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EUROPEAN PARLIAMENT

# Working Documents

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## Report

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

on the proposal from the Commission of the European Communities to the Council (Doc. 456/78) for a regulation on Community aid for industrial restructuring and conversion operations

Rapporteur: Mr A. SPINELLI



By letter of 15 November 1978 the President of the Council of the European Communities consulted the European Parliament, pursuant to Article 235 of the EEC Treaty, on the proposal from the Commission of the European Communities to the Council for a regulation on Community aid for industrial restructuring and conversion operations.

By letter of 28 November 1978 the President of the European Parliament referred this proposal to the Committee on Economic and Monetary Affairs as the committee responsible and to the Committee on Social Affairs, Employment and Education and the Committee on Budgets for their opinion.

On 1 December 1978 the Committee on Economic and Monetary Affairs appointed Mr Spinelli rapporteur.

It considered the proposal at its meetings of 23 January and 20 February 1979.

At its meeting of 20 February 1979 the committee adopted the motion for a resolution unanimously with one abstention.

Present: Mr Pisani, chairman, Sir Brandon Rhys Williams and Mr Leonardi, vice-chairmen, Mr Spinelli, rapporteur, Lord Ardwick, Mr Cifarelli, Mrs Dahlerup, Mr Jakobsen, Mr Lange, Mr Normanton, Mr Ripamonti and Mr Starke.

The opinions of the Committee on Social Affairs, Employment and Education and the Committee on Budgets are attached to this report.

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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

embodying the opinion of the European Parliament on the proposal from the Commission of the European Communities to the Council for a regulation on Community aid for industrial restructuring and conversion operations

The European Parliament,

- having regard to Article 375 of Section III (Commission) of the general budgets of the Community for the financial years 1978 and 1979, which empowers the Commission to grant structural aid in certain sectors,
  - having regard to the proposal from the Commission of the European Communities to the Council<sup>1</sup>,
  - having been consulted by the Council pursuant to Article 235 of the EEC Treaty (Doc. 456/78),
  - having regard to the two proposals for decisions presented by the Commission of the European Communities to the Council (COM(78) 769 final),
  - having regard to the report of the Committee on Economic and Monetary Affairs and the opinions of the Committee on Social Affairs, Employment and Education and the Committee on Budgets (Doc. 637/78),
1. Notes that the changes now taking place in the international division of labour, the prices of certain basic raw materials and the structure of demand have increased and in some cases even produced in certain sectors excess production capacity for which structural rather than economic factors are responsible;
  2. Considers that, if a measure of competitiveness is to be restored to these sectors so that they are again able to cope with international competition, restructuring measures involving increased productivity and, in many cases, a cut-back in production and hence in manpower, will have to be taken as a matter of urgency;
  3. Notes that restructuring is always easier at times of economic expansion but that, in social terms, it heavily penalizes workers threatened by redundancy, while creating economic difficulties for undertakings whose financial strength and investment capacity are impaired as a result of excess production capacity;
  4. Considers that, in order to provide alternative employment for persons who lose their jobs for the above reasons, measures for conversion to other production sectors must be implemented in parallel with the restructuring measures;

<sup>1</sup> OJ No. C 272, 16.11.1978, p.3

5. Notes that investment in conversion schemes is also easier at time of economic expansion, but more difficult when the threat of unemployment is more serious and the prospects of a strong recovery in demand as an incentive to substantial new investment are uncertain;
6. Considers that the public authorities of any industrial community affected by such difficulties should apply a policy of growth and introduce measures to facilitate the process of restructuring and conversion required in the most severely affected sectors;
7. Believes that, the Community must adopt a constructive and overall policy of balanced expansion - which must be the first concern of every Community and national economic policy - and that efforts should be concentrated on measures likely to promote industrial restructuring and conversion schemes;
8. Notes that:
  - in view of the degree of interdependence already achieved between the Member States economies,
  - the progress made towards the adoption of a common approach towards the rest of the world, and
  - the commitment made by the Community and its Member States to work for a greater measure of integration and strengthen the common external economic policy,it is essential that the structural measures taken by the Member States should be compatible, convergent and conducive to increased solidarity between the various countries, regions and social classes; in the absence of the desired compatibility, convergence and solidarity, inconsistencies and divergencies would grow steadily more pronounced, while the small measure of solidarity so far achieved would be destroyed;
9. Considers that full implementation of the norms to complete the Common Market laid down in the Treaty of Rome - abolition of technical barriers, opening up of public contracts, legislative and fiscal harmonization, compliance with the rules of competition - is necessary but not sufficient to achieve the gradual convergence and integration of the national economies; consequently, considers that the Commission cannot confine itself to acting as guardian of these norms but must be provided with adequate financial resources allowing it to guide and orient the national restructuring and conversions operations in such a way as to achieve the increased convergence and integration of Member States' economies;
10. Considers it necessary, therefore, to introduce a Community regulation that provides a permanent legal basis for the measures in question, since it is not enough simply to make an annual budgetary allocation for the purpose;

11. Believes the granting of interest rebates and investment premiums to be a satisfactory procedure provided that it has a significant impact on the projects for which aid is to be granted;
12. In this connection, considers that the flexible procedure proposed by Article 3(2) for the rate of rebate is a step in the right direction, but that it is not taken far enough in the proposal for a regulation; feels that in order to take account of the far more advantageous conditions for restructuring and conversion operations in low-interest rate countries as compared with high-interest rate countries, the rebates should not be calculated on the basis of a points system but as a percentage of the rates at which the loan has been granted;
13. Considers that the decision by the Council on the sectors to which financial aid may be granted (Article 1 (2)) must be taken in the light of an opinion from the European Parliament, and taking account also of the opinion of the Economic and Social Committee; regrets, in this connection, that the two recent proposals for decisions presented by the Commission to the Council concerning the designation of sectors of the shipbuilding and textiles industries, particularly man-made fibres, have not been submitted to the European Parliament for opinion;
14. Believes that, while the advisory role of the Committee (Article 7) is sufficiently clear as regards the grant of rebates and premiums, the same cannot be said of the opinion concerning implementing measures and guidelines. Article 8 (4) empowers the Advisory Committee to divest the Commission of its responsibilities and transfer them to the Council. This is unacceptable;
15. Deems it proper that the Commission should submit every year to the Council and Parliament a report on the implementation of the regulation during the previous year; feels, however, that if it is to be of maximum use the report should also contain a description and an estimate of the size and type of the structural projects carried out by the Member States as well as an assessment of the national measures which are likely, by reason of their scope, to be supported by the Community; only in this way will the European Parliament be in a position to assess the quantitative value of Art. 375 of the budget of the Community;

16. Considers, following the experience of the Americans and Japanese, that it is necessary to refer restructuring problems for analysis and study on a long-term basis to a technological forecasting unit, such as the European Communities Institute for Economic Analysis and Research, which, because of the delay in the Council, has not yet been established;
17. Requests the Commission to adopt the following amendments pursuant to the second paragraph of Article 149 of the Treaty establishing the European Communities and to submit to the Council the amended proposal for a regulation:



Proposal from the Commission of the European Communities  
to the Council for a regulation on Community aid for  
industrial restructuring and conversion operations

Preamble and recitals unchanged

Article 1

Article 1

Paragraph 1 unchanged

2. The Council, acting on a proposal from the Commission, shall decide, by a qualified majority on those sectors to which aid may be granted.

2. The Council, acting on a proposal from the Commission, and after hearing the opinion of the European Parliament, shall decide, by a qualified majority, on those sectors to which aid may be granted.

Paragraphs 3 and 4 unchanged

Article 2 unchanged

Article 3

Article 3

Paragraph 1 unchanged

2. Interest rebates shall be granted for a part of loans not exceeding 50% of the cost of eligible investment, and in the case of conversion, the said part shall not exceed 25,000 EUA per job created. The rebate shall be for a period of five years and amount to three percentage points, but shall, in any case, not exceed 40% of the rate of interest payable on the loan. Exceptionally, the rebate may be raised to the lower of five percentage points or two thirds of the relevant rate of interest for the same period of five years for conversion investment undertaken:

2. Interest rebates shall be granted for a part of loans not exceeding 50% of the cost of eligible investment, and in the case of conversion, the said part shall not exceed 25,000 EUA per job created. The rebate shall amount to 40% of the rate of interest payable on the loan and shall be for a period of 5 years. The rebate may be raised to two-thirds of the relevant rate of interest for the same period of 5 years for conversion investment undertaken:

- (a) in the least favoured regions or zones particularly affected by restructuring;
- (b) by small and medium sized enterprises.

(a) unchanged

(b) unchanged

Paragraphs 3 and 4 unchanged

Articles 4 to 7 unchanged

Article 8

Article 8

Paragraphs 1 to 3 unchanged

<sup>1</sup> For the full text, see OJ No C 272, 16.11.1978, p.3

4. For questions relating to measures in implementation of this Regulation or to the policy statement referred to in Article 3(4), the Commission shall consult the committee. The Commission decisions shall apply immediately. However, if a decision is not in accordance with the opinion of the committee, it shall forthwith be communicated by the Commission to the Council. In that event the Commission shall defer the application of the decision which it has adopted for not more than two months from the date of such communication. The Council, acting by qualified majority, may take a different decision within this period.

4. For questions relating to measures in implementation of this Regulation or to the policy statement referred to in Article 3(4), the Commission shall consult the committee. The Commission decisions shall apply immediately. However, if a decision is not in accordance with the opinion of the committee, the Commission shall re-examine its decision in the light of the arguments adduced by the committee. The Commission may withdraw, amend or confirm the draft: it shall adopt the decision accordingly.

Articles 9 to 12 unchanged.

EXPLANATORY STATEMENT

1. The proposal for a regulation on Community aid for industrial restructuring and conversion operations defines the criteria and procedures for the implementation of Article 375 of the general budget of the Communities, under which the Commission may grant structural aid to certain sectors.

This regulation, which to some extent may be regarded as an implementing instrument, is not - unfortunately - accompanied by a genuine Community industrial programme, but comes necessarily within the context of measures to adapt the European production apparatus to the changed conditions on the Community and world markets and restore industrial competitiveness, the need for which was emphasized at the European Councils of Brussels, on 5 and 6 December 1977, and Copenhagen, on 7 and 8 April 1978.

Thus, on the basis of a de facto situation, namely the new international division of labour, the proposal points to the need for a Community restructuring and conversion policy and puts forward a number of methods and instruments that can be employed to that end.

I. THE NEW INTERNATIONAL DIVISION OF LABOUR

2. The changes that are currently affecting the international division of labour, the price levels of certain essential primary materials and the structure of demand are such that surplus capacity has developed in some of the Community's industrial sectors. Where this has happened, the sectors in question have to reorganize if they are to become sufficiently competitive to survive on the international markets.

Economic forces constantly demand that restructuring operations be carried out, even during periods of expansion. However, the character of aid to restructuring becomes quite different in times of recession, where such operations are invariably difficult both from the social point of view, because of the threat of unemployment, and from the economic standpoint, given the reduced investment capacity of undertakings. The financial situation of undertakings and the social and regional consequences of restructuring make assistance from the public sector indispensable.

3. The Commission's proposal for a regulation makes the point that the Community dimension of the problems and the Community's responsibilities in trade and industrial relations mean that restructuring must be integrated into Community policies. In this connection it is sad to find that the

Community is so slow to act in these areas. It has not yet been possible to use the appropriations entered under Article 375 of the budget of the Communities for the 1977 and 1978 financial years. Community action is urgently needed to ensure the necessary compatibility, convergence and coordination between the individual national plans.

4. The proposal for a regulation attempts to meet the need for Community guidelines on industrial restructuring and conversion policy. It defines within a broad framework the scope of intervention, the criteria and procedures for Community aids. The European Parliament must inevitably be involved in the establishment of an industrial restructuring and conversion instrument and must carefully examine its objectives and working.

## II. A COMMUNITY FRAMEWORK FOR INDUSTRIAL RESTRUCTURING AND CONVERSION PLANS

The Committee on Economic and Monetary Affairs considers it particularly important to examine the conditions under which the Community may act and also the financial instruments provided by the proposal for a regulation.

### (a) Scope of and conditions governing Community assistance

5. The Committee on Economic and Monetary Affairs regrets the lack of precision in the proposed regulation as regards determination of the scope of Community action (Article 1(2)). Both the European Parliament and the Economic and Social Committee should be consulted in the context of the procedure to determine which sectors should be eligible for aid. Moreover, Parliament must be given information on the rules governing the aid.

Under Article 1 of the proposal, the aid is intended to finance investments for the restructuring of industrial undertakings and also investments for conversion to other sectors (change to other types of activity or creation of new activity).

### (b) Financial instruments

6. Article 3 of the proposal for a regulation states that the aid may take the form of investment premiums or interest rebates. Depending on the circumstances, the rebate may amount to either 3 or 5 percentage points (in the case of conversion investment undertaken in the least favoured regions and by small and medium-sized undertakings) for loans taken over a period of five years.

Whilst the Committee on Economic and Monetary Affairs approves the degree of flexibility in setting the rebate level provided by Article 3, it would like to see it extended. It would be preferable to introduce

interest rebates not on the basis of points, but as a percentage of the interest rate at which the loan is granted. Such an increase in flexibility would lead to closer solidarity between Member States with high interest rates and those with low ones.

Furthermore, a very high level of coordination should undoubtedly be sought between the various financial instruments available to the Community, namely the Regional and Social Funds and the new instrument being set up under this proposal.

### III. MECHANISMS FOR COMMUNITY AID TO RESTRUCTURING AND CONVERSION

In connection with the implementation of the aid, the proposed regulation provides for consultative, supervisory and information machinery.

#### (a) Consultation of the Committee

7. Applications to the Commission for aid, submitted either directly by the investors or through the intermediary of the Member States, are referred to an Advisory Committee composed of representatives of the Member States and chaired by a representative of the Commission (Article 7). The Commission may, in the light of the Committee's opinion, withdraw, amend or confirm its draft decision.

However, where the Commission consults the Committee on the policy statement defining the criteria governing the grant of aid in the sectors designated by the Council (Article 3(4)), and on the measures necessary for the implementation and supervision of the operations financed by Community aid (Article 6), the final decision is transferred to the Council if the Committee's opinion differs from that of the Commission (Article 8(4)).

The Committee on Economic and Monetary Affairs does not accept this transfer of powers to the Council, which unduly weakens the Commission's responsibilities. At this stage the decision should lie exclusively with the Commission.

Moreover, as regards the composition of the Advisory Committee, it would be desirable to find a formula which would enable that body to better express a point of view corresponding to a European vision of problems - from administrative, trade union and employers' standpoints.

(b) Supervision

8. Article 5 of the proposed regulation lays down the procedures for verifying the use made of the Community's financial aid: exchange of information, on-the-spot checks and provision for suspending payment of aid in the event of irregularities. The effectiveness of these safeguards is however diminished by the fact that the Commission does not have the last word.

(c) Reporting to the European Parliament

9. Article 11 stipulates that the Commission must each year submit a report to Parliament and the Council on the implementation of the regulation during the preceding year. The Committee on Economic and Monetary Affairs considers that if this report is to be as useful as it ought to be then it should contain a description and an appraisal of the data concerning the size and nature of the structural assistance provided by the Member States, together with an assessment of national aids which, by virtue of their importance, ought to qualify for Community aid. It is only in that way that the European Parliament would be in a position to assess the quantitative value of the funds earmarked for Article 375 of the budget of the Communities.

OPINION OF THE COMMITTEE ON SOCIAL AFFAIRS, EMPLOYMENT AND EDUCATION

Draftsman: Mr C. MEINTZ

On 29 November 1978 the Committee on Social Affairs, Employment and Education appointed Mr C. MEINTZ draftsman.

It considered the draft opinion at its meetings of 19 February and 22 March 1979 and adopted it unanimously with 1 abstention at the latter meeting.

Present: Mr van der Gun, chairman; Mr Nolan, vice-chairman; Mrs Dunwoody, vice-chairman; Mr Meintz, draftsman; Mr Albers, Mr Berkhouwer (deputizing for Mr Feit), Mr Bertrand, Mrs Cassanmagnago Cerretti, Lady Fisher of Rednal, Mr Kavanagh, Lord Murray of Gravesend, Mr Power, Mr Squarcialupi and Mr Vandewiele.

I. BACKGROUND

1. The 'Memorandum on Community structural policy in industry' issued in connection with the major Council debate of 6 June 1978 on industrial and competition policy points out, broadly speaking, that the steadily lengthening list of industrial sectors faced with difficulties and either already experiencing structural crises or fearing such crises in the future has given rise to growing disquiet in those Member States which see in the principle of free competition the essential driving force for economic activities and the stimulus to the processes of adaptation which are becoming ever more necessary. Like the trend towards protectionism, the pressure for state aid is certain to increase if the Commission responds to industry's calls for help too sympathetically.

These fears were also voiced when the Commission of the European Communities unilaterally took the initiative and officially laid down in advance its attitude towards national aids in certain sectors, specifying which types of aid it considered a priori compatible with Community principles and which not.

2. In the Commission's view this a priori definition of admissibility should encourage the granting of certain aids, but it has already run into criticism from various quarters on the grounds that the Commission should refrain from making such a practice general except in sectors where the need for state aid with Community participation is beyond doubt, i.e. when serious industrial disruptions extend over a large part of the Community. The primary symptom manifested by crisis sectors is overwhelming surplus production capacity at Community level, which is almost certainly structural rather than economic in character, so that it is to be regarded as highly likely that this problem will continue to exist in future. Only this state of affairs can be seen as a precondition for joint initiatives by the Commission and the Member State concerned.

II. OUTLINE OF THE PROBLEM

3. The opportunities for the Commission to exercise its 'hidden power' in the area of aids without exceeding its powers are narrowly limited. In particular, it cannot make use of these opportunities in such a way as unilaterally to encourage an economic policy which presents a serious danger to competition. Initiatives to stimulate the promotion of branches of industry by the granting of state aids should only be taken by the Commission when the situation in a specific sector makes intervention unavoidable and when particularly marked opposition is to be expected in the Member States to any extension of appropriate



measures (such as, for example, those taken in the shipbuilding, man-made fibre and steel sectors) to take in other sectors which are not suffering from the crisis to the same extent as the above industries. Finally the Commission, in granting aid, should not give priority to any one Community policy as opposed to another. For example, giving industrial policies special precedence over social/regional policy is only justified when a particular sector finds itself in a particularly serious situation, as is the case in the three sectors mentioned above. In these circumstances the Commission could block the granting of regional aids, which would only serve to increase production capacity.

4. But even then it would be sensible to make an exception in areas to which the criteria listed in Article 92(3) (a) of the EEC Treaty<sup>1</sup> apply.

Generally speaking, outside these specific situations in which a sector has run into difficulties the seriousness of which is beyond all doubt, decisions on aids requested by Member States must be taken on an individual basis in the light of the specific circumstances relevant in each case.

Only really serious structural crises should give the Commission the right to take initiatives and to define on its own responsibility which types of aid are compatible a priori with the principles of the common market and which are not. These considerations on the basic principles of aid policy for economic sectors in difficulty form the basis of the present Commission proposal.

### III. GENERAL CRITERIA FOR AIDS IN SPECIFIED SECTORS

5. In three actual cases - shipbuilding, man-made fibres and steel - the Commission has already proposed general criteria for state aids on the basis of the seriousness of the structural crisis in these sectors. These initiatives<sup>2</sup> are based in particular on the following criteria;

- (a) - Aids are not to be granted if their sole effect is to preserve the status quo;
- Production aids will therefore not in principle be granted unless they are justified on the grounds that the recipient actively supports the necessary adjustment measures (e.g. restructuring programme);

<sup>1</sup> 'Aid to promote the economic development of areas where the standard of living is abnormally low or where there is serious under-employment.'

<sup>2</sup> Fourth Directive on Aids to Shipbuilding, proposals for effective measures on the basis of Article 93 of the EEC Treaty for man-made fibres and a draft proposal under Article 95 of the ECSC Treaty for aids to the steel industry.

(b) Support measures should be taken to ensure that the long-term solution of difficulties in industries is not impeded, but they must not be used to maintain over-capacity and may only be applied on a very limited basis, i.e. only in cases where acute social problems exist;

(c) Investment aids should in no case lead to expansion of capacity, since all the sectors in question are already affected by this.

6. On this last point, however, a conflict could arise between regional and sectoral considerations. In principle the criteria for the provision of funds are based on the transfer of over-capacity from the rich to the poorer and less developed regions of the Community. A basic principle of this kind, however, could be criticized on the grounds that lack of balance between supply and demand cannot be assessed in purely quantitative terms and that in many cases it is therefore an over-simplification to ascribe the crisis exclusively to over-capacity and to think that the mere elimination of this surplus will suffice to restore the previous economic viability of the sector.

7. Of course, it is also evident from a regional point of view that no aids, not even regional aids, must be given to a crisis industry if these increase the over-capacity at Community level, provided that there are no realistic prospects of improvement in the long term. Similarly, it is plain that as far as regional economic policy is concerned it would be a mistake to support projects with only a small chance of success with resources that are in any case in short supply. However - and here the problem takes on another dimension - if the crisis is due to other factors such as low productivity, bad management or a high concentration of specialized undertakings in one sector, it would seem appropriate to grant aids for the modernization and reorganization of specific production units if these are located in regions particularly at risk. This, however, presupposes that there is some likelihood that such projects will help to make these production units competitive and profitable even with the overall unfavourable situation in their sector. It could be in the Community's interests to link such a procedure to a transfer of resources. For this reason it is urgently necessary to consider every application for aid separately and in the light of the circumstances specific to it in order to give the opportunity of priority treatment to certain regions with especially serious problems outside the framework of the strict criteria.

#### IV. CONCLUSIONS

The Committee on Social Affairs, Employment and Education

1. Recognizes the vital importance, from the point of view of industrial policy, of action to counter the far-reaching and long-term structural crisis, but considers that, having regard to the scale of the crisis, the importance of a social policy capable of meeting the challenge, also needs to be stressed;
2. Draws particular attention to the need to take into account the social and regional effects of the proposed industrial restructuring projects and to incorporate these into the framework of criteria for the provision of aid on an equal footing with the objective of economic efficiency;
3. Points out that a regional development policy which promotes new economic activity by unilateral investment in sectors particularly at risk could increase the danger of a transfer of unemployment and thereby place the objective of the projects in considerable jeopardy;
4. Strongly urges that existing legal and financial instruments should be applied effectively at the first sign of sectoral difficulties in order to prevent further deterioration in the situation favouring the formation of oligopolies by the stronger undertakings and aggravating economic and financial imbalances between the Member States, both developments which would place additional difficulties in the way of a Community social policy, the rudiments of which already exist although it has yet scarcely made itself felt in practice;
5. Considers it useful in this connection to create an effective mechanism for the coordination of national and Community aid policies in order to ensure that the planned aid does not, as hitherto, serve as a welcome supplement to the budgets for already-planned national projects and thus fail to be effective in the context of a Community structural policy, which must benefit not only the undertakings, but also and above all the workers in the Community;
6. Urges the Commission to give the trade unions an active role in the allocation of the stipulated aid and to take account of other factors such as the reorganization of working hours and lowering of the retirement age in the context of the measures required for humanizing work;

7. Calls on the Commission of the European Communities to give an initial indication of whether and to what extent the proposals it has already put forward for the shipbuilding, man-made fibre and steel sectors have begun to show effects and which other sectors, in its opinion, must be given specially favourable treatment in the context of the present proposal.

OPINION OF THE COMMITTEE ON BUDGETS

Draftsman: Mr H. SCHREIBER

On 21 February 1979 the Committee on Budgets appointed Mr Schreiber draftsman.

It considered the draft opinion at its meeting of 28 February/1 March 1979 and adopted it unanimously.

Present: Mr LANGE, chairman; Mr SCHREIBER, draftsman; Lord BESSBOROUGH, Lord BRUCE of DONINGTON, Mrs DAHLERUP, Mr RIPAMONTI, Mr SCOTT-HOPKINS, Mr SHAW and Mr WÜRTZ.