

## 'Godsend or disaster for Spain?' from Le Monde (13 June 1985)

**Caption:** On 13 June 1985, the French newspaper Le Monde examines reactions within the Spanish industrial sector to this country's accession to the European Economic Community (EEC).

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## Godsend or catastrophe for Spain?

### II. — Company bosses in relaxed mood

From our correspondent, Thierry Maliniak.

Madrid. — Quite a contrast: while Spain's farmers erupt in protest in the run-up to their country's accession to the EEC, company bosses are apparently in relaxed mood. 'If the ground rules are the same for Spanish and European company chiefs, I fail to see why our industrial sector should be incapable of adapting,' says José-Luis Ceron, who heads the Economic Affairs Committee of the CEOE, the powerful Spanish Employers' Confederation. 'It is perhaps worth remembering that we are, today, the world's 11th industrial power!'

Julio Pascual, General Secretary of Confemetal, the metals industry employers' association, seems of like mind. 'Don't get the idea that we're on the verge of panic. If anything, curiosity is the dominant sentiment, as company managers come face-to-face with a process of integration that they have long known to be inevitable. We are ready to take up the challenge.'

Brave words only? Self-persuasion? Foreign observers and diplomats in Madrid are far from sharing the optimism projected by Spain's industrial leaders. Rather, they see accession as an awesome challenge for industrial concerns long accustomed to the comfortable cocoon of Franco-style protectionism. Surely Spain, in joining the EEC, is breaking with decades of isolationism and the accompanying bad habits on the economic and political fronts?

It is true that Spanish industry has developed on somewhat artificial foundations. The diplomatic ostracism suffered by the regime after the Second World War gave rise to a system based on autarky: this meant producing everything, at whatever cost and without foreign competition. It was only as from the 1959 'stabilisation plan' that the Spanish economy began to open its doors a fraction to the outside world. And, even then, these measures did not prevent the retention of protectionist barriers and quotas.

Under the terms of the preferential agreement concluded by Madrid and the ECC in 1970, Spanish industry was, moreover, able to maintain this advantageous situation. While the Community cut its customs duties, which were already lower than Spain's at the outset, on products imported from Spain by an average of 40 %, the latter conceded an average reduction of only 25 %. It is hardly surprising, in those circumstances, that the cover rate secured by Spain's trade balance with the EEC rose from 43.8 % to 66.7 % between 1969 and 1971.

For many years, this external protection was accompanied by internal protection provided by the Franco regime. Very low fiscal pressure through to 1977, loans to firms generously subsidised out of public funds, wage levels held down all the more easily in a country where the trade union movement was outlawed, the knowledge that hard-pressed private companies would always be shored up by the public sector: all these factors enabled Spain's industrial bosses to operate in an economic environment far more favourable — and far less competitive — than their European counterparts.

#### 'Competitive out of necessity'

Admittedly, since the death of Franco, industrialists south of the Pyrenees have had to hurry to catch up with political and economic liberalisation. But have the last ten years been time enough to adapt to the European mould? 'The economic crisis has forced us to look outwards, to look for new markets to compensate for flagging domestic demand,' says Mr Pascual. 'Necessity has forced us to become competitive!'

At first sight, developments in the Spanish automotive industry do not seem to bear out this view. In the years 1977 to 1983, domestic sales in the sector fell by 28 %, while exports went up 129 %. Accordingly, export sales rose, over the same period, from 31 % to 60 % of the total (91 % going to the EEC). But, here again, protectionism gave a helping hand, for while Spanish vehicles exported to the EEC attract customs

duty at 4.2 %, the corresponding figure for inward sales from the Ten stands at ... 36.7 %. So it is no surprise to learn that, in the accession negotiations, the Spanish subsidiaries of Renault and Peugeot-Talbot were among the first to ask that customs barriers be lowered gradually!

The task that lies ahead, with accession, is to compete on equal terms with the European competition. To gear up for this, Spanish firms will have a seven-year transitional period and, initially, customs duties will be lowered relatively slowly (down by 10 % two months after accession, with a further 12.5 % drop at the end of the first year). There will be provision for quotas, calculated in volume or value terms, to be maintained for certain 'sensitive products', such as colour TVs, sewing machines, carpets and weapons.

In the automotive sector, Spain will allow, in the first year, a quota of 32 000 vehicles with customs duties limited to 17.4 %. As regards iron and steel, Madrid will be allowed to maintain state aids for industrial restructuring for a period of three years. The target will be to bring production down to 18 million tonnes in 1989, a 16 % reduction compared with 1980, this percentage figure being fairly close to the Community average.

The terms of the Accession Treaty are deemed 'broadly satisfactory' by Spanish employers' associations. Criticism of their government is directed more at the 'comparative disadvantages' from which they claim to suffer in relation to their Community competitors. As Mr Ceron points out, they want greater 'flexibility' in the labour market (that is, in layman's terms, the ability to lay workers off more rapidly and more easily) and object to the 'excessive burden' of employers' national insurance contributions.

It is true that laying people off continues to be more difficult — and more expensive! — in Spain than in most Community countries. This is, paradoxically, one of the hangovers from Francoism, which provided workers with some measure of job security in return for low wage levels. As for the employers' national insurance contribution, it accounts, according to the CEOE (the Confederation of Employers and Industries of Spain) for 69 % of the social security scheme's total receipts, which compares with an average of 42 % in the EEC. What the employers fail to mention is that the overall fiscal burden (corporation tax and national insurance contributions combined) that they are required to bear is still lighter than in most industrialised countries: 11 % of gross national product, as against 14 % in the United States or 20 % in France, for example. So, what is open to criticism is not so much the level at which the fiscal burden is pitched as the way in which it is levied: the undue weight placed on national insurance contributions compared with taxation discourages employment and creates a situation in which the fiscal demands on companies are determined by their staff levels rather than by their profits.

### **Absorbing the shock**

The introduction of VAT as from 1 January 1986 may go some way towards correcting this situation. The resulting increase in income should enable the government to step up its contribution to social security funding, with a corresponding cut in the employers' contribution. The introduction of VAT will, however, have another effect which is less to the liking of Spanish business leaders: by bringing greater transparency to the fiscal system, it will eliminate the scope for disguised export aids, which were hitherto common currency and clearly represented a 'comparative advantage' for Spanish firms (*Le Monde* of 30 March).

With comparative advantages and disadvantages tending to cancel each other out, is the Spanish secondary sector ready to absorb the shock of accession? It all depends. According to a diplomat in post in Madrid, 'Sections of Spanish industry are already used to operating by international standards, particularly those sections substantially penetrated by foreign capital, while other sections have never looked beyond the country's borders.' The impact of joining the EEC will be that much more difficult to measure in that winners and losers will not, unlike in agriculture, be clearly distributed by sector.

The country's SMEs, which represent the bulk of the Spanish industrial fabric (companies with fewer than 500 employees account for 76 % of the national workforce), will not necessarily come out worst, particularly as they have, if anything, weathered the crisis rather better than the industrial 'majors'. But, whatever their size, most firms will, at all events, have to overcome a serious handicap: the low levels of

Spanish know-how and technology.

What are Spain's strengths in relation to the EEC? Some clues may be found by looking at the current bilateral trade situation. Since 1983, the trade balance has been in favour of Madrid which, in 1984, could point to an unprecedented 120 % coverage rate. Last year, 49 % of Spain's exports and 33 % of its imports involved the Ten. It mainly buys from the EEC capital equipment (machine tools, transport equipment, etc.), while its sales to the Community are primarily agricultural products and consumer goods.

There seems little doubt as to the country's competitiveness in such areas as footwear, leather goods, timber and clothing and in the agri-food industry. The outlook is far less positive in the case, for example, of chemicals, the pharmaceutical and medical sector, plastics and scientific instruments.

Will Spanish industry, following accession, focus more on its most competitive sectors? Will it succeed in establishing 'niche' areas, strengthening its hand in the European setting? At the Industry Ministry, there is a marked reluctance to make any predictions; trying to work out how industrial work will in future be distributed among the Twelve would, in its view, stretch the sharpest mind. 'What we can do as of now', they add, 'is speed up restructuring in our traditional sectors, the iron and steel industry and shipbuilding for example, while seeking to stimulate the sectors which may well suffer on our accession to the EEC.'

Whatever its impact on industrial output south of the Pyrenees, one thing is sure: accession will leave its mark on the producers! New business leaders will necessarily come to the fore, pushing aside those who, for so long, were content, while singing the praises of liberalism, to live in the shelter of the State. 'The 1990 Spanish directory of corporate advisers will certainly look very different from today's!' notes Mr Pascual. As they enter the European arena, Spain's industrialists will have to leave behind them once and for all what was, for many of them, the 'golden era' of Francoism.