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Report

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

on ~~industrial~~ cooperation between the Member States

Rapporteur: Mr R. DELOROZOY

1.2.1

By letter of 27 February 1980 the Committee on Economic and Monetary Affairs requested authorization to draw up a report on the setting up of a framework to facilitate industrial cooperation between the Member States and to allow for the preparation and possible implementation of Community action.

Authorization was given by the President of the European Parliament in her letter of 24 March 1980.

On 28 May 1980 the committee appointed Mr Delorozoy rapporteur.

It considered the draft report at its meetings of 22 and 23 September 1980, 25 November 1980, 2 December 1980, 26 February 1981, and 15 April 1981 and adopted the motion for a resolution by 15 votes in favour with 3 abstentions.

Present: Mr Delors, chairman; Mr de Ferranti, vice-chairman; Mr Macario, vice-chairman; Mr Deleau, vice-chairman; Mr Delorozoy, rapporteur; Mr Beazley, Mr Beumer, Mr von Bismarck, Mr Bonaccini, Miss Forster, Mr Herman, Mr Hopper, Mrs Lizin (deputizing for Mr Ruffolo), Mr Mihr, Mr Purvis, Sir Brandon Rhys Williams, Mr Wagner and Mr von Wogau

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A

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

MOTION FOR A RESOLUTION

on

industrial cooperation between the Member States

The European Parliament,

- having regard to the statement by the Heads of State or Government of the Member States meeting in Paris from 19 to 21 October 1972,
 - having regard to the Community programme of action in the field of technological and industrial policy proposed by the Council in March 1973 (SEC(73) 3824 final),
 - having regard to the report of the Committee on Economic and Monetary Affairs (Doc. 157/81),
1. Points out the urgent need for firm policy of industrial cooperation now that Europe, confronted by the difficulties of adapting its industrial structures and increasing its competitiveness, must come to terms with the unprecedented intensity of competition on a market open to the world;
 2. Emphasizes that the Community, without usurping the position of the States, undertakings or the two sides of industry, must undertake common action in the industrial field in all areas where it is evident that such action, because of its Community character, will be more consistent and have an undeniable multiplier effect;
 3. Considers that real cooperation on industrial policy between the Member States, which is unfortunately lacking, could, at the right time, have lessened considerably the social, economic and financial effects of the restructuring in the crisis sectors and reduced the delays in progress which developed in the advanced technology sectors;
 4. Regrets that, since the adoption in 1972 by the Conference of Heads of State in Paris of the resolution calling for a single industrial base for the Community, so little progress has been achieved in this area through lack of agreement within the Council and lack of genuine initiatives on the part of the Commission, even though the institutional powers and most of the budgetary, financial and administrative instruments necessary to strengthen industrial cooperation already exist;

- institutional framework

5. Notes that, in addition to the wider but specific powers already laid down in the ECSC Treaty, the Community has adequate powers under the EEC Treaty, the purpose of which is to create the right conditions (Art. 85, 86, 92 et seq., 100 and 101) and adopt the principal conjunctural (Art. 103), commercial (Art. 113) and structural (Art. 235) measures required for effective industrial cooperation between the Member States;
6. Regrets that, through lack of political will within the Community on industrial matters, these powers have remained largely unused or forgotten, and that this will inevitably have serious consequences for all European industries;

emphasizes that it is the duty of the Commission with the support of the European Parliament and the two sides of industry, to use the institutional powers defined in the Treaties and the administrative and financial instruments already in existence and those to be created, to achieve the consensus necessary for real industrial cooperation in the Community;

- financial instruments

7. Calls for an appreciable increase in appropriations for the industrial sector from the Community budget, to enable joint action to be undertaken in all areas where this Community aid can act as an essential catalyst;
8. Calls for existing financial instruments to be increased quickly and better coordinated so as to improve their effectiveness and enable them to make a greater contribution to the financial requirements of industrial undertakings with the aid of Community loans issued in ECUs;
9. Calls for the setting-up of a Fund for industrial innovation and development intended to promote the development of research into new technologies and industrial innovation, both of which are essential to the competitive position of industry;

- political and administrative instruments

10. Calls on the Council of Ministers of Industry to meet henceforth at regular intervals to discuss the objectives, priorities, strategy and methods of genuine industrial cooperation among the Member States; requests the Commission to submit a communication on this subject to the Council and the European Parliament as soon as possible;
11. In order to facilitate the work and prepare for the meetings of the Ministers of Industry, calls for the setting-up of an Industrial Policy Committee under the Council of Ministers, responsible for examining all matters of common interest in the field of industrial policy, including consistency of national sectoral measures and problems associated with industrial reorganization, coordination of aid, commercial policy and environmental protection; this committee's work could also be used by other relevant bodies;
12. Proposee also the creation of ad hoc sectoral cooperation committees composed of representatives of the two sides of industry and of the Commission, responsible within this tripartite framework for determining, on the basis of the widest possible agreement, the policies to be applied in certain major industrial sectors;
13. Failing the foundation of a European Institute, invites initially the national institutes for economic analysis and research at least to cooperate as closely as possible in order to assure greater awareness of the economic data which will permit the best adaptation of production to the possible development of the world economic situation;
14. Points out the important task assigned to the Buisness Cooperation Centre and wishes to see an increase in its funds and activities;

- environment

15. Points out that a convergent industrial policy presupposes a general improvement in the economic, legal, fiscal and monetary environment in the Community;
16. Emphasizes that there can be no viable industrial cooperation so long as the internal market of the Community is beset by technical and administrative barriers to trade which lead to discrimination and distortions of competition;
in this respect, calls for :
 - speedy removal of the technical and administrative barriers to trade, and in particular the adoption of the 20 directives currently held up on the pretext that problems exist in third countries;

- a programme of standardization in the Community making reference to the work carried out by CEN and CENELEC;
 - opening up of public markets as soon as possible, particularly in the telecommunications sector;
 - better information for all concerned regarding the existence of Community procedure to facilitate frontier controls;
 - better application of the rules of GATT between the Member States;
17. Considers, in particular, that it is essential to encourage investments of risk capital; to this end calls on the Commission to find appropriate means to remove the remaining obstacles to the free movement of capital and to promote the establishment of a genuine European securities market which is both active and sufficiently transparent to attract an increasing number of investors;
 18. Considers that competition is essential to the efficient functioning of the economy and that the development of industrial cooperation presupposes genuine equalization of conditions of competition among undertakings; to this end calls on the Commission to ensure strict supervision of national aid, to pursue an active policy of tax harmonization and to take all appropriate measures in the financial, administrative and technical fields to promote the development of small and medium-sized undertakings, without which there can be no renewed industrial development;
 19. Deplores the fact that the Council has not yet adopted the proposals on a statute for a European company, on the European cooperation grouping and on the tax arrangements applying to mergers and hive-offs, all of which are legal and fiscal instruments essential to increased industrial cooperation in the Community;
 20. Recommends, in view of the rapid development of technology, that greater effort should be made to adapt vocational training to present-day realities and future needs. Action should be undertaken both in the area of initial training (apprenticeship) and to benefit workers already in employment. The competitive position of many sectors depends largely on the results of this action.

- promotion and external protection of European industry

21. Stresses the need for a closely coordinated commercial policy among the Member States, supervised by the Commission, which will guarantee sales of production resulting from industrial cooperation on world markets and defend Community industry, where necessary, against unfair competition; hopes, in this respect, that the anti-dumping procedure will operate more quickly and more effectively;
22. Instructs its President to forward this resolution and the report of its committee to the Council and Commission of the European Communities.

EXPLANATORY STATEMENT

1. One of the responsibilities of the Committee on Economic and Monetary Affairs is to keep under review the development of industrial policy within the Community. This subject also comes within the scope of the series of measures and initiatives to be taken in the progressive realization of economic and monetary union. It is therefore not surprising that the Committee should have wished, on its own initiative to give some consideration to industrial cooperation and the means for its promotion.

2. The difficult transition period through which the European economy is passing requires both extensive adaptation of its industrial structures and increased competitiveness in the face of the unprecedented intensity of competition on a market which is open to the world.

The appearance of new production structures in many countries undergoing rapid industrialization, a new international division of labour, constantly advancing technology, increased prices for energy and raw materials and the need for a certain rate of growth to maintain a satisfactory level of employment, while avoiding any build-up in inflationary pressure, are among the difficulties involved; but they also represent arguments in favour of close industrial cooperation within the Community.

3. Going beyond particular sectoral problems, this report enumerates the powers and administrative and financial instruments already in existence or to be set up, suggests ways of giving new force to these rules and instruments and strengthening their role, and specifies the conditions necessary for more effective cooperation. The deterioration of the economic situation, which in the Community has led, among other things, to an unacceptable level of unemployment, a large balance of payments deficit and a weakening of the competitive position of European industry, obliges us to find ways of establishing effective industrial cooperation among the Member States as soon as possible.

4. The Community's disregard for industry has resulted all too often in a wait-and-see policy with serious consequences for the whole of European industry.

A definite lack of resolve among Community bodies, a lack of solidarity among the States, a real situation which is quite different from that

originally intended and, in addition, Community procedures which take far too long to implement and are therefore ineffectual, are among the reasons for the wholly regrettable delays. Not until the end of 1976, for example, did the Commission implement the first economic measures designed to stem the crisis which is still affecting the iron and steel industry today.

5. Without this delay, certain disastrous social, economic and financial effects could have been lessened. Similarly, in the key sector of data processing, which is vital to the future of the Community, the ambitious but essential objective set out in the Council resolution of 15 July 1974 of 'ensuring that by the early 1980s there is a fully viable and competitive European based industry'¹ is a far cry from reality.

In fact, European computer manufacturers command only 16% of the world market and their share in the area of peri-informatics fell from a third in 1973 to a quarter in 1978. In the crucial micro-electronic components sector, Europe imports over 80% of its integrated circuits². Lastly, the total world market in micro-processors is shared by five major companies, none of which is European.

6. These weaknesses are most often the result of the inconsistency of measures taken at national level or the fragmentary nature of the measures proposed by the Community.

7. At the Paris Conference in 1972 the Heads of State or Government of the Community considered it necessary to establish a single industrial base for the Community as a whole. In order to answer this need, the Commission, in its programme of action in the field of technological and industrial policy, submitted in March 1973, specified some guiding principles on which the policy should be based. These principles, which still apply today, are as follows:

- inclusion of industrial policy in an overall policy for society, designed to improve the standard of living and working conditions,
- adjustment to the necessary changes in the international economic order, particularly the industrialization of the developing countries,
- common action allowing all the Member States to benefit to the full, in a situation of total, and not purely structural, balance, from the advantages of their membership of the Community,
- four areas of priority:
 - . removal of technical barriers to trade,
 - . gradual and effective introduction of open bidding for public contracts
 - . European-scale promotion of competitive undertakings,
 - . particular aid to advanced technology industries and industries in a state of crisis.

¹OJ No. C 86 of 20.7.1974, p.1

²COM (79) 650 final, p.2 et seq.

8. The content of this programme is still relevant today as regards the principal measures to be taken to promote a true industrial policy in the Community.

Furthermore, when presenting the Commission's programme to the European Parliament on 11 February 1981, the President of the Commission, Mr Thorn, stated that 'adaptation of our industrial apparatus to the demands of today's world' was an area in which 'non-intervention by Europe could have appalling consequences, particularly in the political and economic context Increased industrial competitiveness is a precondition for a return to full employment in Europe'¹.

To this end, the Community must not usurp the position of undertakings or States but encourage the greatest possible degree of cooperation, it being the case today that no measures of any significance in the area of industrial policy can be unilateral; any proposed action is complex in nature and requires the cooperation of the States, the undertakings and both sides of industry, and also calls for specific measures appropriate to the sectors concerned.

A policy of convergence within the Community should not involve increased intervention and control, which restrict or paralyze industrial initiative, innovation and research, but should, on the contrary, encourage free enterprise, promote adaptability and strengthen the competitive position of undertakings. Efforts must be directed towards a united and competitive market; this does not mean a uniform market.

From the point of view of external policy, without calling into question international agreements such as the Lomé II Convention and GATT, if competition from non-Community countries proves to be unfair and unacceptable, taking account of economic differences, we must have the courage and the will, in order to prevent the disappearance of certain European sectors of production, to implement an interventionist and sometimes even protectionist policy for transitional periods in the sectors concerned and to adopt a common approach in relations with third countries.

During its work, the Committee on Economic and Monetary Affairs considered it particularly important to obtain the views of the Union of Industries of the European Community (UNICE), the European Trade Union Confederation (ETUC) and the Economic and Social Committee (ESC) at the hearings which took place on 25 November and 2 December 1980. It should be pointed out here that the representatives of these organizations were agreed, in several areas, in recognizing the need for measures to promote industrial cooperation in the Community. The report drawn up as a result of this work examines in turn the institutional framework of industrial cooperation, the financial and administrative instruments and, lastly, the conditions necessary for a satisfactory industrial environment.

¹ Debates of the European Parliament, OJ No. 1-266, p.130

I. The institutional and political framework of industrial cooperation

9. The first steps towards a European Community were accomplished in the field of industry and technology with the entry into force of the ECSC Treaty in 1952, followed by the Euratom Treaty. At that time of industrial expansion, coal and steel were the key sectors of industry. This partly explains why the EEC Treaty contains no specific provisions for an industrial policy in the Community, a concept which is, moreover, subject to very different interpretations from one Member State to another.

But whether with regard to the ECSC Treaty or even the EEC Treaty, it can be seen that while the powers do exist, the consensus is, unfortunately, too often lacking; hence the need to highlight the possible framework for industrial cooperation and consider the political forces which, in addition to the all too often unused powers granted by the Treaties, can be applied to promote better industrial cooperation.

(a) legal bases for industrial cooperation

10. Under the ECSC Treaty the principal decision-making powers lie not with the Council of Ministers but with the High Authority, which today is the Commission. The Treaty provides only for consultation of the Council in certain cases, the obligation to obtain Council's approval, either by a qualified majority or unanimously, is specified for others.

11. Thus the Commission was able to implement independently the main provisions of the programme to deal with the crisis in the iron and steel industry: the compulsory provision of information, anti-dumping rules and the system of minimum and guide prices, on which the Council was consulted. On the other hand, it was with the approval of the Council acting unanimously that the Commission, pursuant to Article 58 of the ECSC Treaty, laid down a quota system on 30 October 1980, in response to the declaration of manifest crisis.

Under the ECSC Treaty, the Commission also has extensive powers with regard to loans and financing (Art. 49 et seq.) and supervision of agreements and investment (Art. 65 et seq.).

In cases not provided for in the Treaty where it becomes apparent that some action is necessary to attain one of the objectives of the Treaty, Article 95 allows the Commission to take the necessary measures after unanimous approval by the Council. The Council's decision on increased subsidies to the iron and steel sector is based on this article of the ECSC Treaty.

12. In contrast to the spirit of dirigism of the ECSC Treaty, the EEC Treaty contains only a few isolated and limited provisions which provide a fairly loose framework.

It would, however, be wrong to assume that the EEC Treaty does not grant the Community the necessary powers to achieve genuine industrial cooperation.

13. Powers are granted in three areas:

- provisions relating to the conditions for industrial cooperation

Article 85 et seq. of the EEC Treaty grant the Commission extensive powers to implement a policy on competition which is not distorted by prohibited agreements or abuse of a dominant position.

These provisions may serve not only to guarantee the conditions for industrial cooperation leading to technological or economic progress, but, if necessary, to encourage coordinated and controlled restructuring operations (for example the textile fibres cartel).

Similarly, Article 92 et seq. allow the Commission to supervise the granting of state aid.

Lastly, the Commission is empowered by Article 100 to draw up directives for the approximation of the legislation of the Member States, which must be adopted unanimously by the Council.

Articles 100 and 101 cover all the legal aspects of economic activity: tax law, social legislation, company law, industrial property rights and environmental legislation.

- provisions granting powers for the actual implementation of an industrial policy

Article 103 on conjunctural policy states that the Council may, acting unanimously on a proposal from the Commission, decide upon the measures appropriate to the situation. On the basis of this provision of the Treaty, the Council could implement a conjunctural policy consisting, for example, of compulsory measures to combat inflation or to guarantee the Community's energy supplies, or monetary provisions in such areas as specification of rates of minimum reserves, interest rates or overall budgetary amounts in each of the Member States, all of which could promote industrial development in the Community.

Article 113 of the EEC Treaty, used more often than Article 103, gives the Community the power to draw up a policy for foreign trade. This power is extensive and flexible, it covers both general agreements with third countries and measures dealing with individual products designed to liberalize international trade or, conversely, to protect the Community.

The import regulations applied in the textile sector provide the best example of the application of Article 113 in the industrial field. The Commission is at present drawing up proposals for the renegotiation of the Multifibre Arrangement which expires at the end of 1981. Strict supervision

of the actual application of these agreements by the Commission is necessary to retain the confidence of the Member States.

- an additional general provision: Article 235 of the EEC Treaty

Without Article 235 the Community would have no power to implement measures relating to structural policy.

On the model of Article 95 of the ECSC Treaty, Article 235 of the EEC Treaty allows the Council, acting unanimously on a proposal from the Commission and after consulting the European Parliament, to take any appropriate measures which should prove necessary to attain, in the course of the operation of the common market, one of the objectives of the Community.

In addition to the unanimity required of the Council, application of Article 235 is subject to three other conditions: absence of the necessary powers in the Treaty, need for action to attain the objectives of the Treaty and the appropriateness of the measures proposed. Until 1973, Article 235 was used mainly to rectify the omissions and inadequacies of the Treaty. Since then, Article 235 has been viewed above all as a means of extending the powers of the Community.

It is thus clear from this brief survey that while the EEC Treaty contains a number of provisions which grant powers for establishing industrial cooperation in the Community, the difficulty is to obtain the necessary consensus within the Council (Arts. 100, 103 and 235 require unanimity and Art. 113 a qualified majority) enabling these powers to be used. Since such agreement is seldom reached, ways have to be found of circumventing the institutional difficulties which obstruct the legal bases allowing for industrial cooperation.

(b) political bases

14. In the absence of a consensus within the Council, it would nonetheless be possible to promote industrial cooperation if the Commission, instead of taking sporadic individual and sectoral measures, were to demonstrate clearly its intentions and its determination in this area. More precisely, it is through the preparation and adoption of the Community budget, and also in parliamentary debates, that action can be taken to promote industrial cooperation. It is here that the European Parliament can play an important role.

- Community budget

15. The budgetary procedure alone cannot make it possible to overcome the Council's lack of political will; nonetheless it would appear to offer one means of encouraging industrial cooperation. The European Parliament has the last word with regard to non-compulsory expenditure and, pursuant to Article 205 of the EEC Treaty, the Commission is responsible for implementing the budget. It might therefore be supposed that some action in the area of industrial cooperation could be introduced by this means. Within the margin available to it, the European Parliament could provide a budget appropriation for measures relating to industrial cooperation (non-compulsory expenditure), and it would be the task of the Commission to use this appropriation.

In fact, because the Treaty makes no reference to this question and the European Court of Justice has not given any ruling, it is fairly clear that the vote on the budget does not authorize the European Parliament and the Commission to go beyond the legislative powers of the Council, which remain unaltered. Apart from a few specific measures for which the Commission is granted individual powers, such as the setting up of a research programme, there is at present no possibility of redistributing legislative power in the Community by means of the vote on the budget.

Nonetheless, in certain cases the European Parliament's adoption of an appropriation under the non-compulsory expenditure of the budget may in itself oblige the Council to carry out its legislative responsibilities and adopt the appropriate regulation or directive. This occurred in the industrial sector with the introduction of Article 375 of the budget concerning Community aid for industrial restructuring and conversion operations, on the basis of a proposal pursuant to Article 235 of the EEC Treaty. Once the Commission has submitted a proposal and the budget appropriations have been approved, the European Parliament and the Commission can put pressure on the Council to adopt the proposal and ensure that the appropriations are used.

In other words, the European Parliament can, to a certain extent, oblige the Council to approve the appropriations necessary for the implementation of a programme which it has adopted in all other respects. The vote on the Community budget can therefore provide a way of 'releasing' certain measures in the industrial sector, but only after an often hard-fought compromise has been reached with the Council.

- parliamentary debates

16. On its own initiative the Commission may also draw up communications, recommendations and opinions, pursuant to Article 155 of the EEC Treaty. These instruments cannot, of course, have any binding effect, and the Council is not required to give an opinion on them.

Nonetheless, without initially having to obtain the approval of the Council, the Commission can at least, by issuing a communication, provide information, propose a strategy, open a debate or obtain comments and support from all parties concerned.

The European Parliament can and should provide the appropriate framework for such debates through own-initiative reports drawn up by the committees responsible, oral questions and matters raised at question time. These debates and the preparatory work will in themselves provide a basis for the promotion of industrial cooperation, but it goes without saying that the measure of support which the Commission may receive from the European Parliament or other bodies such as the Economic and Social Committee and the two sides of industry will depend to a large extent on its dynamism and its powers of conviction. The Commission must constantly point to the multiplier effect of specific common measures and encourage the Member States to pursue these goals in preference to national solutions or compromises motivated by the harmful principle of 'just returns', and it should submit proposals accordingly.

II. THE BUDGETARY, FINANCIAL AND ADMINISTRATIVE INSTRUMENTS OF INDUSTRIAL COOPERATION

(a) budgetary instrument

17. In its present form, the Community budget, which represents 0.8% of the Community GNP and 2.8% of national budgets and is heavily weighted in favour of the agricultural sector, is unable to meet the three essential requirements of a Community budget, which are:

- to finance a number of Community policies and activities,
- to assure some redistribution, particularly to the advantage of the less-favoured regions, and
- to stabilize the economic situation.

Every year the Committee on Economic and Monetary Affairs has to fight to retain the small appropriations proposed by the Commission in its preliminary draft which are successively reduced by the Council. In 1980 the appropriations entered in the Community budget for the industrial sector amounted to only 0.04% of the total budget.

Admittedly, budgetary funds alone cannot establish industrial cooperation but they are necessary for the implementation of common measures in all areas where it can be seen that Community finance may act as an essential catalyst.

In view of this, the European Parliament must demand a budget which is distributed more evenly and increased in volume.

(b) financial instruments

18. In recent years there has been an increase in Community borrowing and lending activities. These operations are often associated with industrial projects. They should be supported and encouraged, especially as the Community budget in its present form is decidedly inadequate. Industrial cooperation can be increased by means of these operations.

- It is the task of the European Investment Bank to acquire funds on the capital markets and to make these funds available in the form of long-term loans for important Community investment projects. The volume of loans granted by the European Investment Bank has risen from 1,000 million EUA in 1974 to over 3,000 million in 1979. 90% of its activity is concerned with projects inside the Community, and just over two-thirds of the financing provided through the European Investment Bank goes to industrial projects (regional development, development of energy resources, infra-structures).

- An additional lending mechanism, the new Community instrument (NCI) administered jointly by the European Investment Bank and the Commission, was set up by the Council on 16 October 1978¹. The two instalments, each of 500 million EUA, were approved by the Council and allocated to infrastructure and energy projects. The Commission has proposed that the new Community instrument should be extended on a permanent basis, without any ceiling on the volume of loans granted. The European Parliament and the ESC have ensured that they are consulted on the choice of projects.

1979 also saw the introduction of the 3% interest rate subsidy from the Community budget, allocated under the EMS for loans granted by the European Investment Bank out of its own resources or those of the NCI.

Of these interest subsidies, amounting to a total of 200 million EUA, more than 4/5 have so far gone to three countries experiencing severe sectoral problems: Italy, the United Kingdom and Ireland (regional and energy projects).

Lastly, mention should also be made of the borrowing and lending operations carried out by the ECSC which involved loans amounting to a total of 1026 million EUA in 1980 (in particular low-interest loans to promote restructuring operations for re-establishing the competitiveness of the iron and steel sector).

In view of the high level of investment which will be needed in the Community, plans should be made to increase the role of the above-mentioned financial instrument.

A number of measures could also be taken to encourage industrial cooperation activities. It might, for example, be appropriate to float a major Community loan issued in ECUs in order both to amass the capital required for an extensive industrial programme in the Community and, at the same time, to consolidate the role of the ECU.

¹OJ No. L 298 of 1978

19. There is also a need for a Fund for industrial innovation and development in the Community. The Commission pointed out recently to the Council of Ministers, meeting on 1 and 2 December 1980¹, the opportunities which a policy on innovation would represent for the social and economic progress of Europe, the adaptation of its industrial structures and the reestablishment of the competitive position of its industry.

The Commission's communication lists a series of measures in the areas of taxation, education and training which could promote a climate of innovation. A Fund for industrial innovation and development could also play a very useful role. Details regarding the setting-up and operation of such a Fund should be prepared by the Commission and approved by the Council, after genuine consultation with the European Parliament. This Fund would be intended to assist the development of research into new technologies with potential for the future, and to promote industrial innovation and the development of existing industrial sectors to enable them successfully to stand up to international competition. The Fund would not be used to provide financial support or additional aid for those sectors undergoing reorganization for which other aid is available and must be implemented.

20. Under present circumstances, the setting-up of a European development institute intended to intervene directly in the financing of undertakings would not appear to be a possibility. However, close cooperation among existing bodies in the Member States for the purpose of drawing up a common policy on aid would appear most appropriate.

(c) administrative instruments

21. Industrial cooperation could no doubt be improved by the creation or strengthening of a number of administrative bodies.

- Council of Ministers of Industry

The Council of Ministers of Industry should meet² henceforth at regular intervals. Such meetings are necessary if it genuinely intends to discuss the available objectives, strategy methods of effective industrial cooperation among the Member States. The Commission should submit proposals to the Council accordingly.

- Industrial Policy Committee

22. In a proposal forwarded to the Council on 29 April 1971, the Commission, following up its memorandum on industrial policy, proposed that an Industrial

¹ Doc. COM(80) 755/fin.II

² The first meeting of the Council of Ministers of Industry since the setting up of the Community took place on 11 and 12 June 1980.

Policy Committee be set up on the lines of the Medium-term Economic Policy Committee. This committee would be responsible for examining all matters of common interest in the field of industrial policy, including:

- . cooperation with regard to the national sectoral measures which prove necessary;
- . analysis of problems relating to industrial structures, particularly the relationship between industrial structures and trade policy;
- . problems associated with the effective introduction of open bidding for public contracts;
- . consideration of the general development of industrial policy and its requirements, in cooperation with the EIB, as a guide for its activities;
- . assessment of the situation of small and medium-sized undertakings and their role in industrial development;
- . the effects of environmental protection measures on industrial development.

This work is equally important today. The existence and the work of a committee of this sort could be of great benefit to the work of the Council of Ministers of Industry, which should meet more frequently. The Industrial Policy Committee would also be responsible, in close collaboration with the European Investment Bank, for supervising the operation of the Fund for industrial innovation and development in order to ensure the necessary coordination of aid.

The committee should also see to it that the Community is provided with regular and complete statistical information on economic, monetary and social questions, an essential element which is all too often lacking. The Commission should therefore reconsider this proposal, which was not approved by the Council when it was originally submitted, alter it where necessary and seek to have it adopted.

- creation of ad hoc sectoral cooperation committees

23. It would also be appropriate to set up sectoral cooperation committees of unspecified duration composed of representatives of employers, employees and the Commission, responsible, within this tripartite framework, for determining the policies to be applied in certain major industrial sectors on the basis of the widest possible agreement.

- Institute for Economic Analysis and Research

24. By its very nature, industrial cooperation is exposed to the long-term problems of employment, inflation, the external equilibrium and restructuring operations. Production capacity has to be adapted to the development of demand and international competition, but it is difficult to specify the

appropriate structures. In 1975 the Commission submitted a proposal for a regulation on the setting up of a European Communities Institute for Economic Analysis and Research in an open economy subject to changing economic and political conditions; the outlook alters frequently as a result of factors which are difficult to predict in terms of market trends, requirements and technology. The question arises as to the usefulness of such a body. Better cooperation between the national institutes already in existence might initially prove to be more appropriate and more immediately useful to the Commission.

- Business Cooperation Centre

25. The Business Cooperation Centre is responsible for providing undertakings with general information and, most important, for establishing contacts between undertakings wishing to cooperate. The Business Cooperation Centre has proved increasingly successful, as shown by the fact that 140 cooperation agreements were signed between 1974 and 1977.

There is, however, a need to increase the funds and the activities of this Centre, since the number of cooperation arrangements between undertakings in the Community is generally inadequate.¹

III. CONDITIONS FOR INDUSTRIAL COOPERATION

26. Nothing could be achieved by using the powers provided in the Treaties and implementing budgetary, financial and administrative instruments if the conditions for industrial cooperation did not exist.

Since the setting up of the Community, many measures have certainly been taken to provide for market unity, the initial and essential aim of the Community, and the free play of competition. The necessary powers and experience are undoubtedly available in these areas, but there is still a long way to go before the establishment of a true common market. We shall consider three areas in which action must be taken to create an environment conducive to industrial cooperation.

(a) Unity of the market

27. Unity of the market is not the only necessary condition and is not sufficient in itself, but it is an important element in the realization of a viable common policy. Joint activity among the undertakings of the Member States requires that the technical and administrative barriers to trade be largely eliminated. Technical and administrative barriers also represent obstacles to industrial cooperation, since its advantages are

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outweighed by their cost and the distortions of competition which they cause.

The European Parliament has for several years sought to replace the present slow and cumbersome procedure with a flexible and effective one. Under this new procedure the Commission would be guided by framework directives and would be granted extensive power to implement the details, in accordance with Article 155 of the EEC Treaty.

Directives designed to eliminate technical barriers to trade and a number of programmes of standardization should also be implemented in the Community, making reference to the work of CEN and CENELEC.

A programme of standardization should also be undertaken in the Community, making reference to the work of CEN and CENELEC.

28. Industrial cooperation also requires the introduction of open bidding for public contracts. Closed bidding is contrary to the very concept of industrial cooperation. The Commission must continue here to work towards the introduction of open bidding for public contracts on all markets and in most areas of activity, in particular the telecommunications sector.

29. Lastly, there should be no obstacles to the free flow of capital for industrial cooperation activities between undertakings of different Member States. The absence of a real capital market in the Community hinders transnational investment and paralyzes sources of finance. It is essential to encourage investments of risk capital. To this end the Commission should find appropriate means to remove the remaining obstacles to the free movement of capital and to promote the establishment of a genuine European securities market which is both active and sufficiently transparent to attract an increasing number of investors.

The entry into force of the EMS has contributed to a certain extent to greater stability of exchange rates, if not to greater convergence of the economies of the Member States. During the current phase of adjustment, closer coordination of monetary policies with regard to interest rates in particular, a common position vis-à-vis the dollar and a progressive increase in the role of the ECU are bound to reinforce the EMS, promote the approximation of inflation rates at as low a level as possible, and, thereby, assist in bringing about a recovery in industrial investment.

(b) Harmonization of conditions of competition

30. Competition is an important factor in assuring the efficient functioning and dynamism of the economy. It is therefore vital that the Commission should constantly ensure that the Community's rules on competition are properly applied. Admittedly, during this period of recession and reorganization, the Commission must sometimes invoke Articles 65 and 66 of the ECSC Treaty and Articles 85 and 86 of the EEC Treaty with the flexibility provided for by the Treaties in order to permit, where necessary, any rationalization required by the development of the economic situation.

In general terms, the development of industrial cooperation requires genuine equalization of conditions of competition among undertakings.

- supervision of aid

31. To this end, the Commission must continue and extend as far as possible its supervision of regional, sectoral and general aid. During periods of recession, governments are only too inclined to step up their aid, failing even to notify the Commission, an obligation of which they have recently been reminded.

The Commission should also make efforts to achieve greater harmonization of national systems of export credits and aid, in order to put all Community undertakings on an equal footing.

Consistency of national measures is a basic minimum requirement for industrial cooperation.

- tax harmonization

32. Tax harmonization is an essential factor in bringing about equal conditions of competition. It should be pointed out here that one of the major obstacles to the realization of a genuine internal market stems from the double taxation of undertakings and the continuing existence of excessive differences in the basis for assessment and rates of VAT within the Community. It is unacceptable for certain trans-national companies to use the differences in taxation among the Member States to engage in large-scale tax avoidance.

- aid to small and medium-sized undertakings

33. Industrial cooperation should not simply be a matter for the large production and marketing concerns. The small and medium-sized undertakings, which make an important contribution to the dynamism of the economy and technological innovation, must benefit from appropriate financial, administrative and technical provisions.

The European Investment Bank has substantially increased its financial aid to small and medium-sized undertakings; this policy must be not only maintained, but also stepped up.

Better information should also be made available to small and medium-sized undertakings regarding the economic situation inside and outside the Community and the size of existing markets. Each year, smaller undertakings in the Community miss valuable opportunities because of the lack of information and methods of communication regarding the state of markets.

In general terms, assistance must be given to the small and medium-sized undertakings since without their contribution there can be no genuine and extensive renewal of industrial development.

(c) Strengthening of cooperation among undertakings

34. In addition to unity of the market and equal conditions of competition, an environment conducive to industrial cooperation also requires that the undertakings be granted the legal means to achieve increased cooperation.

It is to be regretted that the amended proposal for a regulation on a statute for a European company, the proposal on the European cooperation grouping and the proposal for a directive on a common taxation system to be applied to mergers and hive-offs are still before the Council.

A single definition of a 'European' company has still to be found; the various percentages of share participation by foreign capital are assessed differently by the Member States; some consider companies in which the majority holding is in foreign capital to be national companies (and therefore European) if the management is in the hands of nationals, while others attach more importance to the structure and the source of the capital rather than that of the administration.

It is equally regrettable that the regulation on the control of mergers has also been pending before the Council since 1974. While mergers and cooperation among Community undertakings are to be encouraged, measures must also be taken to avoid the abuses of excessive concentration.

CONCLUSION

35. Until now, European industrial policy has been primarily defensive and concerned with the protection of declining sectors.

The European economy is in a situation in which it must, at one and the same time, adjust rapidly its industrial structures and come to terms with the unprecedented intensity of competition on world markets. In this context, genuine industrial cooperation in all sectors, both traditional sectors and those of advanced technology, covering all aspects from research to marketing, including training, would appear to offer one way of strengthening the competitive position of European undertakings. Community authorities must henceforth demonstrate the real will to achieve this goal. We believe this report has shown that existing powers can make it possible.

