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Working Documents

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DOCUMENT 1-706/79

Report

drawn up on behalf of the Committee on External Economic Relations

on the proposal from the Commission of the European Communities to the Council (Doc. 1-392/79) for a decision introducing special aid for small and medium-sized industrial enterprises in Portugal

Rapporteur : Mr R. FILIPPI

12.2



By letter of 10 October 1979 the President of the Council of the European Communities requested the European Parliament, pursuant to Article 235 of the EEC Treaty, to deliver an opinion on the proposal from the Commission of the European Communities to the Council for a decision introducing special aid for small and medium-sized industrial enterprises in Portugal.

On 17 October 1979 the President of the European Parliament referred this proposal to the Committee on External Economic Relations as the committee responsible and to the Committee on Budgets for its opinion.

At its meeting of 22 November 1979 the Committee on External Economic Relations appointed Mr R. FILIPPI rapporteur. It considered the motion for a resolution and the explanatory statement at its meeting of 19 December 1979 and adopted them unanimously at its meeting of 21 January 1980.

Present: Sir Fred Catherwood, chairman; Mrs Wieczorek-Zeul, vice-chairman; Mr van Aerssen, vice-chairman; Mr Filippi, rapporteur; Mrs Agnelli, Mr Almirante, Mr Bøgh, Mrs Caretoni Romagnoli, Mr Cohen (deputizing for Mr Martinet), Mr De Keersmaeker (deputizing for Mr Antoniozzi, Mrs Desmond (deputizing for Mr Fellermaier), Mr Galluzzi, Mr Giummarra, Mr Jonker, Mr Lemmer, Mrs Lenz, Mr Majonica, Mrs Moreau, Mr Pannella, Mr Prout (deputizing for Mr de Courcy Ling), Mr Schmitt, Mr Seeler, Mrs Seibel-Emmerling (deputizing for Mr Ripa de Meana), Sir John Stewart-Clark, Mr Vandewiele, Mr Welsh and Mr Zagari (deputizing for Mr Seal)

The opinion of the Committee on Budgets is attached.

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The Committee on External Economic Relations hereby submits to the European Parliament the following motion for a resolution, together with explanatory statement:

MOTION FOR A RESOLUTION

embodying the opinion of the European Parliament on the proposal from the Commission of the European Communities to the Council for a decision introducing special aid for small and medium-sized industrial enterprises in Portugal

The European Parliament,

- having regard to the proposal from the Commission of the European Communities¹,
 - aware of the need for preparations to facilitate the integration of the Portuguese economy, under optimum conditions, into the Community economy,
 - having been consulted by the Council pursuant to Article 235 of the EEC Treaty (Doc. 1-392/79),
 - having regard to the report of the Committee on External Economic Relations and the opinion of the Committee on Budgets (Doc. 1-706/79),
1. Approves the proposal for a Council decision introducing special aid for small and medium-sized industrial enterprises in Portugal;
 2. Emphasizes that the granting of Community aid must definitely be made subject to the provision of general and specific guarantees, as stipulated in the proposed decision;
 3. Confirms the importance of providing Community aid for small and medium-sized enterprises in Portugal, since they form the most important sector of Portuguese industry;
 4. Approves, having regard to Portugal's prospective accession, the granting of aid to restructure that country's economy to facilitate its integration, under optimum conditions, into the Community economy;
 5. Draws the Commission's attention to the need to avoid taking any initiative which might promote industrial sectors whose products do not have any long-term marketing prospects; considers that the Portuguese initiatives should be concentrated in those sectors which could contribute to the growth of trade in an enlarged Community and provide balanced and constructive growth;
 6. Requests that the European Parliament should, like the Council, be kept regularly informed of the implementation of the programmes;

¹OJ No. C/257, 11.10.1979

7. Notes the proposals contained in the attached opinion of the Committee on Budgets;
8. Instructs its President to forward this resolution and the report of its committee to the Council and Commission of the European Communities.
9. Requests the Commission to incorporate the following amendments in its proposal, pursuant to Article 149, second subparagraph, of the EEC Treaty.

Council decision introducing special aid for small and small and medium-sized industrial enterprises in Portugal.

Preamble and recitals unchanged.

Article 1

1. The Community shall grant Portugal special aid of 47 million EUA to help SMIE to adjust progressively to the consequences of accession.
2. For the purposes of this Decision, SMIE shall be deemed to be enterprises in Portugal which employ more than 5 and less than 500 persons.

Article 2

The special aid provided for in Article 1 shall extend over a period of three years from the entry into force of this Decision; it shall take the form of grants.

The necessary funds for this special aid shall be entered each year in the Community budget.

Article 1

1. The Community shall grant Portugal special aid of around 40 million EUA to help SMIE to adjust progressively to the consequences of accession.
2. For the purposes of this Decision, SMIE shall be deemed to be enterprises in Portugal which employ more than 5 and less than 500 persons.

Article 2

The special aid provided for in Article 1 shall extend over a period of three years from the entry into force of this Decision; it shall take the form of grants.

The allocation of the necessary funds for this special aid shall be decided each year by the budget authority.

Article 3 unchanged.

Article 4

To benefit from the special Community aid, the operations referred to in the preceding Article must satisfy the following special conditions:

The training operations referred to in Article 3 (a) and (d) must:

- be concerned with persons who work or will be called on to work either in SMIE or in those services whose task it is to assist them, and who need to improve their knowledge and their professional capacities,
- be intended for the preparation, running and administration of training schemes, including the training of teaching staff, the reimbursement to trainees of the expenses incurred and their remuneration during the period of training,
- be concerned with the equipping of the training centres referred to above,

Article 4

To benefit from the special Community aid, the operations referred to in the preceding Article must satisfy the following special conditions:

The training operations referred to in Article 3 (a) and (d) must:

- be concerned with persons who work or will be called on to work either in SMIE or in those services whose task it is to assist them, and who need to improve their knowledge and their professional capacities,
- be intended for the preparation, running and administration of training schemes, including the training of teaching staff, the reimbursement to trainees of the expenses incurred and their remuneration during the period of training,
- be concerned with the equipping of the training centres referred to above,

¹For full text see OJ No. C 257, 11.10.1979, p.5

- receive at least 25% of their financing from the SMIE, their associations or the Portuguese Government, the Community aid being limited to 75% of the cost.

The operations to improve the services available to SMIE referred to in Article 3 (b) must:

- involve enterprises whose heads or managers have participated in the training operations described above,
- receive at least 25% of their financing from the SMIE, their associations or the Portuguese Government, the Community aid being limited to 75% of the cost of the staff and equipment expenses of the technical assistance and management services.

The restructuring and modernization operations referred to in Article 3 (c) must:

- be concerned with the activities of small and medium-sized enterprises that are financially healthy,
- take account, where operations in sectors in structural crisis are concerned, of the guidelines or measures agreed on at Community level,
- be financed by the SMIE themselves, by their organizations or by the Portuguese Government to the extent of 50% of the total cost of the investment operations in question, the Community aid being limited to 50% of the cost.

- receive at least 25% of their financing from the SMIE, their associations or the Portuguese Government, the Community aid being limited to 75% of the cost.

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The restructuring and modernization operations referred to in Article 3 (c) must:

- be concerned with the activities of small and medium-sized enterprises that are financially healthy,
- take account, where operations in sectors in structural crisis are concerned, of the guidelines or measures agreed on at Community level and of the long-term marketing prospects of the products of the industries concerned,
- be financed by the SMIE themselves by their organizations or by the Portuguese Government to the extent of 50% of the total cost of the investment operations in question, the Community aid being limited to 50% of the cost.

Articles 5 to 7 unchanged

Article 8

The Commission shall ensure that this Decision is properly implemented and that the various operations are carried out in accordance with the arrangements and criteria laid down therein. It shall inform the Council regularly of the progress of programme implementation.

Article 8

The Commission shall ensure that this Decision is properly implemented and that the various operations are carried out in accordance with the arrangements and criteria laid down therein. It shall inform the European Parliament and the Council regularly of the progress of programme implementation.

EXPLANATORY STATEMENTI. Introduction

Portugal has submitted an application to join the Community, to which the latter has responded favourably.

The enlargement of the Community to include Portugal must proceed smoothly not only in political terms - and in this connection the European Parliament's role with regard to enlargement must be more clearly defined - but also in economic terms; in other words it must lead to the effective integration of the Portuguese economy into the Community economy.

The disparity between Portugal's level of development and that of certain Community countries suggests that several models for development should be envisaged within the EEC. A working party should be set up to study Portugal's integration into the EEC in the light of the Commission's position and of the proposals put forward by Portugal.

The political reasons which led to acceptance of Portugal's application will have to be backed up by successful economic integration, since unsatisfactory progress in the economic sector might jeopardize the political advantages of Portugal's accession. Steps must therefore be taken to ensure that aid intended in principle for small and medium-sized enterprises is not used as a screen to conceal the installation of large multinational enterprises financed from other sources.

In agreement with the Portuguese Government, the Community therefore intends to introduce measures aimed at promoting the development of the Portuguese economy with a view to accession.

The present proposal for a decision concerns the introduction of special aid for small and medium-sized industrial enterprises in Portugal to prepare the Portuguese economy for accession and to improve the employment situation. The aid should therefore be approved in principle but the detailed arrangements require careful consideration.

II. The Portuguese Economy¹

Over the years 1974-1976 there was a decline in economic activity; it was accompanied by a substantial increase in unemployment, a rapid rise in

¹ The information contained in this section is taken from 'OECD Economic Surveys - Portugal - July 1979'

the inflation rate and an increase in the foreign trade deficit.

Activity picked up rapidly in 1977, but tailed off in 1978. This decline was partly due to the fact that in the second half of 1977 and in 1978 the Portuguese authorities adopted a restrictive policy, particularly in the monetary sector. This policy was intended to reduce the balance of payments deficit and to slow down the extremely rapid rate of inflation.

In 1978 there was a 3% growth in the gross domestic product as compared with 5.5% in 1977. This resulted in a decline in the labour market and an increase in the official unemployment rate from around 7% in 1977 to around 8% in 1978. Although decelerating compared with the previous year, the average increase of consumer prices in 1978 remained very high (22.5%). In 1978, for the second consecutive year, wage increases did not keep pace with price increases.

Although there was a balance of payments deficit in 1978 of around 780 million dollars, this represented an improvement on the objectives set by the Portuguese authorities (to reduce the 1977 deficit of 1,500 million dollars to 1,200 million in 1978).

The statistics shown in Annex I indicate the state of Portugal's trade with the EEC and the rest of the world for its most important products.

III. Content of the proposal for a Council Decision introducing special aid for small and medium-sized industrial enterprises in Portugal

As can be seen from the information given above, the Portuguese economy is going through a period of crisis. Moreover, Portugal's economy is considerably less advanced than those of most regions in the Community.

To ensure that Portugal's accession is successful in economic terms, it is therefore essential to promote corrective measures aimed at adjusting Portugal's economic structures. In this connection it is particularly important to take action to help small and medium-sized enterprises, which constitute the mainstay of Portuguese industry.

The Commission has already welcomed this approach, both in its 'General considerations' and in its opinion on Portugal's application for membership.

The Council endorsed this view and, at the official opening of the accession negotiations with Portugal, the President of the Council stated that the Community was prepared to study and examine with the Portuguese Government any supplementary measures which might assist its efforts, the success of which would facilitate Portugal's integration into the Community.

The prospect of accession has highlighted the need for specific support operations in addition to the direct and indirect aid already supplied by the Member States and by the Community.

It should be stressed that small and medium-sized undertakings constitute a vital and characteristic feature of the Portuguese economy. Portugal has around 15,000 such undertakings representing 66% of industrial employment (mining and quarrying and manufacturing industries). The few large industries have been virtually nationalized.

It is important to note that they account for only 12% of the total exports by manufacturing industries. They contribute 56% to the gross added value of the industrial sector; they are poorly represented on foreign markets, which reflects a lack of competitiveness and unsuitable management structures.

To prepare Portugal for integration into the Community, the Portuguese Government, citing Article 16 of the Additional Protocol, one objective of which is 'to promote measures likely to contribute to the development of Portugal's economy', has requested aid to implement an outline programme aimed exclusively at developing small and medium-sized enterprises. The implementation of this programme would be entrusted to a single public body, the 'Instituto de apoio as pequenas e médias empresas industriais' (IAPMEI).

The overall cost of the programme is estimated by the Portuguese at about 57 million EUA spread over three years.

Portugal is requesting the Community to contribute a total of 47 million EUA to the programme, the rate of contribution varying roughly from 50% to 100% according to the type of operation. When fixing the rates account should be taken of the experience gained by chambers of commerce and industry in the Community Member States. Public financing provided by Portugal should be kept at a fairly high level.

For example, 60% might be provided by the Community, 25% by the small and medium-sized enterprises and 15% by the Portuguese Government.

However, the Community should agree to Portugal's request since it will facilitate Portugal's economic integration.

The Community should reduce its contribution from the 50% to 100% requested by Portugal to between 50 and 75%. This reduction would also represent a reduction in total Community expenditure which, in present terms, would be adequate for the initial measures to aid the Portuguese economy.

The aid should be granted subject to the following conditions:

- the Portuguese Government should guarantee the successful completion of operations;
- the operations must form part of an outline programme;
- the Portuguese Government should indicate how it intends to ensure cohesion between the outline programme and the use made by the small and medium-sized enterprises of other funds made available to Portugal by the Member States and by international organizations;
- full information must be provided on the projects needed to ensure that the proposed aims are achieved;
- the basis for assessing the 'financial health' of the enterprises concerned should be clearly defined in terms of:
 - (1) sound internal management
 - (2) future prospects in a non-surplus sector;
- there should be permanent consultations between the Commission and the Portuguese authorities on the objectives to be attained;
- the Portuguese contribution should consist of public and private finance in a proportion to be decided by the parties concerned;
- since, in addition to the above aid, 4 million EUA will be allocated to training operations and the provision of technical assistance, clear information should be given on the recruitment and training of advisers and experts and on the duration, nature and intended beneficiaries of the proposed training courses;
- the Commission should notify Parliament and its appropriate committees of the detailed provisions for implementing the aid programme;

- the Commission's reports to the Council could also be forwarded to the Committee on External Economic Relations;
- audits of the utilization of the funds and the implementation of the measures should be carried out on the spot in the enterprises concerned in accordance with the system usually adopted in the Community;
- this type of financing should be classified as non-compulsory expenditure.

IV. Comments of the Committee on Budgets

The Committee on Budgets welcomes the granting of the aid proposed by the Commission, because:

- (a) it will enable Portugal, as an applicant country, to prepare for the obligations and financial burdens which will result from its full accession to the European Community;
- (b) if these measures succeed, Portugal will in future require less aid and temporary concessions from the Member States;
- (c) Portugal is a close neighbour in both geographical and political terms. This would be a reason for supporting the proposal even if there was no question of full accession to the EEC. The Community helps much more 'distant' countries.

However, the Committee on Budgets must express the following reservations:

- (a) the financial implications of the proposal call for more thorough examination and more detailed explanations;
- (b) under the proposed programme the share of the cost to be borne by Portugal is too low;
- (c) the amount of the aid should lie between the following upper and lower limits:

<u>contribution</u>	<u>Portuguese contribution</u>	<u>Total cost</u>
in m EUA	in m EUA	in m EUA
47	39	86
31	26	57

- (d) it is of the utmost importance that the measures should lead to real improvements in Portugal's economic efficiency. The checks carried out before, during and after the implementation of the programme should cover not only the 'health' of the enterprise and the financial feasibility of the measures but also the 'real' content of each project in the proposed programme.

Account must obviously be taken of Portugal's existing economic, political and social situation when devising and assessing the programmes;

- (e) the budgetary authority should decide under which chapters the appropriations intended for these measures are to be entered.

V. Conclusion

The proposal for a decision should be approved on condition that steps are taken to ensure that the aim of strengthening Portugal's economic system is achieved. The guarantees proposed by the Commission must therefore be implemented effectively. In particular, throughout the implementation of the programme the Community's contribution should always be considered in relation to all the aid granted to Portugal by the Community, the Member States and any other international organizations. To ensure the success of the measures undertaken at all levels to promote the rapid adjustment of Portugal's industrial and economic system to facilitate its smooth integration into the Community economy, there must be an overall conception of the programme and efforts to harmonize the various types of aid and assistance granted to Portugal.

Trade between Portugal, the EEC and the world

In \$ million
Source: OECD

ANNEX I

Product	Imports						Exports					
	1976		1977		1978		— 1976		1977		1978	
	World	EEC 9	World	EEC 9	World	EEC 9	World	EEC 9	World	EEC 9	World	EEC 9
Total	4,315.9	1,789.6	4,964.-	2,163.2	5,142	2,855	1,820	937.5	2,013.4	1,049.4	2,426	1,346
Agricultural products ¹	1,112.1	113.4	1,233.6	114.1	1,088.6	113.1	393.2	178.5	421.8	216.7	486.2	252.7
including:												
vegetable oil												
solid liquid	0.3	0	0.9	0	7.0	0.1	4.4	0.1	4.9	0.2	7.0	0.1
beverages	4.2	4.1	4.3	4.2	16	16	120.5	63.4	134.4	75.2	163	99
Industrial products	3,203.8	1,676.2	3,730.4	2,049.1			1,426.8	759.-	1,591.6	823.7		
including:												
clothing	17.5	9.2	13.1	5.6	10	4	201.5	100.9	222.6	111.3	303	182
footwear	1.1	0.3	0.6	0.1	0.4	0.1	35.7	13.1	48.4	18.4	63.1	34.4
textile fibres	244.7	41.8	277.1	35.6	216	30	5.8	3.-	1.9	1.1	4	3
yarns, fabrics made-up goods	121.5	75.2	129.8	84.8	135	87	277.2	150.-	311.1	15.5	401	251

¹ Agricultural products: 0, 1, 21, 22, 231, 1, 24, 261, 262, 263, 264, 265, 29.4, 599.51/52

OPINION OF THE COMMITTEE ON BUDGETS

Draftsman: Mr F. A. TUCKMAN

On 22 November 1979 the Committee on Budgets appointed Mr TUCKMAN draftsman of its opinion.

It considered the draft opinion at its meetings of 27-28 November and 4-5 December and adopted it by 19 votes to 4 with 4 abstentions on 4 December. It also adopted the attached proposed amendments to the Commission's text by 18 votes to 1 with 8 abstentions.

Present: Mr Notenboom, acting chairman; Mr Spinelli and Mr Rossi, vice-chairmen; Mr Tuckman, draftsman; Mr Adonnino, Mr Aigner, Mr Ansquer, Mr Baillot, Mr Balfe, Mr Barbi, Mr Cohen (deputizing for Mr Arndt), Mr Colla, Mr Curry (deputizing for Mr Forth), Mr Dankert, Mr Flanagan, Mrs Gaspard, Mr Gouthier, Mrs Gredal, Mr Hord, Mr Lega, Mr Motchane, Mr Nord, Lord O'Hagan, Mr Orlandi, Mr Pfennig, Mr Konrad Schön, Mrs Scrivener, Mr Simonnet and Mr J. M. Taylor.

Introduction

1. The Commission's proposal for a decision introducing special aid for small and medium-sized industrial enterprises in Portugal falls into the pattern of actions which need to be undertaken in connection with the prospect of that country's accession to the Community. Its basis is the statement by the President of the Council at the time of the official opening of the accession negotiations that the Community was prepared to study supplementary measures which would facilitate Portugal's integration into the Community.

2. The programme considered in the present opinion is that submitted by the Portuguese Government through the Joint Committee set up under the EEC-Portugal agreement, with the aim of obtaining from the Community special aid for the introduction of measures for the development of small and medium-sized industrial and artisanal enterprises.

Portugal's requests

3. With the basic idea of creating conditions for the development of small and medium-sized enterprises, not least through encouraging investment in that sector, the programme proposes:

- (a) training operations for top and middle management;
- (b) operations designed to improve the quality of the services in the enterprises;
- (c) operations designed to restructure, modernize and develop the activities of small and medium-sized enterprises in the artisan sector;
- (d) formal and in-service training abroad for experts who will be responsible for implementing the programme.

4. According to estimates by the Portuguese authorities, the overall cost of these measures, management of which would be entrusted to a public body, the Instituto de apoio as pequenas e médias empresas industriais (IAPMEI), would amount to about 57 million EUA over three years. Part of this expenditure (generally 25%) would be borne by the enterprises concerned or their associations.

Portugal is asking the Community to contribute a total of 47 million EUA to the programme, the rate of contribution for individual operations varying from 50% to 100%.

The Commission's reactions

5. The Commission assumes that the Community must respond favourably to Portugal's request and that - notably in view of the heavy indebtedness of the country - it will have to undertake to provide grant aid, rather than loans; it then goes on to propose a number of modifications to the requests set out above.

6. First, as regards the rate of participation in the total expenditure, the Commission suggests that the contribution for operations that are not immediately productive (training activities and modernization of services) should be limited to 75%, and that the contribution rate for investments be limited to 50%.

7. As for the overall amount of Community aid, the figure of 47m EUA requested by Portugal would only be retained if Portugal produced a more detailed outline programme and if Portugal's own contribution was not less than 32m EUA.

8. Other conditions proposed by the Commission concern the coordination of the aids, a guarantee of successful completion of operations, control over the profitability of the investments, especially as regards projects involving firms in structural crisis sectors, and transparency of data on all the activities.

9. Finally, it is proposed that an official of the Commission will maintain liaison with IAPMEI, to which all requisite technical assistance will be provided.

Financial aspects

10. The 47m EUA in commitment appropriations for 1980 to be entered under Article 1030, 'Total operational reserves for various sectors' would be distributed over a three-year period as follows:

- 1980: 13m EUA
- 1981: 16m EUA
- 1982: 18m EUA

12m EUA of this would be set aside for professional training and aid and 35m for restructuring and modernization operations.

The financial record sheet supplies no further information in this area.

Comments of the Committee on Budgets

11. The Committee on Budgets is in favour of providing aid as proposed by the Commission - for the following reasons:

- (a) It prepares this applicant state to become ready for the obligations and burdens of ultimate membership of the European Community;
- (b) If successful the support schemes will make the applicant country less dependent on future aid and transitional concessions from Member States;
- (c) Portugal is a close geographic and political neighbour and therefore this proposal deserves support even if ultimate EEC membership were not envisaged. The Community provides support to much more 'distant' countries.

12. However, the Committee on Budgets must state the following reservations:

- (a) The financial dimensions of the proposal require further examination and clarity;
- (b) Under the proposed scheme Portugal bears too little of the financial burden;
- (c) The aid dimension should be between the upper/lower limits as set out below:

<u>Community contribution</u>	<u>Portuguese share of costs</u>	<u>Total cost</u>
m EUA	m EUA	m EUA
47	39	86
31	26	57

- (d) It is very important that the schemes result in actually improved Portuguese economic efficiency; controls before, during and after the operation of these measures should examine not only financial soundness and feasibility, but should also check the 'real' content of each proposed scheme or exercise. Naturally, the actual current economic, political and social state of Portugal must be borne in mind when schemes are shaped and judged.
- (e) The budgetary authority will have to establish the source from which the funds for this venture can be transferred.

Conclusions

13. The Committee on Budgets therefore asks the Committee on External Economic Relations to take into account the following remarks in its report:

- (a) The Commission will communicate to Parliament the final Portuguese programme for aid to SMIE - and will keep it informed of the implementation of this programme, notably of the actual improvement of Portuguese economic efficiency;
- (b) the Commission should not propose nor accept the interference of a Council management committee in the financial implementation of the programme; if such a committee was installed, it should only play an advisory role;
- (c) the expenses involved in financing this programme must be classified as non-compulsory expenditure;
- (d) the wording of Articles 1 and 2 of the draft Council decision should be altered as specified in the attached annex - in order not to prejudice the powers of the budgetary authority.

Proposal from the Commission of the European Communities
to the Council for a decision introducing special aid
for small and medium-sized industrial enterprises in Portugal

Preamble and recitals unchanged

Article 1

1. The Community shall grant Portugal special aid of 47 million EUA to help SMIE to adjust progressively to the consequences of accession.
2. For the purposes of this Decision, SMIE shall be deemed to be enterprises in Portugal which employ more than 5 and less than 500 persons.

Article 2

The special aid provided for in Article 1 shall extend over a period of three years from the entry into force of this Decision; it shall take the form of grants.

The necessary funds for this special aid shall be entered each year in the Community Budget

Article 1

1. The Community shall grant Portugal special aid of approximately 40 million EUA to help SMIE to adjust progressively to the consequences of accession.
2. For the purposes of this Decision, SMIE shall be deemed to be enterprises in Portugal which employ more than 5 and less than 500 persons.

Article 2

The special aid provided for in Article 1 shall extend over a period of three years from the entry into force of this Decision; it shall take the form of grants.

The allocation of the funds needed for this special aid shall be decided each year by the budgetary authority.

Articles 3 to 8 unchanged

