

# INDUSTRIAL POLICY IN THE EUROPEAN UNION

Oana Nicoleta BUCUR\*, Ph.D. candidate  
Grigore SILAȘI, Profesor Ph.D.  
West University of Timisoara

## **Abstract**

*Regarding industry, the bank in broad acceptance it consists of all firms producing identical or substitutable goods and services, these companies are engaged in a close race to meet similar needs as the same type of buyers.*

*The evolution of industries is influenced by several factors: the pace of structural adjustment, adaptability to market requirements, the level of technological endowment, technical and financial capacity to attract financial resources for investment and technological upgrading, attractiveness to investors, usability of effective workforce, the development of services for industrial activity.*

*The main objective of EU industrial policy is to strengthen international competitiveness, while providing its customers quality products at competitive prices. In shaping industrial policy, EU experience can provide a benchmark reference for defining the objectives, ways of action, specific tools and concrete measures to implement the policy.*

**Key-words:** *industry, industrial policy, European area, a single market, competitiveness, competition policy*

**JEL Classification:** O<sub>25</sub>

## **1. Introduction**

In a first sense, industrial policy represents all the actions and policies of a state in its relations with industry. Industrial policy's goal is to build high extent market mechanisms, including the correction of its failures. The concept of industrial policy typically covers the policies and related instruments that affect companies and industries. The European Commission proposed a definition of the relevant industrial policy that relates to effective and consistent implementation of all policies affecting the structural adjustment of industry in order to promote competitiveness [European Commission (1994)].

Various definitions of industrial policy focus on different aspects:

- a) industrial policies include government intervention favoring certain firms or industries to others;
- b) industrial policy fundamentally affects competition policy, R&D and innovation policies, trade policy and regional policies;

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c) industrial policy is mainly directed towards the industrial sector of the economy, but may be applied also in primary and tertiary sectors.

At EU level, it refers to horizontal policies (fiscal, competitive, regional, social, labor factor, the environment, etc.), as components of industrial policy. This more so because, with these policies, was made the European Union's single market.

In another sense, industrial policy is an area where flexibility is encouraged and the private sector facilitated its adaptation to emerging shocks to the economy.

## **2. Evolution of the concept of industrial policy in the European Union**

In the first two decades that followed the Treaty of Rome, establishing an industrial policy to scale all EU countries has not been a concern for policy makers, each Member State is free to set its own policy in this period, sectoral policies have been successfully applied widely, is one of the driving forces of economic growth and strengthen the most advanced Member States.

In the decade 1975-1985, in Western Europe characterized by economic stagnation, inflation and unemployment, the Community began to interfere with specific industrial policy measures aimed at ensuring the return of large firms and Member States to increase competitiveness.

Over the next five years, the Single Market was launched, aimed at policy, particularly the creation of economies of scale, improving competitiveness, developing European "champions" rather than national champions, taking a good part of the proposed legislation on Single Market. 1990, when was adopted the programmatic document "Industrial Policy in an open and competitive environment: Guidelines for a Community approach," marked the first milestone to establish a coherent industrial policy at Community level.

The document stated: "The concept of industrial policy for the community as a whole is characterized by seeking a balance between three objectives: fixation in sound and long-term conditions for an effective functioning of market economy (structural adjustment of prior assumptions); indicating the main catalysts for structural adjustment; development tools to accelerate structural adjustment and more competitive.

Prior assumptions of structural adjustment are: maintaining a competitive environment for industry, the economic criteria is essential to maintain a stable economic environment, particularly by way of a fair tax treatment, guaranteeing a high educational level, promoting economic and social cohesion and maintaining high level of environmental protection. The main catalysts for structural adjustment are: setting technical standards and quality of products at European level, the role of public markets, the abolition of national quotas, creating coherent legal framework for trans-European networks for businesses and creating physical infrastructure and human capital. "Accelerators" structural adjustments are to develop technological capacity, especially in generic technologies and distributed and dynamic action towards SMEs, which play an important role in structural adjustment. The new EU industrial policy established by this document has limited

the scope of industrial policies of the Member States and firmly rejected sectoral approaches in favor of open competition. Since 1990, the basic guidelines contained in this document have been properly applied in many industrial policy initiatives of the Community, particularly the automotive, marine and biotechnology industries. Maastricht Treaty in 1991 reaffirmed the Community Guidelines set and the ability to complete the industrial policies of the Member States.

Under the Treaty, the EU industrial policy aims to ensure basic conditions for increased competitiveness of Community industry and specified four basic directions of industrial policy in the future:

- 1) promoting structural change;
- 2) environment can promote the initiative to develop favorably, specially for the SMEs;
- 3) encourage favorable environment for industrial cooperation;
- 4) providing higher recovery results of research & technological development and innovation that has potential value for industry.

Specific regulations stipulating the conditions under which competition must take place within the industry, but it may enhance the action of factors independent of regulations, among the determinants of the intensity of competition in the fall of an industry:

- a) the degree of dispersion (atomization) of the industry, namely the number of companies in its intensifying competition between firms, when there are many companies and when any one of them is dominant;
- b) market growth rate – this rate is high when competition is weak, when competition is reduced pace – intensified as each company seeks to expand its market segment covered to maintain the level of sales;
- c) barriers to exit from the industry – when these barriers are high, competition is intense;
- d) the degree of differentiation of goods/services – where this level is high, competition is less intense, the differentiation is on price, manufacturing firms are tempted to reduce price, which may lead to a “price war”;
- e) particular industry – for example, registration of high fixed costs due to the specific work performed, the existence of excess capacity (or undercapacity), the long (or short) of manufacture, etc., according to those features which imposed prices, firms initiate action response – reducing variable costs, changes in classification of products, price reductions – which induce increased price competition;
- f) forms of manifestation of competition range extension of this range is proportional to the intensity of competition.

Another item on the industry which must be taken into account in determining strategic business development stage of that industry, which requires specific constraints on the nature and position in the life cycle curve of products/services specific to them and firm position against the dominant market. A reference document that followed is one entitled “A policy for industrial competitiveness for the European Union”, setting the major priorities for EU

industrial policy, defined in order to upgrade industrial response to global challenges that have arisen since 1990.

The main steps in the development of the industrial cooperation are provided by:

- a) enhancing industrial cooperation by removing legal and fiscal barriers and developing appropriate legal instruments to promote cooperation;
- b) organization of round tables to enable industrialists from within and outside the Community to identify mutual interests and encourage the development of joint projects;
- c) developing a consistent approach on a common and efficient support to European investment in host countries.

### **3. Industrial policy principles governing the European Union**

Industrial policy actions aim at:

- 1) single market for industrial products; completing the single market; single-improvement market instruments; single-market management;
- 2) promoting standardization and electronic commerce; standardization; expand the use of information technology; promotion of electronic commerce; exchange of data between administrations;
- 3) development of direct action in support of industrial competitiveness;
- 4) adaptation to the other sectoral policies.

The main industries at European level are:

- 1) life science and food industries (food, beverages, tobacco, cosmetics, pharmaceuticals, biotechnology, medical devices);
- 2) industry and machine building system (ITC, mechanical engineering, electrical engineering, motor vehicles, aerospace, defense industry, shipbuilding);
- 3) based on fashion and design industries (textiles, leather and leather products, footwear, furniture);
- 4) primary industries (basic) and intermediate (nonenergetic extractive industries, ferrous metals, cement and lime, ceramics, glass, wood and wood products, pulp, paper and paper products, printing and publishing, steel, chemical, rubber and plastics, construction).

#### *Future industrial policy*

Industrial policy priorities focus on:

- improving the business environment in the globalized world;
- coherence between the policy-environment, health, consumer protection, competitiveness and industrial policy;
- European industry, adapting to changes resulting from expansion to the south and east.

The design and implementation of the policy is consistently following certain principles:

- a) subsidiarity, the European Union that not only deals with issues that cannot be tackled effectively at national level;

b) openness in dealing with markets, which means applying rules that guarantee correct operation of commercial activities inside and outside the Union, adopting a positive approach to structural adjustment policies that avoid protectionism and deceleration;

c) the prevailing approach horizontal, neutral, social, economic problems at the expense of sectoral policies, the activities or regions; the public-private partnership, which defines that public authorities private sector share an important responsibility for promoting successful industrial policy;

d) prosecution essentially aimed to increase competitiveness by speeding up structural adjustments, creating an environment conducive to development initiatives within the EU and industrial cooperation, ensuring a better exploitation of the industrial potential of research, technological development and innovation;

e) the correct market failures, which implies that public authorities intervene only when the market fails to provide allocation and efficient use of resources is necessary to eliminate failures of public authorities to consider circumstances in which they occurred, to the judicious choice corrective action;

f) the compromise between economic efficiency and social cohesion must ensure the dynamic balance between economic efficiency requirement, which calls for a strict expenditure, and economic and social requirement, which must be established structural and social policy Union.

#### **4. Characteristics defining industrial policy in the European Union**

Careful analysis of the principles, objectives, measures and actions that give substance to this policy highlight its main features:

##### *4.1. Progressive crystallization*

EU industrial policy has been built gradually over time, gradually becoming more complex and coherent. A growing consensus on the need for industrial policy at EU level and the type of policy to be followed to develop there.

##### *4.2. Coherent*

EU industrial policy combines instruments in a coherent EU policy and specific measures aimed at improving market functioning (competition and state aid policy, trade policy) and the capacity to adapt to industry changes (social policy and regional innovation policy and dissemination of technology, policy on SMEs). Coherence is often difficult because of the antinomian elements of the policies based industrial policy. It is clear that, for example, competition policy is the opposite potential of regional policy in the sense that regional support is directed to certain regions, industries and businesses, and it distorts competition.

##### *4.3. Harmonization of industrial policies of the Union and Member States*

In general, in the industrial policy of the Union, each Member State has sufficient space to establish its own industrial policy according to its specific objectives and problems. Pursuing specific objectives, the industrial policies of the Member States may contain some decisions which are not consistent with the principles, details and EU industrial policy instruments. Consequently, despite its

industrial policy, horizontal market-oriented, the Union is facing challenging and targeted industrial policies followed by some Member States. The inequalities of the Community industrial policy and relevant policies of the Member States are caused by differences between the objectives and approaches.

#### 4.4. *Register widely used instruments*

EU industrial policy combines the operational requirements of all other policy instruments that have an influence on industrial activity.

The range of these tools include:

a) tools related to the functioning of markets – the control of mergers and contractual arrangements, monitoring agreements between firms, the monopolies and oligopolies of State aid to firms and industries, etc.; using such tools to maintaining the efficient functioning of markets and competitive pressure;

b) tools and industry-related; firms ability to adapt to the requirements of international markets, in the globalized world economy, incentives and facilities for research & development, technological innovation and dissemination, training activities, professional services firms, etc. to support.

According to the prevailing principle of horizontal approach, using these tools is neutral, but the operational implementation of the principle held in private markets must therefore take into account the specific conditions of each sector in this context and could appreciate the extent to which industrial policy instruments are used in order to interact with specific insurance policy to economic and social cohesion.

#### **Conclusions**

Industrial policy in the European Union is today a combination of political will, experience gained over the years and a profound economic and social reflection.

Policy provides a relevant example of how it could determine a course of action for uniform consensus Member States, which have a wide variety of conditions but are animated by a common desire to develop their industries and make them more competitive on the international markets.

Initially, the concept of industrial policy has been for many years the subject of repeated controversy within the Community. However, major changes produced within the member countries' economies and their future development prospects of confrontation with industry-leading progressive global challenges in establishing and implementing an industrial policy unit, supportive and dynamic Community. Integrating a range of measures, designed in a coherent approach to EU industrial policy seeks to achieve harmony when their policies interact and sensible coordination of these policies with those of its Member States.

At the same time, this policy is an extremely fertile ground for lessons for all candidate countries which are keen to structurally adjust and modernize their industries so as to be able to successfully meet the performance criteria established by the European Union.

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