

SPEECH OF
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AT THE
IRISH INSTITUTE OF PUBLIC ADMINISTRATION
TO THE
CONSULTATIVE GROUP OF CHIEF EXECUTIVES OF IRISH STATE ORGANIZATIONS
ON
THE ROLE OF PUBLIC ENTERPRISE IN THE EUROPEAN COMMUNITY
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LADIES AND GENTLEMEN,

First let me say how happy I am to be in Ireland today, and in particular to be able to talk to and discuss with a group of people whose interests reflect so many facets of life in your country. The very variety of these interests serves to underline the first point I would make, which is that for better or worse, and whether they like it or not the national governments of Member States or our Community

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are becoming

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Moreover they are doing are becoming directly involved in the economy. In so many ways that putting them into categories applicable throughout the Community becomes almost impossible.

It is clearly no secret that State intervention in the economy is a controversial subject both in economic and in party political terms. Yet despite this controversy, neither the left nor the right has monopolised the role of promotor of the State undertaking in the build-up of the public sector in Western Europe.

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The efforts of States as entrepreneurs have of course not always been crowned with success. Neither, let it be said immediately are those of private undertakings. The vital difference between the two types of economic initiative lies in the fact that on the one hand public money and resources are involved, whilst on the other, it is the private sector and private individuals who are risking their capital.

Nevertheless it has been recognized in many countries

that public enterprise

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that public enterprise may offer an appropriate solution to the economic organization of certain sectors. Public utilities provide the obvious application but there are examples in other sectors, especially investment and research - intensive industries where market conditions are uncertain and in markets where the price signals may not provide a sufficient guide to production and investment levels which would be ideal for the economy as a whole.

I have emphasized here some of the positive aspects of

public enterprise

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public enterprise first, to put into perspective the few but important things which the treaty of the European Economic Community has to say on the subject. I am not likely to surprise you if I say that the authors of the EEC treaty came down on the side of market forces as a prime motor for a trans-national economy, and as being capable, subject to adequate supervision, of bringing about, in the words of Article 2 of the treaty, "harmonious development of economic activities, a continuous and balanced expansion ./. ."

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balanced expansion, an increase in stability, an accelerated raising of the standard of living and closer relations between the States belonging to it." Having taken this option, they wished to make two things clear from the outset.

a. First a State which decides in all lucidity to belong to a Common Market as set up by the treaty has a considerable choice as to the extent to which it desires public and private funds to be used as a factor of production. This is

the meaning ./. .

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the meaning of that rather sibylline article, N°. 222, which states that this "treaty shall in no way prejudice the rules in the Member States governing the system of property ownership."

It is also the origin of the near impossibility of defining the role of public enterprise from a Community point of view.

b. However the second thing which the authors of the treaty took care to stress was that in exercising in this context the options which are undoubtedly theirs, Member States must respect the treaty and especially its competition rules.

In a perfect

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In a perfect world - or a perfect Common Market - such a reminder might be considered superfluous. In the world and the Common Market as we know it, the reminder contained in Article 90/^{of the treaty} was not superfluous at all.

In the light of what I have said, you will readily understand that there can in fact be no "Community role" for public enterprise. It is up to individual Member States to decide upon the role which they wish their public sector to play.

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We can therefore only really meaningfully discuss the situation in which public enterprises in the community find themselves today. The categories into which direct and indirect State intervention in the economy tend to fall under the following headings :

1. providing certain public services
2. the principle that certain means of production should necessarily be kept in the hands of the State
3. the fact that State presence in certain sectors of the

economy is ./. ..

economy is pragmatically considered necessary, whether as a stimulus, or in order to provide the State with greater influence in the sector (and possibly region) concerned

4. rescue operations
5. making up for the shortcomings, real or considered likely, of the private sector.

Looking at this list, one must first observe that in

no case is ./. ..

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no case is any treatment infringement inherently present in any of these situations. It is equally obvious however that the motivations and indeed the responsibilities of public authorities and private investors can differ radically ; it is this mixture of public and entrepreneurial responsibilities which can lead to difficulties as far as the Common Market rules are concerned, and in no area is this more the case than with the rules for State aids.

The private investor - whether the funds are his own
or borrowed

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or borrowed - normally acts under market constraints : he is obliged to obtain a return on the funds (if not in the short term, then in the medium to long term) which is consistent with the risk involved and at least as good as that on comparable alternative investments. The State investor is generally looking for results amongst which profit will frequently not be the major consideration, if indeed it figures at all. The activities of the public undertaking can however be in direct competition with
those of

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those of other undertakings (both public and private) situated in the same or in other countries. The risk or a distortion of competition between undertakings becomes very real at this point, and is heightened by the considerable difficulty of defining normal market behaviour. This difficulty must not however prevent the Commission from endeavouring to ensure equal treatment under the treaty of all undertakings.

It was against this background that the Commission

adopted in June 1980

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adopted in June 1980 a directive on the transparency of the financial relations between Member States and public undertakings (1). It is impossible to go into detail on the subject here, but briefly, the directive imposes upon Member States the obligation to supply, on request, certain information on these relations. The directive also defines certain types of financial relationships to which the Commission considered it

particularly important

(1) Directive 80/723 of 25 June 1980

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particularly important that transparency should be applied, and I would like to cite just two examples of these. One is the foregoing of a normal return on public funds used, and the other is the compensation for financial burdens imposed by the public authorities. I think that the inclusion of this second point underlines the fact that the Commission is fully conscious of the complexity of the public enterprise's task.

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I would not pretend for a moment that the Commission was expecting popularity with all Member States in adopting such a directive. In point of fact its action was contested before the European Court of Justice by France, Italy and the United Kingdom, but in a recent decision the Court upheld the Commission's point of view. I would add that investigations under the Directive will shortly be going ahead in the following sectors : automobiles, man-made fibres, textile machinery, synthetic fibres, manufactured tobacco and shipbuilding.

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//In conclusion,

In conclusion, I would not like to leave you with the impression that the Commission's attitude as far as public undertakings are concerned is necessarily coloured by suspicion. As guardian of the treaty, and in particular where the rules covering State aids are concerned, its task is to ensure that State investment does not have an aid effect incompatible with the treaty, hence the action I have described. It fully recognises however the contribution which public enterprises can make to the economic debate

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by virtue of

by virtue of their experience, their responsibility, and their often considerable economic strength. I can thus assure you that the views which public undertakings may wish to make known will always command consideration within the Commission.

Thankyou for your attention.
