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**Report from the Commission to the European Parliament, the Council,
the Economic and Social Committee and the Committee of the Regions on
the application of Council Regulation (EC) No. 852/95, relating to the
granting of financial assistance to Portugal for a specific programme for
the modernisation of the Portuguese textile and clothing industry**

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Report on the application of Council Regulation (EC) No. 852/95, relating to the granting of financial assistance to Portugal for a specific programme for the modernisation of the textile and clothing industry

1. Introduction

Council Regulation No. 852/95, of 10 April 1995, approved financial assistance for Portugal, for specific use in a programme for the modernisation of the Portuguese textile and clothing industry.

This report aims to satisfy the requirement laid down in article 5 of that Regulation which stipulates that by 31 December 1997 the Commission should submit a report to the European Parliament, the Council, the Economic and Social Committee and the Committee of the Regions, concerning the application of that Regulation.

The first chapters of the report recall the context in which the Council decided to set up this specific Programme and the structure of the Programme, in view of the strategy for adaptation of the Portuguese textile and clothing sector during the period 1995/99. The first results of implementing the Programme are then presented, including a reference to compliance with various Community policies. Finally, there is a brief analysis of its foreseeable development.

2. Background

2.a) International situation

The method traditionally used as regards Community imports in the textile and clothing sector was that of negotiating restrictions as to quantity, in the international context of limited access to all markets. The Long Term Arrangement and the MFA - Multifibre Arrangement provided an area for action towards bilateral agreements between importing and exporting countries, applying restrictions to quantity on textile

and clothing products from countries where labour is cheap. The purpose of restrictions on quantity was not to hinder the increase in competition on the Community market. In fact, imports grew at the same time as the sector was being restructured in Europe.

The existence of bilateral agreements in the textile and clothing sector was an exception to the international trade system, which operates in accordance with the primacy of multi-lateralisation. Thus, the Uruguay Round called for progressive integration of the textile and clothing sector into the rules and discipline of multi-lateral international trade. The transition phase towards complete liberalisation of the sector began in 1994 and will end in 2005.

Portugal paid special attention to this dossier as it was crucial to the national economy. The Portuguese textile and clothing sector developed in the context of protectionism ensured by the Portuguese importation system. A huge impact in terms of competition was experienced when Portugal became a member of the Community and with the respective adoption of the common trade policy. At the end of the Uruguay Round and the institutionalisation of the World Trade Organisation, restructuring and modernising the sector are the only methods for highlighting Portugal's competitive advantages. The fact of obtaining a relatively long transition period provides space and a manoeuvring margin for the actions that must be taken. It is in this context that the specific Programme for the modernisation of the textile and clothing industry in Portugal has been in force between 1995 and 1999.

2.b) Portuguese industrial background

The textile and clothing sector is the dominant industry in Portugal and in 1992 represented 31% of all industrial employment in Portugal and 30% of its total exports. The geographic centre of the sector is the North of the country, around Braga and Porto, with a significant nucleus also in the Guarda and Castelo Branco regions.

The size of the sector is especially significant to the economy of certain regions of the country which are heavily dependent on this industry. Of particular note is the Vale do Ave region, which accounts for about 1/3 of total employment in the sector and is about 77% dependent on the textile and clothing industry.

In the 1980s, the sector grew at an average of 10% per annum. The value of exports rose from US\$ 1.3 billion in 1983 to US\$ 2.9 billion in 1989. This growth was above all due to low labour costs.

Basically the textile and clothing industry operated on the basis of sub-contracting from the large industries and chains of shops in northern Europe. As a general rule the Portuguese undertakings could not develop their own design. The lack of innovation in a sector dependent on fashion trends was seen to be crucial.

When Portugal joined the Community in 1986, the vulnerability of the sector in the face of increasing competition was revealed. This competition derived from two main factors: on the one hand, from Community members as a result of the preferential agreements established by the common trade policy; on the other, the liberalisation rules for international trade, as a result of the Uruguay Round and later the World Trade Organisation. The gradual integration of Portugal into the European Community led to a reduction in economic disparities and an improvement in the standard and quality of living so that the competitive advantages of Portuguese industry could not be based on low labour costs but by the affirmation of a style of its own, based on design, quality and innovation.

2.c) Community background

Bearing in mind the adverse international situation, as well as the pyramid of preferential trade agreements, the European Union established a framework of action aimed at developing the competitiveness of the Portuguese textile and clothing industry. Of particular note also was the setting-up of the Single Market in 1992 and the consequent freedom of circulation for persons, goods, services and capital, which resulted in eliminating technical barriers and restrictions on quantity, so that the structural changes in the Portuguese textile and clothing industry became even more permanent.

By Regulation No. 852/95, of 10 April 1995, the Council decided to set up the Programme under analysis, determining that the relevant Union co-financing would be effected by means of a budget line, specifically set up and aimed at the modernisation of the textile and clothing industry in Portugal.

Following the entry into force of the Council Regulation, the resulting Portuguese proposal for an Operational Programme was approved by the Commission by Decision C (95) 1756, of 5 October 1995.

3. Strategy for the modernisation of the Portuguese textile and clothing industry

As a condition for granting Community financing, the Regulation cited called for an agreement between the Commission and the Portuguese authorities as regards the strategy to be used for adaptation of the textile and clothing sector.

Consequently, agreement was reached between the Portuguese authorities and the Commission that the process of restructuring the textile and clothing sector in Portugal should have as its main objective the improvement of the competitiveness of undertakings that demonstrate their viability, based on specific comparative advantages in Europe, employing the following lines of action:

Strategic Dimension

The size factor ceased to be an automatic source of competitive advantage, as it is frequently more appropriate to reduce production units so as to respond in a more flexible way to a varied demand focused on economies of range and not economies of scale. Therefore the strategy defined draws renewed attention to the sub-sectors located up-stream in the production lines, in such a way as to avoid, from the outset, any increase in production capacity and, simultaneously, limit the volume of production and the large financial investment that these sub-sectors require.

As is known, size is a critical factor in the profitability of specific business activities, of which the following are examples: R&D, the creation of marketing channels, own brand names, etc. In this field, the co-operation of undertakings should be crucial as it is a strategic factor in the success of certain business innovations.

Adoption of these lines of action by the Programme, focusing on the strategic dimension, enables undertakings to concentrate on what is vital for control of the business. The "making or purchasing abroad" alternative should be carefully studied at each production phase or for meeting the specific need of a service.

Markets and Internationalisation

It is fundamental that, in defining investment strategies, the market is given absolute priority, so as to suit the investment to its needs, trends and preferences. However, markets today are very unstable, both as regards demand and the type of products desired. This fact makes it imperative that the undertaking be as near as possible to the market and its customers, so as to be able to detect the earliest possible signs of change.

In this way, the Programme should support the internationalisation of business activities, as an absolutely necessary condition for the competitiveness of the undertakings. The modernisation of the textile and clothing industry in Portugal should take account of the need to internationalise undertakings in the sector by means of direct investment abroad and joint-ventures, as well as attendance at trade fairs and markets.

Flexibility and Rapid Response

In order to respond to changing demand, undertakings must have the necessary flexibility to allow rapid response. In this context, information assumes special importance in the Programme strategy, whether in the form of computerised information links with sales outlets, or early access to information on fashion trends.

Specialisation and Differentiation

The growth and modernisation of the textile and clothing sector should gradually distance itself from the products that are most exposed to international competition from countries with low labour costs, and should aim at products with greater added value.

In tandem with improving traditional products, it is a concern of the defined strategy, and consequently the Programme, that efforts be made to develop new products.

Quality

The increase in productivity and competitiveness in textile and clothing undertakings must be consistent with factors relating to the quality of the products and industrial procedures. Quality should be a key factor in the development of differentiation strategies, with the objective of implementing a guaranteed quality system in accordance with European standards in this field.

Environment and Energy

Protection of the environment currently dominates business strategy in the European Union, introducing a new element to the definition of competitiveness. In the textile and clothing industry, in particular, the most sensitive areas are dyeing and printing, where investment in materials for treating liquid effluents and recycling of waste and solid residues is costly but extremely important. In parallel, it is important to keep abreast of developments in cleaner technology for use in the most polluting phases of the procedure. Improvements in internal environment conditions are of dual benefit: they improve the quality of the products and the working conditions with a corresponding improvement in productivity.

Management of energy also merits special attention by the strategy defined and by the Programme, particularly as energy costs are higher than in other European countries. Modernisation of the textile and clothing industry must include measures to reduce energy, using varied energy sources and producing one's own energy.

At the same time, the strategy and structure of the Programme must take into consideration certain stipulations arising from the Council Regulation, namely, that there is to be no overall increase in the production capacity of the Portuguese textile and clothing industry, that the assistance to be given is included in the framework of the horizontal aid systems to industry which already exist in Portugal and that investments in manufacturing equipment cannot be supported by means of non-repayable grants. It is also noted that for each investment project it will not be

possible to accumulate financial aid with other aid schemes (whether horizontal or regional).

4. Description of the Programme

4.a) General description

The Programme approved by the Commission has as its fundamental objective to give momentum to the modernisation of undertakings in the textile and clothing sector in Portugal, with a view to increasing competitiveness in the context of increased international competition.

To achieve that objective, some areas for principal action are defined by the Programme, as follows: business modernisation, supporting investments taking into consideration the factors that affect competitiveness, as well as investments in areas that are not directly productive; business environment, boosting aid structures to manufacturing undertakings, in specific areas of competitiveness in the sector, and access for the undertakings to the capital necessary to adequately finance investments.

The beneficiaries of the Programme are, in general, industrial undertakings whose business is directly involved in the sector in question, undertakings that are developing other businesses, provided that they also aim at carrying out projects within the framework of the sector and even associated structures (business associations and trade-unions) and other non-profit making entities that provide assistance to manufacturing undertakings in the textile and clothing sector.

The support to be given through the Programme may take the form of non-repayable grants (corresponding to grants on the total of the relevant investments, to interest-rate subsidies or premiums for carrying out what are deemed to be exemplary projects), of repayable grants (financing not subject to interest which may also be treated as a zero-rated loan) and of Risk Capital Funds.

4.b) Programme structure and objective

PROGRAMME MEASURES

SUB-PROGRAMME A - BUSINESS MODERNISATION

- Measure A1 Business Analyses and Audits
- Measure A2 Business Modernisation Plans
- Measure A3 Promotion of factors for competitiveness
- Measure A4 Assistance with Certification and Calibration
- Measure A5 Evidence of entrepreneurial ability

SUB-PROGRAMME B - ACCESS TO CAPITAL

- Measure B1 Risk Capital Funds
- Measure B2 Bank Finance

SUB-PROGRAMME C - BUSINESS ENVIRONMENT

- Measure C1 Fashion and Design Centres
- Measure C2 Promotion and Advisory Teams
- Measure C3 GAMIT

SUB-PROGRAMME A – BUSINESS MODERNISATION

This sub-programme aims at directly stimulating business initiatives that take the form of the development of integrated modernisation or business restructuring plans.

Measure A1 - Business Analyses and Auditing

Objective: To provide incentives to the undertakings to substantiate, in an integrated manner, their medium and long-term investment decisions, supported by an analysis of their strengths and weaknesses in the different areas of work, and of their environment.

Measure A2 - Business Modernisation Plans

Objective: Contribute to the development of business strategies, supporting comparable investments, previously defined in a Strategic Diagnosis and Analysis, that lead to sustained business viability in the medium/long term.

Measure A3 - Promotion of Factors for Competitiveness

Objective: Support autonomous plans that fit into the improvement of the competitiveness of the undertakings by means of action in areas that are not directly productive, such as design, quality, energy, environment, use of technologies at the design level of the product, and marketing.

Measure A4 - Assistance with Certification and Calibration

Objective: Encourage the certification of Quality Guarantee Systems in the undertakings, in accordance with the standards of the NP EN ISO 9000 series and the certification of products, as well the calibration and verification of instruments for measuring, inspecting and testing the final products in laboratories accredited by the SPQ, with the objective of providing an incentive for manufacturing undertakings to encourage quality.

Measure A5 - Evidence of entrepreneurial ability

Objective: Promote measures that demonstrate the application of innovative technologies in certain sectors or specific situations, providing incentives for initiatives towards overall re-organisation, towards demonstration of the technical viability of using technologies and towards technological changes in environments and production situations, which have not been fully demonstrated.

SUB-PROGRAMME B - ACCESS TO CAPITAL

Simultaneously with the business initiatives aid of sub-programme A, it is intended that the Programme should play a stimulative role as regards the correct capital and financing structure of the projects included in the modernisation and restructuring of the undertakings, especially as regards small and medium-sized enterprises (SMEs).

Measure B1 - Risk Capital Funds

Objective: This measure aims at the creation of Risk Capital Funds especially for the use of the textile and clothing industry by way of giving the undertakings the necessary equity, when the entrepreneurs do not have the private resources necessary.

Measure B2 - Bank Financing

Objective: To facilitate access to bank loans on better interest terms, making it possible for other finance to be obtained under conditions similar to those available to competitors in other countries.

SUB-PROGRAMME C - BUSINESS ENVIRONMENT

This sub-programme aims at encouraging specific dynamic measures in the textile and clothing sector, so as to create a complementary and synergetic effect with sub-programme A and B.

Measure C1 - Fashion and Design Centres

Objective: To encourage the creation of fashion and design centres or nuclei, targeting the development of design and quality in the textile and clothing industry, as essential methods for its modernisation and internationalisation.

Measure C2 - Promotion and Advisory Teams

Objective: To make known the objectives of the Programme by means of support in the creation of promotion and advisory teams based in business associations or other non-profit-making bodies. The teams are comprised of a limited number of specialists whose mission is to make the sector aware of the need to modernise and restructure its undertakings.

Measure C3 - GAMIT

Objective: GAMIT - *Gabinete de Apoio à Modernização da Indústria Têxtil* [Office for the Modernisation and Development of the Textile Industry] provides expert

assistance to the DGI (Board of Industry) and the IAPMEI - *Instituto de Apoio às Pequenas e Médias Empresas e ao Investimento* [Institute for the Development of and Investment in SMEs] giving opinions on the projects, assisting in drawing up studies and annual reports on the implementation of the Programme and supporting awareness campaigns in respect of the objectives of the Programme.

4.c) Financing and indexation

By Regulation No. 852/95, the Council granted the Programme the reference amount of ECU 400 Million (at 1994 prices) for the period 1995/99, in terms of the Community's participation. This finance should be increased by finance from the state. The reference amount is included under heading 3 of the financial perspectives (Internal policies), but it is subject to the provisions governing the Structural Funds pursuant to Regulation No. 852/95.

The Programme was adopted at 1995 prices, so that the Community investment provided for in the Commission Decision C (95) 1756, of 5 October 1995, includes indexation of the reference amount mentioned, giving an amount of 406.4 Million. Tables 1 and 2 show the financial division forecast in that Decision, in terms of the annual allocation of the investments and their allocation per Measure, respectively.

Due to the delay experienced in the actual commencement of the Programme (see point 5, a)), it became necessary in 1996 to revise the Programme which altered the annual allocation of the forecast investments. However, the revised Programme did not change the allocation per Measure. This revised programme was sanctioned by Commission Decision C (96) 3165, of 9 December 1996.

Finally, it is stressed that in applying the rules that govern the structural funds relating to indexation, the Commission informed the Portuguese authorities at the appropriate time that the amount in question, relating to the financial participation of the Community in the Programme, amounts, at 1997 prices, to ECU 411.46 Million. This additional amount has not yet been formally incorporated into the Programme.

Table 1 - Annual Financing during the period 1995/99

ECUs (000,000)					
Years	Total Cost (1=2+5)	Public Finance			Private Contribution (5)
		Total (2=3+4)	Community Contribution (3)	National Contribution (4)	
1995	186,573	106,666	80,000	26,666	79,907
1996	200,400	112,001	84,000	28,001	88,399
1997	209,017	108,334	80,000	28,334	100,683
1998	192,495	110,333	82,000	28,333	82,162
1999	160,445	104,533	80,400	24,133	55,912
Total	948,930 <i>100%</i>	541,867 <i>57.1%</i>	406,400 <i>42.8%</i>	135,467 <i>14.3%</i>	407,063 <i>42.9%</i>

Table 2 - Finance per Measure during the period 1995/99

ECUs (000,000)				
Measures	Public Contribution		Private Contribution	Total per Measure
	EU	National		
A1. Analyses & Audits	3,700	1,233	2,114	7,047
A2. Modernisation Plans	245,700	81,900	176,400	504,000
A3 Dynamic Factors	24,000	8,000	21,333	53,333
A4. Certification & Calibration	7,000	2,333	6,221	15,554
A5. Entrepreneurial ability	25,000	8,334	22,221	55,555
B1. Risk Capital	37,500	12,500	25,000	75,000
B2. Bank Finance	56,000	18,667	151,596	226,263
C1. Fashion & Design Centres	3,000	1,000	1,333	5,333
C2. Promotion Teams	1,900	0,633	0,845	3,378
C3 GAMIT	2,600	0,867	0	3,467
Total per Source of Finance	406,400	135,467	407,063	948,930

5. Implementation

5.a) Preparation

The results shown here represent little more than one and a half years of actual operational management of the Programme by the Portuguese authorities. Indeed, in spite of the programme being approved by the Commission at the beginning of October 1995, the changes on the political front in Portugal in the meantime and the modifications introduced in the structure of the Programme's management organisation (Ministry of Economy/Board of Industry) only enabled start-up to take place in April 1996.

In spite of the delay, the activity engaged in by the bodies of the Ministry of Economy involved in the implementation of the Programme (in addition to the Board of Industry, the IAPMEI and the IPQ - *Instituto Português da Qualidade* [Portuguese Quality Institute]) led to an effort being made to make up the time lost as regards the Programme.

Throughout the period under study, there was close co-operation between the Portuguese authorities and the Commission, and various contacts were made between them and several technical meetings held (on 11 March 1996, 2 September 1996, 18 November 1996, 19 June 1997 and 15 September 1997) in addition to three Programme Monitoring Committees.

The promotion and dissemination of the Programme and the implementation of the planned work of the various organisations (National Committee for Selection of Projects, National Monitoring Committee, Monitoring Committee) led to the need to establish management procedures and supports, in addition to the creation of contact networks between the organisations involved, in this way contributing towards knowledge of the Programme being spread and the programme itself commencing at a "cruising speed". Various regulations at national level concerning management of the Programme were also prepared and published.

Bearing in mind objectives connected with the dissemination of the Programme at its launching stage, several information and promotional activities were carried out, thus contributing to its objectives being made known, while encouraging the presentation of valid projects, leading to a correct use of the Community and national funds made available to the economic operators.

To this end the following measures were adopted: creation of a logo which, through being identifiably associated with it, helped the Programme's launch; publication of forms for the various types of aid, distributed during the meetings held to provide information on the Programme; publication of brochures, posters and miscellaneous information material about the Programme; holding of a national meeting to introduce the Programme and several information meetings, in close co-operation with the business associations and trade unions of the sector; information about the Programme at fairs; announcements in the press, by way of advertisements in national newspapers to announce the information meetings.

5.b) Management and monitoring

Amongst the main management activities, of particular note from the outset were the many co-ordination meetings between national organisations involved in the management of the Programme, for the purpose of setting up the procedures necessary for the correct implementation of the Programme. More than 20 meetings of the National Committee for the Selection of Projects were held which enabled a detailed analysis to be made of the several hundreds of investments projects received.

Likewise, during the period under discussion, three meetings were held of the Monitoring Committee, on 1 October 1996, 20 March 1997 and 24 October 1997. These meetings are chaired by the national management body of the Programme (Ministry of the Economy / Board of Industry) and were attended by other Portuguese authorities (IAPMEI, IPQ, Ministry of Planning and Administration, Regional Development Board and the Management Office of the Strategic Industrial Development Programme for Portugal (PEDIP)), representatives of the European Investment Bank and of the European Commission.

The principal responsibility of this Monitoring Committee is to ensure the correct operation of the Programme, so that the target will be met, by putting in place the general arrangements that ensure the effective implementation of the specific measures foreseen in the Programme. The Monitoring Committee moreover suggests technical assistance measures, gives opinions on the annual reports on Programme implementation (the draft of which is drawn up by the Programme's management body) etc.

The existence of a National Monitoring Committee, which includes representatives of the national public authorities, members of the business associations and trade union representatives from the textile and clothing sector, is mentioned as a notable peculiarity of the management and monitoring system of the Programme, and constitutes a unique element in the context of the several programmes co-financed by the European Union in Portugal.

The purpose of this Committee, which meets periodically (having had meetings on 25 November 1996, 27 February 1997 and 24 July 1997), is to monitor the entire application of the Programme, evaluate its results and propose whatever changes it considers necessary for the accomplishment of its objectives. It is further pointed out that a mechanism was established for the systematic sending of information to the European Commission on the operation of this national organisation for partnership and consultation with the social partners.

5.c) Implementation of finance

5.c) i. Overall data

Until now (the data submitted refers to 30 September 1997), there were 591 applications to the programme, representing a total investment of around ECU 770 Million (see Table 3). Of those projects, 397 have already been approved, involving about ECU 525 Million of investment, which represents ECU 235 Million of promised incentives (national and Community). The greatest number of applications received refer to Measures A1 and A2 (Auditing and analyses, and Business Modernisation Plans, respectively).

In terms of investment and incentives, Measure A2 absorbed almost all of the total amounts in question.

Table 3

ECUs (000,000)

Measures	Projects Entered		Projects Approved		
	No.	Investment	No.	Investment	Commitments
A1	253	4.845	198	3.765	2.180
A2	256	740.615	160	515.183	230.566
A3	17	7.245	7	2.420	1.103
A4	43	3.180	32	2.400	1.370
A5	19	10.880	-	-	-
B1	-	-	-	-	-
B2	-	-	-	-	-
C1	3	1.695	-	-	-
C2	-	-	-	-	-
TOTAL	591	768,460	397	523,768	235,219

In terms of financial implementation (see Table 4), it is seen that the commitments already undertaken by the Programme represent about 43.5% of its total budget. As regards the public funds paid (including Community co-financing and its national counterpart), it is noticeable that the Programme has already paid about ECU 77 Million, representing 14.2% of its total budget.

Also in terms of financial implementation, Measure A2 was determinant in achieving the results in question.

Table 4

ECUs (000,000)

	Total Budget 1995/99 (1)	Commitments (2)	% (2/1)	Public Expense incurred (3)	% (3/1)	% (3/2)
A1	4.934	2.180	44.2	0.850	17.2	39.0
A2	327.600	230.566	70.4	75.455	23.0	32.8
A3	32.000	1.103	3.5	0.289	0.9	26.2
A4	9.333	1.370	14.7	0.218	2.3	16.0
A5	33.333	-	-	-	-	-
B1	50.000	-	-	-	-	-
B2	74.667	-	-	-	-	-
C1	4.000	-	-	-	-	-
C2	2,533	-	-	-	-	-
C3	3,467	0.089	2.6	0.089	2.6	100.0
TOTAL	541,867	235,308	43.5	76.903	14.2	32.7

5.c) ii. Implementation by Sub-programmes and Measures**Sub-Programme A - Business modernisation**

Sub-programme A includes assistance with measures that aim to implement integrated modernisation plans of undertakings and participation in dynamic competitive factors including quality and productivity.

Regarding Measure A1, the amount of commitments undertaken currently amount to 44.2% of the total budget which reveals a significant demand for this Measure.

Regarding Measure A2, the high level of commitments undertaken in relation to the total budget identifies the existence of strong demand for it, which reveals great interest on the part of the undertakings in terms of strategy for business development.

Regarding Measures A3 - Promotion of Dynamic Factors and A4 - Assistance with Certification and Calibration - the demand for these has not been very significant. Eventually it will be necessary to direct a major promotion campaign for these instruments at the economic operators, or to consider, in the short term, the need to revise the budget for these Measures.

Regarding Measure A5 - Entrepreneurial Ability, the 1st Competition for Entrepreneurial Ability has already taken place and is in the final stages.

The first payments should be made very shortly with the selection of some twenty projects.

Sub-programme B - Access to capital

Sub-programme B complements sub-programme A and attempts to make available to undertakings in the sector whatever capital they need for correct and balanced financing of all their modernisation plans.

The absence of financial implementation in respect of the Measures contained in this Sub-programme is due to their specific nature. In reality, this concerns Measures that involve a strong link with institutions in the Portuguese financial system and also with the European Investment Bank.

Regarding Measure B1 - Risk Capital Funds, the national authorities were of the opinion that it would be more prudent not to immediately launch new RCFs within the framework of the Programme, and that it would be preferable to await the results of the assessment procedure for this type of instrument, in the context of other instruments already co-financed by the Union in Portugal.

Regarding Measure B2 - Bank Financing, the final phase has already been reached in drawing up the form to regulate application of the interest subsidy mechanisms and of the links with the credit institutions that wish to be involved in the system, but the way in which the EIB is involved in this process still has to be negotiated. The likely small average size of each credit transaction in favour of the textile undertakings for their projects in the Programme advises that the possible financing from the EIB to such undertakings should be effected by way of "global loans", that is to say, credit lines made available by the EIB to local financial institutions for projects promoted by the SMEs.

Sub-programme C - Business Environment

The objective of the sub-programme C is to create support structures for undertakings in the sector and the boosting and implementation of the Programme itself.

Regarding Measure C1 - Fashion and Design Centres, the small number of candidates who came forward was insufficient to warrant going ahead with this, however it is considered likely that more projects may appear aimed at the development or installation of a support centre for Fashion and Design.

Regarding Measure C2 - Promotion and Advisory Teams - the absence of any participants is explained by the fact of access to this Measure being by competition. It is expected that the first competition will be launched early in 1998.

Regarding Measure C3 - GAMIT - is basically the form taken by the Programme's technical aid budget. In this context, the fact must be emphasised that financial implementation is considerably lower than forecast, due to the late start of the organisation's activities, especially as regards incurring expenses with the contracting of technical assistance personnel and the acquisition of specialised services and work abroad.

5.d) Large projects

In the context of the sector's adaptation strategy and especially that of controlling production capacity, the Programme sets certain conditions until the study on the production capacity of the textile and clothing industry in Portugal (see point 6) has been concluded.

The Portuguese authorities should therefore send the Commission a quarterly list of the projects calling for an investment greater than ECU 5 Million, indicating at the same time the increase in production capacity arising from such projects. Similarly, all projects with an investment greater than ECU 10 Million should be made known to the Commission prior to their approval by the national bodies.

In this context, two large projects with an investment greater than ECU 10 Million have already been notified to the Commission: they are the "Arco Têxteis" and "Riopele" projects.

The "Arco Têxteis" project, for a total investment amount of 60.8 Million, aims at modernising this undertaking, achieving stricter compliance with certain environmental requirements and better use of energy.

The project submitted by the "Riopele" undertaking, an investment amounting to ECU 70.9 Million, anticipates investments in several areas relating to modernisation as well as improving its environmental conditions by means of better treatment of effluents and residues.

Following analysis of the above two projects, especially in the light of cost-benefit analysis criteria and compatibility with the objectives and conditions of the Programme, the Commission gave notice of its approval in principle of the projects in question to the national authorities.

In regard to projects in the Programme that represent investments greater than ECU 5 Million, detailed information on the nine projects indicated in Table 5 has already been sent to the Commission. In regard to each one of these projects the Table indicates its eligible amount of investment. The information sent to the Commission also included an analysis of the variation in installed production capacity, in the case of each of the nine projects. It should be noted that the Portuguese authorities included in their notification some projects whose eligible investment does not even reach ECU 5 Million.

Table 5 - Projects involving an investment of over ECU 5 Million

	Investment (Millions of ECUs)
Somelos Fios, SA	8.2
Sthor Portuguesa, Lda	6.3
António Almeida Filhos, Lda	9.0
Cerfil, SA	4.8
Endutex, SA	5.9
Estamparia Têxtil A. Silva	6.5
Lusotufo, SA	3.7
Têxtil João Duarte, SA	4.9
Tinturaria Vale de Tábuas	8.8

Furthermore, it should be pointed out that the Commission, in addition to carrying out an analysis, for all these projects, of the forecast increase in production capacity, of cost-benefit and of the compatibility with the objectives and conditions of the Programme, checks that the projects sent do not fall under the scope of article 92 1 of the Treaty, as, should they so do, they could benefit from one of the derogations of point 3 of that article. This would not be the case as regards operational aid, even if the undertakings in question fulfilled the conditions of eligibility to the Programme.

5.e) European Investment Bank intervention

The principal local financial institutions, that is to say four of the five principal financial groups operating in Portugal, currently have at their disposal credit lines (global loans) from the EIB, projects included in the Programme may be included in these credit lines. Meanwhile, under the aegis of the IAPMEI, studies are under way with a view to a better definition of the specific ways in which the Programme can strengthen the participation of the EIB and, in general, the banking system, while trying to ensure the coherence of such methods with the financial instruments set out in the existing horizontal aid systems for industries in Portugal.

5.1) Impact assessment

In the context of the impact assessment of the Programme, it seems premature to begin to draw definite conclusions about its results, due to the delay in start-up.

However, some reflections may be put forward at this stage. In quantitative terms, great demand has been ascertained for incentives under the Programme by textile and clothing concerns, and the commitments already entered into by the Programme account for nearly 43.5% of its total budget. This factor may show the willingness of the undertakings in question to develop suitable modernisation strategies by availing of the Community funds at their disposal. The amount of investment achieved after little more than one and a half years of actual implementation of the Programme seems to show that all the financing available under the Programme can be absorbed without great trouble.

However, the fact of there being a great imbalance in the distribution of the applications received by the different Sub-programmes and Measures (with Measure A2 strongly predominating) reveals the need for voluntarist measures to be taken to increase interest amongst the undertakings in the other Measures under the Programme.

In terms of quality, it is the intention of the Commission to commence an independent interim assessment study of the results of the Programme in the first half of 1998. This study should, in particular, ensure a comparison between the results achieved by the Programme and the results initially forecast, and should likewise analyse the effectiveness and efficiency of the Programme itself. The Commission considers that, in due course, this study should be the basis for possible future proposals for change and improvements to be introduced.

However, the Commission considers that a first evaluation of the quality of the Programme could be carried out immediately. In reality, the interest shown in participating in the Programme by the undertakings in the textile and clothing sector, evidenced by the amount of investments associated with it and the very significant number of applicants which have already come forward, is itself proof that the Portuguese undertakings in the sector under analysis are very open to change.

An analysis of the content of the majority of the applications submitted reflects the Portuguese undertakings' willingness to adopt strategies for modernisation, taking into account the improvement of their competitiveness. An analysis of the applicants reveals a high percentage of projects aimed at improving the range of articles produced (allowing the repositioning of the undertakings in sectors of the market with increased added value), and increasing productivity. The projects analysed likewise reveal great concern about the environment (namely, in terms of improved treatment of effluent and residues and energy savings). Many projects include plans for vocational training (these are not eligible, however, under the Programme, although they may be through other instruments co-financed by the Union, namely, within the Community Support Framework Programme 1994/99).

6. Capacities study

Council Regulation No. 852/95 stipulates as a condition to be respected by the adaptation strategy for the textile and clothing sector in Portugal, and consequently by the Programme, that there is to be no overall increase in production capacity, expressed as volume.

At the time the Programme was negotiated between the Portuguese authorities and the Commission, technical difficulties were encountered in the matter of guaranteeing control of overall production capacity in Portugal. In effect, on the one hand, monitoring of overall capacity presupposes the availability of information on all Portuguese undertakings (including those not aided by the Programme). In reality, the supposition of a systematic and immediate availability of information on capacity is only verified in respect of the undertakings aided by the Programme. On the other hand, the heterogeneity of the sub-sectors that make up the textile and clothing industry makes it difficult to measure and compare the production in volume of the sector as a whole.

This being the case, the Portuguese authorities and the Commission agreed to the carrying out of an independent study by a undertaking with acknowledged technical ability that would try to set up a system to control capacity. The study should particularly deal with the following aspects: definition of a method to calculate production capacity (in volume) in the textile and clothing sector in Portugal; determining the production capacity in Portugal in 1994 (overall and in the various sub-sectors, including the possibility of quantifying an inter-sector equivalence; drawing up annual reports on the increase of produce capacity in volume, based on the projects receiving aid under the Programme (but, likewise, by those receiving other structural funds in Portugal) and in the substantiated reductions in capacity. These annual reports should be assessed and discussed by the Monitoring Committee of the Programme to enable it to take whatever measures may be necessary for complying with the objective of not increasing capacity in Portugal. Obviously, the Commission must reserve its position as to the sequence to be given to the Programme, should the conclusions drawn from the study show that there has been an increase of the global production capacity since the start of the Programme implementation.

Due to the delay experienced in the actual commencement of the Programme, the international Competition to choose the body to undertake the study in question was only launched in 1997. The consortium selected should submit its first report by 31 May 1998, in which the installed capacities in Portugal in 1994, 1995, 1996 and 1997 should be defined.

It was further agreed that until the study can supply the relevant information on the increase of capacity in Portugal, the national authorities would send the Commission **detailed information** about **all the investment projects greater than ECU 5 Million (see point 5.d)**, since such large projects are the ones most likely to produce an eventual **increase in capacity**.

7. Respect for other Community policies

The Commission has made known to the national managers of the Programme the need to respect all Community standards throughout its operation, that is to say, in terms of environment and competition policies.

In general, referring to the environment, it is required that the measures and projects co-financed by the Programme should take into consideration the principles and objectives associated with lasting development. Such measures and projects must also respect all Community legislation relating to the environment and must encourage attainment of the objectives contained therein.

In the case of all projects, regardless of their size, the environmental component is incorporated by the participation of a representative of the Ministry of the Environment and Natural Resources on the National Selection Committee of projects, in all cases where projects which include an environmental component are being appraised. The Ministerial representatives prepare opinions ensuring that the projects comply with certain conditions relating to the environment. Furthermore, the Selection Committee obliges the sponsors of the projects to fulfil those conditions.

Requests for financial aid for the large projects (see point 5.d) above) are also accompanied by a questionnaire concerning the evaluation of the environmental impact of the projects in question. This questionnaire also accompanies the information sent to the Commission in respect of the large projects that are submitted for the granting of an aid package under the Programme.

In terms of competition policy, and to avoid distorting competition in favour of the textile and clothing industry sector, the Programme imposes as conditions for granting Community aid, the fact that investments in production equipment are not aided by non-repayable grants. This type of investment is only aided, at present, by refundable grants. From the time that sub-programme B is regulated, investments in production equipment may also be encouraged by access for undertakings to risk capital funds and by subsidised loans.

On the other hand, and still in respect of competition policy, it must be pointed out that the aid to be given under the Programme is included in the framework of horizontal aid systems already existing in Portugal at the time of respective approval, that is to say, those foreseen in PEDIP II (programme of the Community Support Framework Programme for Portugal - period 1994/99) - aimed at supporting the modernisation of Portuguese industry). The said general systems of assistance to Portuguese industry have been duly approved by the Commission in 1993 and 1994 (references: aid Nos. 542/93 and 1/94).

3. Foreseeable growth and conclusions

Now that the initial problems encountered at the start of the Programme have been dealt with, the Commission considers that it is now progressing at a normal speed, in terms of its implementation.

The continuous flow of applicants, for large investments, seems to ensure that all the amount allocated for the Programme may be taken up in the periods forecast (effectively all the projects must be approved by 31 December 1999, and all monies paid out no later than 31 December 2001).

Now that the Programme has been launched and a significant number of entrepreneurs have applied to participate, the Commission considers that the next phase should relate to improving quality, especially evaluation of the real impact of the programme. Two aspects should now be the focus of attention in terms of the development of the Programme: it must ensure improvement in the competitiveness of the undertakings in the textile and clothing sector in Portugal that prove their viability through total modernisation, and, given the importance of the sector to the national economy, simultaneously ensure that the current production capacity does not increase. Of course, the undertakings benefiting from the Programme must ensure that their investment projects comply with the conditions stipulated in the competition rules of the Treaty [see the last paragraph of point 5.d) above].

In this context, it will be essential to have the first conclusions of the study on current capacities available very shortly so that, if necessary, the arrangements to be made as a result of the study may be undertaken with the agreement of the Portuguese authorities and the Commission. The Commission wishes to remind that it reserves its position as to the sequence to be given to the Programme, should the conclusions drawn from the study show that there has been an increase of the global production capacity since the start of the Programme implementation. Furthermore, the Commission will ensure that competition rules of the Treaty are fully respected.

The imbalances currently being experienced in the levels of implementation of the different Measures shall also merit some reflection, in the short term, with a view to a possible alteration in the financing originally scheduled for each Measure. Eventually, voluntarist steps to increase demand for the Measures in sub-implementation should also be taken.

Furthermore, the Commission considers that the environmental component of the investment projects co-financed by the Programme should acquire greater importance. The intervention of the Ministry of the Environment in the appraisal process of the applicants should be strengthened, in its opinion. This position has indeed already been made known to the Portuguese authorities:

The process of adjustment and modernisation of the textile and clothing sector in Portugal will also continue to be ever more frequently accompanied by additional

measures in the regions that are heavily dependent on this sector. So the development of alternative activities that generate employment ought to receive particular attention, especially in the context of monitoring measures to be implemented by other co-financed Union interventions in Portugal (the RETEX Community initiative, training and professional qualification programmes, local employment initiatives, etc.). Indeed, it must be remembered that the necessary restructuring of the sector may have negative effects on employment in the regions involved.

Although the Programme is targeting one sector, it is stressed that it also has an undoubtedly positive effect in the area of economic and social cohesion. Indeed, channelling Community financing into some of the least developed regions of the Union (namely, the North and Centre of Portugal) allows regional development activities to be undertaken, in terms of competitiveness (by encouraging the modernisation and restructuring of undertakings) and improving the living conditions of the local populations (namely, by improving the environment and working conditions).

The Commission concludes, therefore, that this mid-term review on the results obtained in the implementation of the specific Programme for the modernisation of the textile and clothing industry in Portugal reveals positive and promising results. Nevertheless, the peculiarities of the general situation and structure of the sector in question, in Portugal and throughout the European Union, demand that continuous attention be given to the monitoring of this activity by the Commission. The other European Union Institutions will continue to be fully and appropriately informed about the overall development of the Programme.

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