



CONFEDERACION ESPAÑOLA
DE ORGANIZACIONES EMPRESARIALES

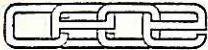
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SPAIN'S ENTRY INTO THE COMMON MARKET:
THE POSITION OF SPANISH EMPLOYERS

VOLUME II

PART III

SECTORIAL ASPECTS



CONFEDERACION ESPAÑOLA
DE ORGANIZACIONES EMPRESARIALES

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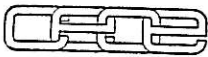
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PART III

SECTORIAL ASPECTS

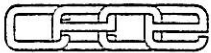


It is eight months since Volume I of "Spain's Entry into the Common Market: The Position of Spanish Employers" made its appearance. With its publication the Spanish Confederation of Employers' Organizations (C.E.O.E.) attempted to transpose the debate on Spain's integration into the European Community, then in progress, from the "philosophical" to the "arithmetical" plane.

This objective has been largely achieved. There is less talk of integration in general terms and a decrease in the somewhat futile exercise of setting dates for the signing and enforcement of the future Treaty of Accession. Instead, thoughts are becoming centred on how this should be implemented, what methods to adopt to achieve the best results for Spain; that is, to help us ride the crisis, maintain rational levels of prosperity and employment and render our productive apparatus more competitive.

This effort to attain adequate competitive levels which will make possible the assimilation of the Spanish economy into the European without serious traumas, must be expressed in the final analysis, in the exertions to be made in each sector of industry. The second and final volume of the C.E.O.E.'s White Paper now published, attempts to point the directions in which action must be taken to achieve this objective.

Prompted by very pragmatic criteria, the option has been not to carry out either a comparative analysis of the economic structure of each sector in Spain and in the Community, nor yet an exhaustive description of what would be the ideal position for our various sectors at each stage of the transitional period, but rather simply to offer a series of precise observations on certain very definite problems which integration has posed for each sector of Spanish economy suggesting at the same time possible remedies for each. The C.E.O.E. proposes to make a more in-depth analysis later respecting some of these.



It is essential to study Volume II from the global context afforded by Volume I. More precisely, it should be emphasised that the clearly defined observations here made relating in each case to a specific sector, would make no sense if not taken in conjunction with the more generalised issues contained in the previous volume.

Thus reference is made not only to time-limits and forms of inserting the mechanisms appropriate to customs union throughout the transitional period, but also to the creation of an enterprising environment in Spain similar to that in which European community businessmen operate.

Indeed, the results of the integration process will depend on the respective competitive levels of Spanish and Community enterprises, that is, basically, on the levels of relative unitary costs of one and the other.

For it would be difficult for Spanish businessmen, however great the effort made at company level, to compete efficaciously in the Common Market if we do not adapt to Community standards both the framework of our social/labour relations and the costs deriving from company contributions to Social Security.

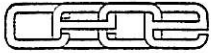
Bear in mind with respect to this last point that, out of total Social Security revenue in Spain, company contributions represent approximately on average, double those in present member States of the European Community. It seems clear that only harmonization on this point would make possible the introduction of Value Added Tax in Spain as otherwise this would represent a grave threat to national economic interests as a whole.

The C.E.O.E. which of course greatly values the political implication of future integration with the European Community, is hopeful that its attitude in this matter will lead to an ever deeper consciousness of all Spanish conditions of life, public and private, respecting the need both to negotiate a Treaty of Accession and prepare the process of integration from a pragmatic viewpoint, realistically attuned to economic realities.



The contents of this second and final Volume of "Spain's entry into the Common Market: The Position of Spanish Employers" has been drawn from documents which the associated members of the C.E.O.E. have had prepared by fourteen Work Groups formed for the purpose. It was decided to preserve to the full the inflexions of each of the studies contributed by these Work Groups, and they have only been altered to the extent necessary to emphasize occasionally the convergencies between them.

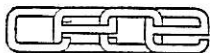
In every case the contributions from the fourteen Work Groups of the business organizations associated to the C.E.O.E., have been fully assumed by the Confederations's governing body, and accordingly the publication now issued has behind it the combined support of Spanish employers.



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SECTORIAL ASPECTS

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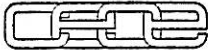
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I
PRIMARY SECTOR



- I PRIMARY SECTOR
 - I.1 Agriculture
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I PRIMARY SECTOR

Under this heading are analysed, from the perspective of Spain's accession to the European Community, the subsectors forming this primary sector, that is, agriculture, forestry, fishing and mining.

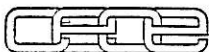
I.1 Agriculture

Introduction

The structural characteristics of Spanish agriculture differ greatly from those of Community agriculture.

The difficult configuration of Spanish national territory (over 26 per 100 of its area is over 1.000 m high, 65 per 100 exceeds 500 m and 85 per 100 200 m) explains why, of a total surface area of 50,5 million hectares, only 27,6 million are available for agriculture. The interaction of land formation, climate and natural decomposition combined with the practice of continuous tillage has moreover caused serious erosion in nearly a quarter of Spanish soil. Owing to scanty rainfall, productive potential is satisfactory only in 2,8 million hectares of irrigated land representing 13,6 per 100 of cultivated soil which cannot be amplified under reasonably economic conditions.

The climate is arid save in a fringe to the north of the Peninsula. 80 per 100 of Spanish territory has an annual pluviometric deficit of some 300 mm owing to the high degree of evaporation and scanty and irregular rainfall. This irregularity is reflected in the difference between basins. Thus the Mediterranean basin, the most appropriate for intense cultivation, suffers, with the exception of the Ebro valley, from an evident lack of water, a situation repeated in the Guadalquivir basin. On the other hand, there is a water surplus in the Atlantic basin. All this denotes severe limitations to production, causes loss in productivity and results in heavy expenditure.



As regards farming structure, 50,4 per 100 of farms comprising 8,5 per 100 of the total area, are of between 1 and 5 hectares, while only 5,4 per 100 of farms with 47,9 per 100 of the total area cover more than 50 hectares. The average size in 1977 was 17 hectares denoting an increase of 3 hectares in the average size since 1962.

According to available official data, the total active agricultural population is estimated at some 2 million persons, 17,4 per 100 of the total active population, although it is likely that actual figures are lower (2/3 of this population is formed by land owning farmers and 1/3 by paid farm labourers).

Agricultural gross domestic product represents 8 per 100 of total gdp, but diminishes progressively as growth of the remaining sectors increases more rapidly. According to 1980 figures, value of production per person occupied in agriculture equals 58 per 100 of the average for the whole of the Spanish economy, and is 50 per 100 less than the value of production per person occupied in Community agriculture. It should be noted that the increase in real production in the sector in 1980 was not accompanied by a rise in income received by farmers.

There is a large and growing deficit in the Spanish agricultural trade balance as shown in Table I although the bilateral balance with respect to the countries of the Community is favourable. The principal imports were maize, soya, dairy products and beef, and main exports included fruit, vegetables wines and oils.

TABLE I
SPANISH AGRICULTURAL TRADE BALANCE
(millions of pesetas)

YEAR	IMPORTS	EXPORTS	BALANCE	COVER
1976	197.867	137.263	-60.604	69,4
1977	262.750	177.046	-85.704	67,4
1978	284.103	214.766	-69.337	75,6
1979	300.925	261.944	-38.981	87,0
1980	348.485	297.717	-50.768	85,4

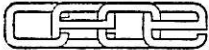
SOURCE: Ministry of Agriculture

Finally, in other respects Spanish agriculture shows notable differences compared with Community agriculture. The principal Spanish products are those of Mediterranean agriculture, while in the Community greater relative weight is given to cattle breeding suitable to humid areas. Also there are obvious differences in the respective policies of prices and markets.

The impact of accession

The application to Spanish agriculture of the present common agricultural policy could be generally beneficial if and when this is implemented by a careful process of adaptation to mitigate disruption.

Firstly, the agrarian population and, in general, the rural population, might benefit by the application of social and regional policies and by aid to the sector as practiced in the Community. Agricultural workers may be the most favoured, but farmers could also improve their position benefitting from the subsidies planned by the Community for reforming farming structures which should facilitate concentration of



small farms enabling the remainder to introduce improvements for increasing productivity.

More obvious advantages could result from agricultural inputs since the cost of these is lower in the Community and supply is more ample and varied.

Community price structure for the producer is considerably different from the Spanish, so that while certain products will benefit in this respect from integration, it will be detrimental for others. Accordingly a policy of progressive adaptation of internal prices to those applied in the Community should be adopted as soon as possible to mitigate the impact resulting from their application to Spanish agriculture soon after accession.

With regard to the impact on the various productive subsectors, given the different price levels between Spain and the Community, the consequences will be very diverse depending on the subsectors, although in any case there will be a considerably adverse balance for certain Spanish regions. This is the case for example, of the Cantabrian region, highly specialised in milk production, or of Castile, where soft wheat and beet are important. These are regions and subsectors requiring special study and the devising of urgent programmes of production and marketing reforms able to mitigate the adverse impact of integration. At subsector level, this is the case with sugar, dairy products and meat to which the following paragraphs refer.

Spain's objective with regard to sugar production should be limited to maintaining the present degree of self-sufficiency and adequate stocks. Costs of production in Spain are high owing to irrigation needs, the use of low productivity soils where no alternatives exist, and the excessive partitioning of farmland, complicating in many cases crop mechanisation. Treatment similar to that accorded in Italy should be envisaged for Spanish beet production based on subsidies to assist

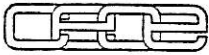


adaptation, a system of controlled prices in Spain's case, and the possibility of modifying basic quotas during the industry's reorganization. The 300 to 400 thousand tons per annum of cane sugar produced in Spain should be applied mainly to the manufacture of destillates and spirits.

The dairy products subsector in Spain has become practically self-sufficient in supplies for human consumption thanks to a system of methodizing imports for the majority of food products for human use based on state trading and the application of relatively high customs duties. Such a system is justified owing to the existence of unfavourable production structures due to climatic and soil conditions which result in higher production costs. Consequently certain precautions must be taken to ensure that the process of adaption is carried out gradually without creating difficult situations for the sector, even leading to a reduction in cattle rearing, in turn raising serious local problems in certain areas of the country and the disappearance of many enterprises engaged in the transformation of dairy products.

Costs will rise considerably in the meat production subsector with entry into the Community resulting as much from the application of the "prélèvements" on imports of cereals and animal feeds, both very scarce in Spain, as because of the disappearance of Community restitutions to exports to the Spanish market of denaturalized milk used for animal feed. In connection with this subsector it will be necessary to prevent imbalances that would arise in the event that, for alleged health reasons, certain Spanish meat products were denied access to the markets of other Community countries, while those originating in the Community could circulate freely in the Spanish market.

Another aspect to bear in mind is that of the varying effects arising from the application by Spain of Community legislation. This would have a particularly severe impact on milk and dairy products, cereals, pork, tobacco, hops, sugar, processed fruits and vegetables,



and wine. In the remaining subsectors even though application of Community legislation will lead to substantial changes (elimination of rice growing land boundaries, state trading for meat etc), no serious problems will arise. The same can be said respecting harmonization of plant health regulations relating to forestry, seeds and plants. Nevertheless, there are some difficulties respecting application of legislation for animal feeds and veterinary products.

In any case, since the commencement of negotiations, Spain accepted as a basic principle, the adoption of Community legislation. But this initial acceptance should not hinder efforts to find solutions to problems which will arise in various sectors with the application of this legislation, either by establishing transitory measures considered necessary, or modifying those aspects where this is regarded as indispensable and possible.

Finally in order to achieve the smooth assimilation of Spanish agriculture with that of the Community, a series of autonomous actions must be adopted to set it on the right road to integration. Undoubtedly such preparatory measures would constitute an important element towards ensuring its total success. In this sense plans for sectorial reorganization are urgent, especially for dairy products, soft wheat and sugar beet, as also regionally in the northern fringe of the Peninsula, and in cereal and beet producing areas. Equally urgent is the need to adopt formulas to deal with labour problems to be negotiated with the Community for their joint financing, particularly with reference to the retirement of farm labourers of advanced age, to professional training, aid to depressed areas and to hill farming. At the same time regulations should be prepared for organizing the agricultural products markets, including pricing and supervising systems and foreign exchange arrangements in line with Community agricultural policy. These plans should be accompanied by extensive administrative reforms in the sector and the strengthening of its professional organizations.

I.2 Forestry

The amplitude of Spanish national territory, its relatively low population and the existence of extensive infructuous regions suitable for reforestation, offer sound bases for the possible development of a broad forestry policy.

Of the 50,5 million hectares of national territory, approximately 15,5 million at the present time are wooded, and some 10 million catalogued as hillside and pasture land. Much of these 10 million hectares could be planted, a large proportion with rapid growth species of a 10 or 12 year cycle, thereby obtaining considerable timber production suitable for industrial uses.

This requires a series of measures which should centre on more sweeping action on the part of the Spanish Administration and the Community in matters of reforestation, and in the suppression of obstacles which at present hinder private initiative from taking similar interest. A start would have to be made to rationalize and modernize present forestry management, update forestry inventories and draw up another of land suitable for reforestation which would serve as a pattern for long-term replanting (particularly short cycle species), clarify and expedite concessions of incentives for carrying out forecast programmes, encourage the creation of local reforestation societies and undertake an investigation into wildlife and forestry, as also create the infrastructure necessary both for protection against outbreaks of fire and facilitating forestry work.

TABLE II
BALANCE OF DOMESTIC TIMBER CONSUMPTION IN 1979
(in 1.000 m³ of logs without bark)

Products	Extraction	Imports	Exports	Apparent Consumption	Production %
					Consumption
Logs	4.528	2.960	351	7.137	63,4
Pulp	6.112	3.689	1.603	8.198	74,6
Others	1.082	-	-	1.082	100,0
Total timber	11.722	6.649	1.954	16.417	71,4

SOURCE: Directory of Agrarian Statistics, Ministry of Agriculture

If such conditions could prevail, the Spanish forestry sector could increase production to the point of eliminating its present deficit (see Table II) simply by acting within the guidelines of the four objectives of Community forestry policy, consisting in increased timber production, conservation of the environment, the possibility of acquiring recreational structures and the improvement of living standards in depressed rural areas.

I.3 Fishing

The Spanish fishing sector is constituted by some 17.000 fishing vessels with crews numbering about 110.000 and a volume of catches which in 1980 amounted to 1.134.000 mt to a value of 128.000 million pesetas. The contribution of the fishing sector to gdp is slightly below 1%.

In appearance, the potential of the Spanish fishing fleet is very considerable in comparison with the joint Community fleet. However, most of the ships are of small tonnage and suitable only for inshore fishing. Again, 80% of them are over 10 years old and 50% over 50 years old.

Moreover, problems deriving from the lack of an inventory of its own fishing resources confront the sector, the scarcity of these and limitations to the volume of catches, as also uncertainties created by the general imposition by other countries of the 200 mile limit, a circumstance which determines the progressive reduction of our fleet's operational possibilities and is reflected in a rapidly deteriorating external fishing balance, with a cover index which has dropped from 73,5 per 100 in 1978 to 38,8% in 1980, as showed in Table III.

TABLE III
FISHING TRADE BALANCE
(millions of pesetas)

	1978	1979	1980
Imports	17.700,2	26.462,2	37.716,5
Exports	13.013,2	18.845,8	14.642,6
Deficit	-4.687,0	-7.616,4	-23.073,9
Cover	73,5%	71,2%	38,8%

SOURCE: Directorate General of Customs



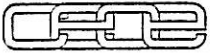
For its part, the Community sees itself obliged to realign its fishing policies by combining progressive implementation of "exclusive territorial waters" with the necessary "Communitarization" of these and also with acquired historic rights. This internal realignment combined with the necessary definition of an "external fishing policy" on the part of the Community in its relations with other countries, requires the reorganization of the Community fleet by adapting it to new situations and to rationalize exploitation of fishing grounds on the basis of their economic potential.

The insertion of Spanish fishing activity into the Community framework should be carried out bearing in mind the specific weight of our fleet and even more, to the historic rights acquired throughout centuries of continuous activity in Community fishing grounds.

In any case the process of Spain's integration into the Community demands reorganization of the fishing sector based on reconstituting its own fishing grounds, amortization of the inshore fleet and the strengthening of the offshore and deep sea fleet, as also the formation and promotion of breeding pools capable of absorbing excess labour resulting from this reorganization.

Moreover, Spain's external activities in this sector should try to fit into the global framework of the Community's fishing policy in order to benefit from its wider negotiating capacity, thereby boosting the exercise of our own negotiating actions in areas such as West Africa where Spain has special interests but where the Community has hardly been present.

With regard to the canning industry constituted by some 470 firms with an annual production of the order of 375.00 mt, this for some time has been affected by a series of problems (excess of capacity, scarcity of catches, decline of internal demand due to the high price of canned



products, loss of markets to the frozen food industry) whose solutions, in principle, should have been facilitated by Spain's absorption into the Community. For although the Community is the principal world producer of various types of canned foods, its large imports to satisfy internal market requirements led to the belief that Community countries would constitute an excellent market for Spanish canned goods and frozen foods. The excessively rigid attitude of some Member States of the Community regarding health problems arising in connection with certain brands of Spanish oils has been the cause, at least momentarily, of distancing possibilities of resolving the uncertainties in this subsector by means of freer access for its products to the Community market, thereby aggravating its already precarious situation.

I.4 Mining

According to figures for 1979 the Spanish non-energy producing mining sector comprises 4.157 mining exploitations employing 39.191 workers and a production value of 67.111 million pesetas.

The supply of mineral raw materials has acquired strategic importance in the last decade stemming from changes in world economic patterns and from the growing dependence of the industrialised countries on imports of these products. This circumstance is of particular importance because not only has Spain a degree of self-sufficiency exceeding that of the Community, but can also offer in respect of certain products, interesting opportunities in the development of extraction techniques. This can be seen in Table IV in which present production and the levels of self-sufficiency in the Spanish and Community mining industries are compared.

TABLE IV
PRODUCTION AND LEVEL OF MINERAL SELF-SUFFICIENCY
(1979)

	% Self-sufficiency		% World Production	
	Spain	EEC	Spain	EEC
Iron	73	25	1,0	4,5
Lead	90	43	2,0	5,4
Copper	38	4	0,5	0,1
Pyrites	132	67 [±]	11,1 [±]	5,7 [±]
Wolfram	100	13	0,8	1,2
Tin	20	8	0,3	1,0
Potash	215	90	2,5	17,5
Zinc	72	34	2,0	8,2
Fluospar	211	80	4,3	16,8
Baryte	217	109 [±]	1,1 [±]	14,7 [±]
China Clay	73	115 [±]	1,5 [±]	25,6 [±]

[±] Figures for 1978

SOURCE: CONFEDEM

Spain can become an additional source of considerable importance for supplying the Community with mineral products especially in the medium and long term.

In variety of mineral substances Spain, it may be remembered, occupies the world's sixth place and, moreover, offers a very important development potential, though difficult to evaluate in precise terms as hitherto mining investigations carried out in our country have been very limited.

The process of dovetailing Spanish and Community productive structures will be eased by the fact that the Community is the principal recipient of Spanish mineral exports.

Such opportunities for developing the Spanish mining sector following integration would be bolstered if solutions could be found to a number of problems at present troubling it and now examined.

First and foremost the sector is hampered by the enormous weight of labour costs.

At the same time the productive structure in not a few subsectors is very atomized, to which may be added other adverse factors such as the weakness of the financial structure, the existence of poorly mechanised productive installations and a reduced level of technology as also an insufficient knowledge of potential reserves and real exploitation possibilities. For the rest, the unfavourable geological infrastructure of the majority of the mineral deposits results in low productivity and diminishes possibilities of mechanisation. It may be noted as an additional but important factor that the creation and maintenance of infrastructures in Spain are always financed by the companies.

The question of prices is centred on three main themes. Firstly Administrative control of certain products with prices below those quoted

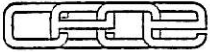


internationally, preventing companies from laying sound financial bases; secondly the absence of funds regulating prices which counteract abrupt changes in export markets, and lastly the application of a system of price fixing at origin, as against the price regime at destination applied in the Community which benefits from harmonization thanks to the existence of a Transport Regulation Fund.

A further point to be remembered is that following accession, the articles of the Law of Mines which limit the possibility of foreign companies owning mines will have to be modified to facilitate access of Community enterprises to such ownership.

In sum, in order to take advantage of the many opportunities Spain offers in this sector the following measures should be adopted:

- Adapt pension and Social Security regulations to those of the Community.
- Draw up, in collaboration with Community Institutions, an extensive inventory of mineral resources, and link this task with studies of investigation and exploitation of mineral resources undertaken every four years in the Community.
- Given the strategic and complementary character of Spanish mining in relation to the Community economy as a whole, ease application of Community regulations, especially for State aid, internal price regulations and priorities of Community legislation in matters of contamination.
- Assist mining companies by means of credits granted by the European Investment Bank and other Community Funds. This action should be carried out in parallel with a process of collaboration and fusion between small enterprises.



- Given the wide possibilities opened up by integral utilization of pyrites, provide assistance towards materilizing these opportunities by concessions of aid and the establishment of temporary quotas for imports of sulphur. These quotas would later be phased out in accordance with a time-limit fixed to accord with the plan for integral or total utilization of the pyrites.

- Likewise, owing to the frequent coincidence between the extraction of minerals and their initial transformation "in situ" increases in the processes of extraction would have to harmonize with increases of treatment capacity.



II
INDUSTRIAL SECTOR



II INDUSTRIAL SECTOR

II.1 Food Industry

II.2 Energy Sector

II.3 Basic Industry

II.4 Transformation Industry and
End Consumption

II.5 Construction

II. INDUSTRIAL SECTOR

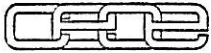
II.1 Food Industry

The Spanish food industry is a very complex combination of productive activities and varied corporate structures engaged in the transformation of a wide range of raw materials into numerous end products. This great complexity impedes the adoption by the sector of a unified attitude towards integration although of course, it is possible to point to problems affecting the sector as a whole.

Agricultural production and the food industry constitute one vertical process. The industrial food sector cannot exist unless agriculture thrives, and this in turn requires an efficient food industry. What happens, therefore, is that because of the dependence of an important part of the Spanish food industry on domestic agricultural raw materials, the impact which integration could cause on the industry will be conditioned by the effect it will have on agriculture. It is true that some subsectors of the food industry, particularly those engaged in a second transformation of raw materials from Community countries, but in the majority of cases the existence of industries without a national agricultural sector to supply them with raw materials is unthinkable.

Probably the first of the problems to affect this sector of the Spanish economy is that resulting from its excessive atomization. The average volume of invoicing in food businesses in Community countries is ten times greater than in the Spanish, signifying that although for some products we could command cheaper raw materials, this advantage could not be made effective in the market since Community businesses clearly surpass the Spanish on the level of economies of scale.

The Spanish food industry is one of the most atomized of the industrial sectors employing an average of six persons to each industrial establishment. A similar structure was to be found in some present member

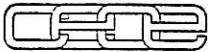


countries of the Community, specifically Italy and France, when the Common Market was created, but was rectified when increased competition following the implementation of the Treaty of Rome did away with approximately half the enterprises then existing.

An additional problem except for some subsectors with exporting traditions, is the low level of overseas trade which limits in the short term the possible development of export initiatives. This situation can be explained on the basis of attitudes prevailing until recent times and advocating self-sufficiency as the underlying objective for the sector, leading to the application of a regime of State Trading to many of its products while recourse was had to exports only in order to place surpluses, thus frustrating a sustained presence abroad. Again, as a result of these attitudes, many overseas trading operations are still carried out by Government bodies.

The difficulties the food industry will encounter to be able to distribute its products in the Community must also be considered. While large Community enterprises, frequently multinational, can operate commercial networks for the distribution of their food products in Spain, Spanish companies can only carry out inverse operations with difficulty, with the added possibility that when we integrate, the majority of Spanish food industries will decide to manufacture under European brands. This would lead to total dependence on the decisions of those companies who, at any time could decide to provision themselves from other countries, while Spanish products in the meantime, had found themselves unable to conquer, as such, a share of the Community market.

Nevertheless, for some subsectors, especially canned vegetables and fish, our entry into the Common Market is almost indispensable for survival. For such subsectors, which unlike many others are traditional exporters to Europe, the preferences the Community has been conceding to third countries, particularly Portugal and North African countries, has led to a steep decline in their exports.

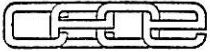


Finally, as regards the edible oils subsector, assimilation should result in greater liberalization of the existing regime, favouring the progressive adaptation of the different types of oil to the demands of the consumers.

Mention must be made with regard to this subsector of the difficult situation facing Spanish olive oil production as a result of the present prohibition on imports to Member States of the Community in whose markets it has had a strong traditional presence.

With these considerations in mind and with entry into the Common Market in view, it may be concluded that the Spanish food sector needs to adopt the following measures:

- Analyse in depth the possible impact of integration on the agricultural sector so that the Spanish negotiators can try to obtain conditions which will guarantee maintenance of adequate levels in the volume of agricultural raw materials production.
- The Spanish Administration should take immediate steps to improve competitiveness in the primary sector and strengthen the structure of the food sector.
- Proceed with a progressive elimination of State Trading for these products.
- That the Administration favour, as in other countries, for example France and Italy, the establishment abroad of distribution networks for food products.
- That from the entry into force of the Treaty of Spain's accession to the Community, there should be no discrimination against any Spanish food product exported to the Community in relation to exports there from third countries.



II.2 Energy Sector

Global energy problems and a comparison with the situation in the Community were analysed in Volume I of this document. Here, on the other hand, the various energy supplying subsectors are examined, firstly within the global framework of the National Energy Plan (NEP), and secondly in separate studies of the specific situation of each of the subsectors.

II.2.1 Global energy framework

Both the NEP approved in July 1979 and plans to update it, underline the need to reduce the energy bill and improve guarantees of supplies by encouraging energy conservation and diversify sources of energy production and supplies.

The NEP, at present in process of revision, starts off with a number of schemes which attempt to reflect the predictable evolution of the Spanish economy regarding possible rates of economic growth and energy requirements. Forecast energy requirements, for 1985 according to the revised NEP, amount to 124,2 million equivalent tonnes of coal, a figure signifying a reduction of nearly 10 million equivalent tonnes of coal on the original estimates of the NEP for the same year, as illustrated in Table V.

For the rest, the new plans take into account the need to increase the use of coal and nuclear energy, envisaging the role of nuclear energy in 1985 and the setbacks registered since the NEP was approved in the construction and lining up of nuclear plants. Finally the revised plans take into account an intensified use of new sources of energy such as solar and biomass, although logically their contribution will be limited.

The following are forecasts for the different energy sectors based on the provisions of the NEP.

TABLE V
ENERGY DEMAND FORECASTS

	ORIGINAL NEP		REVISED NEP			
	1985		1985		1990	
	MILL ETC	%	MILL ETC	%	MILL ETC	%
Hydraulic	13,1	9,8	12,5	10,1	13,9	9,1
Coal	21,7	16,2	30,1	24,2	34,7	22,8
Petroleum	74,7	55,6	61,3	49,4	68,8	45,2
Natural Gas	7,0	5,2	6,7	5,4	9,3	6,1
Nuclear	17,8	13,2	13,1	10,5	22,9	15,1
New Energies (solar, biomass)	-	-	0,5	0,4	2,5	1,7
TOTAL	134,3	100,0	124,2	100,0	152,1	100,0

SOURCE: Centre of Energy Studies

It is envisaged that present production in the coal subsector can be doubled by intensive use of low heating power lignites in power stations and by increased production of pit coal and anthracite. Paralleling this and exceeding the initial objectives of the Plan, a decision was taken to transform the cement industry to coal consumption and to construct power stations with an additional capacity of 2.200 MW which would function on imported coal, as also the conversion to coal of various fuel-oil producing groups.

As regards the petroleum subsector, the NEP attempts in the first place to boost exploration work in Spanish territory, up to the present very limited. Important action in this respect envisaged by the NEP requires the adoption of a more favourable legal framework and the allocation of substantial sums. Measures to assist exploration of hydrocarbons applied in the Community and the potential financial support of Community institutions, could represent a basic element in this endeavour after Spain becomes a Member State. As regards the refining industry, the NEP estimates this will have to substantially curtail its production schedules due to the probable tendency of demand towards larger participation of light products and greater emphasis on matters affecting pollution. This will involve investment resulting in duplication of the figures normally invested in the sector.

The NEP assigns to natural gas a percentage of participation in total domestic energy consumption which, although appearing very modest in comparison with the corresponding percentage in the Community, seems reasonable bearing in mind the absence of an infrastructure for its consumption in Spain and the limited, though potentially increasing, domestic production.

Natural gas, in fact, has a short historical tradition in Spain explained not only by the scarcity of sources, but even more by the fact that up to the present those existing were not exploited, leading to the neglect of a distribution network. Only at the end of the 60's decade, the signing of an agreement with Libya, and later another with Argelia for the supply of 5.000 million m³/year made possible the introduction of this source of energy as also the construction of a distribution network for the northeast quadrant of the country. Later relatively important gas deposits in Spanish territory were discovered.

It would seem that future consumption of natural gas in Spain will depend on the eventual exploitation of productive deposits, on the possible construction of a gas pipeline between North Africa and Spain, and the market penetration capacity of the product itself. In any event

the "de facto" privilege granted to ENAGAS for the exclusive importation of gas will have to be revised to conform with Community regulations.

The electricity sector will have to satisfy increasing demand which in view of present energy prices will call for diversification of productive sources away from fuel-oil to coal and nuclear energy, as indicated in the NEP.

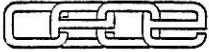
If delays already encountered in the construction of nuclear power stations as forecast in the NEP persist, the capacity to satisfy electricity demands could fall to dangerous levels, though the consequences of these delays may be partially neutralized by the circumstance that with the decline in the rate of economic growth, the increase in energy demands has weakened.

Finally, it should be noted that although in appearance possibilities for energy saving are fewer in Spain than in the Community given the smaller specific Spanish consumption and the larger participation of the secondary sector in gdp generation, the maximum effort should be made to reduce domestic consumption of primary energy per unit of gdp which is comparatively very high in Spain. The first step in this direction has been taken by devising the legal framework for energy conservation, although forecast benefits can only be regarded as moderately satisfactory, and the hope is that the future will see these benefits gain wider scope. On this point initiatives already taken in the matter in the Community and the financial support of the European Investment Bank will play an important part.

II.2.2 Analysis of energy subsectors

Coal subsector

The coal sector in Spain is constituted by 173 companies with 51.000 workers and a volume of production in 1980 of 27,4 million tonnes. In that year 5 million mt were imported principally for basic metal works, and total consumption was 32,7 million mt.

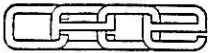


The corporate structure is very heterogeneous there being 31 companies obtaining 85 per 100 of total production of which only four exceed a million tonnes, while companies forming a total of 50 per 100 of the census for the sector do not contribute even 5 per 100 of production. A progressively heightened tendency can be observed towards the absorption of small companies by the larger, and a particularly significant process of assimilation has been undertaken by the nationalized company HUNOSA. The public sector has a large participation contributing in 1979 to 43 per 100 of total production figures in pit coal and anthracite and 73 per 100 in lignites.

The weight of Spanish coal mining compared with the Community is very low, attaining a volume of production equivalent to 6 per 100 of that obtained in the latter. The result is limited international trading, centred on the import of coking coal for more than 70 per 100 of which Spain depends on imports from abroad. In 1980 imports of coal for thermal uses began and are expected to increase considerably over the next decade. For this purpose plans are being devised to develop port facilities necessary for its reception.

Average productivity is low with a figure of 239 Kgs/worker/hour for coal and anthracite against 425 in the Community for coal. Consequently, yield in Spain is equivalent to 56,2 per 100 of the Community average. The reason for this is overmanning and even more to unfavourable geological conditions which limit the degree of mechanization for extraction of coal and anthracite to 25 per 100 while in the Community this is at a level of 95 per 100 in important companies.

Heavy reduction in manpower which has fallen from 95.000 workers in 1960 to 51.000 at present, has severely affected the financial situation of the companies, unable to rely on State subsidies for company reorganization.



Social Security acquires a particularly significant dimension in this sector owing to its relatively greater repercussion on the mining companies than on the rest of industry.

At present this sector as a whole is in a precarious financial situation because internal prices are insufficient to cover production costs. This explains the very large deficits in the sector's nationalized industries covered by State Budgets.

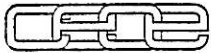
With Spain's entry into the Community, the volume of Spanish production will be fixed within the framework of the coal policy stipulated in the European Coal and Steel Community (ECSC) Treaty. Given the limited weight of the coal sector in the Spanish global economy and its growing importance in satisfying national energy demands, that level of coal production should be established in accordance, basically, with the proposals contained in the NEP.

Prices systems and subsidies should be progressively adapted to ECSC regulations, for example as regards aid to production, to transport of coal between coal-belts and the financing of stocks for power stations. Preliminary steps have been taken toward harmonization with these Community disciplines following NEP approval.

Finally, with integration, this subsector must make a strenuous investment effort, supported not only by nation financial sources, but also by the EIB.

Electrical subsector

The Spanish electrical subsector is equipped with a transmission network inter-connecting all centres of production and consumption. At 31 December 1980 total power in service in electric power stations was 31.100 Mw of which 43,5 per 100 corresponded to hydroelectric stations, 52,9 per 100 to conventional stations and the remaining 3,6 per 100 to nuclear power plants.



The objectives envisaged in the NEP for the subsector centres on satisfying growing requirements and in the gradual change over, as regards the primary energy used, from present heavy consumption of petroleum products to a determined use of coal and nuclear energy both domestically produced and imported. These objectives are perfectly in line with Community criteria in the matter, which recommend that no new stations based on hydrocarbons be constructed, and to convert, if possible, those existing to coal, basing the creation of new production capacities on coal itself and nuclear energy.

Tariffs should be adjusted to real costs of supply, in line with principles established by a recent Recommendation approved on 27 October 1981 by the Council of European Communities.

Finally, the present patterns in which private, public and mixed production and distribution enterprises all operate together prove themselves adequate in every way to meet the development and exploitation requirements of the electrical system, are compatible with those in the Member States of the Community and so can be easily assimilated by the latter.

In the circumstances, while the sector fulfils efficaciously the objectives assigned to it, it is clear that a change in the present institutional situation would merely contribute to a waste of means and resources, with no offsetting justification from the point of view of the general interest.

Petroleum subsector

There are in Spain nine petroleum refineries having a nominal distillation capacity of something over 70 million mt/year, and another for the sole production of fuel-oil and asphalts with a capacity of one million mt/year. Four of these refineries serve in turn as a first step for the greater part of the Spanish petrochemical industry.

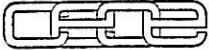
The existence of a petroleum monopoly is decisive for the sector. For example, in the stages of distribution and marketing of petroleum products, it has impeded refineries from carrying out the process of vertical development, innate in this branch of industry, and a typical feature of the petroleum industry in the Community.

In the circumstances, the process of absorbing this sector within Community structures should best be undertaken in the following stages:

- Reorganization and clarification of the legal framework.
- Creation and consolidation of marketing structures necessary for the distribution and sale by refineries of their own products, an operation requiring a suitable adaptation period prior to Spain's integration into the Community.
- Progressive approach to open trading using tariff and quota arrangements as a modulating element, and devising a series of safeguarding clauses which will avert exceptional situations and smooth out difficulties during the transitional period.

The reorganization and clarification of the internal legal framework would promote the progressive liberalization of the sector and application of new laws consonant with those of the Community, guarantee the industry's development and ensure that both public and private enterprise can act within a transparent framework obviating privileged situations. This new legal framework should be complemented at national level by administrative reorganization in the matter to assist decision taking and promote effective development of subsequent stages of this adaptation process.

The restating of legal aspects would open the way to the second of the three stages enumerated, facilitating the access of present companies to all phases of the petroleum business, made possible by its high level of maturity and experience and a standard of technology and equipment



comparable with that of the Community. A favourable circumstance facilitating these transformations is the fact that the refining sector is adjusted to the country's needs, having a level of utilization of actual capacity in 1980 close to 80 per 100 and free of the serious over-capacity problem affecting the Community's refining industry.

During the second stage, the companies in the sector would create and consolidate their marketing structures, acquiring the experience necessary prior to all open trading processes. This requires a harmonious development of the present capillary marketing and distribution network, frequently based on enterprises of small size and even on family firms. For this redefinition of the legalities concerning this activity will be needed, the suppression of the present clause of reversion to the State, and the establishment of stable relations between the marketing entities and the refineries. An indispensable condition for the proper fulfillment of this second stage is the fixing of a realistic prices policy, suiting them to respective costs and preventing obstruction of the process by the financial asphyxiation of the companies.

At the conclusion of these processes of adjustment and consolidation, first on the legal and later on the commercial plane, would come the third stage, a gradual approach to open trading, important to control by the utilization of tariff and quota arrangements. Necessary safeguarding clauses should also be introduced to cope with exceptional transitory situations.

In view of the extensive time-limits required for this process, the commencement of planned action should be accelerated to the maximum so that this can be implemented before the integration Treaty is signed.

II.3 Basic Industry

II.3.1 Iron and Steel Sector

In 1980 the Spanish iron and steel sector was formed by an approximate total of 180 companies employing 85.800 workers of whom 47 per 100 corresponded to the integral and 40 per 100 to the non-integral subsector, 6 per 100 to re-rolling and 7 per 100 to molding and forging.

The evolution in iron and steel production as deduced from the figures in Tables VI and VII, has always been marked by the vicissitudes of Spanish industry as a whole, and thus overall figures for production and consumption from 1974 to 1981 show a decrease of nearly 30 per 100 in apparent steel consumption. Meanwhile steel production increased slightly throughout this same period by 10 per 100 as a consequence of prior investment decisions resulting in an increase of 20 per 100 in installed capacity. The simultaneous steep fall in consumption produced a substantial increase in exports preventing reductions in the level of utilization of the installed capacity to below subsistence minimums for an industry with an inelastic supply structure.

TABLE VI
EVOLUTION OF IRON AND STEEL
(in thousands of tons)

	SPAIN			E E C.		
	1974	1977	1980	1974	1977	1980
Production	11.476	11.168	12.672	155.598	126.121	127.829
Exports	1.068	3.519	5.927	42.940	36.270	35.040
Imports	1.606	1.451	1.682	8.243	14.496	14.270
Apparent consumption	12.014	9.100	8.427	120.901	104.347	107.059
Consumption per inhabitant (Kgs)	334	278	228	476	407	409
Variation of stocks	+ 607	- 692	+ 23	-	-	-
Production capacity	13.516	15.060	16.266	178.930	200.869	210.300
Personnel employed	89.445	90.559	85.800	792.100	742.500	660.000
Production per person employed (in Tonnes)	128	123	147	196	170	193

SOURCE: UNESID

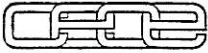
TABLE VII
IRON AND STEEL STRUCTURE
(in percentages)

	SPAIN			E E C		
	1974	1977	1980	1974	1977	1980
Production/consumption	97	110	146	128	120	119
Export/production	9	32	47	28	29	27
Utilization/capacities	85	74	75	87	63	61
Import/consumption	14	14	19	7	14	13

SOURCE: UNESID

Between 1972 and 1974 Spain exported about 10,5 per 100 of its production while the Community exported between 30 per 100 and 40 per 100. Traditionally, the Community has maintained a surplus production capacity of the order of 60 million tonnes, which it dumped in foreign markets. Conversely, Spain had to import appreciable quantities, because internal production was insufficient to satisfy consumption, and only from 1977 did she become a net exporter.

Results of a comparison between the evolution of steel consumption levels per inhabitant, show that in 1974 this was at 70 per 100 of the Community level, while in 1980 it had decreased to 50 per 100 of the Community's settling at the same figures per inhabitant as registered in Spain in 1968. Forecasts are that once the economic recession is over, consumption will again reach the same proportion as previously in relation to consumption in the Community and therefore, that a balance will be re-established between production and demand, which was the goal the Spanish iron and steel industry hoped to attain, no thought being given to setting up a basic metals industry that would operate in favour of exports as traditionally that of the Community had done.



Production reached record levels in 1974, and after falls in the succeeding years, increased in 1979 and 1980 as a result of prior project decisions, which being subject to formulas known in Spanish legislation as Concerted Action, were irreversible. Excess of production followed a simultaneous decrease in internal consumption which has had to be exported under difficult conditions and in 1980 represented 47 per 100 of total production figures.

There is strong dependence on external markets for raw materials which can be put at 40 per 100 for iron ore, 75 per 100 for coal and 40 per cent for scrap.

As an industry with a high capital/product ratio, financial considerations have special significance for iron and steel, and because of the number of its investments, these must be selected carefully for the sake of greater profitability.

The investment effort made in recent years by the Spanish iron and steel industry within a programme of modernization and capacity adjustment, signified for the companies concerned both modification and deterioration of their financial structure by coinciding with the economic crisis and the consequent collapse of the internal market, and with a policy of authorized prices which was unrealistic given the difficult circumstances confronting the sector. As a result the present level of indebtedness is excessive for a large number of firms in the sector who find themselves obliged to shoulder financial costs much higher than advisable, and saddled with cash problems that obscure their short and medium term prospects.

For the Spanish iron and steel sector to tackle the assimilation process in suitable conditions, prior action would have to be taken to stimulate productivity by modernising part of the installations, reconverting others and implementing a flexible employment policy by forming a sounder financial structure.



At the same time it is evident that the structural adaptation process imposed by integration with the Community should serve to palliate inconveniences or unfavourable effects, and to accentuate its inherent advantages.

Among advantageous aspects which should stem from this are improvements in trading standards and liberalization of prices, both essential for achieving greater transparency in relations between the Parties. Other beneficial effects may be expected from homologations with labour policies of the Member States as also the possibility of access to the European Coal and Steel Community (ECSC) financing Fund and other Community instruments. Finally, participation in common policies for supplies of raw materials, principally scrap, should be considered with special interest, in view of the importance placed in their availability.

Among the dangers that could threaten the Spanish iron and steel industry following integration, is an eventual disproportionate increase in external supplies to the internal market, hypothetically offset by possibly larger sales to Community countries, which could have an adverse effect on the development of national production. A further unfavourable result to be feared from integration is greater export pressure from third countries when present Spanish tariffs are aligned with the harmonized ECSC tariff and when Spain assumes external commitments acquired by the Community. A further cause for deep preoccupation for the Spanish iron and steel industry is a predictable confrontation with a supplier/large client situation which in general will be more unfavourable than that in which European iron and steel industries are placed, and the probably greater difficulty it would encounter in the future for extending manufacturing processes to finished products in competition with other Community enterprises already introduced into the market.

Finally with accession in view, application should be made for granting the Spanish iron and steel industry a position of reciprocal treatment in discussions on subjects such as scrap, Spanish incorporation in preparatory and policy making organizations, and regulation of inter-Community export exchanges. Time-limits for tariff cuts should be adapted as far as possible

to the evolution and characteristics of the sector within the guidelines laid down in the Treaty of Accession.

II.3.2 Chemical Sector

General issues

The chemical sector combines a large variety of products, customarily grouped in the subsectors indicated in Table VIII numerically summarizing what the sector and subsectors represent within the national economy.

A comparison of the magnitudes defining the Spanish chemical sector with those of the Community reveals that:

- Arranging the present Member States of the Community and Spain in order of production values, the latter would occupy fifth place, though the differences with the preceding four would be very great.
- Were a similar arrangement to be made according to added values, Spain would occupy seventh place, again with great differences with the six preceding countries.
- Average productivity is inferior to that of the majority of Community countries.
- Investments made in recent years are lower, in percentage on value of sales, than the Community average.
- Research standards are low in Spain compared with Community countries, both in basic and development research. There are no investigating organizations either in the form of official or corporate centres comparable with those in the majority of Community countries.
- The Spanish chemical industry is characterized by excessive atomization, while an almost total absence of vertical integration can be discerned.

- There is an evident shortfall in Spain's foreign trade in chemical products, especially with regard to Community countries, for which in recent years the degree of cover has been below 36 per 100. Cover is even lower for organic and plastic products.

TABLE VIII
 SUBSECTORS OF THE SPANISH CHEMICAL INDUSTRY IN 1980

SUBSECTORS	Production	Added value	Imports	Exports	Investment (replacement value)	Employment (thousands of persons)
	(thousands of millions of pesetas)					
Base petrochemicals	136,5	47,2	45,5	19,5	223,0	9,0
Primary plastic materials.	118,6	35,6	26,8	18,0	148,0	8,1
Monometres for fibres	23,6	8,5	1,9	1,6	29,0	0,8
Fertilizers	177,2	35,0	14,5	10,8	214,0	12,0
Chlorine, sodim, carbonates	24,3	7,8	1,5	3,5	53,0	2,7
Other inorganic products..	23,5	7,3	25,5	8,0	40,0	5,0
Dyes, tanning products ...	5,8	3,0	5,9	2,5	7,0	1,1
Pigments	12,0	4,6	1,7	2,7	18,0	1,3
Paints, varnishes	39,3	11,4	0,5	0,6	28,0	7,3
Printing inks	6,0	2,5	0,1	0,1	4,0	1,0
Frits, ceramic enamels ...	9,0	2,7	1,0	1,2	8,0	0,8
Rubber, lamp black	10,0	3,3	19,7	1,3	12,0	0,5
Rubber fabrications	110,0	39,8	7,7	35,2	90,0	44,5
Plastic transformations ..	210,0	71,2	2,9	4,9	94,0	64,5
Pesticides	18,8	5,4	4,4	1,4	14,0	3,1
Photographic material	6,5	1,8	8,9	1,3	7,0	1,3
Greases and oils, waxes ..	6,8	2,1	4,5	2,0	5,0	4,3
Asphalts, waterproofing ..	33,5	10,8	6,6	16,1	24,0	3,0
Medicinal raw materials ..	23,9	11,0	21,2	9,6	28,0	2,5
Proprietary medicinal products	127,9	42,2	2,1	6,0	91,0	40,0
Zoological health products	15,3	5,0	1,0	1,3	11,0	3,9
Carbohydrates, adhesives..	23,5	5,7	3,5	1,0	15,0	4,7
Other organic products ...	17,0	5,5	28,0	16,5	19,0	3,5
Gunpowder, explosives, matches	12,8	4,6	0,4	0,7	17,0	3,9
Perfumes, detergents	83,0	26,3	7,3	9,4	42,0	15,4
T O T A L	1.274,8	400,3	243,1	175,2	1.241,1	244,2

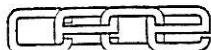
SOURCE: FEIQUE

The reasons for such wide differences between the Spanish chemical sector and those of Community countries are the following:

- Development of the Spanish chemical industry, and particularly base petrochemicals, began in the sixties decade, nearly twenty years later than in the Community.
- Thus, while the European chemical industry is substantially amortized, the larger Spanish chemical installations have had neither time nor opportunity to do this.
- The chemical industries of the Community, with very ample markets, have been able to benefit from economics of scale and to operate with utilization coefficients close to full capacity. In Spain, in cases when the option has been for domestic manufacture, either plants suited to domestic consumption have had to be built (and therefore, of small dimensions, with the consequent rise in costs), or else plants of European size (operating in this case with very low utilization coefficients, or obliged to export at unremunerative prices).
- The unequal technological and scientific levels still existing between Spain and other countries of Western Europe, have frequently obliged our companies to buy processes, technical assistance, licenses and patents, generating higher production costs and a ratio of dependence that limits Spanish export possibilities. At the same time adaptation of Spanish industrial ownership legislation to that of the Community could invite serious problems of adjustment in this sector.

The real cost of labour, taking into account low productivity, is higher in Spain at present than in most Community countries, and standards of management, despite advancements, is still below the average of the large industrialised countries.

The situation of the various chemical subsectors offers notable differences respecting possibilities of integration with the Community,



but most productions could not withstand, in the short term, tariff elimination and competitive conditions on an equal footing, requiring for full absorption into the Community, at an estimate, the most extensive transitional period projected within the framework of the integration process.

Maximum precautions must be taken respecting a series of more sensitive products in the chemical sector to avoid too abrupt a fall initially in the level of protection, liable to produce situations of anomalous import pressures which could cause serious imbalance in the normal development of domestic production.

The concept of "sensitive products" is accepted by all countries in the Community which, in fact, circumstantially use special protective measures for such products in their overseas trading. Ideas on sensitivity coincide on general lines in all countries. The list of Spanish products which looked at objectively are the most sensitive, has been sent to competent bodies of the Spanish Administration, and includes a group of products from the Community approximately 10 per 100 of which accounted for the total of imports of chemical products originating in that area in 1979.

For these "sensitive products" a five years period of freedom should be established from the date of entry into force of the Treaty of Accession before tariff elimination begins, concentrating on the final period for cutting tariff peaks and applying in case of need the safeguarding clauses to which reference is made in paragraph II.1. of Part One (Volume I).

Special mention should be made respecting time-limits necessary for integration, to the subject of adapting Spanish legislation on industrial ownership to European patent and to Community patent, liable to have a very serious impact on the Spanish chemical sector unless carried out very carefully, as indicated in paragraph II.2. of Part Two (Volume I), at the same time updating Spanish legislation and encouraging domestic research.

As regards Spain's adoption of Community standards in environmental matters, which can also cause considerable impact on the chemical industry, reference should also be made to Part Two (Volume I) paragraph II.3. which deals specifically with the subject.

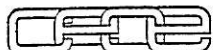
From this general analysis of the Spanish chemical sector, an examination is made of the specific problems affecting its four large subsectors.

Base chemical industry

This subsector demands large production capacities with heavy investment implying that within total costs, the financial element (amortization and expenditure) be important. This leads to keen competition at international level, especially when transport presents no special difficulty, economies of scale being fundamental in plant design. For this reason a large percentage of "sensitive products" in the chemical sector belong to this group.

The salient points distinguishable in the subsector with integration in view are as follows:

- Normally public and private enterprises compete in most basic chemical production. It is all for the better that there should be strong enterprises vertically and horizontally integrated, able to compete with foreign firms since they are the only ones capable of furthering the development of domestic technology or at least improving the efficiency of imported knowhow. Nonetheless, it is hard to imagine that identical competitory conditions can always be maintained between the public and private sector, especially in financial aspects.
- The heaviest charge on financial resources in Spain particularly affect basic industries, because of the large investment required.



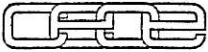
- Basic industry must necessarily rely on an adequate infrastructure, and the Spanish transport network is very inferior to the European. There are no waterways, the railways are inefficient and great reliance has to be placed on road transport, very onerous for companies and for the Administration.
- There are great obstacles to obtaining water for industrial uses in conditions comparable with those in the Community chemical industry, especially bearing in mind the priorities of projected legislation on effluents.
- The distribution of assignments among the various Administrative bodies must be clarified, as also regulations to be applied and the authorities charged with their application.
- In general, Spanish enterprises in the base chemical subsector lack an adequate exporting commercial apparatus, and its formation to function efficaciously in the Community market is necessary.

Chemical transformation industry

This is characterized by companies of a more reduced size than those of the base chemical industry with lower investments and capital/product ratios and generally higher profitability.

Overall, the transformation subsector is too dispersed, having a large number of small firms. At the same time, foreign penetration is very intense, and trade-marks and technologies from abroad dominate a large part of the markets.

Labour costs per product unit, a considerable burden in this subsector due to low productivity and rapid wage increases in recent years, are higher than in the majority of Community countries.



It is very important for the firms in this subsector for liberalization of raw materials to be simultaneous with that of the products derived from each of them.

Agrochemical industry

The fertilizers subsector, at present experiencing severe economic difficulties, adequately covers domestic demand, capital and most of the technology being Spanish. The fertilization index of Spanish arable land is low, though there are hopes of raising this, thus drawing an increase in production figures from this subsector.

The use of naphthas in place of natural gas as the basic raw material for obtaining ammonia, raises the price of the product, though reconversion of a number of plants to the use of alternative raw materials has begun.

The manufacture of sulphuric acid exclusively from pyrites is a disadvantage from the viewpoint of fertilizer production costs, while Community countries have the option of using other more convenient processes.

The position with regard to pesticides is that of the transformation industry in general. Its specific problems stem from a rigorous control exercised by the Ministry of Agriculture and a heavy dependence on imports of active bases which has favoured wide penetration of foreign producers.

Pharmaceutical

Scientifically and technically, given the lack of domestic technology, dependence on large world producers is very heavy revealed in extensive foreign investment and the annual payment of royalties.

The problem of industrial ownership and conditions under which future adaptation to the European and Community patents is effected, conce concerns this sector so closely that to meet with the right solution to the problem could be of vital importance.

In the light of the limited diversification of pharmaceutical raw material production, it is as well to preserve existing production lines (principally antibiotics and alkaloids) and attempt to extend the present domestic production range.

A serious drawback for the sector is the rigid control on pharmaceutical specialities patent exercised by the Administration, making it impossible to adapt the evolution of production costs with sufficient flexibility.

II.3.3. Base Metallurgy Sector

II.3.3.1 Copper metallurgy

Of the two basic subsectors of copper metallurgy, smelting-refining and semitransformation, the total yield of the first in 1980 was 144.000 mt of electrolytic copper and of the second 166.400 mt as indicated in Table IX.

In relation to Community countries 81 per 100 of our imports of copper and copper alloy semitransformation in 1980 came from them while only 29 per 100 of our exports went to the Community so that our coverage figure with respect to the latter remained at the very low level of 26,5 per 100.

The close inter-relation which the basic copper industry has with the international market, causes problems affecting other countries to be felt in Spain, some more severely.

TABLE IX
COPPER METALLURGY: PRODUCTION AND CONSUMPTION
(metric tonnes)

	Production	Imports	Exports	Apparent Consumption
1978 Electrolytic Copper	139.000	18.200	46.500	111.500
Semitransformations	170.000	13.300	17.200	166.100
1979 Electrolytic Copper	132.000	20.200	30.000	122.200
Semitransformations	174.000	22.600	19.200	177.400
1980 Electrolytic Copper	144.000	24.000	60.000	108.000
Semitransformations	166.400	28.000	21.100	173.300

SOURCE: UNICOBRE

The internationally underlying problem of the copper and copper alloys semitransformation industry originates from an excess of production over demand, a phenomenon which, if occurring at present in all industrialized countries, is particularly acute in Spain. This results in price depression on a worldwide scale and has the effect of rendering Spain uncompetitive even in the domestic market, very inadequately protected and possessing a raw material of great importance, as is scrap, at prices considerably higher than those in world markets. The situation is very different in Community countries in which because a quota system prevails for scrap exports, it is possible to maintain lower prices for this raw material than those of other countries, thus putting the semitransformation industry in a more competitive position. This aspect is so crucial that it is important for quantitative restrictions on exports to Spain from the Ten of scrap and primary residues to be suppressed from the date of integration, but including her in the general quota regime of exports of these products from the Community to third countries.

Regarding the Community system of generalized preferences, special attention must be paid to the cases of Chile and Yugoslavia, the first

having subsidiaries of the large American groups and the second a very modern and extraordinarily competitive industry. Similarly, a watch should be kept on trading between other countries with controlled economies, also copper producers, as is the case with Poland, capable of competing very aggressively in our market.

Reorganization of the sector has already begun with the merger of two smelting-refining companies on the one hand, and the three principal semitransformation enterprises on the other. However, the process is fraught with difficulties arising from inter-regional shifting of labour as also a combination of financial, labour and other problems inherent in all reorganization processes. Reliance will therefore have to be placed on public aid for such changes to enable the sector to become competitive for the day of integration with the Community.

II.3.3.2 Lead and zinc metallurgy

In 1979 production of refined lead and smelted zinc in Spain was 127.000 and 177.000 mt respectively.

At present the degree of self-sufficiency in Spain in these metals is superior to that of the Community, and additionally we have concentrates of complex ore and multivalents offering promising future opportunities of production development as soon as an adequate metallurgical capability is established in Spain.

In Table X the position of Spanish and Community lead and zinc metallurgies in 1979 are compared. These figures show the considerable extent to which there is a complementary affinity between the Spanish and Community sectors.

As in the case of copper, the close inter-relation of this industrial sector with the international market evokes a repetition in Spain of the problems experienced by other countries, some even more acutely. The underlying problem internationally, of the lead and zinc producing

industry, is similar to that in the case of copper, namely that at present world production is higher than demand.

The greater part of Spanish production is very concentrated, Primary lead smelting is carried out in two plants which though modern, are smaller and of lower productivity than those in the Community, though having the advantage of lesser dependence on foreign supplies of raw material. Six plants deal with secondary lead smelting in Spain, two of medium size and the remainder small. For its part, the zinc metallurgy sector is comprised mainly of three electrolytic units, forming as a group one of the best in Europe.

There is no special metallurgical process in Spain for treating complex ore concentrates and multivalents, which therefore will have to continue being exported to the Community.

TABLE X
PRODUCTION AND SELF-SUPPLY OF LEAD AND ZINC
(1979)

	% Self-supply		% World Production	
	Spain	EEC	Spain	EEC
Lead	110	95	2,29	22,43
Zinc	190	93	2,21	20,05

SOURCE: Metal Statistics

With integration in view the following measures should be taken:

- Adapt Social Security and retirement regulations to those prevailing in the Community.
- Since there are surpluses in Spain of concentrated lead composited at present untreated, the metallurgical plant required for this purpose should be installed.

- Seek flexibility in conditions for application by Spain of Community legislation in matters of pollution.

II.3.3. Aluminium metallurgy

The Spanish aluminium metallurgy sector is formed by three companies with a current production capacity of 400.000 mt per annum of aluminium and a forecast increase of 100.000 mt. In addition an 800.000 mt/annum alumina factory has recently entered service enabling imports of alumina to be substituted for imports of bauxite.

Spain was an importer of aluminium up to 1980 when the inauguration of a new factory produced surpluses over internal consumption, now earmarked for export, and it is expected the excess will be absorbed before 1985.

In general, this is a recently formed industry, with levels of technology and quality similar to those in the Community. However, its ability to compete is limited at present owing to rises in production costs in recent years caused by steep increases in electricity prices.

Favourable results will show from integration with the Community, as for example extension of the potential market and greater facilities for transfer of technology. But inherent in accession is the danger for this sector that it would adversely affect utilizers of transformed aluminium products, with the consequent repercussion in the medium and long term, on primary smelted aluminium, a situation that could be exacerbated by increases in the price of the product leading to energy cost rises.

There is a need therefore, in order to confront the integration process in tolerable conditions, to begin by fixing electrical energy prices supplied to the sector's enterprises at levels similar to those in Community countries, a move that should begin in 1982 in accordance with Royal Decree 1413/81 of 13 July 1981 establishing measures to be adopted in the primary electrolytic aluminium sector. In addition, research into Community markets should be

encouraged and trading networks abroad strengthened. Finally, wider public support is required for current research programmes to stimulate technological exchanges with Community enterprises.

II.3.4 Glass and Ceramics Sector

Some 4.200 firms form this sector providing employment for 122.000 workers. Added to these are 7.000 other craft industries with 40.000 workers.

In the ceramics and glass transformations subsectors the average number of employees in a company is 30, a figure lower than that in Community firms. To dimensional problems are added those stemming from a comparatively low standard of technology, adversely affecting ability to compete. Again, the utilization rate of installed capacity in 1980 was 65 per 100 with the consequent effect on production costs. A further adverse factor is that caused by the lack of natural gas in much of Spanish territory involving the use of the more expensive propane gas.

The low standard of mecanization of these subsectors poses the problem, with integration in view, of the need to implement a technological remodeling process and for this adequate long-term financing must be relied upon. Such a process it is assumed. will lead to a rise in production levels with, in turn, an increase in surpluses and the disappearance of marginal enterprises.

There must be greater specialization in quality and an improvement in design, and for this purpose, as in the Community, school and centres dedicated to applied research must be set up.

Community countries apply a series of measures of normalization, regulation and denomination which constitute for the Spanish exporter an additional difficulty, becoming in some cases a veritable technical barrier. It seems reasonable, prior to integration, to implement some standards of our own in Spain, assimilable with those of the Community, whose strict fulfillment should be demanded of those selling products of this type in

the domestic market.

The specific characteristics of the Spanish market pose an additional difficulty, as they impede sufficient production programming and the marketing of large quantities due to the absence of adequate distribution channels.

Finally the positive overall balance of our foreign trade in this sector, with a cover coefficient of nearly 2, needs to be analysed since in some sectors the balance is adverse, while in those in which it is positive, the future of exports appears problematical owing to the technological characteristics of the product, to the setting up of industries in developing countries and to the heavy burden of transport costs. It can be assumed that tariff cuts in favour of the Community will result in strong pressures of its production in our market, and therefore it is essential to begin the reorganization process referred to earlier, supporting this with the formation of an overseas trading network with the help of official aid. Such a process must be applied particularly to subsectors at present most atomized. Reliance will eventually have to be placed on supplies of propane at a cost similar to that of natural gas in those areas in which the latter is not distributed to arrive at a competitive balance with the Member States of the Community in matters touching on cost of energy input.

II.3.5 Cement sector

From Table XI it can be seen that in Spain the cement sector obtains annual yields of nearly 30 million mt and employs 13.000 workers.

In contrast to its Community counterpart, degree of concentration is low since to obtain 90 per 100 of production 28 companies are required.

The debility of the domestic market since 1974 has boosted exports, at times taking up 30 per 100 of production, and has enabled the level of utilization to reach almost 85 per 100. Exports have been mainly to the

Middle East and to countries in north and east Africa.

TABLE XI
CEMENT PRODUCTION AND CONSUMPTION
(in thousands of mt)

YEAR	Production	Exports	Imports	Apparent consumption
1976	25.201	4.110	14	21.105
1977	27.997	6.492	10	21.515
1978	30.233	8.014	9	22.228
1979	28.051	7.989	12	20.074
1980	28.008	8.316	27	19.719

SOURCE: National Institute of Statistics

The heavy burden of fuel prices on total costs equivalent to 50 per 100 of these, and the fact that the product mainly being used was fuel oil, has raised the question of converting to coal. This process, recently begun with the State's approval, will guarantee the industry's ability to compete.

Trading in cement between Spain and the Community is nil at present, but in fact this Spanish industry could be a complementary element to Community enterprises owing to the well-chosen sites of plants and the availability of non-energy producing raw materials.

Problems are similar for derivatives, particularly cement fibre, though integration should pose no additional difficulties.

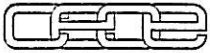
II.3.6 Pastes, paper and carton sector

Three main factors reveal the differences between this sector in Spain and in the Community: the size of firms and factories, productivity levels and the degree of self-sufficiency.

The small size of companies and plants compared with those in the Community can be explained by the large number of family firms, little given to co-ordinating their industrial and commercial activities with other enterprises.

This has resulted in low equipment profitability - 20 per 100 below the average profitability rate in Community industry - inferior standards of skills, a weak financial structure, reduced integration of raw materials and finished products, the absence of common commercial policies and disadvantages arising from the average age of the equipment and its technical capability. There are certain exceptions to this general rule though they do not invalidate these arguments. In Spain there are more than 230 factories for producing 2.565.000 mt of paper, with an average production of 11.000 mt, while in the Community this is approximately 27.000 mt. There, productivity exceeds 125 mt/worker/year while in Spain it is approximately 100 mt per worker and year. The rate of integration of pastes with paper is 78 per 100 in the Community while in Spain this rate is about 55 per 100.

The industry both of pastes and paper can be considered self-sufficient in Spain though this assertion has to be more defined. While the situation in cellulose pastes is favourable for short fibres and 25 per 100 of production is exported with, in addition, development potential, there is insufficiency of long fibre pastes. In the Community there is a 60 per 100 shortfall in relation to its global requirements of pastes. Spain has a 20 per 100 shortfall in its requirements of reconverted paper, recovery is costly and is subject to much price



fluctuation. On the other hand the Community is self-sufficient possessing a well-organised recovery system. Generally speaking Spain is self-sufficient in paper although she has to import certain widely consumed types for whose production there is a lack of good quality raw materials and adequate prices. Imports are compensated by foreign sales whose success is due more to the exporting effort industrialists have to make to offset debility of internal consumption than to an ability to compete.

It can be asserted then, that Spain and the Community are two competing but not complementary areas, except for short fibre pastes which the Community lacks in considerable measure and of which Spain has surpluses. Capacity insufficiencies and surpluses occur both in Spain and the Community in practically the same types of papers so that competition will increase at the rate at which barriers to trade between the Parties disappear, without this contributing advantageously towards the future level of Community self-sufficiency, once Spain has been integrated, since these are the very types of paper of which neither Spain nor the present Member States have sufficient natural resources as to be able to obtain them at competitive prices.

Special mention must be made of the need, following integration, to adapt the present anti-pollution measures to those of the Community, which will require heavy outlay without any financial compensations.

The advantages of integration, therefore, are few, and the drawbacks many, especially those arising from the structural differences previously indicated. Such drawbacks would become accentuated to the point of endangering the existence of this sector of Spanish industry when subscribing to Community Agreements with the Scandinavian countries, against which in the paper sector, the Community itself established special safeguards whose application only conclude in 1984. This problem combined with the severe crisis through which a number of the principal Spanish companies are passing, would justify the adoption of every kind of precaution when assimilation of this sector of Spanish industry takes place.

Appropriate measures could be the following:

- The area available for reforestation in Spain can help to palliate the large Community timber defficiency and hence of the products obtained from its transformation. For this a clearly promotional policy is required, as indicated earlier in the forestry sector.
- Implementation of measures to organize methods of recuperation of used paper to increase its volume until self-sufficiency at least is achieved and price fluctuation averted.
- Planned reorganization of the sector establishing short and long term objectives. The former would be those favouring company concentration, increase in productivity and financial reform, and the creation of trading patterns adapted to the new dimensions of the market. Long term objectives to be pursued would be increased production of pastes for the market and integrated products; fix future capacity of each subsector at adequate levels and also the capacity percentage that should be covered by machines of large size, intended to produce paper for mass consumption; close obsolete installations, aided in this by adopting suitable measures to reduce the labour force.
- Companies in each subsector which, by means of their investments cooperate in achieving the predetermined objectives, should have access to the financial support that Spanish official banking, the European Investment Bank and the European Fund for Regional Development (EFRD) will make available for the purpose.
- Contrive a system of aid similar to that enjoyed by the paste and paper companies of the Community and EFTA, by means of subventions or credits, to implement the anti-pollution measures demanded in each country, and to adapt to future Community standards, so that Spanish companies will not find themselves artificially prejudiced in this respect.



- It is essential to establish an exception to the duration of the transitional period for the assumption by Spain of the Community's Agreements with EFTA countries similar to the agreement the Community will maintain until 1984 with EFTA in the paper sector, referred to previously, as also careful handling of imports into Spain of products from these sectors which originating in EFTA countries, are later transformed in a Member State of the Community.

II.4 Transformation and end consumption Industry

II.4.1 Automobile and automotive components sector

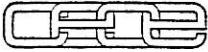
There are at present five car manufacturing companies established in Spain. Plans for the installation of a new company are almost complete, and it is hoped production will begin before 1983.

The following are significant figures in this sector's role in the Spanish economy: 1.104.300 units produced in 1980 of which 526.000 were exported, with foreign exchange earnings of approximately 120.000 million pesetas; 85.000 workers directly employed, an average annual investment in the last five years of 25.000 million pesetas and a yearly turnover of nearly 500.000 million pesetas.

Although the vehicles components industry is spread over a large number of companies, combined, it is another very important sector. In 1980 production value was 287.000 million pesetas and exports rose to 92.000 million with a cover index of 137,3 per 100. Exports are moving upwards, a sign of the sector's quality and ability to compete.

At the present time both the car and components manufacturing industry in Spain are going through the gravest crisis in their history. The fall in internal demand, particularly acute from January 1980, began a tendency which seems to have no short term solution. Increased stocks with the resulting financial burden, have obliged most manufacturers to reduce their production programmes drastically with the inevitable effects on employment and on profitability of investments necessary to reorganize the sector. One of the reasons for the fall in internal demand is the disproportionate taxation on products in this sector both on acquisitions and on utilization.

Automobile manufacturers at present operating in Spain are aware that it is necessary in certain cases to carry out reorganization in the

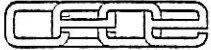


sector enabling it to confront the new competing conditions that will prevail after integration with the Community, and therefore, despite present difficulties, investments planned for 1980 exceeded the average figure previously mentioned for the last five years, even without taking into account that of installing the new company referred to earlier.

At the same time the components industry is engaged in an exercise of redimension and of contact with international groups in order to maintain its position in so strongly competitive a market as is that of the Community.

Predictably, integration will take place during a difficult period of reconstruction requiring that conditions in which the sector must operate during the transitional period need to be defined with great care. It is important during this period to fulfil the following objectives:

- Adaptation of the high taxation in Spain on motor vehicles to levels prevailing in the Community.
- Retention of all administrative and financial regulations forming the present legal and economic framework giving this sector preferential treatment.
- Scaled reduction of the national index required in materials used for automobile manufacture.
- Progressive adaptation throughout the transitional period, of Spanish technical regulations to Community Directives on motorcars and their components.
- Retention of lateral agreements at present in force between Spain and certain countries not covered by the common commercial policy.



II.4.2 Industrial vehicles, tractors and agricultural machinery Sector

Four companies form the industrial vehicles manufacturing sector, with production in 1980 of 57.000 vehicles of which 12 per 100 were exported. There are four manufacturers of commercial vehicles accounting for a total of 75.000 units in 1980 of which 34.000 were exported. Spain has two manufacturers of "all terrain" vehicles producing 20.200 in 1980 of which 22 per 100 were exported. The direct labour force employed by these 10 companies in 1980 was 114.000.

The close inter-relation of industrial vehicles with national transport, a key factor in the country's economy, lends special importance to this sector in the Spanish industrial structure, especially bearing in mind Spain's geographical features, unsuitable for intensive use of the railways and the almost zero possibilities of waterway transport.

The heavy industrial vehicle's sector is in the grip of a deep recession, caused mainly by the lack of a coherent road transport policy (particularly respecting access to the freight forwarding profession, granting of authorizations, scarcity of sources of finance and high rates of interest), and the absence of any renovating strategy for the vehicle fleet, with the result that Spain's is one of the oldest in Europe. To counter this situation, the companies have put stringent policies of reconstruction into effect, having already concluded a number of mergers with multinational groups capable of providing funds and/or networks and technology which will facilitate participation in strongly competitive markets.

The agricultural tractors sector, formed in Spain by four companies, has recently suffered severe sales losses due as much to a general fall in demand and the strong rise in imports as a result of their liberalization, as to diminished opportunities to compete caused by a high rate of inflation.



Purchases have also dwindled in the agricultural machinery sector, where 60 per 100 of workshops are semi-handicraft establishments of family dimension generally operating in a regional market with products perfectly adapted to the Spanish geographical and climatic conditions. This decline in sales has led to heavy increases in stock and the closure of several firms.

Preparation of the sector to confront integration with the Community will only be possible by the adoption of a series of internal measures such as:

- Rejection of the present system of transport permits and elimination of rigid controls and restrictions that disrupt supply-demand ratios, and the framing of a law on road transport similar to those in force in various other countries of Western Europe.
- Implementation of stringent technical inspection eliminating obsolete vehicles from circulation.
- Retention and strengthening of preferential credit lines for the acquisition of industrial vehicles, tractors and agricultural machinery. These credit lines should be retained after the transitional period, adapting them, if necessary, to similar systems existing in the Community.
- Application of a reduced type of VAT to industrial vehicles, tractors and agricultural machinery.
- Frame regulations and promote homologation centres for industrial vehicles and agricultural machinery which, depending on the Ministry of Industry and Energy, will enable necessary tests to be made and subsequent homologations granted.

- Tax deduction on exports of industrial vehicles and agricultural tractors should be calculated on 95 per 100 of the internal sale price to the public, since this value is that corresponding to the wholesale delivery price.

During the transitional period the following measures should be adopted:

- Gradual reduction in the degree of nationalization of the finished product, adapting this reduction to the sector's reorganization process.
- Retention of the present legal-administrative regime which should continue to serve as the framework for enterprising activity during the transitional period.
- Application, in stages, of Community standards.
- Frame a number of safeguarding clauses facilitating the orderly reorganization of the sector, particularly necessary in view of the gravity of the present crisis.

II.4.3 Shipbuilding Sector

The shipbuilding sector constitutes in Spain one of the basic elements of industrial activity. Production between 1976 and 1980 was 0,8 per 100 of gdp, a lower figure than the 1,3 per 100 for the period 1971-1975. Nationalized industries figure prominently and these account for 70 per 100 of invoicing.

The vocation of this sector clearly inclines towards exporting, sending abroad 31 per 100 of total production in recent years and achieving an export total during the period 1971-75 of 47 per 100. Its participation in Spanish exports continues to be important with nearly 3 per 100 of the total despite a fall in this percentage which in 1971-75 had reached 8,2 per 100.

These figures reflect the critical situation of the sector also evident (see Table XII) from total production levels which in 1980 was 522.682 Gross Registered Tons signifying half the volume of production in the years preceding the crisis. At the same time, order books have fallen from 3.600.000 to 1.415.000 Gross Registered Tons. As the workforce has decreased from only 55.000 to 44.000 workers for the whole of the sector (new construction and repairs), the weight of the labour component on total costs has risen from 27 per 100 in 1975 to 42 per 100 in 1980, a situation that has had a serious effect on company balance sheets.

TABLE XII
SHIPBUILDING SECTOR: PRODUCTION AND ORDER BOOKS

YEAR	PRODUCTION		ORDER BOOKS (3)			GRT(2)
	Adjusted tonnage(1)		GRT			
	GRT	GRT	National	Exports	Total	
1971	920.840	823.576	2.021.099	2.547.673	4.568.772	2.766.684
1972	1.160.087	883.235	2.043.443	2.410.971	4.454.414	2.645.225
1973	1.548.348	1.033.271	4.571.585	2.985.992	7.557.577	4.049.936
1974	1.485.203	1.100.361	3.517.279	2.633.901	6.151.180	3.598.085
1975	1.703.432	1.153.832	3.061.005	1.499.013	4.560.018	2.850.204
1976	1.498.561	958.187	2.683.536	675.404	3.358.940	2.214.749
1977	1.491.119	994.523	1.358.773	465.749	1.824.522	1.683.655
1978	720.724	690.165	648.862	383.901	1.032.763	1.302.531
1979	543.727	600.709	722.847	508.997	1.231.844	1.346.503
1980	557.107	522.682	572.569	986.768	1.559.337	1.414.873

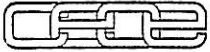
(1) Adjusted tonnage = $\frac{Q + 2B + E}{4}$

(2) According to new OECD co-efficients - 1977

(3) Values at end of each year

In which Q = tonnage of vessels begun
In which B = tonnage of vessels launched
In which E = tonnage of vessels delivered

SOURCE: CONSTRUNAVES

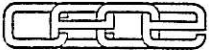


Following accession to the Community, imports into Spain of ships should be liberalized, and the present bilateral trading regime ended. However, it should be remembered that although there exists theoretical liberty of importation of vessels in all Community countries, actual trading figures for some years reveal the existence of obstacles to free circulation.

The granting of large subsidies and other types of aid to nationalized shipbuilding concerns in most Member States of the Community is contributing towards keeping their internal demand in check. It would be illogical, therefore, to detach the question of liberalizing imports of vessels from sectorial subsidies which, directly or indirectly, can influence the effects of such liberalization.

Apart from this very important matter of subsidies as they affect this sector with accession in view, the following precautions should be taken.

- In no case should tariff elimination schedules of the manufactured product (vessels) be more accelerated than that of inputs (materials and equipment incorporated in shipbuilding) of such products. This principle was observed at the time of the first intake of new members into the Community.
- Liberalizing imports of materials and equipment used in shipbuilding and tariff elimination respecting these, would allow optimization of provisioning policy, and consequently reduction of production costs in our Yards, but on the other hand would pose a grave threat to our auxiliary shipbuilding industry. Accordingly, the implementation of this liberalizing policy and tariff elimination should be conducted in a manner compatible with the survival of this auxiliary sector.
- The future application of VAT to shipping and shipbuilding activities should be modified in the sense of granting them the favourable treatment they receive in Community countries on the basis of the Sixth Directive, consisting in VAT exoneration for ship deliveries, both



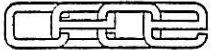
national and for export, for materials and equipment used in construction, repair operations, conversion and maintenance and other aspects relating to the activities of the sector.

- Although the present pattern in Spain of official financing of internal demand is generally comparable with that applied in Community countries, there is one aspect that must be rectified, and that is the absence of a system of guarantees which will complement that of the vessel's mortgage itself.
- Costs of insurance premiums on export credits must be adjusted to Community levels, which in general are below those in Spain.

Finally, the eventuality must be faced that as this is a "sector in crisis", the Community might at some moment contemplate the possibility of seeking a disproportionate reduction of its total capacity in Spain. However, since the Community itself has repeatedly insisted on the necessity that an eventual reduction should be shared equally, it can be pointed out that although the principle has been generally accepted by Community countries, there is no existing agreement as regards proposed quantification nor a formula for "equal" sharing by countries.

The only views officially accepted in the Community are those expressed in the Fourth and Fifth Directives emphasising the need to maintain in the Community a robust and competitive shipbuilding sector, that will contribute to economic and social development, will constitute a substantial market for the various inter-connected sectors, will generate intermediate and advanced technology and finally, will protect employment and prevent regional imbalances.

When the time comes to apply these ideas to the Spanish shipbuilding industry, the following considerations should be taken into account.



This sector of Spanish industry has a lengthy tradition and considerable international prestige. Already in the period 1956-1965 the strong expansion of maritime traffic at the end of the sixties and beginning of the seventies, Spain came fourth according to the number of ships built worldwide. It can also be stressed that the relative size of the sector in Spain, within manufacturing industry globally, which is at the average European level, is very inferior to that in the Scandinavian countries and Holland. What must be emphasised, therefore, is that the greater regional imbalances and the effect of the shipbuilding crisis on them, justifies not only that total capacity of the sector in Spain should not be excessively reduced, but that it should also receive priority treatment for access to Community aid funds towards industrial recovery and the rectification of the regional imbalances referred to.

Finally, it may be pointed out that production targets for the sector established by the Ministry of Industry and Energy at 730.000 Registered Gross Tons signifies a reduction of 34 per 100 in relation to figures prior to the crisis.

II.4.4. Other Metal Sectors

II.4.4.1 Cables and electricity conductors

Included in this sector are the telephone cables, power lines, ribbon and special cables and enameled wires.

The telephone cables subsector employs 1.900 workers and utilization level of installed capacity was 60 per 100 in 1980. The power lines, ribbon and special cables subsector has 5.000 employees and that of enameled wires 1.500. Utilization index of installed capacity in 1980 was 66 per 100 for these last two subsectors.

The sector has a favourable trade balance with export figures of 7.500 million pesetas and 1.350 millions for imports in 1980. 67 per 100 of imports are from the Community, while Spanish exports to the EEC account for only 34 per 100 of total exports.

The sector is affected by a number of structural problems stemming from an excess of installed production capacity, the small size of companies and heavy technological dependence. Productivity is below the Community average. With the approach of accession, a process of reorganization becomes imperative based on research and development of new products and on improving quality levels. This process should be accompanied by action encouraging the vertical integration of the sector with the aim of setting up productive structures comparable to those in the Community. From the legislative angle it is essential to issue a series of technical norms controlling production in the sector in accordance with standards similar to those in the Community.

The tariff elimination process should be modulated during the transitional period so as to maintain ratios between present of customs protection for raw materials and the finished product.

II.4.4.2 Metal structures

213 companies comprise this sector employing in 1980 11.200 persons. Production capacity is about 700.000 mt per annum with an excess of 250.000 mt over internal demand. In 1980 exports were valued at 10.242 million pesetas and imports at 887 million.

To facilitate the absorption of the sector into the Community, various measures would have to be adopted, as for example reducing the workforce to real requirements in order to increase productivity, stimulate the Administration's actions in matters of standardization and granting of licenses, and achieve a greater presence in foreign markets by commercial representation and the formation of joint ventures with local companies.

Only in this way can the sector confront the problems integration will pose stemming from:

- Penetration into Spain of multinational groups with greater competitive power.

- Easier future entry into our market of third country enterprises as a result of tariff cutting following Spain's adoption of the common commercial policy.
- Future restrictions to its present complete liberty of action, resulting from compliance with Community technical regulations.

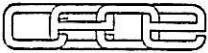
II.4.4.3 Boiler making

Since 1974 production in tonnes has fallen steadily in Spain, the tendency being more pronounced in the last two years. In 1980 production reached only 387.000 mt with an added value for that year of around 31.000 million pesetas, that is, approximately 0,8 per 100 of gip. Recently exports have increased notably rising from 796 millions in 1974 to 4.619 millions in 1980, while imports have tended to stabilize leading to a frankly favourable cover rate, both in value and volume.

The sector's situation, with Spain's accession to the European Community in view, is weak, among other reasons owing to the low rate of utilization of installed capacity, less than 70 per 100, which could only be raised through adequate reorganization, directed towards concentrating manufacture in certain products and towards greater company specialization.

Integration involves a series of risks for the sector resulting from:

- The uneven impact of tariff elimination caused by entry into the Community since this industry in Spain would witness the disappearance of import duties of 12,5 per 100 for products from other Member countries, while the reduction from which its products would benefit by access to their markets would be only 3,3 points. Respecting third countries, a reduction of almost 40 per 100 would result going from 15,8 per 100 of the Spanish tariff to 8,3 per 100 of the Common tariff.



- The possible worsening, as a consequence of tariff reductions respecting third countries, of the cover rate in trade dealings with these, which probably would not be compensated by eventually greater penetration into the Community market.

II.4.4.4 Metal containers

70 companies are engaged in the production of metal containers employing 7.000 workers, and localized mainly in the consuming centres of each type of container since distribution is influenced by the volume/weight ratio.

Value of production rose in 1980 to 32.500 million pesetas and gross added value was 13.700 million. In costs structure, raw materials were prominent with 51,2 per 100 and personnel with 20,8 per 100.

The following are among the foremost problems facing this industry:

- Insufficient rate of installed capacity utilization, particularly in the larger companies, causing cost inflation.
- Inadequacy of the productive apparatus in some industries, a factor reflecting on quality standards of its products.
- A sharp rise in raw materials costs particularly tin-plate and aluminium, whether domestic or imported.
- The need for large stocks of raw materials owing to irregular domestic supplies, the variety of sizes and stagnation of demand, increasing expenditure.
- The link between this industry and that of canning which should introduce far-reaching reforms in its various types of fabrications as regards standardization and quality of its containers following accession to the Community.

The conclusion to be drawn of the effects on this sector that assimilation with the Community could bring about are:

- The need to reconstruct the sector, which will have to adjust its installed capacity in such a way as to normalise supplies to the market, but reducing as far as possible the already considerable level of unprofitability of companies, responsible for increasing fixed expenditure.
- Integration into the Community will not result in a heavy increase in imports of finished containers because of high transport costs, except in frontier areas where it will be felt respecting crown closures and semi-finished products.
- Accession could result in an increase in demand in certain subsectors, consumers of metal containers such as the vegetable and fish canning industries, and an improvement in supply conditions of these inputs to those subsectors.
- As regards the structure of production costs, it is very important to follow a course of action of technological innovation and technological adaptation, enabling a competitive stand to be taken against a possible increase in production of certain types of containers made from petroleum derivatives.

II.4.4.5 Cutlery

The manufacture of table cutlery is a branch of industry with the following characteristics:

- It does not require sophisticated technology.
- In recent years it has achieved a degree of automation sharply raising production capacity. This has led to very high stock levels at present in Spain.



- Because of the high cost of the more automated installations, Spain cannot compete in this line with the very industrialised countries of Europe.
- This subsector of Spanish industry is at present feeling the heavy impact of imports of cutlery from Far Eastern countries at very low prices, which are then re-exported to the Spanish market from Member States of the Community.

Estimated sales in 1980 reached 4.605 million pesetas and exports 704 million. These figures represent a decrease against levels of previous years with no sign of a change in the tendency.

To guarantee the survival of this sector a series of short-term measures should be taken designed to prevent the entry into Spain of cutlery from the Far East, re-exported from West European countries, and to finance reorganization of the sector. As a medium term measure, thought could be given to encouraging specialization in each company of certain types and qualities with the aim of achieving more competitive cost levels.

II.4.4.6 Electrical household appliances

19 companies form this sector in Spain providing employment for 23.500 persons with a volume of sales in 1980 of 77.000 million pesetas.

Characteristics of the sector are an excess of productive capacity and overmanning, little competitive spirit and a wide range of manufactured goods, with yields below economic minimums and, of course, below those in Community countries.

There is also relative atomization with the result that 10 out of the 19 companies do not reach 1.000 employees. Nonetheless, there is a decided geographical production concentration, 90 per 100 of which is found in only three areas.

This situation combined with high saturation levels in certain types of appliances particularly the white line, and the stiffening of competition, has burdened the sector with large stocks of finished goods and also heavy losses, assessed in 1980 at 4.905 million pesetas.

All these problems combined with the steep fall of the internal market, has put the sector in a crisis situation forcing the Government to set in motion a process which will have a reorganizational and salutary effect.

This process is centred on the constitution of four industrial groups, formed by associations of existing companies aimed at achieving suitable company dimensions and levels of production permitting economies of scale similar to those of the Community. A parallel attempt will be made at specialization by product lines with the aim of rationalizing production and reducing costs considerably. It is important that the transitional period for accession should be outlined in such a way as not to hinder the process of reorganization which could be seriously obstructed, for example, by an eventual increase in imports into the Spanish market of products from third countries that benefit from Community preferential treatment.

As regards internal measures, Luxury Tax, not applied in the Community to social equipments, would have to be suppressed, and a National Standardization Trade Mark instituted, obligatory for any product in this sector either for export or for domestic distribution.

II.4.4.7 Electronics

The Spanish electronics sector is formed by the consumer, professional and components subsectors, and the main points of interest for 1980 concerning these are contained in Table XIII:

TABLE XIII
SIGNIFICANT DATA RELATING TO ELECTRONICS (1980)
(millions of pesetas)

SUBSECTOR	Production	Imports	Exports	Apparent Consumption	Degree of Cover
Consumer Electronics	68.205	22.074 [⌘]	2.224 [⌘]	88.055 [⌘]	10,1 [⌘]
Professional Electronics	79.306	106.302	27.755	157.853	6,1
Electronic Components	25.118	34.644	6.846	52.916	19,8
Total for sector	172.629	163.020	36.825	298.824	22,6

⌘ Figures for foreign trading do not include those for the Canary Islands and other free zones.

SOURCE: ANIEL

These three subsectors are separately analysed as follows:

Consumer electronics

As these are products of very wide distribution and subject to rapid technological evolution, the survival of this subsector in Spain can only be guaranteed by the acquisition of advanced series and the use of technologies similar to those of foreign competitors.

Accordingly, Spanish firms are making strenuous efforts to achieve the required minimum production series. This initiative should be encouraged by appropriate official action which will concentrate small and middling firms in powerful groups with adequate production and financing capability.

Given the extraordinary sensitivity of colour television product lines, imports should only be liberalized gradually and with firm guarantees.

Professional electronics

The situation in the Community regarding this subsector's products, benefits from the decisive support of the Governments of Member States and by the low level of intra-Community trading which does not exceed 3 per 100 of total production.

In Spain a 4-year Public Administration purchasing programme, revised annually, should be drawn up. This could be bolstered by investment planning by the sector, for the purpose of satisfying forecast requirements.

Other additional internal measures that could be adopted are those directed towards supporting research and encouraging standardization and homologation of professional electronic equipment.

Electronic components

The definition of a strategy for the components subsector is closely linked with that adopted for consumer and professional electronics, and therefore it is important to encourage collaboration formulas so that there can be a permanent dialogue between both sectors.

The situation as regards foreign competition, both for this sector as for consumer and professional electronics, reflected in the low rate of import/export cover of all of them, recommends a cautious approach to tariff elimination in favour of the Community, and even greater care respecting imports originating in the Far East, against which specific safeguarding systems would have to be applied.

II.4.4.8 Jewellery and silverware

In 1979 value of production was 23.522 million pesetas and in 1978 23.307 million. There are 1.400 firms in the sector providing employment for 12.000 workers.

The steep rise in metal prices, combined with other circumstances stemming from the present crisis, has led recently to a marked fall in production indexes in the sector.

With accession in view, it is essential to rectify certain deficiencies at present affecting the sector whose underlying causes are:

- The reduced size of its companies of which 68 per 100 have fewer than five employees.
- The wide range of models manufactured leading to steep cost increases.
- Inadequate adaptation of designs to current tastes.
- An outdated and actually unapplied Precious Metals' Law.

II.4.5 Capital Goods Sector

The capital goods sector with production in 1980 valued at 550.000 million pesetas, embraces several subsectors, in large measure independent of one another, whose participation in final production figures for the sector as a whole is as indicated in Table XIV. It should be emphasized that this lists products which although possible to include in a wide concept of capital goods, are here analysed under other headings, as sectors or subsectors apart.

During the last five years there has been a sharp fall in real terms in production figures which in 1980 amounted to 38 per 100 over 1975. This situation has been aggravated by the decline in the internal supply rate which has fallen from 64 per 100 in 1975 to 40 per 100 in 1980, while figures for consumption decreased by 50 per 100 during the same period.

TABLE XIV

S E C T O R	% on total production
Metallomechanical construction and boiler making	21,0
Generation, transport and utilization of electrical energy	15,5
Electronic equipment and instrumentation	13,2
Agricultural machinery	7,9
Public works machinery	7,2
Non-metal fabrications	6,5
Non-electrical energy producing machinery	4,0
Fluid handling equipment	3,5
Railway rolling stock and material	2,1
Miscellaneous machinery	19,1
Total	100,0

SOURCE: SERCOBE

From the figures for overseas trading during the same period shown in Table XV, it can be deduced that there was intensive recourse to exporting, allowing the cover rate to rise from 44 per 100 in 1975 to 87 per 100 in 1980. In trading with the Community in the same year, the latter's participation in our imports was 65-70 per 100 and 45-47 per 100 in our exports, the cover percentage being only 64 per 100, the final result thus being a frankly favourable trade balance for the Community.

TABLE XV
CAPITAL GOODS INDUSTRY
(millions of current pesetas)

Years	Production	Imports	Exports	Apparent Consumption	Cover %
1970	186.224	87.694	26.020	247.898	29,7
1971	210.449	86.248	31.706	264.991	36,8
1972	248.351	110.929	39.358	319.922	35,5
1973	304.899	154.201	49.679	409.421	32,2
1974	372.998	191.983	73.873	491.108	38,5
1975	402.661	207.251	91.458	518.454	44,1
1976	434.012	226.210	122.853	537.369	54,3
1977	447.901	247.677	160.705	534.873	64,9
1978	492.020	260.468	190.530	561.958	73,1
1979	517.387	279.874	235.821	561.440	84,3
1980	540.680	336.800	292.050	585.430	86,7

SOURCE: SERCOBE.

These figures typify a sector in a precarious situation, immersed in the general crisis and subject to increasing pressure from imports which compete in an extraordinarily retractile and selective buyers' market. These considerations are reflected in company balance sheets which indicate a sharp rise in staffing and financing cost, rising from 34 per 100 and 3,6 per 100 respectively in 1975 to 50 per 100 and 6,5 per 100 in 1980 influencing adversely the sector's poor performance in the years 1979 and 1980.

The consequences have been a drastic fall in investment and stagnant productivity clearly below Community figures. These circumstances, aggravated by a rigid employment policy and inadequate company dimensions, make essential a stringent reorganization of the sector taking place partly prior to and partly simultaneously with assimilation into the Community. For this a suitable transitional period is required during which a flexible

and harmonious reorganization of the capital goods sector can be effected adapting it to the new economic and social climate in which to operate following accession.

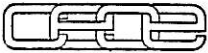
The Community capital goods industry, particularly as regards large goods, has achieved an adequate balance between participations of Community and extra-Community firms in the market of the Ten. This has been achieved thanks to the use of concentration mechanisms producing a situation which has demonstrated its viability even in moments of crisis, allowing removal of internal barriers and the attenuation of external ones to proceed without causing irreparable damage to Community manufacturers.

The Spanish Administration must inexcusably adapt its attitude and its practices to those prevailing in the Community, which will require a breaking-in period coinciding with the sectorial reorganization process previously referred to. At the same time, a series of additional measures should be taken as for example:

- Plan homologation and standardization in line with Community practice.
- Act with due precaution when operating in open markets.
- Utilize regional assistance provided by the Community, as also that earmarked for sectors in crisis.
- Incentivate technical development and the assimilation of new technologies.

II.4.6 Textile Sector

This includes the production of artificial and synthetic fibres, the manufacture of all types of cotton fabrics, knitwear, dyes and finishes and ready made clothing.

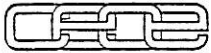


The present number of employees in the sector in the Community is 2.650.000 and in Spain nearly 400.000, in both cases including ready made clothing. These figures are lower than for previous years as for some time past there has been a continuous reduction in the labour force employed, a tendency which will continue for various years. This process is due partly to progressive mechanization, a result of technological changes, and partly to the pressure exerted on the Community market by textiles from low cost countries.

This invasion of products from outside the Community which in some sectors accounts for 60 per 100 and in others around 25 per 100 of total Community consumption, has been made possible by an extremely liberal policy respecting imports from third countries, and particularly from developing countries. The Community reacted tardily to this situation by fixing limits to trade flows within the framework of the Multi-Fibre Agreement.

Initially, Spain was not subjected to such heavy pressure, but from 1978 imports of certain products as liberalized goods began to create difficulties in the market. Nevertheless, the Spanish textile sector as a whole, continues to be a net exporter, although in a climate of stiff competition, seeing its sales to the Community effected by the restrictive measures arbitrated by the Community, resulting in less beneficial treatment for Spanish products than for those originating in third countries.

Except in the artificial and synthetic fibre producing subsector, the structure of the Spanish textile industry is the consequence of a long historical tradition which has the effect of preventing its products from benefiting from economies of scale. In fact, it consists of companies generally of small or medium size, frequently family enterprises even when legally joint stock companies, and a very diverse degree of integration. Another outstanding characteristic is extensive sub-sectorial dispersion with very marked differences in levels of efficiency and patterns of



competition among the industries, some of which are perfectly assimilable with those of the Community, while many other could not in present conditions withstand total liberty of circulation of merchandise within the Community ambit.

Despite reorganization undertaken in recent years with an undoubted salutary effect, the sector's productivity in Spain is about 50 per 100 below that of Germany, 20 per 100 that of France and 15 per 100 that of Italy. Possibilities of improving the situation in this respect are obvious, providing the necessary technological adjustments are carried out and other changes introduced, and for the purpose action must be taken directed towards achieving the following objectives:

- Effectively promote modernization and mechanization of plant by planning which, while mitigating difficulties arising from labour force liberation, will lead, by means of financial and credit incentives, to the installation of modern machinery. It is with this object that the "Reconversion Plan" for the whole of the Spanish textile sector, has been approved by Royal Decree of 3 August 1981 containing measures, inducements and means of achieving the targets fixed by this Plan, which is to be in force for five years.
- Facilitate this renewal of productive equipment by the suppression of customs duties on imports of machinery which is either not produced in Spain, or is not manufactured to adequate technological formulas.
- Pending attainment of production levels to which the reorganization process should lead, effectively protect the Spanish market against imports liable to produce imbalances which would hinder fulfillment of the updating process.
- Achieve greater added value by means of co-ordinated action which would seek to incentivate exportable designs and internationalize Spanish trade-marks and fashions.



- Promote a larger showing of Spanish textile products in the Community market.

In following these suggestions a number of points should be borne in mind when implementing the process of integration into the Community.

- The progressive reduction in levels of tariff protection in the Spanish market following integration should not be carried out more rapidly for outputs than for inputs in order not to upset the balance between present relative levels of protection of the different production phases of each subsector. However, account will have to be taken that, during the transitional period, conditions must be maintained permitting the supply, at international prices, of raw materials for each phase of manufacture of merchandise intended for export, and protecting the domestic market while there exists a difference in the price of the raw materials used in Spain and in other countries, with a view to countering the effects of resulting imbalances.
- The Community applies quantitative limitations to imports of certain textile products from Spain. These limitations should disappear from the commencement of the transitional period so that Spanish textiles will not be the object, on entry into the Common market, of less favourable treatment than that accorded by the Community to goods from other countries. Otherwise, Spain should impose reciprocal restrictions on imports of Community textile products.
- The application by Spain of the Multi-Fibre Agreement following the assumption of Community patrimony, will imply the disappearance of present global quotas for imports into the Spanish market of textile products, and their replacement by the Community system of import quotas for these products established within the framework of the Multi-Fibre Agreement. It is important that following accession, the apportionment of these quotas among Member States should be effected bearing in mind the quantities of textile products traditionally imported by Spain, and not simply according to the capacity of the Spanish market in relation with that of the markets of the other Member States.



These are all considerations that can be applied to most subsectors of the Spanish textile industry. However, their relative situations vary so much that it seems appropriate to add some individual references to distinguish them as follows: chemical fibres, cotton, silk, wool, carpets and moquettes, knitwear, reclaimed fibres, felts and industrial waddings, ready made clothing and finished textiles.

The chemical fibres subsector is formed in Spain by companies smaller in size than those in the Community, and so are at a disadvantage with them on the plane of economies of scale, despite amply supplying the Spanish market which was the objective towards which the economic situation at the time channeled them. However, the position of the subsector in the Community is also critical, with reductions in capacity both in artificial and synthetic fibres, though despite this utilization level of installed capacity continues to be very low.

The Community fibres subsector has been undergoing reorganization which it is expected will have concluded by the date of Spain's accession. This constitutes one more reason why a similar process should be undertaken in Spain, also counseled by other motivations indicated earlier. While this is taking place, the Spanish market will have to be protected against low price imports. Finally, it is important that programmed tariff cuts at the conclusion of the transitional period, should be the same for the whole of the textile sector of which chemical fibres are regarded as the main link in the industrial process.

The cotton subsector could well be that in which the unavoidable reorganization within the Reconversion Plan recently approved, will cause the greatest reduction in the labour force -it is calculated it must shed 20.000 jobs- with the consequent social effects, to be borne in mind on account of the concentration of the industry in certain areas and regions, and for which appropriate remedies will have to be found.

Until the reconversion process in the sector has been consolidated, it must protect itself against low price imports. It will also be necessary for nationalized industries in this subsector, representing approximately 10 per 100 of its total production, to adjust to the same competitive criteria guiding the actions of those in the private sector in order not to compromise the economic viability of the latter. Careful treatment must likewise be given to another series of delicate questions accession will pose for the subsector such as that of co-ordinating tariff elimination with input cuts, the problem of relations with Greece and Portugal and the adaptation period for the application by Sapin of the Multi-Fibre Agreement.

The heterogeneity and versatility of products in the silk subsector make it an ideal candidate for assistance by extensive modernization of machinery to boost productivity levels, and taking simultaneous action in the fields of fashion and creativity.

Fashion, design and quality factors greatly influence the wool subsector, and call for a special effort on their behalf which moreover, would considerably increase the added value of products. Reorganization to reduce the labour force and suppress marginal firms has been very stringent. However, the renovating process of the subsector should be completed through the Textile Reconversion Plan already approved.

The carpet and moquette subsector should increase production by perfecting management and marketing, by renewing machinery and by improvements in design, using for the purpose the provisions of the Textile Reconversion Plan.

The knitwear subsector also needs to increase productivity by improving management and marketing and by modernizing capital equipment. Company concentration should be encouraged so that firmer action can be taken to help foreign trade and boost designs and fashion within the framework of the Textile Reconversion Plan. Meanwhile it should be protected against imports from low cost countries.

The reclaimed fibres subsector much weakened by a high degree of supply atomization, should also make a strenuous effort in matters of foreign trade, quality and prices, not forgetting the need to modernize production equipment on the basis of the Textile Reconversion Plan.

The felts and industrial waddings subsector, dynamic and well-equipped, though unaffected by specific problems, has to contend with those of a general nature mentioned at the beginning of this chapter, since these are common to the Spanish textile sector as a whole.

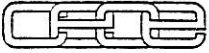
Within the ready made clothes sector, large companies of up to 8.000 employees mix with others that are purely specialized. Low job-providing investment explains the great mobility of small companies, large number disappearing reappearing incessantly. This is an extremely vulnerable subsector which, to withstand the impact of integration will need perhaps more than any other, to take concerted action in the export of Spanish designs, styles and fashion and achieve higher levels of productivity both by larger investment and improved production organization. The provisions of the Textile Reconversion Plan should be followed to accomplish this aim.

The textile finishing subsector is the arbiter of situations in the rest of the sector since it constitutes the final phase of all processes. It is thus particularly important that this subsector, utilizing the provisions of the Textile Reconversion Plan, should improve efficiency, modernize machinery and increase productivity. At the same time, adjustments made after accession to conform to Community standards in environmental matters, will require the granting of State subsidies to enable it to shoulder the financial burden these adjustments will involve.

II.4.7. Leather and Footwear Sector

II.4.7.1 Tanned leathers

295 companies form the Spanish tanning subsector, employing 10.000 workers, and are concentrated mostly in the Catalan and Levants regions.



The subsector's problems stem mainly from the growing tendency of producers of raw skins to limit exports and do their own tanning and dressing operations. Since Spain is dependent for 50 per 100 of leather requirements on supplies from abroad, this fact, together with cost increases, is causing serious overmanning in enterprises engaged in pre-dressing operations, now being done in countries until recently traditional exporters of raw skins. In addition, competition is becoming increasingly keener in world tanned leather markets, although due to the high quality and technology of Spanish industry, this does not entirely affect our products but rather the inferior segments of the market. But in any case, this direct competition is growing and, moreover, is underscored by the loss of overseas markets for our finished leather goods, resulting in a heavy fall in 1980 in demand for leather.

In such a situation the subsector should attempt to trim staff to present requirements and continue efforts to improve productivity and technology, concentrating on the higher quality segments of the market.

II.4.7.2 Other leather subsectors

There are 2.600 firms in Spain comprising the subsectors which include morocco leather goods, furs and leather garments providing employment for 28.000 workers. The size of companies is generally small, family firms predominating, a situation also found in the Community as a result of a flourishing craft trade within the industry.

In the morocco leather subsector, there has been a considerable fall in the number of firms in recent years due to low production value per employee and the increasing burden of labour and social security costs, circumstances that inevitably will greatly influence an activity with a strong flavour of craftsmanship and little mechanization.

Moreover this subsector is increasingly affected by imports from the Far East, and so must direct its activities towards products based on high qualities and designs, fixing upon a system of identification of products which will guarantee their quality.

The fur subsector depends entirely on imported furs, added value being imparted in Spain in the form of design and creation. Underlying problems affecting the sector are lack of qualified personnel and heavy taxation on products.

In order to remedy the scarcity of specialized labour, the State should co-operate in training schemes, paying part of the heavy expenditure this would entail. Taxation levels should be adapted to those prevailing in the Community, since different treatment between both areas for the various types of furs could result in very unfavourable trade imbalances for the Spanish industry.

II.4.7.3 Footwear

There are 1.800 companies in the Spanish footwear subsector employing 60.000 workers with a production in 1980 of 140.000 million pesetas, leather shoes accounting for 70 per 100 of this total. In recent years between 30 and 40 per 100 of total shoe production has been exported, equally divided between the United States and Community countries.

Productive structures resemble those of Italy though not achieving the same levels in technology and design, with small and medium firms predominating and heavy concentration of industry in the Levante area.

In the costs structure raw materials account for 46 per 100, and the labour for 32 per 100, this being similar to the position in the Community. Labour factor participation in total costs has increased from 26,5 per 100 in 1974 to 32 per 100 at present. There is a considerable proportion of "home-based work". As regards raw materials, Spain depends on imports for 50 per 100 of requirements of raw skins, a situation which will worsen in the next few years.

A characteristic of the situation in the Community is the strong position of the subsector in France and Italy, with high levels of

technology and quality. The other Member States supply themselves from these two countries and are strongly dependent on imports.

There is growing penetration in the Community market of poor quality leather and cloth footwear from low wage cost under-developed countries. Such a situation could arise in Spain following accession, with serious results for the subsector, so that it is important that the adoption of preferential regimes applied by the Community to third countries should be carried out very gradually throughout the transitional period.

In view of the present disordered situation of foreign markets resulting from imports of shoes from low cost countries, Spanish export policy should concentrate on top quality and design, of high added value. Moreover, a certain number of firms should specialize in the production of large series of intermediate quality for domestic consumption enabling a reduction to be made in the present high rate of production based on orders. Co-operation between companies should be encouraged, especially for the acquisition of raw materials, for the launching of export policies and the rationalization of domestic distribution. Logically technology will improve following accession to the Community since transfer of technology of design and production will be facilitated by greater collaboration with companies of other Member States.

The necessary reorganization of the subsector to be undertaken in accordance with suggestions made earlier, will require heavy investment and this will be hampered by the low rate of capitalization of the companies, their weak financial structure and reduced size. This reconstruction therefore, will call for a specific plan that must take into account the provision of the necessary financial resources.

II.4.8. Wood and Cork Sector

The Spanish wood transformation sector is comprised of 16.000 companies employing about 80.000 workers with an estimated production of 110.000 million pesetas.

It is a totally heterogenous sector in which craft industries co-exist, especially in the carpentry branch, with large factories for board and door manufacture. It is affected by surplus capacity, especially in the more industrialised subsectors.

Because of the peculiarities of this sector a considerable percentage of its products scarcely enter into international trading. This is due to a structure in which craft industries predominate, resulting in the absence of distribution channels and the lack of uniform standards of quality and construction. The situation is quite different in the Community where craft industries co-exist with a genuine industry based on a supranational market.

Dependence on foreign supplies of raw materials, principally timber, is very high -at levels close to 60 per 100. This situation will continue to worsen due to limited expectations regarding domestic production and to the tendency of timber producers in under-developed countries to limit exports.

Plants are reduced in size compared with the Community, a circumstance partly offset by satisfactory standards of equipment and mechanization, achieved thanks to the use of imported machinery. Productivity is lower than in the Community.

This sector urgently requires a vigorous reforestation policy at national level. At the same time a national mark of quality should be devised to give uniformity to domestic production, and an endeavour made to promote exports.

The situation of the cork sector is favourable with a production that is both large and complementary to that of the Community. Exports are considerable, accounting for 70 per 100 of the total produced, directed mainly to Community markets.

The necessary reorganization of the sector should be directed towards substituting the installations of craft industries for firms of larger dimensions to increase productivity.

II.4.9. Furniture Sector

There are 14.200 firms in the Spanish furniture sector with 108.000 workers. Discounting craft industries, the genuine furniture industry is formed by 8.600 enterprises having 76.000 workers and a production of 210.000 million pesetas. Of this total 71 per 100 corresponds to wooden and 29 per 100 to metal furniture.

Exports are very limited, representing 2 per 100 of consumption. 61 per 100 of total exports are directed to the Community and 77 per 100 of total imports are from there.

Raw materials and the labour force are the principal factors in cost structure. Reference has already been made to the difficulties encountered in supplies of timber. The productivity level is approximately half the average in Community enterprises.

Factories are very small and this raises financial and marketing problems. But it should be remembered that enterprises of different sizes co-exist in the Community, there being certain products not susceptible to a high degree of mechanization and with a large craft industry participation. Ability to compete is inferior to that of the Community on account of the type of machinery used but especially because of the absence of any national style in design of standardized quality.



Reduction of our tariff protection levels will result in a large increase in Community exports to Spain, particularly of German furniture and Yugoslav chairs. At the same time, the suppression of the Common Tariff in favour of Spanish products will hardly improve our trading position in Community markets as present tariff protection levels there are low.

The need can be seen, therefore, for a profound reorganization of the sector in Spain. This should centre more on specializing than on concentration, following the Italian example. This process is based on medium size firms with high productivity and technology, manufacturing furniture in the traditional style, or of domestic design involving a large workforce. Such a solution requires the adoption of a national style in design having perfectly defined standards of quality.

It is important to assist this process of reorganization by encouraging exchanges of technology between Spanish and Community firms, supported by collaboration agreements for subsectors with higher production and mechanization levels.

Also essential is the need to pay attention to the auxiliary furniture industry which because it is weak, could become an obstructing factor in the reorganization process.

Finally the sector's high degree of sensitivity counsels the establishment of safeguards during the transitional period to prevent excessive pressure of foreign competition from threatening fulfillment of the renovating process.

II.4.10 Toys Sector

The Spanish toys sector consists of 350 firms employing 16.000 workers, established and temporary. The factories, very small, are nevertheless similar to those in the Community. Most are concentrated in the Levante area.



Labour costs vary between 25 per 100 and 30 per 100 of total expenditure, and are increasing. There is a strong exporting tradition, principally to the Community where degree of penetration is high. Imports on the other hand, are low.

Our level of design technology in dolls is superior to that of the Community, though somewhat inferior in other products. There is considerable dependence on external supplies of productive equipment, assessed at 80 per 100 of the total. Practically all design is domestic.

Integration with the Community will lead inevitably to the reorganization of the industry to seek greater specialization and concentration on better quality products. Specialization should be directed towards reducing ranges and attempting higher productivity by greatly increased production. Concentration on the higher quality product ranges is imperative because of stiff competition from third countries with cheap labour. A rigorous system of quality control and projection of a trade-mark image at present almost non-existent, must be applied, except in the dolls subsector.

Owing to wide differences between Spanish tariff protection levels and those of the Community, the process of alignment with the latter must be carried out with care, but even so this will probably lead to strong penetration into the Spanish toys market of toys from low wage third countries. On the other hand, since the present level of Community protection respecting Spanish toys is low, it cannot be expected that integration will appreciably improve our position in the markets of the Member States.

With regard to matters other than those concerning tariffs, it is evident that the adaptation of our products to Community regulations should be accelerated.

II.4.11 Graphic Industry Sector

This sector includes the subsectors of the printing, carton container and printed products to which integration with the Community will bring problems differing considerably one from the other.

The printing industry, very disperse, serves markets very localized geographically in which the impact of companies of other Community countries would logically be small. On the other hand, because their products are manufactured in large quantities, carton containers and printed products will be subject to stiff competition from Community firms, favoured by lower raw materials, wages and social security costs per product unit than the Spanish. This situation will become acute in subsectors using carton as a raw material because of growing penetration of end products from the Community already packed.

A point to bear in mind is the rapid obsolescence of equipment employed in this sector added to the fact that there is no domestic manufacture, 90 per 100 of machinery being imported, chiefly from the Community. The lack of favourable conditions for financing imported machinery combined with the severe crisis affecting the sector, is causing rapid ageing of productive equipment resulting in even greater differences in rates of productivity in relation to the Community.

With integration and throughout the transitional period, total renovation of equipment is essential in the carton container and printed products sectors, and sweeping reorganization which will adjust employment to real requirements in order to achieve levels of production similar to those in the Community.

Because of the direct connection between this sector and that of paper, tariff elimination applied to the products of one and the other must be co-ordinated in order to prevent dislocation, which in the Spanish printing sector could cause an excessive rise in cost of raw material in relation to that used in Community countries.

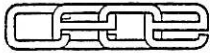
II.5 Construction Sector

This sector groups together 35.000 construction and real estate companies. Approximately only 3.500 are qualified to contract with the State and of these 65 have a turnover in excess of a thousand million pesetas. The sector employs a total of 1.221.000 workers, and in 1980 contributed 7,7 per 100 of gdp.

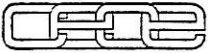
The sector is characterized by excessive atomization, geographical dispersion and fragmentation of constructing activity. There is little productivity among local building companies as a result of poor technical methods and cash flow problems in many of them. This lack of ready money affects construction companies of any size carrying out work for Administrative bodies because of official delays in settling accounts. However, there is in general, higher productivity in the public works than in the building sector, particularly affected by the economic crisis, with a higher than usual rate of unemployment.

Integration with the Community will promote the entry of Community construction companies in Spain since two circumstances favour this: lower level of development than in Member countries and an ample labour force. This will aggravate the crisis in Spanish construction companies which conversely, will fail to penetrate the Community market to any extent.

The one advantage for this sector that our accession to the Community could bring is greater ease of penetration in third countries of Spanish companies through harmonization of current regulation with those of the Member States in building insurance tenders, warranties, financing, etc. This will facilitate the progressive approach of Spanish construction companies to the competitive level of the Community's in those third countries, and the possibility of participating in building programmes financed in these countries by the European Development Fund (EDF).



III
THE SERVICES SECTOR



- III THE SERVICES SECTOR
 - III.1 Credit system
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III THE SERVICES SECTOR

III.1 Credit system

The Spanish credit system which in 1980 had 25.949 operating agencies is based on a multiple structure of which private banking, the Savings Banks, official credit organizations and the various entities of State credit all form part.

During 1980 the system manipulated its own and other funds representing 15 per 100 of gdp. The source and application of these funds is shown in Table XVI.

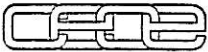
TABLE XVI

SOURCE OF FUNDS		APPLICATION OF FUNDS	
Item	%	Item	%
Liquid assets.....	77,8	Public sector financing..	17,2
Bond issues	2,3	Private sector financing.	79,3
Capital accounts	7,1	Other investments	5,3
External resources	12,8	External position of the Bank of Spain	-1,8
TOTAL	100,0	TOTAL	100,0

SOURCE: Bank of Spain

Within this structure, the banking sector is the most representative element with deposits equivalent to 48,3 per 100 of gdp. Spanish banks account for 99,07 per 100 of total deposits, foreign banks participating with only 0,93 per 100.

This data highlights the large percentage of financial intermediation in Spain. At the same time, coverage of national territory by financial



institutions is one of the most complete in the world, but conversely, average deposits per agency are not very high.

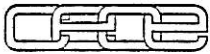
The intense degree of intervention tolerated by the sector up to 1977 based on the cheapening of credit, conditioned operational policy, both active and passive.

On that date rates were freed for funding operations to more than a year, and in parallel, the rigid system of coefficients has been relaxed to some extent for certain credit operations with little or no profitability, and ample liberty in the application of commissions has been established. Recently, in January 1981 the reform of the system continued to try to adapt existing regulations to market realities by liberalizing some operations while controlling others, and seeking an increase in the volume of funding by installment.

This has influenced the fact that global yield of placements was 10,36 per 100 in 1979. This item when compared with that corresponding to cost of resources which was 5,93 per 100, results in a margin of intermediation of 4,43 per 100.

Such a margin, which might seem high, should be more defined in the light of the extent of geographical cover and the amplitude and quality of the services given, both to individual clients as to the public Administration, as also the impact on costs of the operations under the coefficients of obligatory investment, which equal 30 per 100 of banking assets and 60 per 100 of Savings Banks assets. Conversely, this margin represents only 0,64 per 100 of total resources and 9,9 per 100 over equities, figures which seem normal.

Putting into practice liberty of establishment should raise no serious problem if the same time limits for this are observed as those applied to the other financing systems already integrated with the Community, and if the necessary internal adaptations are effected. Liberty



of establishment between Spain and the remaining Member States should intensify and reaffirm the tendency towards greater liberty and flexibility of the system.

A precaution to be taken before entering upon these courses would be to lighten the excessive load of liquidity ratio and obligatory investments which limit the efficacy of the system and possibilities of competing on a Community scale.

III. 2 Insurance Sector

The insurance sector exceeded in 1980 250.000 million pesetas in premiums, or about 2,7 per 100 of gdp and a figure of 6.800 pesetas annually per inhabitant, very inferior to that of the Community.

Of this total 57,6 per 100 corresponds to Spanish companies, 4,5 per 100 to foreign firms and the remaining 37,9 per 100 to Mutual Associations for Labour Accidents.

690 direct insurance companies, 14 capitalization enterprises and 180 Mutual Associations for Labour Accidents operate in the Spanish market, employing a total of 40.000 persons.

Both the financial situation and profitability of the sector have worsened during recent years, due to the fall in the stock markets and particularly to insufficient premium levels, a result of price control for certain branches of insurance and excess of supply in others.

Current Community regulations in insurance matters are accepted by the sector and regarded as the goal to be attained through a process of transformation of the present antiquated and incomplete system. Nevertheless, the transition must be carried out carefully over time-limits sufficient to avoid problems stemming from hasty application of the new regulations, and conceding time so that, by the adoption of the necessary measures, Spanish insurance companies can be adequately prepared for it.

The underlying impact of Community legislation on the Spanish insurance sector will be felt on the dual plane of liberty of establishment and liberty of provision of services.

As regards liberty of establishment, applicable Community regulations lay down three basic obligation: no nationality discrimination; creation



and maintenance of a solvency margin, calculated on volume of premiums and the scale of claims and accident reserves; and establishment of a minimum guarantee fund which varies according to a series of suppositions.

Prohibition on nationality discrimination respecting foreign companies established in Spain does not appear to constitute a problem given the liberty of action both Spanish legislation of 1912 and the Law of 1954 provide, allowing important companies of other European countries to operate.

The minimum guarantee fund will effect, basically, small companies which have not been excluded by any of the exceptions foreseen for companies who lack what is known as "a European vocation".

Probably it will be on the point of a solvency margin that Community legislation will have the greatest impact, imposing as it does obligation on this matter both on large and small companies in proportion to the volume of their collections. The solvency margin, in part already in force in Spain in accordance with the provisions of Decree 478/78 of 2 March 1978 in connection with related measures on technical reserves and solvency margins, implies a greater financial effort for countries with high inflation indexes, such as Spain, since if portfolios attempt to maintain their market quotas, they must grow above the consumer price index. For this to occur, domestic regulations applicable in investment matters must be made more flexible, eliminating unrealistic official prices where these are still to be found and try to bring about straightforward competition in the market so that premium levels are fixed fairly, permitting the self-financing necessary to make provision for the required solvency margin. Tax problems relating to this provision have also to be resolved.

Probably the impact the institution of liberty of provision of services will have on the Spanish insurance sector will be greater, signifying that not only Community companies, but also those of third



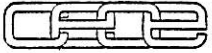
countries established in some Community country, can contract insurance in Spain, even though having no permanent establishment in Spanish territory. Liberalization of service provision in the insurance sector will, in the Community, take the form of a right and be generally applied, when the Council approves the much discussed and modified Directive proposal which on 30 December 1975 was sent to it by the Commission. In fact there has been freedom of service provision, though not in full, since June 1980 in the form of so-assurance.

The effect of freedom of insurance service provision between Spain and the other Community countries will weigh essentially on larger companies, especially on the "openers and co-insurers" of large risks, a sector of the market in which probably pressure of Community and even world competition will concentrate.

Consideration should be given, therefore, to re-organizing the productive structure to compete in the small risks market, and to the possibility of expanding to other markets, principally European and American, to counteract the erosion which will be caused by Community competition in large risk insurance. It seems clear, also that preparation must be made to meet this competition by increasing ability to compete in large risks, reinforcing policies of prevention (only possible on the spot) and by deeper study of the use of risk management. But above all there must be a series of measures, legislative on the one hand and of the market on the other, which will strengthen the portfolios of Spanish companies and maintain present levels of activity and job provision.

The sector feels that legal adaptation planned should be a valid modifying instrument for the insurance sector, and at the same time a means of accomplishing its improvement and development.

An adequate adaptation timescale and legislation that will allow Spanish insurers to obtain fair margins to prevent their decapitalization,



would provide efficacious assistance towards achieving Community solvency levels and align entities operating in Spain competitively.

III.3 Commerce Sector

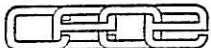
The Spanish business sector is formed by a very large number of establishments employing 13 per 100 of the active population, with a participation of 12 per 100 in gdp.

The sector is divided into two large groups of big and small distributors, the latter comprising an enormous collection of establishments.

The large distribution subsector is formed by some 40 companies responsible for 5 per 100 of retail sales value against 40 per 100 in Community countries. The subsector, which has achieved certain penetration abroad particularly in the area of popular stores and hypermarkets, favours our integration with the Community because this will contribute advantageously towards liberalization of trade. In particular integration will lead to harmonization of our labour legislation with that of the Community, less rigid than ours as regards working hours and part-time work. Logically, integration should be carried out in a spirit of absolute reciprocity with Community countries as regards liberty of establishment, at present regulated in Spain by extremely open legislation.

For its part the small distribution subsector, as a consequence of accession, must confront a process of change centred on the increase in average size of establishments, in the substitution of family work by salaried employees, and in increased sales and greater professionalism in management. This process should be accompanied by a reorganization of distribution channels which while respecting the subsector's peculiarities, will boost its capacity towards larger production and the active development of associated commerce, linked to wider use of trade-marks and publicity.

All these changes should be supported financially and by legal measures. Among the latter reform of the Urban Rent Act and greater control of company co-operative stores may be cited, and the preparation of



legislation patterns on these matters similar to those existing in the Community.

Finally, among general advantages deriving from integration, are the extra facilities Spanish firms will enjoy for extending their distribution networks over other Community areas, to the benefit of our products there.

III.4 Catering and Tourism Sector

The Spanish catering and tourism sector is the most important in Europe, with total hotel and other lodging capacity of 2.020.000 rooms of which 40 per 100 are in hotels, spread among 9.600 establishments. There are 598 travel agencies with a total of 1.903 branches.

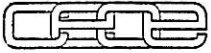
The importance of this sector for the national economy is highlighted by the number of visitors to Spain, in 1980 38.026.000, and by the foreign exchange generated by tourism. In the same year, the sector's balance of payments showed a favourable balance of 5.739 million, a figure resulting from income of 6.967 millions less payments of 1.229 millions.

Most likely, the entry into the Community of Spain, already the leading European country in tourism, will call for the strengthening and improvement of the infrastructure of services connected with tourism, principally hotels and residential complexes, and also related communications and transport, all of which will help to attract larger number of tourists with greater spending power.

In any case, with integration in view, it is as well to examine separately the position of the four subsectors distinguishable within the sector, namely, hotel catering, transport, travel agencies and tourist real estate construction.

Because of the upsurge in the hotel catering sector of the number of hotel rooms available, no increase in these is necessary, but only an improvement in quality of service and personal attention to customers.

The transport subsector will benefit from the administrative viewpoint, by progressive liberalization throughout the transitional period of intermittent transport of visitors which will finally lead to cancellation of entry and exit permits for vehicles carrying tourists from or to other Member States of the Community.



In the travel agency subsector, integration should encourage moderate development, given the increased facilities Spanish companies will have for establishing branches in Community countries, and assuming also that integration will result in a possible increased in travel other than tourist. The ideal outcome would be promotion of a network based on national interests which could counter the excessive contracting power of foreign tour operators.

Finally, it is to be hoped that liberty of establishment and of circulation of capital between Spain and the rest of the Community which integration will bring, will lead to improvement in building complexes for tourists and greater care of the surroundings.

III. 5 Road Transport Sector

149.557 companies operate in this sector with a total of 274.421 vehicles engaged in inter-city transport of goods. 63 per 100 of them own one vehicle and only 69 per 100 or more. The sector employs 467.000 persons and its participation in gdp is 2,9 per 100.

In the light of the problems that road transport will pose for Spain's entry into the Community, some basic options that could be adopted relating to the integration process are those directed towards:

- Organizing and strengthening the international transport subsector, forming companies of suitable size to compete successfully with the large multinational transport firms, thus preparing for participation in the great increase in traffic, both in travellers and merchandise which it is assumed will result from Spain's entry into the Community.
- Adjusting our regulations in labour matters and in technical vehicle control to those of the Community.
- Incorporating, but only by degrees throughout a lengthy period as is being done in the Community, the use of the tachograph, beginning with vehicles registered after a certain date, which logically will have to be fixed in accordance with the capabilities of companies engaged in road transport and those who will be manufacturing the device.
- Applying the principle of liberty of establishment only at the end of the transitional period and in conditions of strict reciprocity.
- Establishing minimum conditions of professional ability and economic solvency to regulate access to this activity.



- Using caution in liberalizing occasional international transport of travellers, as in principle such freedom could produce an impact on Spanish transport companies hard to withstand.

- Stipulating an ample adaptation time-limit for the specific case of combined sea and road transport between the United Kingdom and Ireland and the Spanish Cantabrian coast.

III.6 Sea Transport Sector

The Spanish merchant navy with a total of 7,5 million Gross Registered Tons, is one of the most modern in the world with 82 per 100 of this tonnage less than ten years old. 400 companies operate in the sector, 38 per 100 controlling 90 per 100 of the navy's tonnage. There are about 30.000 workers employed in the sector on land and sea.

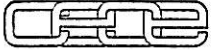
The great investment effort of the sector in the last decade has contributed towards reducing the deficit in the freight balance which in 1979 was equivalent to only 15 per 100 of freight in 1970.

A large proportion of the additional exchange of merchandise which predictably integration will lead to, will be by sea. Here the Spanish navy could play a important part being quite equal to the job of satisfying increasing traffic requirements.

The sector is hampered by a number of limitation which reduce its ability to compete as, for example, the obligation to construct, acquire and repair its vessels in Spanish shipyards. On the operational plane, its exploitation costs are artificially increased because crews have to be Spanish and because of strict and costly operational conditions.

The main question that will affect this sector with our accession to the Community are those of flag reservation and implementating the principle of liberty of establishment.

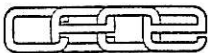
It may be said that flag reservation is not an unusual in the Community, and is applied in many countries either through explicit regulations or through administrative practice. Clearly, when products that might be considered of strategic importance for the national economy are involved, it is advisable for security reasons to provide adequate risk cover for their transport in Spanish ships. The difficulty is that



at the present time, this reservation is linked to considerations of State trading in merchandise. As this will have to disappear when Spain enters the Community, the process of freeing flag reservation from the State trading regime should begin now.

The application of liberty of establishment presents no problems, providing foreign firms find conditions for exercising this are similar to those for national companies.

Finally, it is only by adapting the conditions under which it operates to those internationally accepted that our merchant navy will be able to integrate without difficulty with Community maritime traffic. This should be facilitated by means of a new law adjusting the legal regime of the merchant navy. For this it is essential that there should be complete uniformity in operational conditions and practices so that the Spanish merchant navy can compete on an equal footing with other countries of an amplified Community.



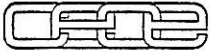
III.7 Engineering Sector

Approximately 140 companies form this sector employing more than 16.000 workers. Invoicing, if figures are deflated, has decreased slowly in recent years. On the other hand, in the same period exports increased significantly, not only in absolute values, but also in percentages over total invoicing. This undoubtedly favourable situation can be attributed as much to the stagnation of the internal market as to the circumstance that we followed a more aggressive commercial policy abroad. It must also be remembered that these exports boosted the sale abroad of a considerable amount of capital goods.

The sector is self-sufficient in certain types of engineering, but others lack processes of their own especially in advanced technology. Engineering companies in the Community have reached higher technological and productivity levels than the Spanish, and their chances of entering foreign markets as a result of improved technology and business drive and ability to offer more attractive financing conditions, are better than those of the Spanish. This makes Community companies less vulnerable in times of economic crisis, and rouses fears that when the full integration of Spain with the Community takes place, Spanish engineering companies might be subjected to very stiff competition.

Despite all this there is reason to hope that Spanish companies in this sector will come successfully out of the very testing time integration will bring them, thanks to their wider knowledge of the national market and to their by no means negligible human and technological attributes. Nevertheless, to ensure that this does occur, it would be advisable to adopt the following recommendations:

- Raise their technological level so that they will have their own basic engineering processes. To achieve this objective, related to the more general problem of investigation and technical development, seek



collaboration with production companies operating in the various sectors of the Spanish economy.

- Increase productivity, not only by making the fullest use of design and drawing work but also by maximizing the use of data processing, an indispensable aid for a modern engineering company.
- Promote exports, for which purpose it will be necessary to count on adequate technology and productivity as well as offices and branches abroad, individually or in groups, and on possibilities of offering attractive financing.
- Seek support from the Administration for achieving the objectives outlined above, especially as regards exports, by means of subsidies for the preparation of tenders, tax deduction, insurance, financing, suitable treatment for travelling personnel, etc.
- Collaborate more closely with manufacturers of capital goods which would result in undoubted benefits for both parties.
- Co-operate with engineering firms in the Community on projects to be developed in those countries to which Spain has easiest access.
- Intensify export efforts in areas in which Spanish engineering has a high level of technology and is in line competitively with the more advanced countries, specifically in specialized civil engineering, agronomics, power stations, tourist planning and others.
- Investigate activities in fields of definite current interest, such as energy saving and optimization, the environment, solar energy, etc., which undoubtedly offer ample opportunities for Spain.

III.8 Social Communications Media Sector

III.8.1 Cinematography

Spanish cinematographics includes the production, distribution and exhibiting subsectors, each one affected by different but inter-connected problems.

The production subsector is troubled by enormous fragmentation, a weak financial position and very limited means on the infrastructural plane. With integration, a plan for its reorganization should be launched to attract production companies with adequate material, technical and financial resources. A process of updating the screen quota system and other instruments of public aid should synchronize with this reorganization in such a way as to progressively harmonize them with systems in force in the Community.

The distribution and exhibiting subsectors, whose activity at present is excessively controlled by a combination of very strict and complex regulations, should benefit from the progressive liberalization of the system to which accession will lead, for example, in obtaining import and dubbing permits, at present subjected to extremely complicated negotiations.

It would also benefit the sector in general if a working relation were formed between the industry and State television similar to that existing in other Community countries to boost our own production and distribution capability.

Finally, with reference to the Community, the rescinding of the present prohibition on foreign investments in the production subsector as a result of liberty of establishment to which integration will lead, should be effected in such a way as to deny entry to entities with insufficient technical and financial solvency which could adversely effect normal activity of this sector.

II.8.2 Publishing Sector

The Spanish publishing sector is formed by 450 firms with production in 1980 reaching 75.000 pesetas of which a third was exported to Europe and South America. An idea of the importance of this sector, which has a great exporting tradition, can be gained from the fact that it occupies sixth place worldwide in volume of titles and eleventh in number of copies.

With integration in view, a key aspect for this sector is that affecting intellectual property. Present legislation on the subject should be harmonized as much as possible with laws of the Member States of the Community, but at the same time bridging gaps and inadequacies in these. There is in fact, insufficient harmony between Community laws themselves, at times leading to evasion of copyright payments and to some extent, to obstruction of liberty of movement of goods within the Community. Adequate safeguarding clauses should be included in the Treaty of accession to avoid these drawbacks until such time as national legislation on the subject is harmonized.

Finally, the future of the sector is closely linked to that of the printing industry (dealt with under heading II.4.11 of this document) and its evolution as regards technical and productivity levels.

III.9 Publicity Sector

There are 1.800 firms in the Spanish publicity sector employing 8.660 persons. In 1979 it channeled publicity investment valued at 81.500 million pesetas.

The size of these enterprises is generally very small, reflected in the fact that the average number of employees is 4,4. This explains why in many of them organizational infrastructure is inadequate and the financial situation weak. On the other hand, technical levels are satisfactory 45 per 100 of personnel being professionally trained, a high proportion, though still lower than that in the Community.

Spain's accession to the Community could create serious difficulties for this sector as liberty of establishment will in all probability lead to the presence of Community enterprises with greater operative and financial capacity. Their chances of penetrating into the Spanish publicity market could be bolstered by liberty of circulation towards Spain of Community products, most likely leading to co-ordination with publicity aid programmes carried out in the rest of the Community by its enterprises.

This prospect imposes the need for action to bring us closer to Community structures, based on mergers and in encouraging collaboration between firms, both national and Community, thus strengthening the operational capacity of the sector.

But this necessary change in the sector's structures will only be possible if first the legal framework is modernized. Present legislation, sanctioned during the decade 1960-70 has become outdated. It should be replaced by new regulations inspired by Community norms, especially relating to control of non-commercial publicity and deontological aspects of this activity. Hopefully this new legislation on publicity would restrict the exercise of liberty of establishment and access to the



profession to minimum requirements guaranteeing the professionalism of the sector. At the same time there should be means of ensuring that liberty of establishment would be based on reciprocity, which should also inspire standardization of Spanish degrees with those of the Community.