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- ** Since 1970, ANY PRACTICE WHICH HAMPERS THE LIBERALIZATION OF PUBLIC CONTRACTS IS ILLEGAL. In spite of this, the single common market is in many sectors still far from being effective. Yet the Community as a whole would certainly have everything to gain from a real liberalization of public contracts in all the industrial sectors. This emerges from the first report on the liberalization of public contracts which the Commission of the European Communities has just forwarded to the Council. A short analysis will be found in ANNEX 1.
- ** The capital expenditure of the Community's steel industry, which trebled between 1954 and 1963, and was then halved between 1963 and 1967, will attain the record level of 2,600 million u.a. in 1972 (1 u.a. = about \$1). This is revealed in a study which the Commission has just published on INVESTMENT IN THE COMMUNITY'S COAL AND STEEL INDUSTRY. A short analysis of this study will be found in ANNEX 2.

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The information and articles published in this Bulletin concern European scientific cooperation and industrial development in Europe. Hence they are not simply confined to reports on the decisions or views of the Commission of the European Communities, but cover the whole field of questions discussed in the different circles concerned.

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** The European Commission is of the opinion that the COMBATING AND PREVENTION OF ENVIRONMENTAL DETERIORATION will call for adequate capital expenditure on the part of commercial companies. It stated this in a reply to a written question from Mr Notenboom, a member of the European Parliament. Extracts from the Commission's reply will be found in ANNEX 3.

** THE PRELIMINARY DRAFT BUDGET OF THE EUROPEAN COMMUNITIES FOR 1973 drawn up by the Commission amounts to 5,065,519,000 u.a. (1 u.a. = about \$1), representing an increase of 21% on 1972.

The relative weight of agricultural expenditure is levelling off, while spending for other common policies is on the increase; the allocations of the European Social Fund increased by a factor of seven in 1970-73 (from 37 to 260 million u.a.); environmental policy has received much larger appropriations (for studies and pilot experiments); industrial policy has for the first time received a budget of 20 million u.a. for the financing of Community development contracts, while research policy has been granted 85,513,695 u.a., representing an increase of 12% on 1972.

** The problems raised by THE REDUCTION OF LEAD COMPOUNDS IN FUELS have been discussed at meetings of experts organized by the departments of the Commission of the European Communities on the following subjects:

1. The health aspects of emissions of lead compounds by motor vehicles.
2. The technical effects on automobile construction of the use of fuels having different characteristics from present fuels.

In addition, the Commission has awarded three study contracts

for the following purposes:

1. To carry out a bibliographical study of the data contained in recent scientific and technical literature on the pollutants emitted by motor vehicles in general.
2. To determine in the laboratory the physicochemical properties of lead compounds emitted in the exhaust gases of vehicles of the European type and in conditions representative of European traffic.
3. To analyse the impact which the ban on lead additives will have on the economics of petrol refining.

Lastly, the Commission, in collaboration with the US Environmental Protection Agency, is to organize an international symposium on these health problems, to be held in Amsterdam in October 1972.

** THE TRADE UNION DELEGATES IN THE ENERGY SECTOR of the Community countries will be brought together by the European Commission in Bad Blessig, West Germany, on 19-22 September 1972 in a colloquium on the following subjects: the safety problems of the nuclear industry, the Community's medium-term programmes for oil and gas, the coal situation, the Community's second Illustrative Nuclear Programme and the outlook for electricity production.

** The European Commission has just decided to have a study carried out aimed at assessing the relative EFFICACY of the various possible forms of AID TO THE EUROPEAN DATA PROCESSING INDUSTRY.

** In reply to a written question from Mr Cousté, a French member of the European Parliament, the European Commission has just given details of the design Association on the construction of

a PLANT FOR URANIUM ENRICHMENT based on the gaseous diffusion method.

The Association includes the following organizations:

- Syndicat belge de séparation isotopique, SYBESI
- Commissariat français à l'énergie atomique
- Studiengesellschaft für Uranisotopentrennverfahren
- Comitato Nazionale per l'Energia Nucleare
- Agip Nucleare
- Ultra-Centrifuge Nederland NV
- British Nuclear Fuels Ltd.

The protocol setting up the Association was signed in Paris on 25 February 1972. The Association's aim is to study the economics of the construction in Europe of a factory for uranium enrichment by the gaseous diffusion process which would be competitive at world level. The partners who possess relevant information will communicate it to the Association. The work will relate to gaseous diffusion techniques, for which the necessary knowhow will be available. The study is expected to take two years.

** ECONOMIC STUDIES ON THE ENVIRONMENT, and in particular on the application of the "PAY AS YOU POLLUTE" principle, have been carried out by the Commission in collaboration with a group of national experts. The group met for the first time as a Community body on 25 January 1972. Subsequently experts from the applicant countries were invited to participate. The group met for the second time on 25 May 1972.

The Commission proposes to draw up a progress report on the group's work at the end of 1972.

- ** Negotiations have been concluded between the European Atomic Energy Community and the International Atomic Energy Agency of Vienna (IAEA) with a view to the conclusion of an AGREEMENT ON THE EXERCISE OF CONTROLS in the nuclear installations of the non-nuclear Community Member States. It is expected that the Council will shortly approve the agreement negotiated.

- ** There are as yet no Community regulations concerning the tinfoil used in the manufacture of cans for preserving foodstuffs. However, the Commission is preparing a draft directive on MATERIALS AND OBJECTS DESTINED TO COME INTO CONTACT WITH FOODSTUFFS. It will be followed by implementing documents on the various categories of materials employed, in particular metals such as tinfoil. This information has been given by the European Commission in reply to a Parliamentary question on the dangers resulting to health from an excessively high tin content in the tinfoil used in the manufacture of cans for the preservation of foodstuffs.

- ** The Commission of the European Communities is to negotiate AN EXTENSION OF THE DRAGON AGREEMENT for a period of three years beginning on 1 April 1973, to be based on a financial contribution of about 43% from the Community.

The Dragon experimental high temperature reactor at Winfrith, England, is a joint enterprise of the International Atomic Energy Agency (IAEA) in which the Community is participating together with Austria, Britain, Denmark, Norway, Sweden and Switzerland.

THE LIBERALIZATION OF PUBLIC CONTRACTS

First communication from the Commission of the European Communities to the Council on the degree of liberalization of public works contracts and of the markets of firms providing a supply service of general economic interest

Since 1970 any practice which is opposed to the liberalization of public contracts is illegal. In many sectors, however, the single common market is still far from being effective. In its memorandum on industrial policy (see IRT No. 48) the Commission has indicated the steps which need to be taken in order to end the compartmentalization of markets.

But the psychological barriers are more awkward than the technical. The unenterprising attitude of the purchaser, despite the fact that he is the first beneficiary of the economies of scale directly resulting from the single market, does not always prompt him to take advantage of a wider range of products, particularly since there are usually close working relationships between the national or local administrations and their traditional suppliers. The industrialists for their part often prefer to maintain the status quo in a narrow national market rather than face dynamic international competition in a wider market. Lastly, the governments, much concerned with the delicate problems of compensation and reciprocity, are inevitably subject to various pressures, particularly from trade unions wishing to safeguard employment in the threatened sectors.

It is certain, however, that the Community as a whole would have everything to gain from a real liberalization of contracts in all industrial sectors. By the operation of give-and-take at national level, all concerned would gain, whether public authorities, industrialists or workers.

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These facts emerge from the first report which the Commission has just forwarded to the Council. This contains an analysis of the situation based on the available statistical data and the information which the Commission has been able to obtain elsewhere, followed by a series of solutions, varying according to the sectors, for the problem of opening up markets to intra-Community competition. It has been limited to civil supply contracts, excluding public works contracts and specifically military markets.

As regards the markets studied, various measures to end their compartmentalization have already been or will shortly be taken, namely:

1. In December 1969 the Commission adopted a directive with a view to the abolition of laws, regulations, administrative measures and discriminatory practices impeding imports or introducing reservations and preferences in favour of national products. At the end of 1971 it reminded the Member States of the obligations resulting from this directive and invited them to say what measures they had taken to implement it.
2. In addition, in March 1971 the Commission presented to the Council a draft directive on the coordination of the procedures for the award of public supply contracts (see IRT No. 91). This proposal excludes some major public undertakings (transport, production, transport and distribution of water and energy), where the variety of laws encountered makes it necessary to envisage other measures.
3. The Commission is considering what action to take on the basis of the Treaty in order to ensure non-discriminatory behaviour

in purchasing by undertakings excluded from the proposal mentioned above and by those which, being engaged in a service of general economic interest, are not subject to the regulations affecting the States.

An analysis of the situation shows that the problems encountered cannot all be solved by legal means. A number of additional measures will therefore be necessary in order progressively to abolish the numerous fragmentations which still persist as regards public supply contracts and firms engaged in services of a general economic interest.

A. CONVENTIONAL PROCUREMENT CONTRACTS FOR EXPENDABLES

These contracts concern a wide range of products in common use (fuels and maintenance materials, foodstuffs and drugs, and much equipment used in administrations, hospitals, schools, military establishments, etc.) and constitute 15-20% of the total market. They represent a major part of public expenditure and it is therefore in the general interest that they should be obtained under the best conditions of price and quality on a market widely open to competition.

Under its Treaty powers the Commission is taking the action necessary to eliminate the restrictive measures and practices which still exist in regard to these products. It is making an intensive study of the regulations and practices of the Member States in order to reveal any restrictive measures of which it may as yet be unaware (complaints by manufacturers who consider themselves to be at a disadvantage make an important and useful contribution to the execution of this task). Lastly, the adoption by the Council of the

draft directive on the coordination of the procedures for the award of public procurement contracts should further lessen the risks of discriminatory behaviour in purchasing on the part of public bodies. Taken as a whole, these measures justify the hope that substantial progress may be made in the near future.

B. CONTRACTS FOR CAPITAL GOODS AND ADVANCED TECHNOLOGY PRODUCTS

These markets (the civil side of which alone represents 30-40% of all the markets studied) are largely concentrated in a small number of sectors, often connected with major R&D activities, whose vigorous development is regarded by the state as of vital importance for the country's industrial future. The degree of liberalization of these markets, which as a whole is very small, nonetheless varies appreciably according to the products and the countries.

1. Equipment in which there is a large trade

The level of intra-Community trade in some products, such as machine tools, measuring instruments, electromedical apparatus and X-ray equipment, in the purchase of which public or semi-public authorities play a large though by no means exclusive part, appears to be fairly satisfactory. The technical specifications and viability requirements for these products appear to take precedence over any considerations of origin. As regards some of them, however, coordination of R&D programmes at Community level would make it possible to prevent the future emergence of obstacles to trade.

2. Equipment in regard to which the Community industry still does not meet a large part of the Community's needs

In the data processing sector the dominance of a single non-Community

firm on all the Community markets leaves room for little more than technical trade between European subsidiaries of this firm. Except for these technical exchanges and certain peripheral areas where European firms have been able to penetrate the Community markets, intra-Community trade in computers appears extremely small throughout the private, semi-public and public sector.

As a result of their comparative technical and commercial weakness, but also of the technological development policies pursued by certain Member States, who favour their national manufacturers or those established on their soil, the opportunities open to European firms of penetrating the markets of the large purchasers of other Member States appear extremely limited. The maintenance of national preferences in the award of contracts, far from favouring the growth of a strong and dynamic production capacity capable of competing effectively with extra-Community firms, merely restricts still further the field of expansion of European industry in this sector.

While some state support for the native European industry (which can still be called nascent by comparison with its competitors) appears legitimate, this policy can be effective only at Community level. It must be counterbalanced by measures of reorganization which the recent agreements between firms appear to have initiated. The Commission is at present preparing for the Council a review of data processing which will sketch the broad lines of a concerted policy at Community level.

In the aircraft sector the absence of Community production in the field of long-distance commercial carriers has hitherto obliged airlines to import this type of plane from other countries. On

the other hand, the Community* has itself produced short/medium-distance aircraft, a field in which the companies have been able to choose between a Community product and products from non-Community countries. In this way a certain amount of intra-Community trade has been able to develop.

The future commercial success of the Community industry in Europe and on the world market, and the maintenance of a dynamic and flourishing European production capacity, will depend on certain conditions which are summarized in a recent memorandum by the Commission (see IRT No. 153).

In the conventional and nuclear power plant sector, where about two-thirds of purchases are made by firms responsible for a service of general interest, intra-Community trade is insignificant as regards turnkey orders. They amount to less than 10% of the apparent consumption for any of the large sub-components, and are much less for the major plant items.

In order to remedy this situation, consultation between all the competent Community manufacturers should become common practice and the Commission may forward a directive to the Member States on this subject. It will also try to obtain more knowledge about plans for investment in electrical power plants, so as to help manufacturers to adapt to market requirements.

While the contacts with manufacturers suggest that adaptation to industrial standards is not generally a major obstacle to trade, it is nonetheless desirable that safety standards should be harmonized. If manufacturers were to cooperate concerning their

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basic technical options, this would make it possible to avoid subsequent divergences which impede the standardization of major power plant components.

3. Equipment in regard to which there is difficulty both in liberalizing contracts and in defining future needs and techniques

In the railway equipment sector, intra-Community trade has remained at a very modest level (6-7% of apparent consumption for coaches and waggons, 2% for traction equipment, 6-8% for ECSC track equipment. For products similar in every way to the last-mentioned but distributed to private customers - heavy sections of merchant steels - the rates were 34 and 21% in 1970).

The proper functioning of the market is hampered by various factors, such as differences in standards or technical requirements, the absence of consultation with foreign manufacturers and the use by public authorities of purchases of railway equipment for purposes of industrial, regional, social or market policy as a result of the difficulties being experienced by the Community rolling stock industry. These difficulties should be resolved at Community level by measures of reorganization, rather than by the maintenance of forms of intervention which militate against sound business management.

In the field of telecommunication equipment destined mainly for public purchasers, intra-Community trade has remained at a very low level (about 3.5% of the apparent consumption in 1969 for radio equipment, and about the same percentage for line and cable telecommunication equipment).

A certain number of special features of the telecommunications equipment market explain its inertia; these include in particular

the need for compatibility between new equipment and the existing infrastructure, which has a long service life, together with the part played by public authorities in stimulating the design and development of new products and in drafting specifications, which despite the existence of international standards frequently vary from country to country. As a result there is a close contact between industry and public authority from the earliest stages in the design of a product.

The market for equipment for the technical infrastructure of airports (electronic apparatus), which may be estimated at \$100 million a year in the Community, consists exclusively of public purchasers. In three Community producer countries (France, West Germany and Italy), the proportion of imports is very low - about 5% of the market. The low level of trade is frequently attributed by those concerned to certain advantages associated with purchase from a domestic supplier: the possibility of collaboration or dialogue, together with facilities for personnel training. Certain considerations of industrial policy and national defence appear sometimes to play a part. On the other hand, there is no evidence that differences in specifications constitute an obstacle to trade.

C. MEASURES TO BE TAKEN

As regards contracts for capital goods and advanced technical equipment, meetings between "major purchasers" would be desirable in order to verify and possibly supplement the conclusions of this first report on coordination. Subject to any observations which may result from such meetings, supplemented

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where necessary by other contacts, the Commission is of the opinion that the following measures should be taken:

1. Initiation of procedures guaranteeing consultation of all the competent suppliers in the Community: conventional and nuclear electrical power plants, railway equipment, telecommunications equipment, equipment for the technical infrastructure of airports.
2. Elimination of technical obstacles to trade (harmonization of standards and technical specifications): conventional and nuclear electrical power stations, railway and telecommunications equipment.

In order to facilitate this process, it would be desirable for the purchasers when drawing up specifications not to push technical detail to a point which is possibly superfluous and incompatible with industrial rationalization.

3. Elimination of administrative and customs obstacles: airport infrastructure equipment.
4. Joint definition by the purchasing bodies or responsible public authorities of new equipment to be developed: electromedical instruments, aircraft, railway, telecommunications and airport infrastructure equipment.
5. Possible Community support for the joint development of certain new equipment: granting of joint undertaking status to organizations for technical cooperation between public services in Community countries, awarding of Community industrial development contracts for new products or processes, supporting of early units in production runs of certain advanced equipment by giving preference,

other things being equal, to European products through a concerted purchasing policy.

6. It should be remembered that in certain sectors it will be necessary to follow a policy of reorganization or conversion in the event of sectoral or regional difficulties (e.g., railway equipment or transformers).

INVESTMENT IN THE COMMUNITY COAL AND STEEL INDUSTRIES

Capital expenditure in the Community steel industry, which trebled in the period 1954-63 and was then halved in 1963-67, will attain the record figure of 2,600 million u.a. (1 u.a. = about \$1) in 1972.

These facts emerge from a study of the Community's coal and steel undertakings carried out on behalf of the Commission of the European Communities.

1. Capital expenditure in the coal industry amounted to 143 million u.a. in 1971, and is estimated at 201 million u.a. for 1972 (projects started, decided and planned).

Capital expenditure in the steel industry grew almost uninterruptedly from 1954 to 1963 (it trebled, rising from 453 to 1,480 million u.a.). Between 1963 and 1967 it declined steadily to 730 million, i.e., was halved in four years. Since then it has increased from year to year, rising to 802, 1,039, 1,706 and 2,182 millions in 1968, 1969, 1970 and 1971 respectively. This figure will itself be exceeded in 1972 with 2,600 millions, the highest level hitherto recorded. The figure for 1973 is estimated at almost 2,000 millions; allowing for the incompleteness of firms' estimates for two years ahead, this might prove to be an underestimate.

2. According to the coal firms, the possible annual rate of coal extraction would fall by about 27.5 million tonnes between 1971 and 1975, i.e., from 174.5 to 147.0 million tonnes. This is, however, a much smaller drop than that observed during the four year period preceding the present enquiry, which was 36 million tonnes.

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The possible annual rate of iron ore extraction, which after showing a marked downward trend in 1962-68 had levelled off in 1968-70 at about 80 million tonnes, fell again to about 75 million tonnes in 1971. The undertakings hope to maintain this rate between now and 1975.

After expanding by 23.5 million tonnes of crude steel between 1967 and 1971, the possibilities of annual production in the steel industry will increase by a further 27.9 million tonnes over the next four years, reaching a total of 163.4 million tonnes in 1975.

The use factors of production potential appear particularly low in 1971, especially as regards cast iron and steel, where they barely reach 75% in each case. The annual decrease (about 10 points in both cases) is the greatest which has been observed since the beginning of the studies; in addition, these rates are the lowest which have been recorded. Comparable rates had up to the present been recorded only in 1966.

3. Taken as a whole, the results of the 1972 enquiry justify the expectation that between now and 1975 the supply targets underlying the Community's General Steel Objectives will be attained.

But the observations concerning the increase in the possibilities of crude steel production to about 160 million tonnes in 1975 confirm the concern which is felt about the unprecedented increase in the investment trend in private enterprise. The General Objectives had considered that undertakings should **stagger** the introduction of new production capacity in order to avoid

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upsetting the market by sudden increases in supply. Technical progress must often entail the replacement of obsolete plant by much larger units, but closer cooperation during the making of investment decisions would sometimes facilitate adjustment, possibly on a multinational basis.

THE ENCOURAGEMENT OF INVESTMENT WITH A VIEW TO ENVIRONMENTAL PROTECTION

(Extracts from a reply by the Commission of the European Communities to a written question from Mr Notenboom, a member of the European Parliament)

A. The Commission considers that the combating and prevention of environmental deterioration will call for adequate capital expenditure by undertakings.

The Commission will study the practical implementation of the principle that industries should be required to incorporate the latest and least polluting technical processes and equipment in their new capital expenditure. In particular it will take care to ensure that supplementary expenditure is allocated on uniform principles in the Community Member States.

If it appears that in certain instances aid is necessary in order to enable undertakings to adapt to these new restraints in the context of international competition, then this aid should be granted in conformity with the relevant general principles of the EEC Treaty.

B. In France, firms which manufacture or order plant intended for the purification of industrial water (under the provisions of law No. 64-1245 of 16 December 1964 relating to the distribution of water and the prevention of its pollution) may, on completion of the plant, practice an exceptional depreciation rate of 50% of the cost price. The same system is applicable to plant constructed for the prevention of atmospheric pollution and smells.

In West Germany a special depreciation rate is envisaged for the following items:

1. Installations for protection against damage caused by waste water (Article 79 EStDV).

The special rate may apply to fixed capital used to prevent, eliminate or reduce the damage caused by waste water. During the year of acquisition or manufacture and the four following years, the accelerated depreciation may total 50% of the cost of acquisition or manufacture of movable goods and 30% of the cost of real estate.

2. Installations for the prevention, elimination or reduction of air pollution (Article 82 EStDV).

The special rate may apply to fixed capital used to prevent, eliminate or reduce air pollution. During the year of acquisition or of manufacture and the four following years, the accelerated depreciation may total 50% of the cost of acquisition or of manufacture. In both cases the purchase or manufacture of these components must be of public interest. In addition, the competent authority must certify that the required conditions are fulfilled.

The West German Government's environmental protection programme envisages the general application of the "Pay as you pollute" principle as a step towards a constructive environmental protection policy. However, public assistance may in exceptional circumstances be granted by the Länder and the municipalities in the form of guarantees, loans or financial aid.

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In the Netherlands, under the terms of the law on the pollution of surface waters, there is a system of payments which facilitates the construction of purification plants in existing factories, and also of other devices for processing waste water.

C. The Commission shares the honourable gentleman's opinion that particular attention must be paid to the harmonization of Member State legislation in this field in order not only to avoid distortions of competition but also to ensure freedom of trade and establishment.