

European COMMUNITY Community

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BACKGROUND NOTE

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COMMISSION OUTLINES PLAN FOR "EUROPEAN INDUSTRIAL BASE"

To help complete the fusion of the nine European Community (EC) Member States' economies into a single common market, the Commission has outlined a plan that seeks to:

- remove remaining barriers to trade among Member States
- open public tenders to bidders from all Member States
- encourage the formation of trans-European firms
- coordinate Member States' policies on heavy capital goods industries, such as shipbuilding and aircraft manufacturing.

Responding to the call for "a single industrial base for the Community," made by EC leaders at their "Summit" in Paris in October 1972, the Commission memorandum said the Community's enlargement in January this year must be followed up with measures to enable European industry to "benefit fully from its new framework and be competitive on the world market."

Industrial development must form part of an overall plan "to improve the quality of life, working conditions and the environment," it said. By easing change in the Community, a common industrial policy could help liberalize world trade and industrialize developing countries. It should ensure workers a bigger say in running firms.

To preserve the Community's "fertile pluralism," an EC industrial policy should not be a single policy administered by the Community institutions"; it should be "based largely on free enterprise, on agreements freely concluded between workers' and employers' organizations, and on programs carried out by regional and national public authorities."

Removing Trade Barriers

Varying regulations on safety and quality standards (for automobile brakes and food colorings, for example) compel a firm in one Member State to follow other States' rules to sell its goods in their markets. In 1969 the Council of Ministers adopted a program and procedure to "harmonize" these standards, thereby saving firms the extra expense of separate production runs and duplicating stocks. So far the Council has adopted nearly 40 directives that set common norms for products ranging from scales to detergents.

The Commission memorandum proposed that through speeded-up procedures the Council complete the program, plus a supplementary program adopted this year, before the end of 1977. The Commission plans to submit some 25 draft directives a year, (double the current number) focusing on proposals to ease trade, protect consumers, and safeguard the environment. It intends to apply systematically the existing procedure whereby directives in force can be revised to incorporate new developments.

Action to free trade in branded pharmaceuticals is essential, the Commission said. This is the only sector where trade remains restricted, partly because Member States do not yet automatically recognize other Member States' marketing licenses, and partly because they do not mutually recognize drug manufacturers' qualifications.

Opening Public Markets

Purchases by Member States' government agencies and public utilities represent a growing share -- about 17 per cent at present -- of the market for manufactures, but only about 5 per cent of these orders go to suppliers in other Member States; in the private sector the proportion varies between 15 per cent and 35 per cent. Advanced technology and heavy industries, which rely on orders from public authorities, have hardly benefited from the economies of mass production made available by the enlarged Common Market, according to the memorandum.

The Commission called on the Council of Ministers to adopt directives that would help open public contracts to bidders from all member countries. Because of "historical or psychological barriers" (national prestige is a major factor) Community legislation alone will be inadequate. To change public buyers' discriminatory attitudes, the Commission called for hearings on public tendering, more contacts between public purchasers, and the publication of statistics. Where a joint European network will bring technical and economic benefits (railroad and telecommunications equipment were cited), the Commission will encourage the formation of joint companies.

Setting Up Trans-European Firms

To help European firms to take full advantage of the enlarged European Common Market and compete successfully with non-Community firms in Europe and elsewhere, the Community should encourage the formation of transnational companies. According to the Commission, "combinations at national level lead to competition between firms which are supported in various ways by their respective governments and which are often unable to operate at a profit. Transnational groupings, on the other hand, offer the possibility of combining fair competition and economies of scale."

Citing the Community Court of Justice's decision in the Continental Can case (upholding the Commission's contention that mergers between firms in "dominant positions" in the Common Market should be outlawed if they impede EC trade), the Commission said "more systematic supervision of combinations of a certain magnitude" is necessary to ensure effective competition. It will seek power to ban proposed mergers where it judges they will conflict with the Common Market.

Differences in Member States' company laws that impede links between firms should be ironed out through common rules on, for example, company formation, presentation of accounts, increases in capital, and mergers.

Specifically, EC legal forms should be created to permit business regroupings that would be governed solely by EC law. The Commission

- recalled its 1970 proposal for a European Company statute
- said it will propose the setting up of a "European Cooperation Group" -- a flexible legal instrument, based on French *groupements d'intérêt économique*, that would enable firms to work together to achieve specific goals (for example, joint purchasing)
- urged the Council of Ministers to act quickly on its proposal to extend "Joint Undertaking" status to other industries. This status is now reserved for firms in the nuclear sector that provide a public service or undertake major technological projects of Community interest.

The Commission called on Member States to ratify and apply by 1976 two major industrial property accords drawn up on the Commission's initiative: one due to be signed at a conference in Munich September 10 through October 6, will standardize procedures for awarding patents in 21 European countries; under the other (due to be signed in Luxembourg in May 1974) the nine EC member states will introduce a unitary Community patent that will coexist with national patents.

For its part, the Commission said it will speed up its work on proposals to unify trademark and bankruptcy laws.

Noting that discriminatory tax provisions impede cross-frontier mergers, the Commission urged the Council of Ministers to act this year on its January 1969 proposals to harmonize certain tax provisions on capital gains and on capital transfers. The Commission said it is working on proposals to end discrimination in taxation of dividends and bond interest.

The Commission document outlined a set of measures to help form "a true European capital market" that would permit European industry to finance its expansion and modernization. It said capital markets in most Member States are still national and compete with the Eurocurrency market. While national markets are "too restricted," many firms cannot use the Eurocurrency market either because they are too small or because they are not allowed to.

To encourage links between medium-sized companies the Commission this year set up a business cooperation center. As a further step to this end, the Commission memorandum urged prompt Council action on its proposal to award Community development contracts to firms that take part in trans-European research or work together on projects of Community interest.

The Commission has asked major national finance bodies, such as Germany's "Kreditanstalt fuer Wiederaufbau," to join forces with the European Investment Bank (EIB) to provide capital for cross-frontier mergers, and to promote joint exports. It plans to ask other finance institutions, such as the "Nederlandse Handelsmaatschappij," to work together to supply risk capital to "young firms with a high growth and innovation capacity."

Industrial Sectors with Special Problems

Member Governments, management, and workers should jointly coordinate national policies on major capital goods industries, according to the Commission. Specific Commission proposals will cover paper, textiles, shipbuilding, uranium enrichment, nuclear industry, heavy mechanical and electrical engineering, data processing, and aircraft manufacturing. The Commission said better information about these sectors' market prospects and investment projects could avert long-term shortages of raw materials and serious overproduction caused by increases in capacity.

Calling for a common raw materials policy, the Commission said the Community should "husband limited resources, perfect substitute materials, find new reserves, and develop recycling techniques." It noted that the law of comparative advantage may lead to the formation outside the Community of dominant groups or monopolies and to strong pressure on EC imports of, for example, aircraft and paper. The Community should prevent rapid market and technical changes from having "politically unacceptable social and even regional" results in the textile and other industries.

External Relations

The Commission said that although the Community is "pursuing a more open commercial policy," it is not neglecting its own industries' interests. European industry should be able "to compete on equal terms against its rivals." The Commission specified harmonized procedures on export credits and guarantees, and Community guarantees for private investment in developing countries as priority measures.