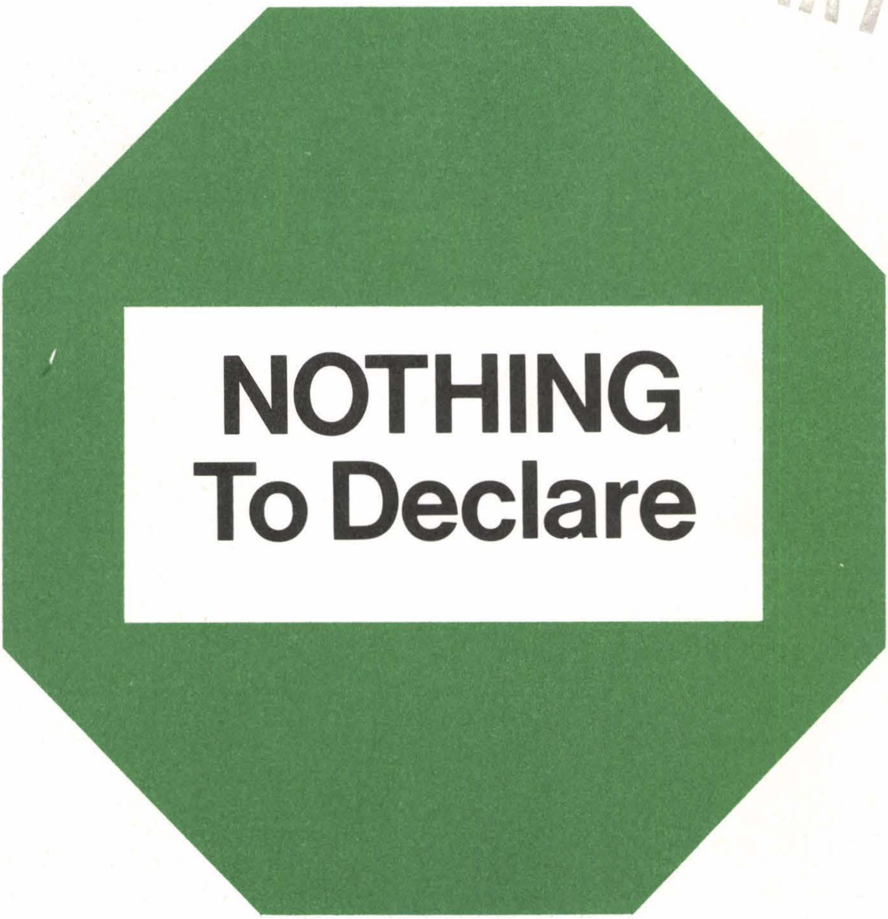
European Community

No. 6

July/August 1977

The Customs Union



European Community

European Community is published on behalf of the Commission of the European Communities.

London Office: 20 Kensington Palace Gardens, London W8 4QQ Tel. 01-727 8090

Cardiff Office: 4 Cathedral Road, Cardiff CF1 9SG Tel. (0222) 371631

Edinburgh Office: 7 Alva Street, Edinburgh EH2 4PH Tel. (031) 225 2058

Dublin Office: 29 Merrion Square, Dublin 2. Tel. 76 03 53

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Printed by Edwin Snell printers, Yeovil, England
European Community also appears in the following editions:
30 Jours d'Europe, 61 rue des Belles Feuilles, 75782 Paris Cedex 16. Tel. 553 5326
Comunita Europea, Via Poli 29, 00187 Rome. Tel. 68 97 22
Europa Gammel Torv 4, Post Box 144, 1004 København K. Tel. 14 41 40/14 55 12.
EG Magazin, Zitelmannstrasse 22, 53 Bonn Tel. 23 80 41
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Avrupa Toplulugu, Bogaz Sokak No. 13, Kavaklidere-Ankara. Tel. 27 61 45-27 61 46
European Community, 2100 M Street, NW, Washington DC 20037 Tel. 872 8350

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August	No Council Meetings

Politics

A duty-free Community

The newer member States complete the customs union

On July 1, 1977, the last remaining customs tariffs between the original six members of the European Community and the three newer member States were removed. On the same date, Britain, Denmark, and Ireland also adopted the common external tariff. They had been moving towards the full customs union by stages since April 1, 1973, three months after they joined the Community.

Hard times

It would have been difficult to pick a worse time for seeking obvious benefits from Community membership. The newer member States had hardly been in the Community for a year before the Western world was rocked by the oil-price rise and the worst economic crisis since the nineteen-thirties. Yet all managed to complete the customs union on schedule, thereby achieving what a generation earlier was regarded as an unattainable — though highly desirable — goal. What is more, membership of the Community, and the Community's very existence, have been powerful disincentives to any widespread return to mutual protectionism and economic warfare of the kind that the nineteen-thirties practised to everyone's cost.

Growing trade

As during the tariff-cutting process of the original Six, from 1959 to 1968, the gradual removal of customs barriers between the Six and the 'Three' has been accompanied by a growth in mutual trade. Cause and effect, of course, are very difficult to prove — particularly at a time when so many other variables have rapidly changed. The fall in the value of sterling, in particular, has greatly swelled the sterling value of national trade figures. This is one reason why the Community's own trade figures are quoted in 'EUR' units of account. On this basis, British exports to her Community partners rose by 87% between 1972 and April 1977, against 49% to the rest of the world. In sterling terms, Britain had a deficit of £2,348 million with her Community partners in 1975. She has also, of course, been in overall trade deficit with non-Community countries. The signs are, however, that Britain's deficit with the rest of the Community is on the wane. In 1976 it fell by £271 million, while exports to the rest of the Community rose by 44 per cent against a 29 per cent rise in imports from it. Since 1976, in the three months ended April 1977, Britain's sales to the rest of the Community rose by 3.5 per cent, while her imports from the rest of the Community actually declined by 1 per cent.

Ireland, Denmark

Calculated in EUR, Irish and Danish exports to other Community countries rose by 66 per cent and 73 per cent respectively between 1972 and 1975, while imports from them rose by 48 per cent and 69 per cent respectively. For detailed figures, see below.

Exports to other Community countries

(million EUR)

	1972	1973	1974	1975	increase 1972-5
Ireland	1,153	1,291	1,575	1,918	66%
Denmark	1,715	2,261	2,667	2,973	73%

Imports from other Community countries

(million EUR)

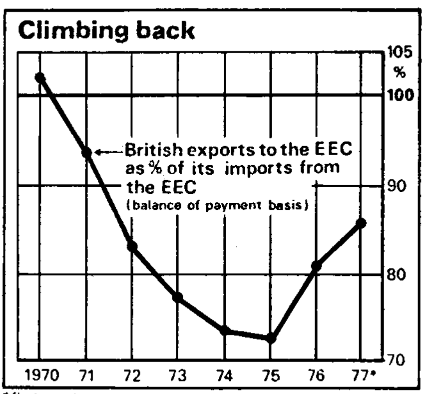
	1972	1973	1974	1975	increase 1972-5
Ireland	1,336	1,595	2,082	1,971	48%
Denmark	2,130	2,838	3,629	3,601	69%

Benefits

In her four-and-a-half years of Community membership, Britain has received some £1,300 million in soft loans and more than £550 million in grants from the Community. The latest allocation of £13.5 million from the European Regional Development Fund is described on page 7.

These, however, are only the most tangible benefits of membership. Access to a market five times as large as Britain's alone, and — for consumers — to Community products free of import duties, is the material aspect of a general opening up to a broader European interchange of goods, people, and ideas. British citizens can now seek jobs wherever they like throughout the Community; the liberal professions — beginning with doctors — are being given greater freedom to practise in any Community country.

In the wider world, the Community has given all its members, including Britain, greater influence and weight. The Lomé Convention is linking 52 less developed countries, more than a score of them members of the Commonwealth, with the European Nine; special agreements have been concluded with Canada, India, Pakistan, Bangladesh, and Sri Lanka. A further network of agreements now links the Community with its other European neighbours, and another with the countries around the Mediterranean. The Nine acted as one in the East-West Conference on Security and Cooperation in Europe, as they have been doing more recently in the Paris 'North-South' talks. Although the USSR has not officially 'recognized' the Community, as China has, a Soviet delegation this year visited Brussels to negotiate with the Nine on fishing limits. With the United States, the Community has always had very close relations, marked by reciprocal diplomatic representation and regular mutual consultations. →



*first quarter

Consensus

British hesitation about Community membership continued until June 5, 1975, when a more than two-to-one majority of those voting (67.2 per cent against 32.8 per cent) opted by national referendum to stay in the Community. Public opinion since then has criticized various aspects of Community policy — including the common agricultural policy, widely and often erroneously blamed for food price rises; but despite repeated attacks by both Left and Right, the major political parties and trade unions have concentrated their efforts on using the opportunities the Community offers for pursuing their goals in a general European context. The completion of the customs union sets the seal on this first phase in the process of gradual economic integration.

Completing the customs union

How the newer member States fitted in

Date	Intra-Community Tariffs	Quantitative Restrictions	Moves Towards Common External Tariff
1973 January 1	—	Removed from most goods	—
April 1	Cut by 20%	—	—
1974 January 1	Cut by 20%	—	40%
1975 January 1	Cut by 20%	Removed from 'sensitive' products	20%
1976 January 1	Cut by 20%	—	20%
1977 July 1	Cut to zero	—	Common tariff

Notes

(1) For beef and veal, each tariff change was due at the start of the marketing year, and the 40% move towards the common external tariff in 1974 was replaced by two moves, in 1973 and 1974, of 20% each. The same timetable applied to the 'fixed components' protecting processed cereals, rice, fruit, and vegetables.

(2) For horticultural products, the first 20% cut in intra-Community tariffs, and a first 20% move towards the common external tariff, took place on January 1, 1974, and the last tariff change in each case is to be delayed until January 1, 1978. Each tariff change has likewise been subject to a 10% tolerance since January 1, 1975.

(3) For other agricultural goods, including fishery products, the first 20% cut in intra-Community tariffs was delayed until July 7, 1973.

News

The month in Europe

US Uranium

After representations by the Community, the United States Administration resumed exports of highly enriched uranium to the Nine, which had been interrupted earlier this year. President Carter's approval covered eight specific shipments totalling more than 524 kilos. It was hailed by Dr Guido Brunner, Commissioner for Energy, as confirmation that the United States intended 'to treat us as the united entity Euratom is'.

Suppler Regional Fund?

The Commission has proposed an 88% increase in the budget of the European Regional Development Fund. It also proposes exempting part of it from the national quota system, to give it more flexibility.

These proposals, which would earmark 750 million European Units of Account, would mean doubling the money available for Britain from £60 million to £120 million next year.

Haferkamp in India

Wilhelm Haferkamp, Vice-President of the Commission in charge of External Relations visited India and Japan in May and had his first contact with the new Indian Government, as well as continuing the current discussion of trade problems with the Government of Japan.

Human rights

On April 5, 1977, the Presidents of the European Parliament, the Commission, and the Council of Ministers signed a Community Declaration on fundamental human rights.

Pirate records

The Commission is studying ways of countering the sale of 'pirate' recordings — music cassettes and records produced without the consent of the copyright owner or the rightful producer. According to Mr David Young, the Regional Director of the International Federation of the Phonographic Industry, an estimated 45 million pirate tapes a year are being produced.

Quotation of the month

Critics of the Common Agricultural Policy are urging us to rely on imports of cheap food.

Twenty years ago those who wanted to develop Europe's own energy resources were told to rely on imports of cheap oil.

Verb sap?

David Walder MP in a letter to The Times, *June 7, 1977.*

The Regions

More regional grants

£13.5 million for the United Kingdom

The Commission has approved a second allocation of grants for this year from the European Regional Development Fund, totalling 91 mua (£38m). This brings the total approved since the first grants, made in October 1975, to 945 mua (£394m).

The new grants relate to 490 investment projects in six member States, representing a total investment of 803 mua (£335m). Of this total, 48 mua (£20m) are for 159 projects in the industry, handicraft and service fields, and 43 mua (£18m) for 331 infrastructure projects.

For the Commission's new proposals, See page 6.

Additionality

Payments are made to the national governments in line with their own expenditure in connection with the projects concerned. The governments are entitled, in accordance with the Fund regulation, to pass on the money to the investor, or to treat it as partial reimbursement of their own expenditure. In the latter event, the additional resources thus made available to them are to be used for other regional development purposes, so that the total regional development effort is increased correspondingly.

Britain's share

Of this second allocation, Britain is to receive some £13.5 million, distributed as follows:

£000 **Region**	**Industrial Projects**	**Infrastructure Projects**	**Total**
Northern Region	3,524	1,629	5,153
North West	—	1,100	1,100
Yorkshire & Humberside	—	393	393
East Midlands	—	244	244
South West	—	170	170
Total England	**3,524**	**3,536**	**7,060**
Northern Ireland	1,816	1,058	2,874
Scotland	—	818	818
Wales	—	2,708	2,708
Total UK	**5,340**	**8,120**	**13,460**

This brings the total Regional Fund contribution to UK projects approved in 1977 to £18.2 million, and since the inception of the Fund in 1975, to £113.3 million.

Water

Earlier this spring, the Commission announced a number of measures and studies designed to improve the protection and supply of water in the Community. They include a study of the possibility of a 'European Water Plan'. Overall, Community supplies are adequate up to the year 2000 but — as last summer showed — availability varies. The Community's average consumption per person is 250 litres a day; but in major towns it may rise to as much as 500.

Report

Budget strategy 1978

The Commission plans a new approach

The Community Budget has become a central political issue.

Last year, for the first time, the Commission introduced a pre-Budget strategic discussion with the Council of Ministers and the European Parliament which proved so successful that it has repeated the experiment this year. In its new budget plans the Commission submits an overall assessment of the Community's budgetary problems, and makes a number of proposals for a more realistic allocation of resources.

Chief among these is that there should be a reduction in agricultural spending, which claims 70 per cent of budgetary expenditure (since all market support costs are borne by the EEC Budget and almost none by national budgets). This means, according to the Commission, that urgent attention should be given to reducing structural surpluses in the very few products which have heavy budgetary costs, and that there should also be a system of obligatory reduction (degressivity) for monetary compensation amounts (MCA's) to avoid budgetary costs and economic distortions.

With less money spent on agriculture, the Commission would like to see more allocated to social and regional policy, which at present absorb only 6.5 per cent of the budget, and to expand work already begun in development aid, where budgetary expenditure represents only 3.1 per cent.

The European Parliament has broadly approved the Commission's strategic approach on these issues.

New structures

For the first time the 1978 Budget is to be fully financed from the Community's own resources, i.e. not only from custom duties and agricultural levies but also, under the Sixth Directive on VAT, from up to 1 per cent from revenues from Value Added Tax, based on a uniform assessment in all member States. This will replace present contributions from the member States based proportionately on their Gross National Product (GNP), and will provide the Community with complete financial autonomy. Contributions from the UK, Denmark and Ireland, however, are subject to a ceiling until 1979.

Although the Sixth Directive was approved in principle by the Council of Ministers on March 22, 1977, Danish reservations delayed its adoption until the Council meeting of Finance Ministers on May 16. Another change is to replace the present budgetary unit of account (currently drawn up in 'IMF units' equivalent to 0.88867088 grams of fine gold and linked to the national currencies by officially declared fixed parities), by the European Unit of Account (EUA), based on a basket of member States' currencies. But this has also run into difficulties. Last April the Joint Council of Foreign and Finance Ministers referred the matter to the Committee of Permanent Representatives.

The EUA, which is calculated daily, has already been in use for the European Development Fund (EDF) since the Lomé Convention came into effect; by the European Investment Bank (EIB) since December 31, 1974 and the ECSC since January 1, 1976.

For Britain, budgetary calculations are based on £1 = 2.4 ua (the old dollar equivalent). As with other countries in the Community, the growing discrepancy between the official parities and the actual rates of exchange has created a number of problems, particularly in agriculture, where dual rates of exchange, involving the 'green £' have led to financial distortions which have had to be borne by the Community budget.

Loans

The Commission would also like agreement to develop more systematically a borrowing policy to finance appropriate activities. By avoiding recourse to current funds, this could reduce the possible impact of the levelling out of own resources that the Commission believes may be a possibility in future. It points out that VAT assessments and customs duties expand less rapidly than GNP. This, with the additional inclusion in the Budget of the financial resources of the EDF in 1980 and the accession of new member States could mean that, without recourse to other means of raising finance, Community budgeting could run into difficulties — an assessment recently confirmed by a committee of international economists.

Objectives

Despite additional work and responsibility accruing to the Community, in 1976 Community expenditure represented only 0.6 per cent of the Community's GNP. By comparison, national budgets accounted for 45-50 per cent of GNP. Even so, Mr Christopher Tugendhat, the Commissioner responsible for budgetary matters, has emphasized the need to scrutinize expenditure carefully and to ensure that Community finances are directed only towards those matters which it is clear that the Community is better equipped to handle than the nation States.

Thus, the Commission's proposal sets out in considerable detail areas where it believes Community intervention can be usefully expanded and, also, where it might be retrenched.

The four particular areas to focus on, the Commission suggests are:

☐ Containment of agricultural expenditure;

☐ Employment and economic structures;

☐ Greater independence in energy;

☐ Aid to developing countries.

Agriculture

While admitting that it is impossible to obtain an exact balance between production and markets in agriculture, the Commission firmly states that persistent stocks resulting from structural imbalances can no longer be regarded as a normal element of agricultural policy.

This applies particularly to dairy

products which alone account for 40 per cent of Farm Fund's guarantee expenditure, or 25 per cent of the Budget in 1977. The Commission hoped that this would be taken into account when fixing farm prices this year.

The Commission would also like to see a phased reduction of 'agri-monetary' expenditure in the shape of monetary compensatory amounts (MCA) and the application of the dual rates of exchange (green £). It would also like to see more money allocated to the Guidance Section of the Farm Fund in future.

Employment

Here the Commission argues strongly that the Regional and Social Funds should be increased to meet the new demands being made upon them. In particular it urges that the Social Fund should be reorganized as set out in a recent submission to the Council of Ministers.

Referring to sectoral help for industry the Commission points out that economic recession has revealed structural weaknesses in certain industries, and it would like to see the Community playing a part in overcoming these.

It has already put forward proposals on the Data Processing industry and work is advanced on proposals for the aircraft industry. There are already appropriations in the current budget for assistance to these industries, and the Commission would like to see more money allocated in this field.

It also sees scope for Community action in transport, and has already advocated direct financial intervention for the purpose of coordinating investments and promotion projects of Community interest, chiefly in the form of subsidies to infrastructure projects of European significance. There is also need to continue and expand Community sponsored research in a number of areas. Present appropriations are still inadequate.

Energy

The Commission once again warns that unless measures adopted in principle by the Council in December 1974 to conserve energy and reduce the Community's dependence on external supplies are vigorously followed up, there is real danger of an energy gap appearing after 1985.

It urges that adequate money should be forthcoming in the 1978 Budget to put agreed measures into effect.

In the Third World the Commission proposes that priority should be given to the furtherance of projects already started. It does not intend to produce new ones for 1978, but will seek to improve activity in various fields — technical and financial assistance, food aid, and promotion of trade — already under way.

Urgency

Throughout, the Commission emphasized that unless certain problems still outstanding, such as the proposed new EUA were agreed by the end of June, there will be great difficulty in preparing the 1978 Budget.

Mr Tugendhat, in his speech to the European Parliament on May 10, 1977, indicated that he believed that agreement would be reached in time. The major matter of interest, however, will be the extent to which the member States will be prepared to allocate increased resources to industrial problems, probably at the expense of agriculture.

Economic Affairs

Funding Europe

The Community to get its 'own resources'

The Council of the European Communities has adopted a Sixth Directive on VAT on the basis of a proposal submitted by the Commission on June 29, 1973 and amended on July 26, 1974.

For two reasons, the adoption of this Directive is a milestone on the road towards an integrated Community: with regard to finance, it means that the 'own resources' arrangements can now be operated in full, and, in the tax area, it means that VAT can be made more neutral as regards competition.

Revenue

What are 'own resources'? They are revenue accruing from taxes levied on certain transactions such as imports, sales and purchases. The revenue is generated by the transactions themselves, and is not determined by a scale of payments, as is currently the case with the financial contributions which the member States make to the budget of the Communities.

The decision to replace member States' financial contributions by the Community's own resources was taken by the Council in 1970. The changeover should have been carried out gradually: initially, own resources comprised only the agricultural levies and an increasing proportion of customs duties, the balance of expenditure being covered by financial contributions from member States calculated on the basis of a scale of payments.

Under the terms of the Council decision, the Community's budget should have been fully financed, from January 1, 1975, by own resources. The financial contributions of the member States, should have been replaced by the allocation to the Communities of a given percentage of VAT revenue (up to a maximum of 1 per cent of the basis of assessment). But the Council was unable to agree on a definition of a uniform basis for assessing VAT, and the system of financial contributions, now calculated on the basis of each member State's share of Community GNP, was continued up to and including 1977.

Now that the Sixth Directive has been adopted, the 'own resources' arrangements can be completed and the Community will have a system giving it financial autonomy. In practice, this will only be achieved when the Council has approved the implementing financial regulation relating to VAT, and when the member States have adapted their internal legislation.

Transition to the complete 'own resources' arrangements has important implications:

☐ It will put an end to the 'relative shares' system, under which member States' contributions were calculated on the basis of temporary criteria (scale of contributions, share of Community GNP). From January 1, 1978, the system of financing will be neutral, in the sense that the own resources paid by member States will stem purely from the economic activity in each State. (In the case of the three newer member States, however, the Treaty of Accession imposes certain limits on actual payments until 1980;)

☐ The new system will also impose new constraints as regards budget estimates and management. The volume of revenue will be a more rigid factor than in the past, since it will no longer be a question of adjusting revenue *a posteriori* to cover expenditure, as in the case of financial contributions from member States. Accuracy in estimating revenue and strictness in administering expenditure will therefore be even more necessary than in the past.

Assessment

The new Directive takes a good deal further the process of harmonization of the member countries' VAT systems, the principles and main points of which had been fixed by the first two Directives of April 11, 1967 In particular, it ensures greater neutrality in international trade for services as well as merchandise by eliminating cases of double taxation and non-taxation. It also improves the competitive position of undertakings established in the Community as regards trade with non-member countries, particularly in the services sector.

The need to ensure that own resources are collected fairly by member States has led to a thorough harmonization of all the arrangements likely to influence the amount of such resources. In particular, the Directive lays down common rules as regards liability to tax, the definition of taxable transactions, the taxable amount, the chargeable event of the tax, the right to deduct, etc. It also gives common lists of exempted transactions and institutes special common arrangements for small undertakings and some types of farming.

Exemptions

Generally speaking, the Directive lays down common rules; in a very few cases the Council must later take decisions either on aims or on arrangements for applying principles already adopted. However, the immediate implementation of the common solutions adopted would have led, in some cases, to major economic or social difficulties in several member States. The Council has therefore agreed to grant temporary exemptions in such cases to allow the member States concerned to adapt their laws gradually to the Community provisions. In five years' time the Council will give a ruling as to the phasing out of these exemptions.

Finally, the Directive provides for the setting up of a consultative committee composed of representatives of member States and chaired by a Commission representative. This committee will have power to examine any matters arising from the application of Community rules on VAT. It will certainly play an important and useful role during the years ahead. Although the Sixth Directive marks an important stage in the process of VAT harmonization, it is far from being the end of the matter. During the years to come, the Commission will be aiming first to complete the harmonization of the structures and implementing procedures, and then to work towards the alignment of rates, which remains the long-term objective: as long as rates vary from country to country, tax frontiers will survive within the Community.

Dossier

For the record

Hattersley on CAP

The CAP has had less than 1 percentage point impact on the past year's 17.5% UK inflation, the Rt Hon. Roy Hattersley told a London audience on June 14, 1977.

Unilever backs Europe

'Our national leaders must demonstrate that they still believe in the ideal of a progressive, united and outward-looking Europe. Their joint decisions in Brussels must give evidence that they are taking account of the longer-term objectives of the Community, rather than patching up compromises between short-term national interests . . . We have practical as well as idealistic reasons for wishing to see a more closely integrated Community.'

D. V. Orr, Chairman of Unilever Limited, speaking in London, and H. F. van den Hoven, Chairman of Unilever N. V., speaking in Rotterdam, on May 11, 1977.

Take ze peels

Mr David Ennals, UK Secretary of State for Social Services, told the House of Commons on April 5 that the British Government intended to provide that all appropriately qualified doctors from other Community countries should be given immediate registration in the UK, but that it should be restricted to six months unless the doctor had satisfied the General Medical Council that he had the necessary knowledge of English.

Attention holidaymakers

Travellers going to other Community countries and wishing to be sure of getting medical care on special Community terms should get from their local social security offices leaflet SA28, which contains the application form for the necessary E111 document. Further details from the Department of Health and Social Security.

Monetary Integration

The Politics and Economics of European Monetary Integration is the title of a new book by Loukas Tsoukalis, a Research Fellow at St Catherine's College, Oxford, published by Allen & Unwin at £8.50.

Fair trading in Europe

This is the title of a new study by A. H. Hermann and Colin Jones, just published by Kluwer-Harrap in London, and covering not only all EEC countries but also Austria, Norway, Sweden, Portugal, Spain and Switzerland. As a source guidance on the legal situation, it should prove invaluable to businessmen, company lawyers, and anyone concerned with competition law.

Social Affairs

The Social Fund

The Commission suggests improvements

Over 2,000,000 people have benefited from help from the European Social Fund since it was reformed at the beginning of 1971. Budgetary allocations to the Fund have also increased — from 235 million units of account in 1973 (approximately £100m) to 617 mua (£257m) in 1977. Even so, applications to the Fund far outweigh the money available to meet them.

With this factor in mind the Commission has now submitted proposals to the Council of Ministers suggesting a series of amendments to the 1971 Council Decision, aimed at concentrating Fund resources where they are demonstrably most needed; increasing the effectiveness of the Fund by making administrative procedures simpler and more flexible; and providing for new areas for Fund intervention in the future.

Now

Since 1971, when the new Fund was created, about 90 per cent of Fund aid has been used for vocational training.

The 1971 Decision authorizes assistance from the Fund under two heads:

Article 4 — here the Fund can intervene in areas opened by a specific Council decision and concerned either with the effect of Community action on employment levels, e.g. in agriculture or the textile industry, or with specific categories of people suffering severe employment difficulties, e.g. young people under 25 or handicapped people.

Article 5 — here the Commission can intervene without reference to the Council, and aid is directed towards trying to reduce underemployment or unemployment of a long-term structural nature, arising independently of Community action.

However, the Commission is not proposing to alter the separation of intervention between the two Articles except to allow for greater flexibility in the allocation of the Fund between them.

Regions

Given the budgetary limits, the Fund cannot help to solve all the employment problems of the Community. This being the case, the Commission proposes to put more emphasis on aid in favour of regions with chronic unemployment problems.

The Commission would also like to see more help given to training the self-employed, particularly to run small craft undertakings.

Finally, the Commission would like to ensure that the Fund is able to respond to the varying needs by possessing flexibility in resource allocation.

Speed

In order to simplify and speed up payment procedures the Commission proposes that Fund contributions should be paid by instalments.

The Commission also argue in favour of applications grouped according to area of intervention, rather than having to cope with numerous individual applications.

New aids

In addition, the Commission also makes some suggestions for new modes of intervention:

☐ Aid for the maintenance or creation of employment or other types of intervention to enable workers to get stable jobs in economically sound sectors of industry.

☐ Along the lines of the provisions for coal and steel workers under the ECSC Treaty, aid for the maintenance of incomes, for a period, of workers who have lost their jobs or who are working on short time, etc., and who are waiting for training and new jobs;

☐ The ability to modify as necessary, on agreement by the Council the basic decision to enable new tasks to be undertaken by the Fund in the future.

Statistic of the Month

Number of hours (h), minutes (′) and seconds (″) which need to be worked in order to purchase:

	1 litre of milk	1 litre of beer (gravity 1040/1049)	1 litre of petrol (premium grade)	1 litre of whisky (ordinary brand)	1 kg of beef (sirloin)	1 kg of salted pasteurized butter
Federal Republic of Germany	5′43″	18′11″	5′15″	2h19′22″	2h23′40″	57′ 8″
France	7′37″	13′47″	8′46″	3h53′18″	2h45′53″	1h20′11″
Italy	9′12″	21′ 5″	11′ 2″	3h21′39″	3h 4′14″	1h49′20″
Netherlands	5′22″	9′16″	5′50″	1h54′28″	1h40′ 0″	1h 1′43″
Belgium	5′12″	10′53″	5′31″	2h 8′ 2″	2h 0′ 2″	54′23″
Luxembourg	6′13″	9′ 6″	4′23″	1h35′10″	1h47′31″	53′50″
United Kingdom	6′43″	24′ 5″	6′57″	3h29′18″	2h26′ 4″	35′20″
Ireland	5′44″	28′30″	7′55″	4h 6′11″	1h43′10″	43′49″
Denmark	4′11″	13′ 8″	4′13″	3h15′52″	2h16′33″	39′14″

Sources: Survey on the hourly earnings of male workers in industry (October 1975) and Survey of consumer prices in the capitals of the member States (October 1975). As the relevant figures for Ireland are not available from Community sources, they have been supplied directly by that country.

Economic Affairs

Helping small firms

Raymond Vouel pinpoints the problems

Presenting to the press the Commission's Sixth Report on Competition Policy, Mr Raymond Vouel, the Commissioner responsible, singled out small and medium-sized businesses as deserving special attention in the coming months.

Small firms with up to 100 staff and medium-sized firms of up to 500 make an important contribution to stimulating the economy but, particularly in times of economic stress, they often come up against obstacles peculiar to their size, such as shortage of credit facilities and capital resources making it difficult for them to adapt to technological change.

Mr Vouel said that he would pay particular attention to the problems of these small firms, especially in connection with problems of subcontracting, notices on minor agreements and the extension of block-exemption regulation for certain patent licensing agreements.

The Report itself points out that because smaller firms have a specific role to play in stimulating competition, aid should be devised to help them play this role more effectively, rather than provide them with artificial protection.

Thus state aid, on conformity with Community principles, could cover:

☐ Loans at preferential rates providing credits for investment;

☐ The setting up of specialized public-authority sponsored agencies to provide risk capital in the form of temporary share-holding;

☐ Grants for research and development or the establishment of technology centres (to which firms would contribute financially) to undertake research in certain common fields;

☐ Technical assistance with commercial and management policies.

In addition, the Commission would like to see special help given to craft industries. Schemes in Denmark and Ireland, examined by the Commission, have shown what can be done to help the smaller firms.

Mergers

Following a series of studies the Report concludes that the largest firms are hardly ever the most profitable (and are unlikely to be the most efficient). Consequently, it suggests, there seems little point in systematically promoting the formation of giant firms or in encouraging an uncontrolled process of merger and concentration, as it is by no means certain that this will actually help Community industry to become more profitable or more competitive.

Yet as Mr Vouel pointed out, in a rather different form, joint ventures — i.e. subsidiaries formed by two or more other firms — are becoming increasingly popular, while the Commission's proposals on merger control, first submitted to the Council of Ministers in July 1973, are still awaiting ministerial decision.