EUROPEAN UNION POLITICS

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SHAPING THE EUROPEAN MARKET

Which Policies for European Enterprises ?

- **European Industrial Policies**

- **European Competition Policies**

Since 1951 a complex dialectic/dichotomy

changes in nature and intensity of both policies

changes in the mix of the two policies

changes in the balance between EU level and national levels

HOW DID FIRMS REACT TO SO DEEP TRANSFORMATIONS?

Since the 1950s, within the ECs, European manufacturing businesses had to deal not only with a challenging wider market but with new rules and policies, produced by the complex dialectic between new European institutions and the member States.

Firms in the ECs member States

Until 1950s:

- nationalism affecting also the economic sphere
- decades of protectionism
- cartels, cooperation to control the market
- a deep and multifaceted relationship with the State

Along the integration process:

- **supranational cooperation to run coal and steel industries under a common authority**
- **creation of a common market with decreasing barriers**
- **Decartelization and competition policies**
- **limits in the government support and in the funding of State-owned enterprises**

1951: European Coal and Steel Community,

Free trade of coal and steel products

"Code of conduct" (US inspiration) to regulate competition and to restrict the power of large private firms to set up cartels

High Authority responsible for the governance of the two sectors through price and investment measures

Industrial Programme

Developmental tasks

Different concerns about the nascent ECSC

US concerns: ECSC "a clever cover for a gigantic European cartel for coal and steel producers"

Pressures to insert pro-competition elements in the new Treaty

France and Germany had both different legal traditions and practices *vis à vis* of cartels and divergent positions about size of firms and concentration. French employers' organizations were worried about the relaunch of German industrial supremacy, while German entrepreneurs feared the limitations to German production

Representatives of major German steel groups (former Konzernen) were able to influence the negotiations.

The political relevance of the Schuman Plan prevailed on divergences and paved the way to a generally accepted compromise. US influence accepted in a pragmatic way

Italian private steel entrepreneurs worried about the dismantling of protectionist barriers, while SOE's, engaged in an innovative expansion plans, supported ESCS hoping to get raw materials at reduced costs. Well aware of the weakness of the Italian firms in the hierarchy of the new Community, both backed a strong role of the High Authority.

1957:European Economic Community

Competition policy in the Treaty

Developmental goals entrusted to the common market, “multiplier” of opportunities for the firms of the member States.

Industrial policies out of the Treaty

Common Agricultural Policy

Common Transportation Policy

TREATY OF ROME (1957) - Article 3

The activities of the Community shall include:

(a) **the elimination**, between Member States, of customs duties and of quantitative **restrictions** on the import and export of goods, and of all other measures having equivalent effect;

(c) the abolition, between Member States, of obstacles to freedom of movement for persons and services;

(d) the adoption of a **common policy in the sphere of agriculture**;

(e) the adoption of a **common policy in the sphere of transports**;

(f) **the institution of a system ensuring that competition in the common market is not distorted**;

(g) the application of procedures by which the economic policies of Member States can be co-ordinated and disequilibria in their balances of payments remedied;

(h) **the approximation of the laws of Member States to the extent required for the proper functioning of the common market**;

(i) the creation of a European Social Fund in order to improve employment opportunities for workers and to contribute to the raising of their standard of living;

(j) the establishment of a **European Investment Bank to facilitate the economic expansion** of the Community by opening up fresh resources;

The reaction of SOEs

SOEs, mainly French and Italian, felt deeply challenged by rules about **market disturbance** (Art. 90) **and limits to State aid** (Art. 92).

Managers of Électricité de France (EDF) and Istituto per la Ricostruzione Industriale (IRI), founded, with the lukewarm dissent of the German entrepreneurs, the *Centre Européen de l'Entreprise Publique* (CEEP), a lobbying body that was to be recognized as a social partner of the EEC.
The Centre tried to promote a "**common industrial policy**" envisaging the "Europeanization of business". But it had very little success.

SOEs concerns were maybe excessive in those years.
The Treaty recognized relevant exceptions to the State aid rules (i.e. shipbuilding) In the 1960s the EC ultimately allowed the growth of big national champions in strategic sectors (air transport, telecommunications, energy)

A mixed approach

“Adam Smith abroad and Keynes at home” ?

Competion policy: EEC

- Americanization: inspiration from US vision of competition; “decartelization of Europe”
- Innovative rules in comparison with European tradition of contractual cooperation (A.Chandler)
- Influence by German ordoliberalismus (Walter Hallstein and Hans von der Gröeben 1958-67)

Industrial Policies: Member States

It allows structural adjustments needed to smooth the edges of the integration process itself, in case of difficulties for domestic enterprises.

Thereby it preserves the consensus around the integration process: a historical paradox? (A.Milward)

European ruling classes imprinted by interventionist economic cultures ("developmental State“)

In those years the economic theory of integration, authoritatively represented by Jan Tinbergen, the Dutch scholar Nobel Prize in Economics in 1969, proposed a scheme of supranational agreement, with strong arguments in favor of economic cooperation led by government and/or public authorities.

1962 "Regulation 17"

- cornerstone of competition policy
- result of a hard-fought compromise
- centralization in the hands of the Commission
- competition policy progressively became a sphere of broad influence on the economies of the member States by the Commission, and therefore a field of Europeanization.
-

1964: Committee to coordinate national economic policies

- Five-year economic forecasts and proposals on indicative and non-binding economic policies for the whole Community, with the primary objective of promoting development and reducing regional inequalities.
- Not a decisive actor

The crisis of the 70s.
A European industrial policy ?

E. Commission: President Roy Jenkins (UK, Labour Party) and Etienne Davignon (Belgique, Commissioner for European market and industrial affairs) >>

Davignon Plan (1977-85) for the restructuring of the steel sector:

a. Reduction of production capacity by 25%: closing the firms in crisis and supporting those remaining
b. Fixing of minimum prices and production quotas
c. Signing of agreements with non-EEC Countries (USA and Japan) in order to limit dumping
d. Authorization to the establishment of 'crisis cartels' based on the German model

Intervention in synthetic fibers industry:

a. Authorization to agreements between 11 major European producers to fix market shares
b. Authorization to national subsidies
c. Limits to import from non-EEC Countries

In those years European businesses obtained from EEC the adoption of supporting industrial policies

The 80s and 90s: RELAUNCHING INTEGRATION THROUGH THE SINGLE MARKET.
THE REINFORCEMENT OF COMPETITION POLICY

1985: **EC White Paper** by Lord Cockfield: Completing the internal market (279 measures to set up by 1992 in order to overcome materials, technical and fiscal barriers)

1986: **Single European Act**: increasing harmonisation and competitiveness among Countries in a phase of enlargement

- ❑ Competition culture begins to prevail: Karel Van Miert (Commissioner 1989-1999): "**competition policy is the real industrial policy for EU**"
- ❑ LIBERALIZATION of "national" sectors (i.e. utilities)
- ❑ PRIVATIZATION OF State-owned enterprises
- ❑ 1989: Merger control procedures. Commission got supranational competence on transantional mergers
- ❑ 90's: upgrading of competition rules and practices

ACTIONS FOR COHESION

Single European Act targeted **COHESION** and started a series of actions aiming to fill the gaps in development and living standards of different European regions (ENLARGEMENT).

The Commission thus institutionalized regional policy and adopted tools of **direct intervention**:

- structural funds
- special programs such as PIM,
- European Investment Bank loans

The redirection of production activities to backward areas could take place only through the use of specific incentives (helplessness of the market)

Value reason: European social model

Political reason: the extension of the market risked to climb over national sovereignty, so creating inevitable conflicts between member States and an obstacle to the integration process

What about Amatori's 4 elements in the identity of European enterprise?

Financial constraints to State interventions through the Maastricht criteria

At a European level: coordination of national economic policies targeting competitiveness of European firms, provided that such actions did not interfere with competition rules.

The notion of industrial policy anchored to competitiveness

February 1992: Maastricht Treaty

A relevant exception: the defence sector

For decades Member States were allowed to prefer domestic firms in defense procurements. Article 296 of the EC Treaty (currently Art. 346 TFEU) allowed member States to invoke their security interests to exempt the defence sector from the functioning and the rules of the internal market.

The justification of national security has been used to exclude a very wide range of national production from competition, from uniforms to cartridges to ICT.

Not only big businesses as Dassault Aviation, Thyssen Krupp Marine, Augusta Westland Finmeccanica, Navantia, Patria Aviation have been able to escape EU competition rules in their domestic markets, but also small and medium enterprises even producing military uniforms and parachutes.

A wide leeway for each member State to protect national firms and to realize sectoral industrial interventions. This hidden form of protectionism equated to an annual turnover of about 80 billion euros.

And the European Defense ?

A long-run important exception: SMEs

The EU attaches great importance to SMEs as they are the ones that weigh more in the European economy and society and recognizes their potential for innovation, job creation and economic growth.

SMEs are often **exempted from the competition rules**

SMEs may be recipients of **State aid** in the form of soft loans, support for R & D and financial guarantees.

SMEs are allowed to sign agreements when their dimension is small

In 2008 EU launched the "**Small Business Act**“: a multifaceted supporting action, with joint policies introduced in other sectors (such as rural development or training) and coordinated with actions realized by Member States and local authorities.

The backbone of European economies and societies

	Micro	Small	Medium	SMEs	Large	Total
Number of enterprises						
Number	19,143,521	1,357,533	226,573	20,727,627	43,654	20,771,281
%	92.2	6,5	1,1	99.8	0,2	100
Employment						
Number	38395819	26771287	22310205	87477311	42318854	129796165
%	29,6	20,6	17,2	67,4	32,6	100
Gross value added						
EUR Millions	1307360,7	1143935,7	1136243,5	3587540	2591731,5	6179271,4
%	21,2	18,5	18,4	58,1	41,9	100

Source: Eurostat/National Statistics Offices of Member States/Cambridge Econometrics/Ecorys

Systems such as the so-called Italian "Fourth capitalism", the Spanish "Empresas medianas" and the "Mittelstand", the German prosperous system which includes intermediate-sized firms, that take advantage of the flexibility of small firms and, maintaining a familiar ownership, are able to employ the managerial techniques of the larger ones.

They are now recognized as the backbone of the European economy and society.

SMEs

German Mittelstand

Italian Fourth Capitalism

Spanish Empresas Medianas

2000: Lisbon Strategy

A very ambitious strategy launched in March 2000 to counter the low rates of economic growth in the EU compared to the US and some Asian countries.
It aimed to make the EU "the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion" by 2010.

Main concepts:

- Innovation as the motor for economic change (Schumpeter)
- The knowledge economy
- Social and environmental renewal

Limits:

- **Not a EU level policy**
- Focus only on sectors related to new technologies and intangible services, neglecting manufacturing

Failure

- ➢ decline in productivity of European industry did not stop
- ➢ growing divergence between the economies of the Member States

The new century

In the first decade of the new century, vision and rules were still dominated by the absolute virtues of the market in supporting economic growth.

Competition, no State industrial policies : competition principles as guideline for EU economic policies.

BUT ….. THE CRISIS !!!

The global financial and later economic crisis started in 2008 has strongly implicated and re-legitimized State intervention.

The crisis challenged the economic paradigms. The full confidence in the competence of the market to regulate by itself, the so-called "mystique of the market", have been wiped out after 30 years of hegemony in economic theory and policies. Both in EU and in USA it has revived manufacture and industrial policies, considered in the two previous decades as an area of policy outdated and even harmful.

Industrial Policy is back

2010: An Integrated Industrial Policy for the Globalisation Era. Putting Competitiveness and Sustainability at Centre Stage

2012: A Stronger European Industry for Growth and Economic Recovery - Industrial Policy Communication

2014: For a European Industrial Renaissance: 6 strategic areas: advanced manufacturing, enabling technologies (eg nanotechnology), bio-economy, sustainable construction and raw materials, green vehicles and smart grids.

2019: **GREEN NEW DEAL** : a great plan for sustainable growth (funds, technical assistance, flexibility on rules…): investing in environmentally-friendly technologies; supporting industry to innovate; rolling out cleaner forms of transport; making the transition just and inclusive for all.

And now?

SUSPENSION of the rules against State aids: more freedom to national governments to intervene against the emergency

Measures in favor of coordinated production and distribution of crucial goods at a European level

FINANCIAL SUPPORT

Assignement for presentations - Topics

1) Choose one of the European Treaties and deeply examine: the international relations context; the economic context; the role of individual Countries and actors.

2) The Conference on the Future of Europe: discovering its hidden aspects

3) Focus on the defense sector and the issue of European common defense

4) Choose one major Countries (USA, URSS, CHINA…) and European Union: political and economic aspects of their relations

5) The European Green Deal: goals and main problems

6) Special economic and political relations within EU: Franco-German Axis; PIGS and the Others; Visegrad Group… Choose one of these cases and deeply examines it.