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COMMUNICATION FROM THE COMMISSION TO THE COUNCIL

Discussion paper for the special Council meeting of
20-21 September on the question of improving the
international competitive position of European firms

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In response to the Stuttgart Mandate, the special Council on 21 September will consider the decisions to be taken "on new Community actions making use of the Community dimension to improve the international competitiveness of enterprises".

During the last few months, the Commission has put forward a large number of communications and proposals on this subject.¹

This discussion paper for the special Council sets out the background to these proposals, summarizes them and lists the priority decisions which the Council must take in order to lay the foundations for renewed industrial development in Europe.

This paper, which does not attempt to deal with all aspects of the Community's future development, seeks to concentrate the Council's attention on certain vital decisions which have to be taken on economic and monetary policy, scientific and technical research and energy policy; it is on these areas that the restoration of European industry's international competitiveness depends.

¹List in annex.

INTRODUCTION

During ten years of crisis which have seen unemployment rise inexorably, the Community has agreed on measures to enable traditional industries now in decline (steel, textiles and shipbuilding) to adjust to the changing pattern of world supply and demand. It is, however, more or less powerless to encourage the new industrial developments which should take over as engines of growth, generators of wealth and the direct or indirect providers of jobs.

In general, and without much success, the Member States have preferred to behave in an uncoordinated fashion, adopting a vast array of national measures in attempts to turn national favourites into world champions. Such firms have however remained too feeble to get by without making individual arrangements to link up with their major non-European competitors.

Despite a few exceptions, whose rarity causes them to attract undue attention, the result is only too obvious: Europe is losing its share of the world high-technology market and at home the markets for major consumer goods, machine tools and components are all dominated by outside competitors.

This is not for lack of financial aid from governments. It has been shown on a number of occasions that the total funds allocated by the Member States to research, assistance to firms and public procurement are in total roughly equal to those provided by the Community's major competitors. What has been missing is the ability to exploit the Community dimension.

The Commission does not claim that this would be a miracle cure. In many areas, national measures, whether by firms or governments, are and will remain of the first importance. However these measures must:

- be taken within the context of large unified market enjoying monetary stability;
- form part of a coherent strategy agreed at Community level;
- dovetail with measures taken at Community level whenever this is required to achieve economies of scale, to improve cross-frontier synergic effects or eliminate duplication of effort.

I. ECONOMIC AND MONETARY POLICY

1. The main outlines of a common strategy for the economy in general and for monetary policy have already been laid out. What is therefore needed now is to inject practical substance into the broad policy options universally recognized as having top priority.

In an area in which Member States retain the essential powers, implementing decisions by the Community are few and far between; we must therefore seek to ensure that national measures are sufficiently in line with the guidelines agreed in common. The compatibility of policies and the convergence of economic performances are a sine qua non both for preserving real economic cohesion in the Community (itself necessary for the unity of the large market) and for ensuring the effective impact of common measures in more specific areas - in the first place, the success of the EMS, which both depends on convergence and is a powerful factor in its favour. The Commission bases its action on the conviction that these conditions must be met.

2. Economic policies increasingly share the same broad orientation: a common diagnosis of the nature of the crisis, recognition of its structural components, and, for the solution of employment problems, priority for measures designed to develop productive activity through modern, dynamic and competitive firms.

In order to give a stronger impetus to convergence in policy guidelines and foster its practical translation into policy implementation, the Commission has proposed - and the Community has begun to implement - more clearly defined guidelines for achieving greater stability, revitalizing the economies and bringing down unemployment:

- (a) permanent restoration of basic economic equilibria, particularly as regards prices;
- (b) a legislative and tax framework favourable to productive activity in order to equip firms to face international competition more successfully and respond to the radical changes affecting demand and skills;
- (c) implementation in the Member States of budgetary policies which give greater priority to productive activity by restricting the government "take", reducing deficits and restructuring budgets so as to boost expenditure on economic development,
- (d) continuation of an active employment policy which attaches priority to giving young people work experience, helps adapt training schemes to the needs of structural change and improves the organization of the labour market.

These policies emphasize:

- the importance of greater flexibility in economic policy;
- the central role of productive investment in any return to a more favourable economic and social situation;
- the importance of developing new technologies and innovation if the economies are to be equipped to satisfy the new forms of demand.

These requirements, the essential underpinning for convergence towards stable growth and a healthier employment situation, should be firmly spelt out at the highest level.

3. Specific Community action should be aimed at two main objectives:

- improving the quality and predictability of the economic and monetary context, by strengthening the European Monetary System and making a positive Community contribution to a firmer international framework;
- using the scale of the Community (completing the internal market in goods and services) and its credit rating (through its borrowing and lending policies) to facilitate the structural changes required.

Neither of these two lines of attack is new, but they will have to be pursued with far stronger commitment. International interdependence has now reached such a pitch - witness the effects of American interest rates and exchange rates on our economies - that a solid measure of organization is urgently demanded. The importance of economies of scale today, in terms both of markets and of financing, gives full force to the need to make a large European common market a reality.

4. Above and beyond the recent decisions, which set useful precedents, on such matters as borrowing and lending - an instrument now being used very much to aid small businesses - the European Council meeting in Athens must be the occasion for taking decisions in three areas which the Commission feels should be given first priority:

- strengthening the "zone of monetary stability" instituted by the EMS

The Commission calls on the Council to take at Athens a first significant decision, namely to develop the public and private role of the ECU (its status as a currency, elimination of the obstacles to its use, etc.) in accordance with the Commission's proposal of 24 May 1983.

The Commission urges the European Council at the same time to restate its commitment to obtaining:

- . the extension of the exchange rate mechanism to all the Member States;
 - . the reinforcement of these mechanisms;
 - . the wider and more effective implementation of the convergence instruments.
- the establishment of a Community-wide market so that European saving - which is plentiful but not sufficiently tapped for expanding the productive economy - can be more effectively harnessed to the promotion of sound economic growth.

The Commission calls on the Council to accept at Athens the first practical measures it has proposed in its Communication of 18 April 1983.

- the Community's participation, in a spirit of initiative, in mapping out the ground rules for a stable and credible international economic and monetary organization.

The Commission urges that a report should be made in Athens on the discussions already started on this subject by the Ministers of Finance.

II. STRENGTHENING THE INTERNAL MARKET

If European industry is to adjust to the declining growth of its traditional bases and to the development of new types of demand and technology, enormous efforts must be put into research, training and, in particular, investment. Until industry regains its confidence and invests at such a rate that the increase in production outstrips the increase in productivity, there is no hope of reversing the current trend in unemployment.

The Community bears direct responsibility for restoring confidence, for only it can act to speed up the introduction at Community level of the economic and monetary framework which has been outlined above. All the conditions allowing industry to exploit fully the potential dimensions of the Community's internal market must also be improved and strengthened. This process is hampered by the large number of barriers to the free movement of goods and services which still exist in the Community.

The greatest encumbrance on European industry's future prospects is the lack of access to an internal market of a size which will allow firms to recoup the R&D costs needed for the development of new products and the most appropriate industrial organization of new processes.

The Commission therefore requests that work should be speeded up in the Council (internal Market) on the proposals concerning the themes to which the Copenhagen European Council attached priority, so that decisions will be taken before the Athens European Council.

In addition to the formal proposals for achieving the internal market, the Commission has presented to the Council a number of considerations showing that better utilization of the Community dimension by European firms in certain essential sectors requires a Community industrial approach which defines the objectives and priorities enabling greater consistency to be achieved between national and Community measures. As regards the development of new technologies in particular, the amount of investment needed to make up Europe's leeway, the part played by private and public sector decisions in developing the market for these new technologies and the risks of duplication of effort by the various countries are such that precise objectives and clear priorities must be laid down at Community level to supplement the Community policies for improving the economic and monetary situation governing investment decisions.

The Commission has repeatedly tried to initiate discussion of these objectives and priorities. It did so in 1981 in a communication on Community industrial strategy (COM(81)639 of 29 October 1981), the main guidelines of which were repeated in a document sent to the European Council of 21 and 22 March 1983 (COM(83)150 of 15 March 1983). It subsequently fleshed out these guidelines for the fields of biotechnology (COM(83)328 of 3 June 1983) and telecommunications (COM(83)329 of 8 June 1983) as it had done previously for information technologies.

It took stock of these proposals in a communication to the Stuttgart European Council on prospects for the development of new policies (COM(83)371 of 20 June 1983).

Although there is an obvious consensus on the general diagnosis, the Council has not yet got down to real discussion of the merits and forms of a Community approach to these matters.

This being so, the Commission would ask the special Council to call on the Ministers of Industry and Research to react to the guidelines proposed by the Commission in the abovementioned documents so that the Athens European Council will be in a position to set objectives and priorities for the further development of Community policies.

Experience has shown that, if the Council is to embark on a worthwhile attempt to identify and discuss the large number of specific decisions that may be needed to speed up the development of new technologies in Europe, it must first agree on the objectives and methods of a Community approach that can complement national approaches and make them more effective.

III. ENERGY

Two oil shocks have taught Europe a tough lesson by making it aware just how dependent it is on imported energy. These lessons may well be forgotten every time the recession deepens, for if there is no sustained effort to reduce that dependence and no energy strategy, attempts to get the economy moving again will falter under the burden of the oil factor.

Following developments on the oil market in 1982, the Commission laid an important communication before the Council, proposing objectives and methods for a five-year programme of Community action to acquire better control over energy supply and demand (COM(83)315 of 15 June 1983).

The Commission proposed taking advantage of the momentary respite offered by the situation on the energy market to consolidate what had already been achieved in the way of reducing dependence on outside sources, diversifying energy sources and restructuring energy demand.

Themes of action were identified which corresponded to the interests of the Community as a whole and offered definite prospects of enhancing the value of national efforts.

The various themes identified in the five-year action programme were not all accompanied by the same kind of detailed proposals: design and development work on these proposals is still in hand.

The Commission is, however, forced to the conclusion that where the guidelines in the programme were accompanied by precise proposals the Council seems incapable of advancing towards an agreement on them. The obvious cause of this failure to make progress on the proposals for implementation is that there has been no prior decision on the role and objectives of Community action on energy: consequently it is not at all clear what the Member States expect from the Community.

But the fact is that national and Community measures can only be combined if tasks are shared in the process of reaching an agreed target.

The Commission would accordingly ask the special Council to call on the Energy Ministers to come to a decision on the objectives, priorities and methods proposed in the five-year energy and energy research programme so that the Athens European Council can lay down general guidelines for Community action.

Once the will to act together in attaining the priority objectives agreed on by the Council has been confirmed, it will be possible to make progress towards practical measures and to devise flexible forms of involvement in Community action.

IV. RESEARCH POLICY

Improving the competitive position of European industry on international markets also requires the creation of a European research area. This means not only increasing national efforts but also breaking down partitions, separating public and private national efforts, proposing priority targets for joint action in order to avoid wastage and duplication, bringing research teams into contact with each other and encouraging the dissemination of knowhow within the Community.

This was the essence of the proposals for a European scientific strategy that the Commission presented in the form of a framework programme for 1984-87 (COM(82)865 of 21 December 1982). What the proposals boiled down to were a system for attributing priorities and a method of approach.

The feature of this framework programme was the shift away from the traditional preponderance of nuclear research in the Community-financed research programmes and the increased importance attached to other Community priorities, in particular the promotion of industrial competitiveness.

The Commission felt that this would provide a basis for the Council to decide on the scale and thrust of Community measures to promote science and technology in relation to the Community's other activities and policies and in relation to the Member States' scientific and technical activities and policies.

Seeing the favourable reception the Council gave to this framework programme, the Commission produced a draft Council decision (COM(83)260 of 17 May 1983) with an explanatory memorandum containing the clarifications requested by the Member States.

On this basis the Research Ministers approved the objectives of the 1984-87 programme and its selection criteria. However, although the Council confirmed the need to increase Community R&D expenditure, there has still been no formal decision by which the Council commits itself to the financial obligations attaching to the objectives adopted.

The Commission would therefore ask the Council to give an undertaking concerning the continuity of the action and its financing in the medium term by adopting the decision on the framework programme of Community scientific and technical activities for 1984-87.

V. PRIORITY FOR DEVELOPING ADVANCED TECHNOLOGIES

The Commission has picked out three examples of sectors where the need for Community action to speed up technological developments in the European industry appears particularly evident: information technologies; telecommunications and biotechnology.

Where the proposed Community measures will impose a charge on the budget, the financial arrangements will be fitted into the four-year research programme. But these measures will also be part of a broader perspective as a result of the indications they give to industry on the Community's objectives and priorities:

- . in the field of information technologies, a strategic sector par excellence, a proposal for a decision adopting the Esprit programme is before the Council.

The strategic objective of the measure was agreed jointly by industry and the Member States: it is, within the next ten years, to catch - and even overtake - competitors throughout the world on the technological front.

The Council has been very positive in its attitude to the Esprit programme, as demonstrated by the decisions on the pilot phase and the impetus that the Stuttgart declaration sought to give on this very point.

But that is not enough. The decisions required to launch the Esprit programme are not of the same type as those on one-off measures for which appropriations are entered each year in the budget. The Council must now give an undertaking on the objectives of the action and the means for seeing it through.

The Commission would therefore ask the Council:

- to approve the objectives of the Esprit programme;
- to give political and legal undertakings on the continuity of the action within the limits laid down in the first strategic programme;
- to allocate to it the planned financial resources to back up the efforts of the industrial groups associated in the implementation of the programme.

Only in this way will the Community be able to advance beyond the state of a rather empty agreement on the diagnosis and the intentions and set out steadfastly on the path of the third technological revolution.

The effort that the Commission is calling for in the field of information technologies would, however, be incomplete if the Community were not to act, as mentioned above, in the most important area of application - telecommunications.

For telecommunications and biotechnology the Commission has proposed guidelines. What is wanted now is a political stimulus from the Council for the work. This work will indeed be continuing on the basis of proposals that the Commission will be presenting early in October.

In particular the Commission would ask the special Council to call on the Ministers of Industry and Research to take decisions on the priority objectives for Community action selected by the Commission in those two fields, so that the European Council will be in a position to confirm the need for a Community approach to give industry the backing it requires to:

- master technological progress
- make large-scale operation possible
- stimulate the possibilities of expanding public and private demand for these new technologies.

CONCLUSION

The annex to this memorandum gives the references of the many proposals and communications the Commission has presented in its desire to help, directly and indirectly, restore European industry to a sound competitive position on international markets.

The Commission has seen that all too often examination of these proposals gets bogged down in the details of implementation because no prior political agreement has been reached on some pattern-setting decisions which provide a commitment for the future or on the fundamental objectives of Community action in whatever field is involved.

The Commission would call for a return to the decision-making methods which, in the early years of the Community's existence, produced the policies on which it is based.

In picking out the proposals linked to the subject of industrial competitiveness, it has listed the main political decisions which it considers necessary to inject new life into the Community system in this area which is so essential to the future of the Community and its inhabitants.

The decisions are ready to be taken. It is for the Council to take them.

I. ECONOMIE ET MONNAIE

- APPROFONDISSEMENT DU SYSTEME MONETAIRE EUROPEEN (Communication et projet de résolution) - COM(82) 133 final du 18.3.1982
- PROMOTION DU ROLE INTERNATIONAL DE L'ECU (Communication) - COM(83) 274 final du 24.5.1983
- INTEGRATION FINANCIERE (Communication) - COM(83) 207 final du 18.4.1983
- INVESTISSEMENT : Communication de la Commission sur le problème de l'investissement (COM(82) 365 du 8.6.1982), sur les initiatives destinées à promouvoir l'investissement (COM(82) 64 du 8.10.1982) et sur les mesures fiscales et financières en faveur de l'investissement (COM(83) 218 du 28.4.1983).

II. MARCHE INTERIEUR1. PRIORITES RECONNUES PAR LE CONSEIL EUROPEEN DE COPENHAGUE
(3-4 décembre 1982)

- certification des produits en provenance des pays tiers (*) :
COM(80) 35 du 07.02.80
- instrument de politique commerciale : COM(83) 87 du 28.02.83
- formalités aux frontières :
 - o document unique : COM(82) 859 du 23.12.82
COM(83) 162 du 29.03.83
 - o 14ème directive TVA : COM(82) 402 du 05.07.82
 - o facilitation des formalités :
COM(82) 189 du 16.04.82
 - o contrôle des personnes : COM(82) 40 du 02.07.82.
 - o importation temporaire

2. SIMPLIFICATION DES PROCEDURES DE DECISION

- instruments de mesurage : COM(80) 850 du 15.12.80
- matériaux de construction : COM(78) 449 du 22.11.78.

3. ELIMINATION DES OBSTACLES AUX ECHANGES

- Denrées alimentaires: objets céramiques COM(74)2173 du 20.12.74
agents d'aromatisation COM(80)286 du 22.5.83
agents conservateurs COM(80)712 du 22.5.80
- Produits pharmaceutiques COM(80)789 du 28.11.80
- Services: assurance directe autre que sur la vie (2ème directive)
responsabilité civile automobile
assistance touristique

* L'adoption de cette proposition permettra l'adoption de 20 autres propositions dans le domaine des entraves techniques aux échanges.

- Transports: prise en considération des seuls tracteurs pour l'exigence des autorisations de transport.
communautarisation des autorisations bilatérales
concernant les transports spéciaux. COM(80)823 du 9.12.80
COM(82)718 du 10.11.82
- transport pour compte propre COM(78)479 du 28.9.78
COM(78)772 du 30.01.79

4. AMELIORATION DE L'ENVIRONNEMENT JURIDIQUE DES ENTREPRISES.

- contrôle des comptes (8ème directive) COM(78) 168 du 21.4.78
- groupement d'intérêt économique européen COM(73)2046 du 21.12.73
- procédure arbitrale pour éliminer les doubles impositions
en cas de correction de bénéfices entre sociétés associées.
- responsabilité du fait des produits COM(76)372 du 23.7.76

III. INDUSTRIE

- ENCADREMENT

- STRATEGIE COMMUNAUTAIRE (communication) - COM(81) 639 final/2
du 29.10.81
- STRATEGIE INDUSTRIELLE DE LA COMMUNAUTE (communication) -
COM(83) 150 final du 15.3.83
- PERSPECTIVES POUR LE DEVELOPPEMENT DE POLITIQUES NOUVELLES
(communication au Conseil européen) - COM(83) 371 final du 11.6.83.

- DEVELOPPEMENT DE LA TECHNOLOGIE AVANCEE

- PREMIER PROGRAMME STRATEGIQUE EUROPEEN DE RECHERCHE ET DE DEVELOP-
PEMENT R^LATIF AUX TECHNOLOGIES DE L'INFORMATION (ESPRIT)
(Proposition de décision) - COM(83) 258 final du 2.6.83
- BIOTECHNOLOGIE : LE ROLE DE LA COMMUNAUTE (communication) -
COM(83) 328 final du 3.6.83
- TELECOMMUNICATIONS (communication) - COM(83) 329 final du 8.6.83.

IV. RECHERCHE-DEVELOPPEMENT

A. PROGRAMME CADRE DE LA R-D

1. Programme cadre des activités scientifiques et techniques communautaires 1984 - 1987, dernière communication d'ensemble, COM(83) 260 du 17.5.83 sur laquelle le Conseil a statué le 28.6.83.
2. Structures et procédures de la politique commune dans le domaine de la Science et de la Technologie, COM(83) 16.3.83.
3. Evaluation des programmes de R&D communautaires, COM(83) 1, 19.1.83.
4. Promotion de l'utilisation des résultats de la R&D financée par la Communauté, COM(83) 18, 3.3.83.
5. Stimulation de l'efficacité de la recherche au sein de la Communauté, COM(82) 808, 3.12.82, décision du Conseil 28.6.83

B. PROPOSITIONS DE PROGRAMMES DE R&D

• actions nouvelles démontrant la réorientation de la stratégie

1. Technologies d'information
 - Réalisation d'une phase préparatoire à un programme communautaire de recherche et développement dans le domaine des technologies d'information, COM(82) 737; décision du Conseil 21.12.82
 - Premier programme stratégique européen de recherche et de développement relatif aux technologies de l'information (ESPRIT), COM(83) 258; décision du Conseil 2.6.83.
2. Programme de R&D dans le domaine de la recherche technologique fondamentale, COM(83) 350 du 20.6.83.
3. Biotechnologies : le rôle de la Communauté, COM(83) 328 du 8.6.83 ; traité au sommet de Stuttgart.
4. PVD
 - Premier programme de R&D "Science et Technique au Service du Développement" (1983 - 1986), COM(81) 212 du 4.5.81; décision du Conseil 3.12.82.
 - Programme d'aide au développement des capacités indogènes de recherche scientifique et technique des PVD (1984 - 87), COM(83) 354 du 8.6.83.

