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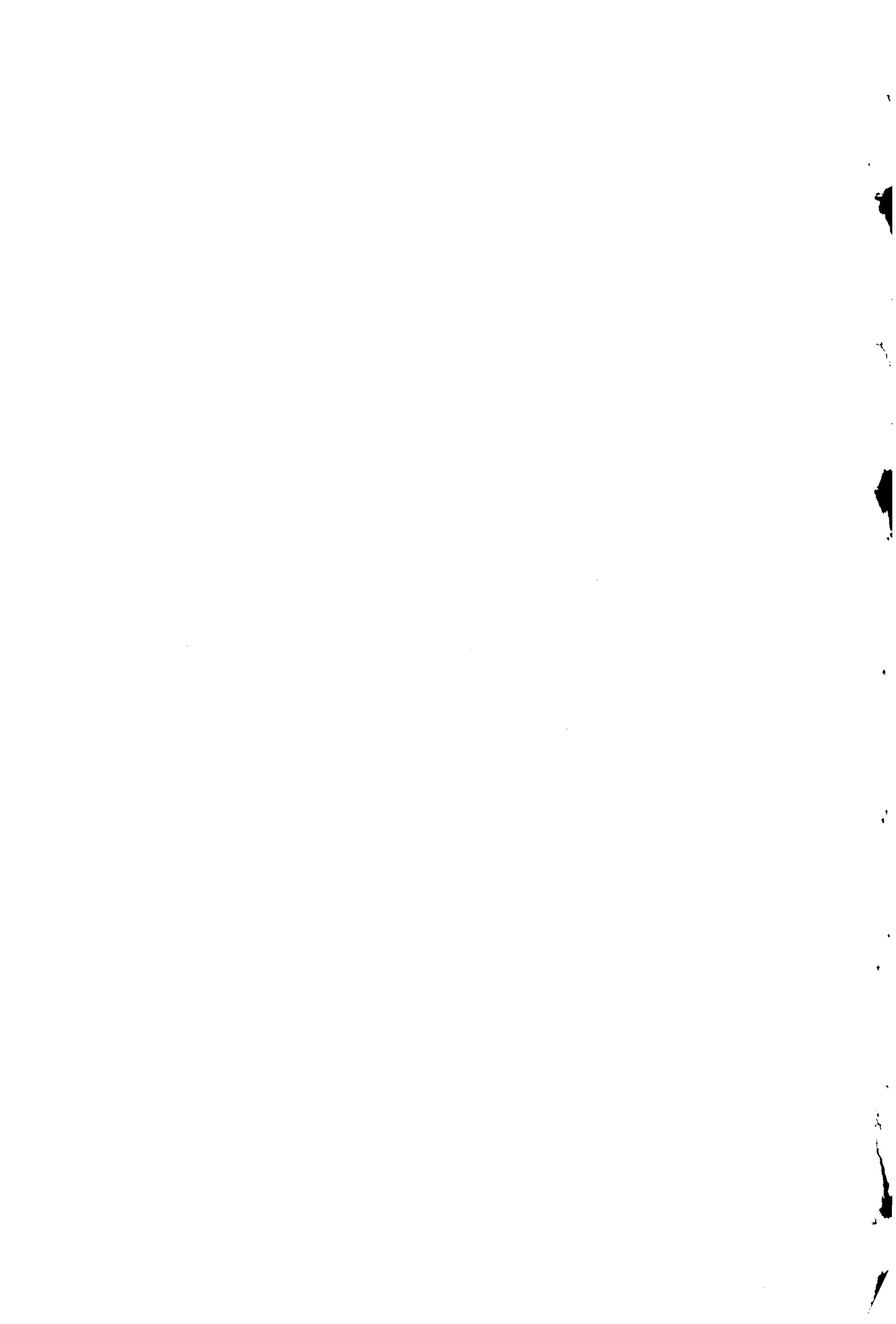
drawn up on behalf of the Committee on Economic and Monetary Affairs

on the Commission report and proposal to the Council (Doc. 319/75) for an
action programme for the European Aeronautical Sector

Rapporteur: Mr O. GULDBERG

PE 43.158/fin.

1.2.1
English Edition



By letter of 16 October 1975 the Council of the European Communities requested the European Parliament, pursuant to Articles 84 and 235 of the EEC Treaty, to deliver an opinion on the Commission report and proposals to the Council on the European Aeronautical Sector.

The President of the European Parliament referred this report and proposal on 10 November 1975 to the Committee on Economic and Monetary Affairs as the committee responsible and to the Committee on Regional Policy, Regional Planning and Transport for its opinion. The Political Affairs Committee and the Committee on Budgets were also subsequently asked for their opinions.

On 5 November 1975 the Committee on Economic and Monetary Affairs appointed Mr Ove Guldberg rapporteur.

It considered this report and proposal at its meetings of 17 November 1975 and 29 January, 26 February, 20 May, 4 June and 24 June 1976. At the last meeting the committee decided to submit an interim report. At the same meeting it adopted the motion for a resolution unanimously with 2 abstentions.

Present: Mr van der Hek, chairman; Mr Guldberg, rapporteur; Mr Achenbach, Mr Albertsen, Mr Artzinger, Mr de Broglie, Mr Cifarelli, Mr Dykes, Mr Klepsch (deputizing for Mr Deschamps), Mr Lange, Mr Mitchell (deputizing for Lord Gordon-Walker), Mr Mitterdorfer, Mr Normanton, Mr Noè (deputizing for Mr Schwörer) and Mr Nyborg.

The opinions of the Committee on Budgets, the Political Affairs Committee and the Committee on Regional Policy, Regional Planning and Transport are attached.

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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 Commission report and proposals to the Council on the European aeronautical sector

The European Parliament,

- having regard to the Commission report proposals¹;
- having been consulted by the Council pursuant to Article 84(2) and Article 235 of the EEC Treaty (Doc. 319/75);
- having regard to the interim report of the Committee on Economic and Monetary Affairs and the opinions of the Political Affairs Committee, the Committee on Budgets and the Committee on Regional Policy, Regional Planning and Transport (Doc. 203/76);

as regards the aircraft industry policy

1. Draws attention to the fact that there has been a considerable fall in the European aircraft industry's share of the market in recent years;
2. Acknowledges the need to increase European aircraft manufacturers' competitiveness at international level through a common industrial policy in order to ensure employment and promote research and production within the industry;
3. Recalls its interest in the objectives of the Commission's proposal;
4. Stresses the need for cooperation between the Community aircraft industry and manufacturers outside the Community to be on an equal basis, so that the Community aircraft industry does not end up in the precarious position of subcontractor;
5. Agrees that the introduction of a common aircraft industry policy may make it necessary for the Member States to transfer considerable resources to the Community budget;
6. Nevertheless reserves its final judgement on the size and form of such expenditure and stresses that the final shape of the policy will have to be the subject of agreement between the Council and the European Parliament under the conciliation procedure;

as regards the air transport policy

7. Approves the objective of creating a common European airspace;^{*}

¹ OJ No. C 265, 19.11.1975, p.2.

^{*} Translator's note: Airspace - 'in law, the space above a particular territory, treated as belonging to the government controlling the territory'. (Encyclopaedia Britannica)

8. Feels, however, that the Commission's proposal is not very precise and that it is impossible on the facts available to adopt a position on the formulation of such a policy;

as regards combining a common air transport policy and a common aircraft industry policy

9. Acknowledges that air transport policy and aircraft industry policy are interrelated;
10. Feels, however, that it would take a long time to reach agreement on the formulation of a common air transport policy;
11. Therefore fears that combining these two policies, as proposed by the Commission, would lead to considerable delays in the implementation of a common aircraft industry policy;
12. Therefore recommends that the Commission concentrates on
- firstly, quickly reaching decisions of principle in the Council on the industrial policy aspects, and
 - secondly, putting its ideas and proposals for a common air transport policy into concrete form, and in this connection refers to its resolution of 16.3.1973¹;

as regards a military aircraft procurement agency

13. Draws attention to the close relationship between the production of military aircraft and the production of civil aircraft;
14. Feels that sales of military aircraft are an essential basis for the future of the European aircraft industry;
15. Therefore regards the proposal as an element in the Community's industrial and employment policies;
16. Fully appreciates, however, the contribution that cooperation within such an agency can make to an understanding of the need for subsequent defence policy cooperation as part of the European Union;
17. Requests the European Council to set up the proposed agency and
- to ensure close contact between the agency and the Commission as regards economic, employment and research aspects,
 - to ensure close contact between the agency and the Eurogroup in NATO as regards defence aspects;
18. Will return to the question of parliamentary control of such an agency later;

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19. Endorses the Commission's proposal for an action programme and requests the Commission to include the following amendments in its proposal pursuant to Article 149, second paragraph, of the EEC Treaty.

¹ OJ No. C 19, 12.4.1973.

Proposal for a Council decision concerning
the creation of a common policy in the
civil aircraft and aviation sector
Preamble and recitals unchanged

Articles 1 and 2 unchanged

Article 3

1. Action by the Community in the field of air transport shall have as its main objectives:
 - (a) the creation of a European airspace, to be managed on a Community basis and involving the establishment in respect of inter-Community traffic of a system of regulated competition, whose aim will be to provide the public with services better tailored to its needs, at the best prices possible, through the introduction of new services and the diversification of existing services and the rationalisation of route network, particularly in inter-regional traffic;
 - (b) the conclusion of agreements between the Community and third countries, particularly in respect of traffic rights and with the aim of optimising international routes and services;

Article 3

1. Action by the Community in the field of air transport shall have as its main objectives:
 - (a) the creation of a European airspace; (omit the rest)

(b) unchanged

new par. 2

2. The Commission shall draw up concrete proposals for a common air transport policy and shall ensure that increased flight safety is included in the overall plan.

Article 4

1. The provisions necessary for the implementation of the measures set out in Article 1 shall be adopted by the Council in accordance with the Rules of the Treaty, on proposals from the Commission and after consultation of the European Parliament².
2. The provisions required for the realisation of the objectives set out in Article 3 shall be

Article 4

1. The provisions necessary for the implementation of the measures set out in Article 1 shall be adopted by the Council in accordance with the Rules of the Treaty on proposals from the Commission and after consultation of the Economic and Social Committee and - in accordance with the conciliation procedure - in agreement with the European Parliament.

¹ For full text see OJ No. C 265, 19.11.75, p. 2.

² The Commission's English text only includes the words: 'of the Economic and Social Committee and'.

- adopted by the Council acting by a qualified majority on proposals from the Commission and after consultation of the Economic and Social Committee and the European Parliament.
3. In preparing its proposals, the Commission shall consult governmental authorities in the Member States, manufacturers, air transport companies and trade unions. They may present to the Commission any views or suggestions on the measures and objectives set out in Articles 1 and 3.

2. The provisions required for the realisation of the objectives set out in Article 3 shall, in accordance with the provisions of the Treaty, be adopted by the Council (omit five words) on proposals from the Commission and after consultation of the Economic and Social Committee and the European Parliament.

new par. 3

3. The Commission shall, as soon as possible, put forward a timetable and financing plan for further measures.

The former par. 3 now becomes par.4 (unchanged)

Articles 5 and 6 unchanged.

EXPLANATORY STATEMENT

1. The Commission document includes a communication to the Council, a proposal for a Council decision and a draft resolution.

The proposal for a Council decision covers two topics: the establishment of a common industrial programme for the manufacture of large aircraft, and initial proposals for a common aviation policy, centring round the creation of a European airspace, to be managed on a Community basis. This decision can be adopted by the Council.

The draft resolution proposes to 'consider' the creation of a European military aircraft procurement agency.¹ This would have to be adopted in the form of an agreement between the governments of the Member States.

2. By way of introduction, it must be stressed that the Community should be wary about applying the same criteria to aviation and the aircraft industry as normally characterize its commercial and economic policies. The reason is the dominant influence of governments or public authorities. Thus, the State is normally the owner or part-owner of airlines, and the aircraft industry is one of the branches of European industry receiving the largest amount of direct or indirect public aid. Moreover, the production of military aircraft represents more than 60% of the European aircraft industry's total production, and the vast majority of large civil aircraft are developed from military prototypes. National governments have often aided the aircraft industry economically by buying one or more new types of military aircraft, which in reality means that they have covered much of the industry's research and development costs.

3. The governments have therefore not only a great influence on the types of aircraft produced and the financial conditions of their production, but also a decisive influence on the purchase side.

The committee therefore stresses the special nature of this sector, and can support the Commission's view that it is unrealistic to imagine far-reaching cooperation in industrial production unless the cooperating companies can count on guaranteed sales, particularly for military aircraft.

4. The committee would further stress that precisely this decisive influence of public authorities in this sector ought to make it easier to bring about agreement on a common, united policy in this area

¹ The Commission is asked to note that in the Danish version the terms 'materiel til luftvåbenet' or 'luftforsvarsmateriel' are used instead of 'luftkrigsmateriel'.

than in a number of other areas where private commercial interests play a more dominant role. If, on the other hand, this branch of industry is allowed to languish for reasons of national prestige or the like, it will prove even more difficult to strengthen integration in other commercial sectors.

5. It is characteristic of economic cooperation in the Community that there are a number of areas that are either excluded from cooperation or in which the political will to make integration a reality is in practice lacking. Some of these areas have become so important for further economic integration that it is becoming more and more necessary for them to be brought into European cooperation.

The tasks and problems are, however, apparently so great or so inter-related, that the Member States have shrunk from taking the necessary decisions. The Community thus finds itself in an impasse as far as integration is concerned.

6. In this connection attention should be drawn to what happened in the later forties and the fifties. In that period there were various attempts to establish wider European cooperation. Until late in the fifties, however, all attempts failed or were premature. It was not until the formation of the Coal and Steel Community that success was achieved in practical, though limited, cooperation in an important commercial sector (with considerable economic, political and defence importance). This cooperation was quickly to advance European cooperation a significant step further.

The committee considers it appropriate to draw attention to these prospects in connection with a discussion of the Commission's proposal for increased integration in the aeronautical sector. Here, too, we have a proposal for wider European cooperation in a relatively sharply defined industrial sector, of great importance both economically and for employment and defence. If it proves possible to successfully establish a unified solution in this area with financial, political and defence aspects, European cooperation will have taken another big step forward.

a. A COMMON AVIATION POLICY

7. When considering the aviation policy aspects of the Commission proposal, the Committee on Economic and Monetary Affairs has concentrated on the advisability of combining two sets of problems that are not in all circumstances connected: a common aviation policy and a common aircraft industry policy.

The Committee on Regional Policy, Regional Planning and Transport recommended in its opinion (see paragraphs 2, 7 and 32) that the aviation policy should be given 'greater emphasis' and 'a higher priority' than the aircraft industry policy.

In view of the fact that

- agreement on a common aircraft industry policy is urgently needed;
 - aviation policy is only very roughly outlined in the present proposal;
 - it will be a very lengthy process to reach agreement on the formulation of a common aviation policy; and
 - agreement in principle by the Council to the introduction of a common aircraft industry policy will make the formulation of a common aviation policy more readily acceptable;
- the Committee on Economic and Monetary Affairs has reached the conclusion that the Commission should concentrate firstly on quickly reaching decisions of principle in the Council on the industrial policy aspects and, secondly, on putting its ideas and proposals for a common aviation policy into concrete form.

8. In addition, the Committee on Economic and Monetary Affairs merely wishes to expand on a few individual points of the opinion of the Committee on Regional Policy, Regional Planning and Transport.

9. As already mentioned, the economic and legal conditions that normally characterize a free market economy are missing from the aviation sector. To simplify considerably, aviation policy is first and foremost bargaining between governments or public bodies on landing rights.

Against this, however, is the fact that the Court of Justice has ruled¹ that the general rules of the EEC Treaty including - according to the Commission - the competition rules² apply to air transport.

The Commission is currently examining the implications of the judgement. The committee feels, however, that adoption of the present Commission proposal could change the legal basis on which the Court of Justice relied in arriving at the judgement referred to, since this proposal introduces the concept of a 'system of regulated competition'³. Are the general competition rules of the EEC Treaty not thereby rendered inoperative as far as air transport is concerned?

The Commission does not go into these legal problems.

10. As the Committee on Regional Policy and Transport also concludes, the content of the aviation policy is extremely vaguely formulated in both the Commission's communication and the proposal for a Council decision.

¹ Judgement of 4 April 1974, Case No. 167/73

² Council Regulation No. 141 (OJ No. 124, 28.11.1962), which laid down that the Regulation (No. 17) implementing Articles 85 and 86 of the EEC Treaty did not apply to sea and air transport, is thus no longer relevant.

³ See Article 3 in the proposal for a Council decision

The Committee on Economic and Monetary Affairs also points out that the lack of precision as regards the proposed change of rules governing subsequent Council decisions on aviation policy (qualified majority instead of unanimity) will in all probability give rise to very lengthy discussions in the Council.

b. POLICY FOR THE AIRCRAFT INDUSTRY

Increased integration

11. In 1973 a good 400,000 people were employed in the Community aerospace sector; in the USA barely 950,000 are employed in this sector. It is above all differences in length of production runs (on average 100 aircraft in Europe to 500 in the USA) that make productivity approximately twice as high in the American industry as in the European industry.

Particularly as regards new civil aircraft, the European industry has not been able to retain its market share; there has been a considerable decline on all markets between 1970 and 1975¹.

12. The aircraft industry is not, however, merely a large job-creating branch of industry; it is a 'key' industry with a large number of sub-contractors, and aircraft production has yielded research results that have been a constant source of technical progress in other branches of industry too.

Thus, if the European aircraft industry goes under, it will not merely have an immediate effect on employment but could in the longer term represent a serious drawback to European research and technological developments.

13. The European aircraft industry stands today at the crossroads and severe competition, especially from the American side, has made more and more European undertakings realize the need to intensify cooperation. Unless agreement is reached on a European aircraft industry policy, a significant number of European aircraft manufacturers will go looking for collaborators outside the Community, especially in the USA.

If that happens, European aircraft manufacturers will more and more become the sub-contractors for the American aircraft industry. This would be a particularly painful situation, since the European manufacturers would become a sort of 'reserve manufacturer' the first and hardest hit by economic fluctuations. A general fall in growth rate in the industrialized countries together with ever more pronounced protectionist tendencies could be catastrophic for a European aircraft sub-contracting industry².

¹ See the information in Annex I, Chapter 3, Section 1 of the Commission text

² For cooperation with other aircraft manufacturers, see also paragraphs 32-33

14. Such a development would be particularly unfortunate for the Community especially in the present situation when the industrialized countries have to face the fact that the processing of raw materials will more and more be transferred to the developing countries.

15. The committee therefore agrees with the Commission that existing co-operation between European aircraft manufacturers is insufficient; only through rationalization, integration and concentration on fewer aircraft programmes can the European aircraft industry secure optimum use of resources, including the advanced level of technology, and create a European aircraft industry competitive on the international markets. This can only be done through a common aircraft industry policy.

It will therefore be the Member States' willingness to combine their efforts that will be decisive for the continued existence of an industry with a large job-creation capacity.

16. The Commission's proposal for a common aircraft industry of such a kind is given in fair detail in the Annexes to its communication.

The main points of the Commission's proposal can be understood to mean that it is the Community that must take the final political and financial decision on the aircraft industry's future production programme. The Committee on Economic and Monetary Affairs feels, however, that the Community's role should merely be one of coordination and inspiration otherwise it would also have to take upon itself the commercial risks.

The aircraft industry is a sector where systematic long-term planning, efficient management and guaranteed financing are essential. The Community's role must be to help satisfy these requirements so that airline companies and the aircraft industry can plan on the basis of guaranteed continuity in this sector of industry.

Before the Community can provide coordination and inspiration in this situation, it has to have the necessary finances at its disposal. The Committee on Economic and Monetary Affairs agrees with the Commission's proposed distinction between the financing of R and D contracts and new investments in plant (the former under the Community budget and the latter through loans).

17. However, the Commission discusses only very marginally how tasks and responsibilities are to be divided between the Community, national governments and manufacturers. This will be of importance not only for the form the Community's role as coordinator should take but also for the legal status of the organization within which manufacturers will engage in mutual cooperation. The committee agrees that some form of cooperation other than mergers should be chosen but fears the consequences if the form of co-

operation weakens responsibility. If the European aircraft industry is to have a chance to survive in the longer term, it is crucially important that both the form of cooperation and product development should be based on general commercial principles.

18. The committee will not discuss in greater detail which types and sizes of aircraft the European aircraft industry should concentrate on. These specific aspects of the aircraft industry policy must be decided jointly by the aircraft industries, the airline companies, the Member States and the Community.

It should be pointed out, however, that here we are faced with a slight dilemma. On the one hand if airline companies are to buy aircraft manufactured in Europe, it is important for their maintenance and general running costs that the level of production be high enough. On the other hand it is important that the European aircraft industry should be able to concentrate on a relatively limited number of aircraft programmes for the sake of its profitability and future prospects.

Financing, rationalization and research and development

19. The aircraft industry is among the European industries receiving the largest state subsidies, particularly in the form of research and development contracts. Under the proposal, Community financing arrangements for research and development and for production rationalization will replace the various national aid systems over a five-year period. The Commission therefore proposes that, after the expiry of this transitional period, Member States should no longer be able to provide assistance in the areas mentioned, pursuant to Article 92(3) of the EEC Treaty.

There is also a proposal for some common financing of fundamental research and for the establishment of Community economic aid to marketing.

20. The Committee on Economic and Monetary Affairs is aware that the transition from national to Community aid will scarcely find unanimous approval in Member States' aircraft industries. The road to Brussels is after all 'longer' than to Bonn, London, Paris or Rome. The committee is, however, convinced that it will not be possible to create a common aircraft industry policy unless national aid arrangements are harmonized or abolished.

The committee therefore urges the Commission to stick to this principle in negotiations in the Council, but it would point out at the same time that it is a major innovation in the industrial structure policy for the Commission to propose the setting up of a Community aid system to replace national aid arrangements. The special nature of the aircraft industry possibly justifies this solution but, like the Committee on Budgets, the Committee on Economic

and Monetary Affairs recommends that the European Parliament reserve its position on this point until concrete proposals have been put forward.

For it is not possible on the facts available to assess the financial consequences¹. This is of course partly due to the fact that the amount of expenditure will depend on what aircraft programmes, etc., are eventually decided on. The committee nevertheless regrets that neither in its proposal nor during discussions with the committee was the Commission able to indicate the size of Community expenditure in this area. The committee considers it essential that the Commission should submit at the earliest possible date a detailed time-table and financing scheme and refers in this connection to the opinion of the Committee on Budgets (see paragraph 22).

21. The Commission sees Community aid to research and development in the aircraft industry as being financed partly from the Community budget and partly from funds raised on the capital market. No figure is given for the amount required².

The Committee on Economic and Monetary Affairs agrees with this form of financing; perhaps financial aid to research and development should in the main come from the Community budget since the Community's role as coordinator would then be strengthened.

22. The Committee on Economic and Monetary Affairs also points out that it is important that research and development contracts should not be reserved for undertakings in a few Member States but that interested undertakings and potential sub-contractors in all Member States be treated on an equal footing.

¹ It appears from the report (Chapter III, Section 2) that 'far from raising total expenditure by national and Community authorities', Community financing 'will relieve the burden'. Without seeking to raise doubts as to the correctness of this, the committee wishes nevertheless to point out that the Community budget would be involved; this raises problems which should be further elucidated. Moreover, Community financing could mean a different national distribution of the expenditure.

² According to Annex I (Chapter II, Section 4) the industry's own R and D expenditure in 1972 and 1973 amounted to just under 2,300 million EURs, rather more than a quarter of which was in the civil area, and rather less than three-quarters in the military area.

Public aid to civil R and D expenditure amounted to around 2 thousand million EURs over the five-year period 1969 to 1973; no information is available, however, on public aid to military R and D expenditure. If, however, it is assumed that there is more or less the same relationship between public aid to military and civil R and D expenditure as between the industry's own expenditure in these two areas, one arrives at an average annual R and D figure of rather more than 2½ thousand million EURs in recent years.

This problem must obviously be seen in connection with the attempt to generally expand 'the Common Market' to include the 'grey market' for the purchases and contracts of public authorities and institutions. The committee attaches special importance to equal conditions of competition for interested sub-contractors, etc. in connection with a common aviation policy because Community financing is involved and because such research and development contracts can be of great importance to individual undertakings in, for instance, the electronics industry.

23. As mentioned in paragraph 11, productivity in the American aircraft industry is almost twice as high as in the European industry. Among the reasons for this are two factors that the Commission stresses in particular: longer production series and greater elasticity in the use of manpower in the American industry.

The committee regards this as proof that unless the European aircraft industry's productivity and competitiveness are successfully increased through a common industrial policy, it will in the long term be impossible to maintain the current level of employment in that industry.

The committee is, however, convinced that there are a large number of unexploited possibilities for rationalizing production in the European aircraft industry.

24. According to the Danish, French and English versions of the Commission document, support for rationalizing the means of production and marketing will be 'provided essentially from loans granted by Community institutions and perhaps through the European Investment Bank on the basis of Commission directives'. The German edition, however, wrongly states that aid will be provided essentially through loans from the European Investment Bank on the basis of Commission directives.

This difference reflects the whole range of problems surrounding Community lending policy and the relationship between the Commission and the EIB.

The Committee on Economic and Monetary Affairs agrees that aid for such investments should in principle be granted in the form of loans, not grants. The European Parliament will not, however, adopt a position on the principles of the Community's general lending policy until there is a concrete proposal; the principles on which loans are granted to the aircraft industry must obviously be in keeping with the general principles.

Marketing

25. One of the reasons for the European aircraft industry's falling market share is, in the Commission's view, insufficient export credits and guarantees. The Commission proposes that this problem be solved, as regards sales to third countries, by the creation of a European Export Bank. The committee will not go into this question at the moment, since the European Parliament will be discussing it separately.

As far as the financing of sales within the Community is concerned, the Commission considers it necessary for there to be 'common financial support', but the detailed nature of this and its financial implications are not revealed.

26. Other measures to be taken to stimulate sales of aircraft manufactured in Europe are given only summary mention; they include Community competence to negotiate in relations with third countries. Several of the phrases in the document under discussion may create the impression that the desire to guarantee sales of the increased aircraft production stimulated through the common aircraft industry policy is the main reason for the Commission's having put forward its proposal for a common aviation policy.

27. The Commission seems to have in mind an American-type system with aircraft types being produced on the basis of advance orders from the airline companies. Such advance orders are based on 'options': the aircraft manufacturers decide on the technical features of a new type of aircraft after discussions with the airline companies.

Even before production is started, the companies may place advance orders. The earlier they place their orders the lower the price they have to pay.

Similarly, compensation may come into the picture if the airline companies cancel their orders; in which case the later the cancellation the higher the compensation to be paid.

The risk is thus shared and there is some commitment on the part of the airline companies, though relatively limited to begin with.

28. Although European airline companies are familiar with this system in connection with the purchase of American-produced aircraft, they have not so far been willing to have their freedom of action hampered by advance commitments to European aircraft manufacturers. In the Commission's opinion,

the main reason for this is lack of confidence in the ability of the European aircraft industry to continue in business. The Commission feels that a general long-term European aircraft industry policy will create this confidence¹.

29. The airline companies want to make a profit and are therefore prepared to buy European machines only if they are both technically and economically competitive.

The Committee on Economic and Monetary Affairs strongly stresses in this connection the importance of maintaining in principle the right of airline companies to decide themselves which aircraft to use.

On the other hand the committee does not see why this need prevent the introduction of an options system in the Community too. It would not in principle infringe on their freedom but could on the other hand help to create the basis for a more or less stable domestic market for European aircraft manufacturers without which it is difficult to be internationally competitive.

30. The committee also wishes to emphasize, however, that it is first and foremost the fact of guaranteed sales of military aircraft that will be decisive for the European aircraft industry's ability to survive - including the civil aircraft industry too. Consideration has not therefore been given to how far it may be necessary to apply restrictions or preference arrangements to slow down the penetration of American-produced civil aircraft into European aviation.

31. This is also connected with the fact that the objective of a European aircraft industry policy must obviously be to make European aircraft manufacturers not only technically but also economically competitive on the international markets. The European market is not large enough for it to be possible to pay interest on or write off the capital invested in the production of aircraft, engines and equipment.

It is in this connection extremely important that the fast expanding market for civil aircraft will in the next three years be outside the USA and Europe. If European aircraft manufacturers are to continue to be independent, they must be able to compete on equal terms with American, Japanese and Russian competitors.

¹ See Annex II, paragraph 7 of the Commission's report

Relations with third countries

32. The committee endorses the Commission's ideas regarding the conclusion of production and sales agreements with third countries under which there could be some international division of labour on the production of both civil and military aircraft.

Obviously the question arises whether the Community in its aircraft industry policy is to place the emphasis on creating an independent European aircraft industry or on cooperation between European aircraft manufacturers and those outside Europe.

The committee considers the Commission's proposal to be reasonably well-balanced. On the one hand it aims at a stronger and more independent European aircraft industry, but it also favours cooperation with third countries with a view to rationalization.

It should, however, be stressed that such cooperation must be between 'equal partners' so that the European aircraft industry gets a fair share of research and development activities and of the manufacture of final products.

33. The Committee on Economic and Monetary Affairs also takes the opportunity of warning more generally against the assumption that every European sales campaign in the industrial field - whether in the aircraft industry, the data industry or in the peaceful use of atomic power - is directed at the USA.

In a situation where all the industrialized countries must be prepared to hand over some part of production to the developing countries, they must obviously concentrate more on the technologically advanced branches of industry. This will obviously result in greater competition between the industrialized countries in these fields; but it is wrong to imagine that a European sales campaign in, for instance, the aircraft industry is directed at the USA.

There is the additional fact that it is also in the USA's interest to have economically strong partners in Europe. Even though the American aircraft industry will obviously be uneasy about increasing European competition, the rapporteur doubts whether this will determine the US Government's position but the US Government, can obviously not be expected, on its own initiative to encourage Europe to strengthen its aircraft industry.

c. MILITARY AIRCRAFT PROCUREMENT AGENCY

34. As mentioned in paragraphs 3 and 30, the Committee on Economic and Monetary Affairs regards the establishment of cooperation between Member countries for the purchase of military aircraft as a prerequisite for the creation of a realistic and effective European aircraft industry policy. The Committee on Economic and Monetary Affairs therefore supports in principle the Commission's proposal that the Member State Governments, meeting within the Council, should 'consider' the creation of such an agency and stresses that the aim is to pursue industrial, technological and employment objectives and not surreptitiously to introduce the elements of a common defence policy.¹ The Committee on Economic and Monetary Affairs also points out that the European Parliament has in fact already adopted a position on this question, since in its resolution of 15 December 1975 it urged the setting up of 'an agency ultimately aimed at the joint manufacture of weapons to meet the requirements of the Member States'.²

35. The decision to set up an 'independent programme group' under the Eurogroup in NATO to investigate the possibilities of increased cooperation between the partners on the development and procurement of weapons obviously raises the question of the composition of the agency proposed by the Commission.

36. Many factors come into play here but the Committee on Economic and Monetary Affairs will concentrate on just two. Firstly, it is obviously essential to ensure close contact between the agency and defence policy cooperation within NATO. Secondly, the main aim of the agency relates, as stated above, to industrial policy; the very important economic and employment interests connected with the aircraft industry make it essential that contact be ensured between the agency and the Commission.

The rapporteur/committee has difficulty in seeing in how such contact can be ensured if the agency is set up with close administrative links to the Commission or the Eurogroup.

The rapporteur/committee is therefore of the opinion that it should be the European Council that takes the initiative for setting up the agency.

¹ See the opinion of the Political Affairs Committee

² OJ No. C 7, 12.1.1976, p.10

37. If this is accepted, thought must also be given to whether and, if appropriate, how Parliament can exercise control over the agency.

The rapporteur suggests in this connection that the European Parliament should in any case have the same right to ask questions as it has on political cooperation.

Adoption of the final position on this question can, however, be kept pending until further discussions are held on the organizational status of the agency.

d. COMMENTS ON THE INDIVIDUAL ARTICLES

38. The Committee on Economic and Monetary Affairs will refrain from commenting on the introductory remarks in the proposal for a Council decision and the draft resolution since they have already been discussed.

It will, however, comment on the individual articles in the proposal for a Council decision.

Article 1

39. The Committee on Economic and Monetary Affairs agrees with the comments of the Committee on Regional Policy, Regional Planning and Transport; see proposed new paragraph 2 in Article 3.

Article 2

40. The Committee on Economic and Monetary Affairs agrees that there is a need for national aid to be replaced by Community aid. See comments in paragraph 20 above.

Article 3

41. The Committee on Economic and Monetary Affairs agrees with the Committee on Regional Policy, Regional Planning and Transport that the proposal is not set out in sufficient detail¹. It feels, however, that expressions such as 'to be managed on a Community basis' and 'a system of regulated competition' in sub-paragraph (a) will give rise to very lengthy discussions in the Council.

¹ See paragraphs 9, 23-24 and 31-33 of its opinion

Given the need for agreement to be reached quickly on the industrial policy aspects - and in view of the fact that the committee asked for its opinion is unable on the facts available to pronounce on the guidelines of a common aviation policy - the Committee on Economic and Monetary Affairs prefers a shorter text for Article 3 which, while calling for the formulation of a common aircraft policy, is not worded in such a way that it would be difficult to reach agreement on such a decision of principle.

42. If the Commission cannot accept the committee's proposed amendments, it is requested to insert a new paragraph 2 in Article 3 stating that the 'system of regulated competition' mentioned in sub-paragraph (a) does not make Articles 85 and 86 of the EEC Treaty inapplicable to aviation and that the airline companies retain their freedom in principle to decide themselves which aircraft to use.

Article 4

43. The Committee on Economic and Monetary Affairs agrees with the Committee on Regional Policy, Regional Planning and Transport that it is important that the Economic and Social Committee should be consulted on the question of subsequent implementing provisions concerning aircraft industry policy.

The committee also points out that the implementing measures referred to in paragraph 1 will entail such enormous financial implications for the Community budget that it will not be enough for agreement to be reached in the Council but that agreement is necessary between the Council and the European Parliament under the conciliation procedure.

44. In view of the lack of precision in Article 3 (in both the Commission's and the committee's texts), it does not seem realistic to depart from the Treaty requirements (Article 84 (2)) of unanimity in the Council in paragraph 2.

45. The committee has deliberated on the question whether it is possible to include the final consumers, in this case the passengers, amongst the groups to be consulted. It has, however, found it difficult to determine how such a consultation could be organised and therefore refrains from putting forward any proposals, since it is convinced that the public authorities and airline companies will take passengers' wishes and requirements into consideration.

The Committee on Economic and Monetary Affairs accepts in principle that airports should also be consulted but recommends that this be done through the public authorities in the Member States.

e. CONCLUSION

46. The Committee on Economic and Monetary Affairs feels that a common aircraft industry policy is essential if Community aircraft manufacturers are to survive as independent producers. This will obviously have to be achieved to some extent through cooperation at production level with aircraft manufacturers outside the Community, but a common policy is essential if such cooperation is to be between equal partners and if we are to avoid bilateral agreements between Community and other manufacturers that would directly hamper integration in the European aircraft industry and would in practice lead to European manufacturers becoming a sort of 'reserve capacity'.

The committee therefore agrees with the Political Affairs Committee that, without Community measures, Europe will before long lose its technological independence in the field of aircraft construction.

47. The Committee on Economic and Monetary Affairs is, however, convinced that there exists a real technical and economic basis on which to build a competitive European aircraft industry.

48. It therefore agrees that the Commission should exert pressure to get the Council to take the decisions of principle necessary to introduce a common industrial policy. The European Parliament would then adopt a position on specific proposals as they were submitted.

INTERIM OPINION OF THE COMMITTEE ON BUDGETS

Draftsman : Lord BESSBOROUGH

On 28 January 1976, the Committee on Budgets appointed Lord BESSBOROUGH draftsman.

The committee considered the draft opinion at its meetings of 19/20 February, 13 April and 20 May 1976, and adopted it unanimously at the latter meeting.

Present: Mr Lange, chairman; Mr Aigner and Mr Maigaard, vice-chairmen; Lord Bessborough, draftsman; Mr Artzinger, Lord Bruce of Donington, Mr Concas, Mr Gerlach, Mr Martens (deputizing for Mr Galli), Mr Notenboom, Mr Radoux and Mr Shaw.

Introduction

1. The present communication contains the Commission's basic ideas on the case for a common policy for the European aircraft industry, a proposal for a Council decision concerning the creation of a common policy in the civil aircraft and aviation sector, and a draft resolution of representatives of the Member States of the EEC relating to the purchase and development of aircraft weapon systems.

2. The Commission analyses the problems confronting Europe's aircraft industry and the reasons for its weakness - conflicting policies between the Member States, unevenly spread resources, lack of market orientated strategy, inadequate support for marketing, developing and dispersal of decision-making powers. The consequence of these phenomena has been domination of the world market by American industry, and frequent bilateral agreement with the United States. Even when European countries have cooperated to purchase a single aircraft. at hence reduced costs, American planes have been bought.

3. The Commission bases its proposals on two fundamental premises :

- (a) that Europe has a real technological capacity and that its civil and military products could be successful on the world market if its technological and commercial expertise could be harnessed in a joint effort ;
- (b) that the growing size of markets outside the United States will provide new opportunities in the next ten years if the European industry can provide competitive products.

On the validity of these two premises the Commission's proposals stand or fall. Parliamentary judgement in this domain will be exercised by the Committee on Economic and Monetary Affairs. The Committee on Budgets is solely consulted on the financial aspects raised by this communication. The question of the basic validity of these proposals will, nonetheless, have to be examined by the Committee on Budgets before a favourable opinion could be given to the starting up of a policy which would seem to involve major expenditure.

Content of the Commission's proposals

4. The Commission believes that by interpreting the ruling of the Court of Justice, case No. 167/74, laying down the general rules of the Treaty applied to air transport, and by arguing that because a preponderant part of the aircraft industry is devoted to military needs, the Community cannot therefore simply intervene in the civil sector, that there should be an aircraft industry sponsored and financed by the Community, and that the framework of this policy should be set up through Community procedures (Council Decision on the basis of Commission proposals after the opinion of the European Parliament). In this way the Community would provide the basic finance for the industry and the Commission says very clearly this "will not be superimposed on national finance but will replace it as a policy is implemented".

The Commission is therefore assuring the Member States that total expenditure will not increase but expenditure within the European budget will increase considerably.

5. Naturally part of the proposals can be implemented without involving any increase in expenditure. This is certainly true of the proposal for a draft resolution of representatives of the Member States agreeing to consider the creation of a European Military Aircraft Procurement Agency. This would, according to this resolution, simplify the task of purchasing aircraft weapon systems, identifying future requirements and initiating new common developments, as well as providing the context for a discussion with the United States on cooperation in this field of defence equipment. This is politically an extremely important proposal but does not seem to entail any expenditure from the Community budget and therefore the Committee on Budgets could limit itself simply to taking note of this draft resolution.

6. However, the proposal for a Council decision concerning the creation of a common policy in the civil aircraft and aviation sector would clearly entail financial expenditure. Whilst a Community action programme could include certain preliminary steps without financial consequences, such as technical harmonisation, harmonisation of laws, regulation of administrative provisions concerning air-worthiness,

environmental nuisances, etc., it is evident that the Commission's proposals go further in suggesting Community financing to replace in this area - not as a matter of principle - national financing of research and production tooling for all activities in connection with the manufacture of large civil transport aircraft.

7. The major characteristic of the European aircraft industry is the role played by the public sector in financing the industry in the Member States. For example, the Member States' Governments are usually at least partly involved in the ownership of airlines, who are the beneficiaries of public aid. Furthermore, given that a preponderant section of the industry is militarily based, clearly this factor increases the role played by Governments and it is that governmental role that the Commission wishes that the Community take over. Even in the strictly civil sector, intervention in the form of government aid is the rule rather than the exception.

8. There are certain basic problems connected with this proposal, upon which it should stand or fall, and your draftsman would draw them to the attention of the committee with basic competence, the Committee on Economic and Monetary Affairs. They should consider whether a programme for an exclusively European aeronautical sector is

- (a) desirable, given that the predominant force in that market is in North America ;
- (b) feasible, even if it would seem unlikely that purely European projects could compete successfully in the American market.

It is for further consideration whether, from the point of view of penetrating the largest, i.e. American market, it would not be desirable to continue as at present with projects such as the airbus, which has a European frame and an American engine, and the Tristar, which has an American frame and a European engine.

9. Whatever decision may be taken, it is vital that the closest cooperation should be maintained with the airline companies so as to ascertain whether or not programmes and projects proposed meet airline or military requirements. If it is established that any given aircraft is a genuine requirement for European airlines, or for military purposes, then the calculation has to be made whether the total number of European airline orders would warrant the expenditure outlay in terms of Research and Development and Production costs. If such expenditure is warranted, then your draftsman considers and believes that the Economic Committee should agree that it would be worthwhile proceeding along the lines of the proposals from the Commission, even if the projects supported were not necessarily requirements within the North American market.

10. Your rapporteur does not propose to discuss in detail the military aspects of the Commission's proposals which include a suggested study of the proposal to create a Military Procurement Agency. Military aircraft requirements which represent 60% of European needs are much easier to determine in as much as governments themselves state them, whereas an assessment of the various airline requirements is much more complicated and often indeterminable. The Committee has noted, nonetheless, that cooperation in the building of the Multi Role Combat Aircraft (MRCA) by Panavia has proved sufficiently successful to act perhaps as a model of cooperative aircraft ventures without the specific use of Community funds.

Financial aspects of the Commission's proposals

11. The Commission, in its communication, suggests different means of financing the aircraft industry out of Community funds. Annex 5 deals with these different methods outlining four different types of financial support.

- (i) Financing of research and development directly from the Budget of the Community with funds raised on the capital market for certain types of support. This would be for a programme of basic research, medium and long-term, to increase the industry's stock of technical know-how and also a programme of applied research, short-term, for specific commercial projects (plus tooling) ;
- (ii) Support for rationalising the means for production and marketing, via loans granted by Community institutions "and perhaps through the European Investment Bank on the basis of Commission directives" ;
- (iii) Export credit and guarantees for bilateral or multi-lateral projects.

Here the Commission makes reference to its proposals for a European Export Bank, the definitive proposals for which have just become available (Doc. COM(76) 28).

The aeronautical sector could be a priority one for such a bank. The system set up would permit such a bank to lend in a single currency and to offer favourable conditions to European industry in terms of interest rates, pay back periods, etc. and to take rapid decisions ;

- (iv) The financing of sales within the Community.
The Commission announces its intention to provide common financial support for sales within the EEC, for the period prior to the establishment of economic and monetary union. These proposals are not yet available.

Commentary on the methods of financing and related problems

12. Nowhere in the Commission's original document is an overall figure available for the expenditure envisaged for the budgetary years following Council agreement on this proposal. The scale of the aeronautical industry is a known factor. Public support for research and development in the civil sector averaged 400 million u.a. a year between 1969 and 1973. This figure would probably have to be revised upwards to around 500 million u.a. for 1976. This, however, does not take into consideration expenditure on military research and development, for which information is not available. Inclusion of expenditure for military research would obviously increase expenditure by a massive amount.

13. There is no need for the expenditure simply to be paid out in the form of budgetary appropriations. It would be certainly possible to envisage a system of loans which could relieve the burden on the Community budget, particularly in the civil research area. What is not at all clear from the Commission's proposal is what sort of breakdown between loans and grants the Commission envisages and what structures for Community loans it suggests. The text in Annex 5, as mentioned above, states, for the first two types of financial support (research and development and rationalising the means for production and marketing), "funds raised on the capital market and loans granted by Community institutions and perhaps through the European Investment Bank".

14. Your draftsman is grateful to Mr Guldberg, rapporteur of the Committee on Economic and Monetary Affairs, for having pointed out the differences between the German and the other texts (in the German text, aid would be provided essentially through loans made by the European Investment Bank - whereas in the English text, loans would be provided primarily by the Community institutions, "and perhaps through the European Investment Bank on the basis of Commission directives"). This kind of ambiguity does not help the Commission in its task of persuading the other Community institutions of the validity of its proposals. Nor does the Commission suggest in any way how the Community institutions would raise the loans, whether they would be budgetised, and what would be the principles under which they were issued. Another area upon which the Budget Committee will need to reserve its position is that connected with the role of the proposed European Export Bank : proposals for which are now before the Parliament and on which opinions appear divided.

Budgetary provisions

15. In the original document no figures were given for the possible budgetary appropriations, but after consulting various authorities your draftsman came to the view that the most likely charge on the Community budget for the years 1977 and 1978 would be a sum of up to 70 million u.a., this figure being based on the experience of equivalent operations conducted in the United States of America through NASA (excluding lunar and other excursions in space) and taking account of the principle of sharing some of the burden of the costs with the Member States in the preliminary period and of extensive use of the capital market. It also arises from the likelihood of a roughly equal division of expenditure between basic and applied research and development.

16. After a preliminary discussion at the meeting of the Committee on Budgets on 19/20 February, it was agreed to ask the Commission to produce a supplementary memorandum on the research and development costs involved in the implementation of the programme. This was subsequently produced and has been issued to the members of the Committee (Notice to Members No. 13/76). The information provided does not take the Committee much further along the road towards being able to produce a detailed assessment of the budgetary impact of the proposals. Indeed, the Commission's note is more an explanation of why figures cannot be produced than what those figures are likely to be. The overall research and development cost of action in the three categories listed :

- short and medium haul aircraft with less than 100-110 seats;
- short and medium haul aircraft with 110-180 seats;
- short and medium haul aircraft with more than 180 seats;

would be in the region of 560 million dollars (1974) over a period of four to five years and this was within the order of magnitude that your draftsman had originally been working on. But within this amount the Commission makes no proposal for a breakdown between the charge to the Community budget and financing from other sources. The Commission gives as its reasons the following uncertainties :

- the extent of cooperation with American industry ;
- the proportion to be financed by the industry itself ;
- division between the Community budget, budgets of the Member States, and funds raised on the capital market.

17. The Commission is examining administering funds for R and D whatever their source (even if they are provided by the undertakings themselves or by the Member States) under a single administration or authority in which would be represented all the subscribers to the programme. Whether this might operate as a "revolving fund" so that the financial burden between the different participants could be shared is a matter for further consideration. It would represent a new departure in Community practice and would need the closest inspection by the Budget Committee if and when these proposals are elaborated. In any case the Committee on Budgets insists that all Community expenditure for such projects be included in the Community budget.

18. The Commission also mentions the commitment for a basic research programme but is not to be drawn on any proposed budgetary provision because of the absence of an agreement on the feasibility of such a programme.

Conclusions

19. Whatever views there may be in the minds of certain authorities, your draftsman believes that Community action in the aeronautical sector should be examined further and that the Commission should be encouraged to pursue its exploration of possibilities for Community action, especially in the field of research. However, it is not the task of the Committee on Budgets to pronounce definitively on whether this policy is well-founded. It has to concern itself with the financial consequences: here the information is, at this time, far from adequate to permit anything more than informed guesswork by members of the Committee, even with the supplementary information from the Commission mentioned in paragraph 16 above.

20. In these circumstances the Committee on Budgets would expect from the Commission concrete proposals with detailed financial information. On the specific items included for Council decision, it would be premature to give favourable opinions since airline requirements for new aircraft are at present extremely limited. In view of this the Committee on Budgets suggests to the reporting committee (the Committee on Economic and Monetary Affairs) that their report should only be of an interim nature. Nonetheless, the Committee would not wish to be interpreted as wishing to delay the next stage in procedure.

Your draftsman was for some time concerned that work within the Council had not begun, but now understands that a working party at the level of permanent representatives has recently been set up and is to report in the near future. The Council is also waiting for the Opinion of the European Parliament so that their views may be examined before any decisions are taken.

21. Therefore, the Committee on Budgets would hope that Council, after a possible concertation procedure with Parliament, would indicate the areas in which it wishes to see progress made and that the Commission, after determining precise requirements and after obtaining from industry its views on the feasibility of building particular aircraft, should then produce detailed proposals, with exhaustive financial information, and re-submit them to Parliament and to the Committee on Budgets so that an informed assessment can be made.

22. Within this supplementary information the Committee on Budgets will wish to know the following :

- the annual budgetary provision over a four to five year period for the basic and applied research and development programme and the basic research programme ;
- the other elements of finance envisaged (contributions or investments from Member States and from the industry) ;
- the means of administering these funds in the management of the common policy ;
- for the part to be charged to the Community budget, the means of covering extra Community expenditure ;
- for the part to be raised on the Community's capital markets and the means of including this amount within the Community budget so as to ensure adequate control by the budgetary authority ;
- any administrative expenditure involved ;
- the consequent reduction in national expenditure which would result from the Community assuming certain financial responsibilities.

23. As regards the 1977 budget, the Committee on Budgets notes that according to the communication from the Commission on the overall assessment of budgetary problems⁽¹⁾ there is no indication that the Commission will make a proposal for expenditure during 1977. The Committee on Budgets could not accept that the device of a supplementary budget should be used in this case since such expenditure would not fill the conditions laid down by the Committee for such a device. The Committee therefore asks Council to proceed to the next stage in the examination of the programme in order to enable the Commission to elaborate their proposal, should there be general agreement that a common policy in this sector should be implemented in the near future.

24. The Committee on Budgets has limited itself to an Interim Opinion and requests that the committee with basic responsibilities, the Committee on Economic and Monetary Affairs, adopts an Interim Report so that no definitive position of the European Parliament be taken before full information concerning the financial consequences, and corresponding to the inventory in paragraph 22, be available.

(1) Doc. COM(76) 83.

OPINION OF THE POLITICAL AFFAIRS COMMITTEE

Draftsman: Mr JAHN

On 20 January 1976 the Political Affairs Committee appointed Mr JAHN draftsman.

It considered the draft opinion at its meetings of 23/24 February, 2 March and 29/30 April 1976 and adopted it by 14 votes to 1 at the last of these meetings.

Present: Mr Boano, chairman; Lord Gladwyn, vice-chairman; Mr Jahn, draftsman; Mr Ariosto, Mr Behrendt, Mr Blumenfeld, Lord Castle, Mr Creed (deputizing for Mr Andreotti), Mr Durieux, Mr Guldberg, Mr Klepsch, Mr Patijn, Lord Reay, Mr Stewart and Mr Schuijt.

I. General considerations

1. The Commission's proposal covers security policy matters in addition to problems connected with industrial and transport policy.

The opinion of the Political Affairs Committee will concentrate mainly on security policy aspects, leaving the Committee on Economic and Monetary Affairs and the Committee on Regional Policy, Regional Planning and Transport to deal with the industrial and transport policy matters.

2. The main aim of the proposal is the attainment of a Community industrial policy for the development, construction and sale of civil aircraft. Most of the measures proposed therefore relate to the civil aircraft industry in Europe. Since this sector civil and military aircraft are manufactured by the same companies and since the military side in fact predominates in most undertakings, a Community industrial policy in the civil aviation sector will necessarily have effects on the military sector of the European aircraft industry.

It is therefore logical that, in framing an industrial policy for the European aircraft industry, the Commission has also tackled the problem of a common policy for the procurement of military aircraft.

3. It would be pointless for the Member States to move towards cooperation and rationalization in civil production while allowing the same undertakings to compete with each other and rush into increasingly expensive weaponry programmes - without any prospect of large-scale production. Such a policy would result in an increasing loss of ground to American competition.
4. The committee believes that, without Community measures applying to both the civil and military sectors, Europe will soon lose its technological independence in the field of aircraft construction.

II. Common procurement policy

5. Although it has not made a detailed study of the subject, the committee therefore approves in principle the Commission's proposal for the earliest possible introduction of a common policy in the civil aircraft and aviation sector.

It also takes a favourable view of the Commission's draft resolution on the purchase and development of aircraft weapon systems.

6. Although the proposal on the purchase and development of aircraft weapon systems has defence policy aspects, it should nevertheless be considered from the angle of a Community industrial policy. The main aims of such a policy for the aviation industry relate to technology, employment policy and transport policy; there is no intention of surreptitiously introducing the elements of a defence policy.

7. In this context it should be remembered that the Tindemans report on European Union proposes the creation of a European Armaments Agency.

III. Conclusions

8. The Eurogroup in NATO (Euro-NAD) is also working on the procurement and standardization of weapons. In December 1975 France, which was not previously a member of the Eurogroup, declared its interest in the formation of an 'independent programme group' for the development and purchase of weapons by the European partners. Since the beginning of 1976 this group has been preparing a joint working programme.

Thus close coordination with the NATO Eurogroup is absolutely essential in the planning of a single European agency for air weapon systems. The Commission's action programme would be doomed to failure from the outset if there were no coordination between the two bodies.

9. The Commission proposes that discussions should be opened with the USA on armament sales and cooperation in the field of air weapon systems. The committee welcomes this proposal but takes the view that cooperation with the USA solely on the basis of 'discussions' is totally inadequate. It considers that the basis for cooperation with the USA should be more formal than that proposed by the Commission. There is a need for close cooperation between Europe and the USA, backed up as far as possible by agreements, in the fields of research, project planning and project development and also on matters connected with standardization in the civil and military sectors. The desirability of this cooperation with the United States taking place at Community level should be emphasized since the bilateral cooperation undertaken so far has not produced the required results.

10. In the whole the action programme proposed by the Commission can be regarded as an instrument of major importance in safeguarding the future independence of the European aviation industry and technology. However, the committee believes that the success of the proposed measures depends on close cooperation with both NATO and the USA. It is well aware that such coordination will be difficult to achieve but considers it to be absolutely necessary.

Subject to the above reservations, the Political Affairs Committee recommends the Committee on Economic and Monetary Affairs to approve the proposal from the Commission to the Council.

Opinion

of the Committee on Regional Policy, Regional Planning and Transport

Draftsman : Mr NOE

On 29 October 1975 the Committee on Regional Policy, Regional Planning and Transport appointed Mr Noè draftsman.

It considered the draft opinion at its meeting of 27 April 1976 and adopted it unanimously.

Present: Mr Evans, chairman; Mr Nyborg and Mr Meintz, vice-chairmen; Mr Noè, draftsman; Mr Schwörer (deputizing for Mr Colin), Mr De Clercq, Mr Ellis, Mr Herbert, Mr Kavanagh, Mrs Kellett-Bowman, Mr Mitterdorfer, Mr Mursch, Mr Knud Nielsen and Mr Seefeld.

I. General remarks

1. The Committee on Regional Policy and Transport intends in this opinion to restrict itself to the transport aspects of the action programme for the European aeronautical sector proposed by the Commission (Doc. 319/75) and to discuss the industrial policy aspects only insofar as this is absolutely necessary due to the interdependence of air transport and the aircraft industry.

2. The committee feels, however, that cooperation in the aircraft industry is heavily dependent on whether it proves possible to create a common air transport policy.

In this context, it should be remembered that the question of an equipment policy ultimately led to the failure of the Air Union Project. The French Government refused to give its approval to the agreement already accepted by the air transport companies of the Member States of the Community of Six because the Air Union could not be established on the basis of 'European' equipment policy and, in particular, the German airline Lufthansa had taken the important decision not to buy the French Caravelle, but its rival from Boeing, at the time of the last Air Union negotiations.

3. Economic factors frequently force the European air transport companies to opt for non-European equipment. The European aircraft industry is not able to meet all requirements and offer the whole range of technical equipment needed, whereas non-European manufacturers enable the airlines to pursue a policy of technical uniformity, i.e. to buy all their equipment from a single manufacturer.

The aeronautical equipment bought by an airline company must correspond to market requirements from the technical and commercial points of view. Any kind of aircraft must remain in service for about 20 years, and for this period of time the manufacturer must guarantee solutions for all logistical problems, such as maintenance, service and spare parts. Furthermore, the manufacturer must guarantee that during this period any new technological features that may be developed can be applied to existing or new equipment supplied by him and also that any defects that may come to light in existing or new equipment can be eliminated. Finally, a piece of equipment of a particular type will have to be replaced some day by a new and more modern type, which will, however, be derived from the previous and by now obsolete type and will therefore present no insurmountable difficulties as far as the adaptation of staff and company organization to the new type is concerned.

The real point at issue here is the degree of confidence the manufacturers can inspire in the airline companies.

In actual fact, the European aircraft industry can boast of technical know-how in certain sectors that is superior, if anything, to that found in the American aircraft industry, but, because the companies in question are scattered and small in size, their economic strength is never sufficiently great to enable them to reach the stage where they can inspire the degree of confidence referred to.

It can indeed be said that, when all is said and done, Europe invariably ends up the loser. Europe built the first jet airliner, the De Havilland Comet, but since it was not backed up by the funds of experience accruing from a large series of military versions, it was not a success. Europe built the first medium-haul jet airliner, the Caravelle, but there again no follow-up model came from the drawing-board because the European aircraft industry was not big enough; for this reason the success of the Caravelle remained without a sequel. At the present time Europe is building the first supersonic airliner, the Concorde, but even here one has the impression once again that the European aircraft industry has not got the muscle to ensure the final success that the construction of a Concorde II would bring.

The level of confidence mentioned above would take on a totally different aspect if buyers of Concorde did not regard themselves as buying an isolated technological marvel, but realized that they should be buying two or three Concordes in order to prepare for the operation of Concorde II.

With the Airbus and VFW/Fokker 614 projects, which have been progressing satisfactorily so far, there is a 'market vacuum', a phrase often used in a eulogistic sense. However, an enormous industry such as the aircraft industry cannot live on market vacuums. Entire 'families' of aeroplanes must be put on the market.

4. Under a European action programme for the aircraft industry the European air transport companies would have a right to a say in the planning of research and production, and a European aircraft industry better attuned to the requirements of these companies might hope to win back the European market.

This is not to say that European airline companies should be obliged in any way to buy only European aeronautical equipment.

There is no question of this: the aeronautical market is a world market, and an airline company can be competitive at international level only if it is free to buy the best equipment on the market.

It is important, therefore, for air transport companies to buy makes of aeroplanes that are known in all the continents to which they fly so that they may be serviced and repaired at the airports they use.

The aircraft industry must produce for the world market, as the European market alone would be too limited. On the other hand, if the industry were to win back the European market, this would provide it with the base it needs to enter the world market on a competitive footing.

It is reasonable to suppose that this orientation of the air transport companies towards the world market could prompt the European aircraft industry, as is in fact already happening with the automobile industry, to cooperate more closely with American industry in order to attain their objectives together, though European industry would gradually have to reach a position of equality with American industry in the matter of decision-making.

Within this general framework, the Community could act as a catalyst in promoting cooperation between the European airline companies and the European aircraft industry. In particular, the level of confidence of which we have spoken could be greatly raised by such cooperation.

5. The committee would like to point out, however, that coordination of the aircraft industry and air transport companies would not solve all the problems facing the aeronautical sector to the extent that would seem necessary for a common European policy: a third aspect, the planning of airports and air traffic control, must be included if genuine forward-looking planning and cooperation are to be achieved. Infrastructures (airports and air traffic control), transport operations (air transport companies) and the aircraft industry (production of flight equipment and equipment for airports and air traffic control) form an interdependent system whose development must be encouraged within the framework of joint planning.

In this connection the committee has been wondering if there are not too many small airports in Europe. The air transport companies are always complaining about excessively high landing fees; but, if the principle of completely covering infrastructure costs is to be applied, as would be essential within the framework of a modern and equitable transport policy, it may turn out that landing fees might even have to be further increased. For this reason also it is essential that airports be included in systematic planning for the air transport sector. The committee also refers to the various opinions it has delivered in the past on the problems involved in the organization of Eurocontrol.

6. It should be all the easier to arrange for such joint planning since all three sectors involved are either in the hands of the state or at least largely dependent on state assistance and state orders. It should not, however, be forgotten that in today's complicated systems of public administration different state agencies frequently face each other like independent private business partners.

A summary of all these aspects might considerably improve the efficiency of the European aeronautical sector and its prospects of success.

7. At present capital employed in the aircraft industry and in air transport in Europe is only about as half as productive as in the USA. There is very substantial waste in Europe, particularly of public funds.

In the European air transport sector manpower productivity is also lower than in the United States. This is partly due to the fact that the European companies employ too many staff, if only because each one wishes to create its own 'image'. The difference is also partly due to factors of a social nature. If staff is to be laid off by rationalization processes, there will have to be economic expansion in Europe. At times of stagnation such as obtain at present, you cannot have staff cutbacks, no matter what rationalization is attempted. However, part of the difference in labour and capital productivity (though this difference is not as great when we compare inter-continental services as it is when we compare intra-European and intra-American air transport) is due simply and solely to the different structure of the markets; the fact that you have a population of 265 million Europeans in an area smaller than that occupied by 220 million Americans means that there is far stronger competition from rail and road transport in Europe.

8. The committee therefore welcomes the fact that in its communication to the Council the Commission tackles two of the important pillars of European cooperation in the aeronautical sector.

The committee has discussed the question whether the initiative ought to be taken in the industrial sector or in the transport sector. In view of the interdependence between the two sectors referred to above, we feel that the answer is to start by working towards closer cooperation between the civil aviation authorities and the air transport companies in the Member States and then go on to take the corresponding measures needed in the industrial sector. In other words, joint action in the industrial sector should be initiated without delay. However, such action will bear fruit only if it is accompanied by - better still preceded by - a properly spelled-out Community air transport policy and a definition of our relations with the American aircraft industry.

9. The committee does feel, however, that questions connected with civil aviation in particular have been treated too superficially. The committee notes with astonishment, for example, that the new communication makes no mention whatsoever of the Commission's proposal to the Council (Doc. 134/72) for a decision on first measures of a common approach to air transport or, moreover, to the report by the European Parliament's Transport Committee (Doc. 195/72), the supplementary report (Doc. 328/72) of 14 March 1973 and

the resolution of 16 March 1973 (OJ No. C 19 of 12 April 1973, p. 52) adopted by the European Parliament on the basis of that supplementary report.

The committee would accept that at the present stage the Commission should be simply instructed, on the basis of Article 84, to submit proposals concerning a common air transport policy.

As matters stand at present, that is to say, going solely by the communication that has been submitted to it, your committee cannot pronounce on what should be the guidelines of a common air transport policy.

Is it true that joint management of airspace will be an advantage in negotiating agreements with third countries? The multilateral character of intra-European agreements on landing rights will bring about an improvement in the structure of route networks and air schedules in the sense that routes radiating from central points will be supplemented by circular routes, thus improving the service.

How can cooperation between the air transport companies be promoted? One has the impression that there still exist in Europe various standards and laws in the individual Member States that are a barrier to cooperation between companies. In this connection, mention should be made of the regulations on airworthiness tests for aircraft, the exchange of equipment and crews, etc.

Definite progress could probably be made if the Community were simply to decide to apply universally certain international agreements that are already in existence but have never been enforced up to now.

The Commission should therefore study all these problems in detail and then submit proposals. It would then be possible to determine what action was possible in the matter of an air transport policy and which of these measures can be taken only when European Union has been achieved. The Commission should always bear in mind in its investigations that the most important actions are those that will in one way or another promote the European aircraft industry.

10. The committee has discussed the question as to whether the Commission's communication anticipates in certain respects the arrangements which would have to be made within the framework of European Union, since defence policy matters are obviously involved. It reached the conclusion, however, that the proposed measures are warranted as a step towards European Union and that the procurement policy governing airborne weaponry is so closely linked to the general industrial and transport policy applicable to civil aviation that such anticipation appears justified. At any rate, unless certain aspects of a defence policy nature are dealt with at the same time, the problems facing civil aviation cannot be solved.

It should be pointed out that on 8 December 1975 the Euro group of NATO decided that an independent body of NATO or of the Euro group itself should look into the possibilities of increased cooperation in the military sector. France will also participate in this work. The possibility of a similar development in the aeronautical sector does not therefore seem to be excluded.

11. The committee also discussed the question of whether the main emphasis of the joint action programme should be placed on the goal of Community independence by strengthening European industrial and transport undertakings or whether the satisfactory cooperation that exists in various fields with American companies and government agencies should be extended as part of the action programme.

The committee's conclusion was that the Commission's proposal in this respect can be described as well-balanced since it suggests the goal should be for the European aeronautical sector to become stronger and more independent, while cooperation with third countries, particularly the USA, is expressly quoted as a means of achieving rationalization (see subparagraph 2(a) of Article 1 of the proposed decision as regards the industry and Article 3(b) as regards the transport aspect).

12. As far as transport policy is concerned, the right balance is struck between the target of independence and world-wide cooperation through the participation of the Member States in ICAO at world level and in ECAC at European level. Once the action programme has been adopted, the Member States should act jointly in international organizations on the basis of Article 116 of the EEC Treaty.

At European level ECAC might be used as an instrument of cooperation, especially as close coordination would appear necessary with neighbouring countries which, though not members of the Community, play an important part in the Community's air transport sector as a result of their geographical position.

Even though the revival of the Air Union Project is not being considered for the time being, the governments of the Member States should use their influence over the European air transport companies in an effort to have them act jointly within IATA and in other cases connected with the action programme.

At European level AEA (Association of European Airlines) in Brussels is available for cooperation between the air transport companies.

II. Remarks on the text proposed by the Commission

The preamble of the proposal for a decision:

13. With regard to transport questions the Commission's proposal for a decision is rightly based on Article 84(2) of the EEC Treaty.

The recitals:

14. Second recital: The Committee on Regional Policy and Transport stresses that as a result of technical developments the compartmentalization of national markets in the air transport sector in the small area that Europe covers has reached a far more absurd level than in other fields, and it can be assumed that a great deal more rationalization could be achieved through European cooperation in the aeronautical sector than in most other sectors of the economy.

15. Third recital: The committee supports the Commission's view that common action is essential for air transport and refers in this respect to its report and the resolution adopted by the European Parliament on this subject in 1973. The proposal should be worded in more definite terms in line with the work carried out in 1972/73.

16. Fourth recital: The Commission speaks of 'concerted action on the part of the European air transport companies', although reference is not made to such action in the decision itself: Article 3 of the proposed decision refers only to state activities aimed at introducing certain innovations at airline level. This is one of the aspects we mean when we criticize the Commission's proposal as being too superficial and vague.

17. Eleventh recital: The committee agrees with the Commission and points out that in 1973 it called for the development of intra-European services not as routes radiating from central points as is at present the case, but in the form of circular routes. It also advocated an increase in inter-regional services. This can only be achieved by joint administration of landing rights.

18. Twelfth recital: An important reason for jointly administering landing rights is that it would strengthen Europe's position in that it would be negotiating jointly with third countries. The fact that each European country has in the past negotiated on its own may have resulted in the European air transport sector suffering very considerable losses year after year and missing opportunities for development.

19. Fourteenth recital: The Commission rightly states that the airlines' choice of aircraft is determined by certain criteria which arise out of the structure of route networks. There is, however, no hope of the present situation being fundamentally reshaped as a result of a change in the economic climate alone.

The committee also feels that the expression 'structure of route networks' should be interpreted to include airports and flight safety facilities. The Commission should amend the text to cover this aspect.

20. Sixteenth recital: In addition to the Member States, manufacturers and air transport companies the airports should be subject to this obligation to provide information. (The same applies to the air safety services, but they are so closely controlled by the Member States that it does not appear necessary for them to be given a special mention.)

Article 1:

21. In view of the need for planning, for which the reasons were given above, the Committee on Regional Policy and Transport advocates the extension of the programme not only to the construction of large civil transport aircraft, but also to all activities connected with the development of airports and air safety facilities and equipment for these facilities. The Community can to some extent take advantage of programmes developed by Eurocontrol here.

22. The Commission should make it clear that the problem of overflights by supersonic aircraft are also covered by the term 'environmental nuisance' or at least that the laws, regulations and administrative provisions of the Member States' referred to in Article 1(e) apply to such flights.

Article 2:

22a. No remarks, as this article falls within the terms of reference of the Committee on Economic and Monetary Affairs.

Article 3:

23. The committee feels that the term 'a European airspace, to be managed on a Community basis' should be more accurately defined. It refers in this respect to the European Parliament's resolution of 1973. Joint management of airspace must mean that negotiations with third countries on landing rights may only be conducted jointly and that as regards intra-Community

traffic the joint management should consist in a rational route network, including a flight plan framework, being established first and landing rights only then being allocated to the companies. At present, the procedures for allocating landing rights to the airlines are not rational, and the airlines depend on landing rights for the rationalization of flight plans, which precludes an optimum service at the lowest possible cost and furthermore is in many cases not conducive to cooperation between airlines.

24. Moreover, the term 'regulated competition' should be explained. It is not evident whether the Commission is only considering the question of landing rights here or whether, for example, it is also referring to the price policy of the air transport companies in line with the proposals it put forward in 1972.

25. Article 3 might be supplemented by a new subparagraph (c) worded as follows:

"(c) the Member States shall henceforth always act jointly within the framework of ICAO, and the Eurocontrol organization shall be included in the joint action for the European aeronautical sector. At European level the Member States shall use ECAC and AEA as platforms for cooperation, particularly with neighbouring countries which are of especial importance for the Community's air transport as a result of their geographical position."

Article 4:

26. It is not clear why only Parliament and not the Economic and Social Committee should be consulted before the measures set out in Article 1 are implemented.⁺ The fact that Article 235 of the EEC Treaty does not provide for the consultation of this body is no justification. The fear of a duplication of the consultations for which provision is made in Article 4(3), would also apply to Article 4(2).

27. The bodies to be consulted pursuant to paragraph 3 should also include the airports.

Article 5:

28. The obligation to provide information should be extended to include the airports for the reasons given above.

⁺ Translators note: The English version, however, reads: '.... after consultation of the Economic and Social Committee and of the European Parliament.'

Article 6:

29. No remarks.

The draft resolution on the Military Aircraft Procurement Agency:

30. The Committee on Regional Policy and Transport feels that to create a European Military Aircraft Procurement Agency would be to act in anticipation of European Union. However, since a policy on the aircraft industry cannot be developed without the military element being included, the committee considers it necessary and admissible to act in this way. In other sectors of industrial policy, too, military factors play a role and must be considered when Community measures are being developed.

III. Concluding remarks

31. Generally speaking, the Commission's communication concerning an action programme for the European aeronautical sector must be regarded as an instrument which will - if the Council adopts the proposed decision and resolution - enable the Commission to be given a mandate to draw up practical proposals on this subject.

The Committee on Regional Policy and Transport feels, however, that the objectives should be set out in more definite terms where this mandate is concerned.

32. Your committee obviously cannot provide these more definite terms in the form of suggested amendments to the decision and resolution. The requests for amendments made in this opinion should not be confused with this call for greater detail. The committee would, however, ask the committee responsible, the Committee on Economic and Monetary Affairs, to include in the motion for a resolution a paragraph calling on the Commission to word its proposal in more definite terms, with a view to placing greater emphasis and putting a higher priority on the achievement of a common air transport policy.

33. The committee has every sympathy with the method adopted by the Commission: there is obviously no point in submitting a programme for the air transport sector that takes account of every detail until the Council has taken a basic decision to establish a common air transport policy. In this particular case, however, it would seem desirable - for the sake of Parliament's discussions as well - to make the programme somewhat more detailed than the Commission has done in its communication.