist: this gives cause for great concern on the issue of unemployment.

The importance we attach to co-operation in Europe is not confined to industrial matters. Go-it-alone attempts to promote economic growth in various European countries in recent years have not been successful. We may now be in a position where sustained economic recovery in Europe is only possible through actions on structural problems and concerted, harmonised policies at the macro-economic level.

This memorandum concentrates on obstacles to improved industrial performance in Europe: it aims to draw attention to the ways in which these obstacles threaten European industry in the long run. The document sets out to be positive by offering remedies which are open to governments, at the national or European level, or available to government and industry together. The solutions, we realise, are not simple. We will have to be courageous and creative if we are to achieve real change. We are committed to do our part.

THE MAJOR OBSTACLES TO EUROPEAN INDUSTRIAL GROWTH

The weakening position of European industry has three principal causes:

- The risk/return relationship has become highly unfavourable to productive investments, particularly in sectors of the economy exposed to international competition. The reasons for this are complex and industry itself is not free of blame. However, the facts are that many traded sector businesses have low profit levels, which means that they are highly cautions about the investments they can make for the future. Conditions have to change if European industry is to generate the profit levels necessary to restructure part of its industry, increase capacity utilisation and prepare for expansion in new products, new services and new markets.

The European regulatory environment makes it difficult for firms in many industries to exploit the size of the European market so as to establish the same scale as their US or Japanese competitors. Specifically, regulations requiring product adaptation for different markets lead to product range proliferation, necessitating allocation of R&D personnel to market adaptation of existing products rather than new product development, and short production runs, leading to low value-added per employee.

In internationally traded activities these additional costs cannot be passed on to customers and therefore lead to lower company profitability for European producers than for major international competitors with large unified domestic markets.

Similarly, we must, in some industries which can only survive on a European scale, adopt a common European approach, allowing equipment compatibility and full exploitation of the range of services available. Otherwise, returns will be insufficient to attract necessary investments. In industries affected in this way, we must move now towards standardised specifications, norms and regulations and must, in some cases, aim to have cross specialisation of production.

Fiscal, legal and political obstacles to the creation of transnational industrial structures have in many cases prevented the emergence of powerful European challengers capable of competing effectively in international markets, and of defending European markets. These constraints must be eased if Europe is to generate strength in the traded sectors.

THE REMEDIES

Specific measures include:

a) Public policies must be modified so as to improve the risk/return relationship of European productive industry and channel more capital to the traded sectors.

- Increase the after tax return of corporations engaged in international competition through tax reductions which favour the building of real equity and real assets without inflationary effect.

- Increase profitability of investments in new technologies or new markets through fiscal measures including accelerated depreciation (at replacement cost) – and tax allowances for incremental R&D expenditure.

- Facilitate the channelling of private savings into risk capital: interlinked European security markets, lower taxes on capital gains and stock transactions, personal income tax allowances for venture capital investments or write-offs for losses, common rules on stockholder information, lifting of foreign exchange controls on stock purchase inside Europe.

- Mechanisms to induce reallocation of institutional saving into industry: insurance company and pension fund authorisation to invest in non-quoted stocks, venture capital funds.

b) Economic and monetary policy currently lead to distortion or imbalances which have an adverse effect on industrial investment and profitability.

- Economic policies should be harmonised in order to sustain growth and reduce wide differences in inflation levels and fluctuations in balance of payments, which would support greater currency stability.

- Economic policies should aim to restore the conditions for an investment-led recovery. This means reducing public deficits to ease tax levels and pressure on interest rates, and the painful but necessary task of restructuring government spending from transfer payments and consumption to investment, research and education.

- Industrial investment support policies should be harmonised to limit the "bidding up" by foreign investors of national governments' offers, and the consequent waste of resources and fragmentation of industrial structures.

- Subsidy policies must be reviewed. During the 70s and early 80s, subsidies to ailing industries have become a prominent feature in Europe. Contrary to intention, many of these subsidised industries show little sign of recovery to viability. Obsolete plant is preserved instead of being phased out; capacity utilisation is depressed across the board in the affected sectors. If these subsidies were reduced and subsequently eliminated, and the same money used to reduce taxes and increase profitability for healthy industry, productivity and employment would grow. Such a policy shift in Europe seems long overdue; it would ease the friction caused by the American criticism that European countries create trade barriers through subsidy – hence calling for counter-measures by the US.

c) European industry can improve its position in world markets if government and business work further towards the integration of European markets, so as to allow greater economies of scale in research and development, manufacturing and distribution. This means in particular:

- Develop common European technical and other standards for new products and services (automotive, telecommunications, electronics).

- Harmonise differing national regulations on product safety and use, especially those which affect key European industries under heavy international competition. This is an area of particular concern in view of the current trend towards the increase of administrative trade barriers of this kind.

- Deregulate and open up public markets in technology intensive areas and move towards cross-specialisation between national suppliers: telecommunications, railways, power generation, medical equipment, urban transportation.

- Companies can promote standardisation of components (design and technology) representing key elements of value added: automotive components, numerical controls, robotics. Governments should encourage this.

d) Governments and business must endeavour to ease cross-border flows of people, information and ideas, if Europe is to be a thriving unified market.

- A renewal and upgrading of infrastructure is needed so that it will again serve the growth and efficiency of industry. A first step would be the development of new, common upgraded transport and communication infrastructures and the linking of existing ones. Greater co-operation on European energy development is required: both indigenous sources and linkages – grid interconnections.

- Reduce the cost of transborder flows inside Europe (VAT collection, internal EEC controls). An acceptable and efficient basis for transborder data flows and trade in software must be established quickly.

- Remove barriers to job mobility within Europe, and the consequent transfer of knowledge and experience; harmonisation of pension arrangements and reduction in differences in personal taxation.

- Establish greater equivalence of diplomas and qualifications. Technical and technology education in Europe need more support with the emphasis on the European dimension.

- Adopt common, well-defined business terms, so as to improve the comparability of business data, so aiding progress towards open and dynamic financial markets.

e) Facilitate the emergence of transnational industrial structures to compete on world markets.

- Industrial development should focus more on European industry's position on Europe-wide, or world-wide scales. A competitive environment in Europe should be preserved and promoted through provisions aimed at countering anti-competitive practices such as price fixing and market allocation.

- Eliminate the main fiscal impediments to company fusions and restructuring; taxation of capital gains arising on transfer of assets of businesses, reintegration of tax-free reserves by absorbing company.

- Simplify fiscal regimes covering transactions between parent company and subsidiaries.

f) In the 1960s and 1970s, the EEC countries enjoyed a period of unprecedented growth in trade and productivity and a rise in living standards. But Europe (EEC and non-EEC) now faces a new different economic challenge and must modify policies and institutions.

- Existing funds managed at the Community level (Regional Fund, Social Fund) could be directed more towards industrial restructuring, skill development, technological investments and innovation.

- The Common Agricultural Policy, which has the effect of distorting European prices for some of the raw materials essential to emerging biotechnologies, must be modified if Europe is to develop a competitive position in these industries.

- New specific policies aiming at European industrial and technological co-operation are essential. Where such policies and programmes are EEC-inspired, they ought to be open to non-EEC Europeans (creating a new European dimension) and must be framed to allow for flexibility in developing Europe's links with the rest of the world.