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REPORT

drawn up on behalf of the Committee on Economic and Monetary Affairs

on investment policy in the Community

Rapporteur: Mrs M.-J. DESOUCHES

PE 86.682/fin.
Or Fr

English Edition

By letter of 24 January 1983, the Committee on Economic and Monetary Affairs requested authorization to draw up a report on investment policy in the Community.

By letter of 21 February 1983 the committee was authorized to report on this subject. On 7 March 1983 the Committee on Social Affairs and Employment was asked for its opinion.

On 25 January 1983, the Committee on Economic and Monetary Affairs appointed Mrs Desouches rapporteur.

At its meetings of 3/4 November and 20/21 December 1983, the Committee on Economic and Monetary Affairs considered the draft report and unanimously adopted the motion for a resolution as a whole.

The following took part in the vote: Mr MOREAU, chairman; Mr HOPPER, vice-chairman; Mrs DESOUCHES, rapporteur; Mr BEAZLEY, Mr von BISMARCK, Mr BONACCINI, Mr CABORN, Mr DE GUCHT, Mr FERNANDEZ, Mr I. FRIEDRICH, Mr de GOEDE, Mr HERMAN, Mr HUTTON (deputizing for Mrs FORSTER), Mr LAGAKOS (deputizing for Mrs THEOBALD-PAOLI), Mr MULLER-HERMANN, Mr NORDMANN, Mr PAPANTONIOU, Mr PURVIS (deputizing for Mr DE FERRANTI), Sir Brandon RHYS WILLIAMS, Mr ROGALLA (deputizing for Mr MIHR),) Mr ROGERS, Mr SEAL (deputizing for Mr WAGNER), Mr WEDEKIND (deputizing for Mr SCHNITKER), Mr WELSH and Mr von WOGAU.

The Committee on Social Affairs and Employment refers to the opinion it delivered in connection with the report by Mr MOREAU (Doc. 1-234/83).

This report was tabled on 5 January 1984.

C O N T E N T S

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The Committee on Economic and Monetary Affairs hereby submits to the European Pariament the following motion for a resolution together with explanatory statement:

MOTION FOR A RESOLUTION

on

investment policy in the Community

The European Parliament,

- having regard to the communications from the Commission to the Council on
  -initiatives for promoting investment (COM(82) 641 final),
  -the problem of investment (COM(82) 365 final),
  -financial integration (COM(83) 207 final),
  -tax and financial measures to promote investmment (COM(83) 218 final),
- having regard to the report by the Committee on Economic and Monetary Affairs (Doc. 1-1264/83),

1. Notes that the share of gross fixed capital formation in the Community's GDP has decreased considerably by comparison with the 1970s and that the Community is lagging behind Japan and the USA;

2. Points out the serious dangers of the low level of investment in the Community which is reflected mainly in obsolescent production equipment and a slowing down in the rate of incorporation of technological development. If the Community is to have a competitive economy, be independent as regards energy, and able to create durable employment, investment must be revived;

3. Therefore maintains that, in order to prepare for the future and ensure a non-inflationary resumption of growth, the Community must as a matter of urgency implement all the measures needed for an effective investment policy, i.e. create the general conditions and introduce the mechanisms that will guarantee the objectives of such a policy;

- <u>the general conditions for increasing investment in the Community</u>

4. Notes that the degree of liberalization of capital movements in the Community is in general lower than it was when the Community was created and that the differences between the Member States have increased; therefore stresses that there is a need rapidly to bring about the financial integration essential to increased investment in the Community;

5. Endorses the Commission's intention to collaborate with the authorities of the Member States in seeking ways of gradually removing restrictions arising from application of the safeguard clauses provided for in the Treaties;

6. Also notes that the Commission intends to draw up a list of exchange control or monetary policy measures liable to hamper current transactions and which henceforth could only be introduced at Community level and for a limited period;

7. Calls on the Commission to submit new proposals for freeing capital movements such as foreign issues on national markets, foreign securities on the stock exchange and transactions in unquoted securities which are currently liberalized under certain conditions;

8. Recalls its resolution of 13 October 1981 (1) which called for the introduction of a system to link existing stock markets so that prices can be determined more reliably and investors informed more rapidly and more extensively;

9. Also believes that kerb or secondary markets, open on appropriate conditions to SMU stocks, should be created if they do not yet exist, along with collective investment undertakings for transferable securities;

10. Notes that the revival of investment in the Community is closely linked to maintenance of the standard of living, moderate economic recovery and a climate of monetary stability and that it is therefore essential further to consolidate the EMS as the guarantee of an international monetary system that is less precarious;

(1) OJ No. C 287, 9.11.1981

11. Stresses the need for convergence of the economic, monetary and budgetary policies of the Member States as a means of checking inflation which continues to be high in some Member States and is a factor of economic divergence and monetary instability, in order to recreate a situation in which real interest rates are lower and less variable so that investments can be revived;

12. Also points to the need for genuine coordination of the monetary policies of the United States and the Community in order to create the climate needed for the development of trade and economic growth, particularly in the developing countries, before any lasting investment policy is introduced;

- <u>the components of investment policy in the Community</u>

13. Believes that attempts must be made in each of the Member States to employ means of developing initiatives and setting up businesses and that freedom of management, particularly price-fixing for which competition is the best regulator, should be maintained or restored; also considers it essential to reduce dirigiste, technocratic and administrative constraints; therefore calls on the Commission to seek, together with the Member States, possible ways of for instance:

- reducing the basis of assessment of corporation tax by deducting a percentage of the investments made and charging any losses to previous or subsequent financial years,

- eliminating taxation on apparent profits,

- harmonizing the corporation tax rate within a bracket such as that proposed by the Commission in its 1975 proposal for a directive,

- granting tax concessions for research expenditure in view of its deferred profitability, particularly for SMUs;

14. Also believes that in order to encourage the outside capital contributions needed by undertakings, steps should be taken to:

- reduce costs, particularly the fiscal costs, of raising capital and in particular abolish or reduce the capital duty charged when companies are set up or capital is increased;

- coordinate and improve, in collaboration with the authorities of the Member States, existing tax incentives to encourage saving by investing in shares;

15. Also believes that encouragement should be given to collective investment undertakings for transferable securities (CIUTS) which have a stabilizing effect on the market and provide collective and less costly management of savings; therefore calls on the Council to adopt the two proposals for directives on the subject currently before it;

16. Underlines the role that public investment by the Member States, regions and public undertakings should play in restoring growth and contributing to the implementation of major projects using advanced technology;

17. In view of the very inadequate level of public investment in the Community, calls on the Commission to recommend that, wherever their budgets so permit, Member States should increase their public investment in priority sectors such as energy, research and development, infrastructures and advanced technology; also draws attention to the need for numerous suitable vocational training programmes in the Community;

18. Given the advantages of the Community's borrowing and lending policy, stresses the need to improve its functioning and increase its volume; believes that developing this policy over the coming years could provide the Community with increased investment crucial to its recovery under optimum conditions;

19. Given their innovation and job creation potential, also considers it essential to promote investment by SMUs and, to this end, to simplify Community and national procedures for granting Community financial aid;

- <u>objectives of investment policy in the Community</u>

20. Points out that, through medium and long-term investment, the aims of the Community's investment policy should be compatible with the requirements of competitivity and convergence; notes in this respect that there is a need inter alia to develop the role of the ERDF and the Social Fund, create an Innovation and Industrial Development Fund and, in general, increase the Community's budgetary resources;

21. Lastly, calls on the Member States to coordinate their foreign investment policies so as to reap the maximum benefits for Community undertakings, without prejudice to the basic industrial strategy or the need to create jobs on a sound and long-term basis;

22. Instructs its President to forward this resolution to the Council and Commission of the European Communities.

(b) Need for an investment policy in the Community

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EXPLANATORY STATEMENT

INTRODUCTION

(a) Investment situation in the Community

The various studies carried out by the Commission and the report drawn up for the European Parliament by Mr ALBERT and Mr BALL (1) clearly show that the investment capacity of European undertakings has been impaired in recent years because the future has been sacrificed to the present as a result of the inflationary behaviour of economic agents and the management of public finances. Although suffering the effects of considerably increased energy dependence and industrial competition from Japan and the newly industrialized countries, the Community preferred to consume rather than to invest. Between 1973 and 1983, private and public consumption as a share of GDP increased by 6% of the initial share whereas the share of investments fell by 20%. Public authority investment as a share of GDP fell from 4.1% in 1973 to 2.9% in 1982.

This sacrificing of the future to the present has had disastrous consequences for the economic situation in the Community. The poor profits made and reinvested by undertakings as well as the very considerable decrease in public investment has led to ageing of the production equipment. Because of lack of investment, the Community's energy dependence has not been reduced as planned. Because growth has been inadequate, no lasting jobs have been created; instead there has been a marked increase in unemployment, which in turn has increased the social burden on the budget and the economy as a whole.

(1) Towards European Economic Recovery in the 1980s - report presented to the European Parliament by Mr M. ALBERT and Professor R.J. BALL

(b) Need for an investment policy in the Community

It is essential today to reverse the order of priorities and ensure that our economy, itself a factor of growth and employment, again becomes competitive. To be more specific, in many cases investment must be revived at Community level. Consolidation of the Community must again be regarded as the investment par excellence. To reap the long-term benefits of expansion, equilibrium and stability, the Member States must agree to a 'productive detour' of a common investment strategy. Thus, investment policy in the Community would appear to be one of the main components of the Community's recovery in the years to come. The general conditions necessary for the development of this policy will have to obtain and the implementing measures will have to be taken and the objectives adopted before the policy can succeed, as we shall see.

I. GENERAL CONDITIONS FOR THE DEVELOPMENT OF AN INVESTMENT POLICY IN THE COMMUNITY

There can be no genuinely consistent increase in investment in the Community unless legal, fiscal and administrative obstacles are removed and the economic and monetary uncertainties that still characterize the capital market in the Community are reduced.

1. Removing obstacles to the free movement of capital

the three major freedoms introduced into the EEC by the Treaties, freedom of movement of persons, goods and capital, least progress has been made as regards the latter. There is still no real financial integration in the Community; the main reason for this very harmful situation is the over frequent use made of the safeguard clauses provided for in the Treaties and the extreme compartmentalization that continues to be a characteristic of the Community financial market.

(a) Over-frequent use of the safeguard clauses

As the European Court of Justice recently pointed out, freedom of movement of capital is not directly applicable. Moreover, so far only two directives have been adopted by the Council, in 1960 and 1962, in pursuance of Article 67 of the Treaty. Thus capital movements have been unconditionally freed only for operations connected with direct investments, securities dealt in on the stock exchange and capital movements of a personal nature or connected with the provision of services. On the other hand, a whole series of operations such as the flotation of foreign securities on national markets, the admission of foreign securities to national stock exchanges, transactions in unquoted securities and the acquisition of units in unit trusts are subject to conditional liberalization. As a result, because there has been very little liberalization of capital movements, recourse is frequently made not only to the safeguard clauses provided for in the Treaties but to numerous restrictive measures introduced by the Member States as their economic policies demanded. The Commission has for instance concluded: 'financial markets are probably even less integrated now than in the 1960s, since capital movements within the Community are less free now, and the differences between the Member States are more marked' (1). In France, Italy, Ireland and Denmark, controls have been maintained for most capital movements, and these countries have even been authorized on various occasions to introduce restrictions on some of the capital transactions freed by the directives of 1960 and 1962.

Thus, since the creation of the Community, the Member States have preferred recourse to restrictive measures to correct disturbances in their national financial markets or to obviate the serious threat of difficulties in their balance of payments (Articles 73, 108 and 109 of the Treaty). However understandable this preference might be because of the importance to the Member States of maintaining their balance of payments, it must be admitted that exceptions have been resorted to more often than the principle of abolishing obstacles to the free movement of capital (Article 3(c) of the Treaty) has been implemented. Active solidarity in the form of 'mutual assistance' has not progressed as one might be

(1) COM(83) 207 final, p. 4

entitled to expect in a proper Community. Rather than resorting to safeguard clauses, it would be preferable for the Member States to make more frequent use of mutual support mechanisms such as medium-term financial assistance which, in spite of a considerable increase in the amounts available, has not been used since 1977.

Approval in principle should therefore be given to the proposals put forward by the Commission (1), including the following:

- consideration of the balance of payments situation as a whole within a year so as to explore, jointly with the Member States concerned, the possibility of gradually removing restrictions applied pursuant to the safeguard clauses,

- drawing up a list of exchange control or monetary policy measures that can hamper current transactions and which from now on can be applied only at Community level and for a limited period.

(b) The compartmentalization of the financial markets

Less frequent recourse to safeguard clauses and restrictions, must be accompanied by progress with European provisions to promote the free movement of capital, which has been held up since 1962. For lack of any real integration of the finanical markets, freedom of establishment in the Community for banks, insurance companies and financial intermediaries in general, freedom to provide financial services and the saver's freedom to choose his investments have all been limited in scope.

The Commission should therefore submit new proposals to free capital movements currently subject to conditional liberalization, such as the flotation of foreign securities on national markets, the introduction of foreign securities on national stock exchanges, transactions in unquoted securities and the acquisition of units in unit trusts.

(1) COM(83) 207 final, p. 11 et seq.

Moreover, as the European Parliament pointed out in a previous report (1), measures should be taken to create a genuine European stock market and genuine interpenetration of European stock markets, particularly at a time when additional links between the stock exchanges are possible with computerized dealings.

To this end, any direct or indirect fiscal discrimination or distortion in stock exchange transactions should be abolished. The principle of fiscal non-discrimination should also be applied to various tax incentives to encourage risk capital investment as well as to corporation tax. It would be preferable for the structure, rate and basis of assessment of this tax to be harmonized in the EEC.

Similarly, the European code of conduct for stock exchange transactions contained in the recommendation of 25 July 1977 should be fully and effectively implemented. Optimum transparency of the stock market is an essential objective on which the equal status and confidence of investors depends. The current computerization of the European stock exchange network should make it possible to determine prices more reliably and to provide a wider variety of information more quickly to investors.

But there is no doubt that a system of links between existing stock exchanges has no chance of becoming really operational unless the restrictions, whether legal or fiscal, applied to stock exchange transactions are gradually but rapidly removed. Kerb or secondary markets, especially designed for the financing of SMUs must also be developed, as must collective investment undertakings for transferable securities (CIUTS).

Financial integration of the Community must be a priority objective. It is in fact for lack of financial integration that the Member States carry out two-thirds of their long-term external financial operations outside the Community's financial circuits, mainly on the Eurocredit market.

(1) Report on the creation of a European stock exchange - rapporteur: Mr Francisque COLLOMB - Doc. 1-290/81

2. Reducing economic and monetary uncertainties

The above measures constitute the necessary pre-requisites for freedom of movement of capital and financial integration in the Community. Although necessary, these conditions are not enough to guarantee an increase in investment. One more general requirement is an economic and monetary climate in the Community to encourage investment.

The following outlines the gist of the general requirements which have been dealt with in separate reports.

(a) Exchange rate stability

Monetary instability is undoubtedly one of the main obstacles to increased investment in a Community in which nine different currencies are used. Investors and contractors delay their projects until exchange parities are sufficiently stable.

Since its creation in 1979, the EMS has admittedly increased the stability of exchange rates in the Community. However, two currencies, the pound sterling and the drachma do not yet belong to it; lastly, if monetary adjustments are to increase in number as they have done in the past 18 months the EMS would collapse. For lack of economic convergence, the EMS would merely record divergences in the economic performances of the Member States and would therefore lose much of its impact. Investors both inside and outside the Community and contractors, particularly the SMUs, will be dissuaded from investing unless the monetary climate in the Community is stable enough(1).

Clearly, therefore, an increase in investment is closely linked to the consolidation of the EMS and the creation of a proper zone of stability in the Community, which would also guarantee an improvement in the international monetary system.

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(1) The allocation of Community loans from the EIB to the SMUs is affected by exchange problems, and their success very often depends on whether or not exchange guarantees are given by some Member States.

(b) Reducing inflation

Likewise, it is evident that, because of the climate of uncertainty it creates, inflation is not conducive to investment.

So long as the Community has a high rate of inflation, with differences of from 5 to more than 20% as at present, there can be no balanced flow of investment throughout the Community. Steps must be taken to combat inflation, a major factor in monetary instability, resolutely. Reducing inflation, and in particular reducing the difference between the highest and lowest inflation rates in the Community, is an essential pre-requisite for a balanced revival of investment throughout the Community.

(c) Reducing interest rates

Lastly, high nominal interest rates particularly affect investments yielding delayed profits, especially in construction, energy investment and innovation in general. Such a situation could compromise the future and competitive position of the European economy. Moreover, variable interest rates make forecasts of the cost of capital and the debt burden more unreliable and, as do high rates, prompt undertakings to adopt a wait-and-see policy.

One can therefore measure the possible effects on investment of a more determined economic and monetary policy on the part of the Community that would give it greater stability and make it less dependent on the dollar.

II. THE COMPONENTS OF A COMMUNITY INVESTMENT POLICY

Once the general conditions are right, a Community investment policy could have three main components, which we shall now examine in turn.

1. Coordinating fiscal measures connected with investment

Investment will come first of all from businessmen and savers. No matter how essential they are, the budget contribution and public, national or Community investment will merely have a catalysing effect.

Fiscal policies in the EEC must therefore be properly coordinated so as to improve self-financing and the external financing of undertakings.

(a) Increasing undertakings' self-financing margins

If there is to be growth and competitivity, the productive apparatus has to be constantly developed and therefore a large volume of risk capital must be available. However, the debt burden is particularly costly because of the very high interest rates. Undertakings must therefore have a wide enough margin for self-financing. The fiscal policies followed by the Member States in this respect must be adapted to this requirement and coordinated to prevent distortions of competition. The Commission recommends that fiscal measures be taken that in general guarantee undertakings ample profits and encourage investment and risk-taking.

- Reducing the tax assessment basis

Apparent profits should not be taxed so that undertakings can continue to make profits. However, this happens when depreciation allowances are based on historic cost without taking into account the effects of inflation and obsolescence due to technological process. Even in the Federal Republic of Germany for instance, where inflation has been relatively modest, taxes on the apparent profits resulting from the method of calculating depreciation for wear and tear probably represented over one third of the tax liability of undertakings. Existing measures for accelerated depreciation (in certain cases, 70% in the first year in France and even 100% in Ireland and the United Kingdom) or reserves for price increases, the indexation of depreciation allowances in Denmark and the revaluation of balance sheets in Italy should therefore be generalized and harmonized.

Other measures also have the effect of reducing the tax basis, for instance the possibility of charging any losses to preceding or subsequent financial years and the deductibility of a percentage of the investment from the taxable profit (Belgium, Denmark and Greece). These measures, which are merely being enumerated rapidly here, deserve to be better coordinated and, in some cases, generalized.

- Reducing the tax rate

There is a reduced corporation tax rate in some countries for some categories of undertakings and the subject is also the main theme of the proposal for a directive on the harmonization of corporation tax, which provides for the adoption of a tax bracket from between 45 to 55%. In their report, Mr ALBERT and Mr BALL recommend that, once growth resumes, the Member States take steps to lower the taxes on company profits so that they can invest more(1). It would also seem that taxation is not sufficiently well adapted to the requirements of the innovative companies whose profits are therefore delayed. It would therefore be advisable to allow research expenditure to be tax deductible in view of its deferred profitability, particularly for the SMUs.

- Reducing fiscal charges not linked to profits

In order to improve a company's self-financing margin, some consideration will undoubtedly have to be given to changes to be made to fiscal charges not linked to profits, such as the 'taxe professionnelle' in France and the 'Gewerbesteuer' in the Federal Republic of Germany. Similarly, in some Member States the social security contributions paid by employers account for a significant proportion of the total tax burden (29% of total taxes in France, Italy and the Netherlands). However, the different ways in which social charges are allocated in the Member States affect the self-financing ability of companies and are a cause of distortion of competition(2).

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(1) Towards European Economic Recovery in the 1980s, p. 69, para. 541

(2) Social security problems - points for consideration (COM(82) 716 final, 17.11.1982)

(b) Improving external company financing

If external company financing is to be improved, various incentives will also have to be coordinated at Community level.

For the record, we shall review the various measures mentioned above that could create the conditions needed for real financial integration in the Community. Costs, such as the fiscal costs of raising capital for quoted companies or companies whose shares are being quoted for the first time on the stock exchange should be reduced and the 1% duty applied to capital contributions when companies are created or capital increased should be abolished or reduced.

Secondary markets reserved for unquoted shares, together with the related tax relief measures, should be the norm for innovative SMUs. Likewise, forms of collective investment should be developed, since collective investment undertakings for transferable securities (CIUTS) have a stabilizing effect on the share market and allow for large-scale savings through the collective management of savings. The Council should therefore adopt the two proposals for directives on CIUTS currently before it.

As recommended by the Commission, tax measures to encourage saving by investing in shares should be coordinated and, if necessary, improved so that there is a better balance between them and those generally applied to home-ownership savings.

Lastly, provided they are re-examined and improved more frequently, existing rules on employee wealth formation and share-buying schemes could also improve savings diversification.

We can thus see the value of a tax policy to promote investment in the Community. It should however be added that implementation of the tax measures to encourage investment presupposes that there will be strict control of undertakings to ensure that untaxed profits are in fact reinvested.

2. Coordination of public investment policy in the Member States

The public authorities play and will continue to play an important role in investment. However, it is becoming increasingly necessary for public authorities closely to coordinate their measures in this area since their effectiveness depends most often on the consistency of governmental action. Apart from the regulations, particularly tax regulations that have an indirect effect on investments and which, as we saw before, have to be coordinated to become more effective, the public authorities have a direct influence on investment through t[illegible] of public investments and the trend they take.

(a) volume of public investments

As we said at the beginning, public investment has fallen (gross capital formation by the public administrations decreased from 4.1% of GDP in 1970 to 3.1% in 1981) and current expenditure increased from 33 to 45% of GDP in recent years in an attempt to reduce the public deficit.

It is time to reverse this situation and again focus attention on the future. It would therefore be preferable for the Member States to use the margins of manoeuvre available to sustain internal and international growth through public investment programmes. The same applies to the public undertakings which play a leading role in most of the Member States in areas such as transport, energy and telecommunications in which there is a demand for advanced technology.

But such a policy requires proper coordination of the budgetary policies of the Member States and a much more positive attitude to the question of own resources in the budget of the Communities and the allocation of considerably more appropriations than in the past for industrial policy or research and development in the Community.

(b) the trend in public investment

Public investments must be chosen with the greatest care as to their medium and long-term profitability having regard to the requirements of competitivity and restructuring with which the whole productive apparatus of every Member State has to cope.

Priority should therefore be given to expenditure on infrastructures, energy, research and development and vocational training. Selectivity in public investment is the corollary of the strictness with which aid in the form of different types of investment is granted to the private sector.

3. The Community's borrowing and lending policy

In recent years, the Community has successfully implemented a borrowing and lending policy which has made it possible to finance a considerable number of investment projects. Through the intervention of the ECSC, the EIB and the NCI, the Community will borrow some 6,000 million ECU in 1983, a very considerable and rapid increase over the figure of 5,000 million ECU for 1982.

This policy affords numerous advantages, since Community loans increase neither Member States' external debts nor their budgetary deficit and can be relatively rapidly implemented by the Community institutions. Loans allocated to priority Community projects in infrastructures, energy and industrialization on the basis of the amounts borrowed play an important role in the overall investment policy.

Instruments such as the NCI should therefore be further improved, as Parliament has frequently requested, and made permanent. In general this policy, which helps to revive investment in priority areas, should be encouraged. That is the conclusion reached by Mr ALBERT and Mr BALL who feel that an annual increase in investment of 0.6% of the Community's GDP, i.e. some 15,000 million ECU a year would be enough to increase growth by a further 1%. The additional amount borrowed could be expressed in ECU and, in view of the resulting economic growth, could presumably be reduced over a period of three years. In view of the advantages of Community financing mentioned above, it is these instruments that should be used. The EIB could for instance undertake co-financing transactions in association with the banking systems concerned, along the lines of the World Bank. Consideration could also be given to popular savings accounts expressed in ECU.

III. THE OBJECTIVES OF A COMMUNITY INVESTMENT POLICY

Once the conditions and instruments have been created, the success of a Community investment policy will depend only on the choice of objectives. The objectives must be resolutely European, i.e. go beyond national compartmentalization and habits to meet future challenges to the EEC, particularly competitivity and covergence.

1. The competitivity requirement

The decline of the European economy's competitive position is an acknowledged fact; it has already been carefully analysed(1) and there is no need to dwell at length on it here. Suffice it to say that if the Community is to experience renewed growth, create jobs and resume its position on the international scene, it must invest much more in order to restructure and modernize its productive apparatus.

This presupposes medium and long-term investments, especially in infrastructures (e.g. the high-speed train and Channel Tunnel), new technologies such as information technologies, in research and development and vocational training. The initiative recently taken by the Commission in proposing interest-free loans for innovative SMUs during the first years certainly meets a need. Innovative undertakings are all too frequently discouraged by lack of financing in an area where profits are often uncertain and always deferred.

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(1) Report by Mr LEONARDI on the competitiveness of Community industry (Doc. 1-1335/82)

2. The need for convergence

There is a threat not only of a progressive technological decline in the Community but also of divergence since the gap between the economic performances of the various Member States and even different regions in the same Member State is widening.

Solidarity is therefore essential to guarantee the harmonious development of the Community and to maintain progress in a large unified market.

Solidarity must in the main take the form of an appropriate investment policy implemented through the ERDF, the Social Fund, the EIB, and larger transfers within a Community budget endowed with increased resources. Convergence is all the more necessary in view of the forthcoming enlargement to Portugal and Spain.

3. Control of foreign investment

Investment objectives cannot in fact be dealt with without considering the question of control of foreign investment in the Community

Although foreign investment in the Community is certainly to be welcomed, it can be allowed only on certain conditions.

Before being authorized, foreign investment in the Community should have considerable potential for the creation of jobs and the provision of know-how.

On the other hand, foreign investment in the Community should be rejected if it is merely for the purpose of a production process, e.g. if it is only for economic units for assembling parts constructed outside the Community. This practice usually serves the purpose of circumventing customs safeguards in the Community. To sum up, the Member States must adopt a common position on the criteria for accepting foreign investment in the Community. To be accepted, such investment should help to create added value in the Community, be in keeping with previously defined Community industrial strategies and lastly, be accompanied by similar facilities for Community investment abroad.