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COMMUNITY MEASURES TO IMPROVE THE INTERNATIONAL COMPETITIVENESS OF EUROPEAN FIRMS

(Communication from the Commission to the Council)

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After examining a wide range of Community measures that might help to restore the international competitiveness of European firms, the special Council meeting agreed that a number of key areas for action should be put to the European Council for a decision.

It asked the Commission to draw up a List; and this document is in response to that request. Four key areas for action are proposed:

- improving the economic and monetary context
- dynamic use of the internal market
- scientific research and the development of advanced technologies
- energy policy.

In each of these areas, the Commission has identified a number of essential priorities, selected not only by virtue of their intrinsic importance, but also because the European Council would be setting an example by taking a decision demonstrating its political will to advance Community action or to develop it in new directions.

Clearly, therefore, this document is not to be regarded as exhaustive. The selection made by the Commission in no way casts doubt on the importance it attaches to other proposals for Community measures whose link with the objective of improving Europe's international competitiveness is less direct, but which are nevertheless essential to the Community's future development.

I. Improving the economic and monetary context

Without wishing to restate all the general economic conditions which are necessary for a recovery in productive investment, discussed in its previous documents, the Commission would stress two major objectives which require specific measures on the part of the Community:

- improving the quality and predictability of the economic and monetary context by further developing the European Monetary System and by an active Community contribution to more effective international organization;

- using the scale of the Community (making a full reality of the internal market in goods and services) and the Community's credit worthiness (borrowing and lending policy) to facilitate the necessary industrial change.

In addition to recent decisions setting a welcome example (in the borrowing and lending field, for instance, which is being developed largely with small and medium-sized firms in mind), the European Council at its Athens meeting should adopt decisions in three areas which the Commission regards as of paramount importance:

1. The development of the area of monetary stability as established under the EMS

On 24 May 1983, the Commission asked the Council to take an initial major step, even before Athens, towards promoting the increased public and private use of the ECU (COM(83) 274). It proposed that Member States and the authorities concerned be asked to take the necessary measures to accord the ECU a status identical to that of any other major convertible currency and to create the conditions under which operations denominated in this unit, in particular loans floated by Community institutions, could develop.

The Commission now calls on the European Council to confirm its commitment to:

- extending the exchange-rate mechanism to all Member States,
- strengthening this mechanism, and
- applying the instruments of convergence more widely and effectively.

2. The creation of a large Community financial market enabling European savings - which, though substantial, are insufficiently channelled towards the development of productive activities - to make a greater contribution to sound economic growth.

Allowing that the Council may well adopt prior to the Athens meeting some of the practical measures proposed in its communication of 18 April 1983, the Commission calls on the European Council to commit itself to revitalizing the process of financial integration, at present deadlocked, by reaffirming its determination to promote a Community financial area that will serve the economic development of Europe and reinforce its structures. This area must be as homogeneous as possible and must be given effective means of mobilizing and channelling savings towards productive investment.

3. The Community's participation and leading role in defining a stable and credible international economic and monetary structure.

The Commission requests that an initial report on the discussions which the Ministers of Finance have already held on this subject be given in Athens.

II. The role of the internal market

On 3-4 December 1982 the European Council agreed to make the strengthening of the internal market a priority goal. The Council was to take the necessary decisions before the end of April 1983. This deadline has now been postponed to 26 October. For the Commission, it is essential that these decisions be taken, especially to enable it to start up work again on the removal of barriers to trade, the simplification of frontier controls and the liberalization of services (insurance). Then there are the vital proposals for the development of the transport policy. These decisions must be taken without further delay as the credibility of the Community's future commitments obviously depends on fulfilling those it has taken in the past.

Once they have been taken, efforts must be continued to at last use the possibilities offered by the internal market in a dynamic and stimulating way so that the Community industries can benefit from its scale.

Here the Commission proposes to concentrate on two priority fields of action: standards and cooperation between European companies.

In both cases, precise guidelines and commitments by the European Council are essential to clear the way for the technical work and lay down deadlines and the results to be obtained.

1. Standardization

Here a significant step was taken when the Council adopted the Directive (83/189/EEC) laying down a procedure for the provision of information in the field of technical standards and regulations. By so doing, it wished to prevent any increased walling-off of national markets in future as a result of the multiplication of national technical standards and regulations.

This effort must be continued and therefore the Commission requests the European Council to confirm its commitments by extending them in three directions.

(a) The first concerns action by the Member States themselves; they must undertake to carry out by mid-1984 a critical review of the reasons for the existence of technical standards and regulations within their competence in order to do away with any provisions that are no longer justified.

This critical review, the results of which will be communicated to the Commission, is an essential condition to allow the Community, in a second stage, to move towards the recognition by all Member States of the equivalence of their standardization and regulatory activities designed to protect the health and safety of their citizens.

It is obvious, however, that this recognition of equivalence will not settle all problems, partly because it is still more in the way of an effort to break down the barriers between national markets rather than to forestall their fragmentation.

(b) The Commission therefore invites the European Council to recognize the need for Community action in the field of standardization in order to meet three types of requirements:

- . to provide a common base of standards for new products that will allow the companies concerned to take full advantage of the European dimension and to use it as a springboard to increase their share of the world market; this applies for example to the definition of standards for the reception of television broadcasts via satellite or for the cordless telephone,

- . to remove obstacles to trade (the precedent of the Directive on electrical equipment could be repeated, for example in the case of the numerous draft directives concerning the safety of machinery such as machine tools, powered industrial trucks and lifts),

- . to define common specifications as a way of opening up access to public contracts.

In addition to the commitment in principle by the European Council on the need for Community action on standardization in the three types of situation defined above, the Commission requests the European Council to lay down a deadline (for example 30 June 1984) for the formulation of the precise objectives of and methods to be used for this Community action.

(c) Finally, the Commission requests the European Council to recognize the obligation for all Member States to seek Community arbitration at once when there is a risk of conflict between the desire to take action at national level by way of technical standards and regulations in order to protect health or public safety and the need to avoid splitting the Community market.

This is the current situation in respect of lead in petrol; despite the fact that Community procedures are being actively pursued following a specific request from the Council, this issue still threatens to divide the Community automobile market.

A political commitment by the European Council on all these points is essential to prevent subsequent discussions on specific proposals from becoming bogged down in apparently technical difficulties which in fact result from the lack of any clear definition of the Community's role and objectives. The Commission, for its part, will continue to help collect the necessary data for this definition.

(2) Cooperation between firms

The present framework of legislation, tax provisions and other rules discourages cross-border cooperation between European firms. There is no legal instrument encouraging such cooperation.

The opening up of public contracts is essential here, since the preferences which now exist discourage cooperation. The Commission is therefore insisting once again on the necessity of opening up public contracts in its document on telecommunications, an industry in which such cooperation is vital. Obviously, the opening up of public contracts is a question which goes beyond this particular aspect. The Commission will be returning to it.

The Commission takes the view that the obstacles to cooperation would be largely removed by a three-pronged attack in the legal, taxation and industrial spheres.

- In the legal sphere, the European Cooperation Group (COM(73) 2046, 21.12.1973), which would be a versatile tool for cooperation, can be legislated for quickly: the Council could set the end of the first half of 1984 as a deadline. But this would not resolve the problem of mergers: to do that the Council would have to decide before 1 July 1984 to resume work on the European Company (COM(70) 600, 30.6.1970), or on the Merger Convention.

- In the tax field, the Commission has put forward a series of proposals which must be adopted if cooperation is to be possible: on the tax system applying to various cooperative arrangements between firms,

¹ COM(69)5 final, 15.1.1969: proposal for a Directive concerning the common system of taxation applicable to mergers, divisions and contributions of assets between companies of different Member States, and

COM(69)6 final, 15.1.1969: proposal for a Directive concerning the common system of taxation applicable to parent companies and subsidiaries of different Member States.

on double taxation¹ and on the creation of a European capital market,² the mainspring of genuine cooperation.

The European Council must accept the overriding necessity of tax harmonization for this purpose and urge that existing difficulties be removed by the end of the first half of 1984.

- The factors making for closer relationships between Community firms must be reinforced by restoring the right environment. The Council must approve:

. the development of joint ESPRIT-type operations which, because of the financial element involved, create a climate conducive to cooperation;

. the establishment of data banks as proposed in the multiannual informatics programme.

- Lastly, in the field of competition, the Commission will as soon as possible draw up an exempting regulation by category with regard to inter-enterprise R&D cooperation in order to facilitate industrial cooperation within the Community in this area.

- The Commission will also prepare a code governing official aid to the R&D activities of enterprises. This code will be part of the same process of strengthening the Community's industrial base.

¹COM/76/611 final of 24 November 1976: Proposal for a Council Directive on the elimination of double taxation in connection with the adjustment of transfers of profits between associated enterprises (arbitration procedure).

²COM/75/392 of 23 July 1975: Proposal for a Directive of the Council concerning the harmonization of systems of company taxation and of withholding taxes on dividends.

COM/76/152 final of 14 April 1976: Proposal for a Council Directive for the coordination of laws, regulations and administrative provisions regarding collective investment undertakings for transferable securities.

COM/80/893 final of 31 December 1980: Proposal for a Council Directive coordinating the requirements for the drawing up, scrutiny and distribution of the prospectus to be published when securities are offered for subscription or sale to the public.

III. Scientific research and the development of advanced technologies

Certain concrete decisions have already been taken in this area by the Council or will be taken before the Athens European Council meeting; in particular:

- . the framework programme for the Community's scientific and technical activities during the period 1984-87 was approved by the Council in its resolution of 28 June 1983;

- . ESPRIT and the continuation of this programme on a multiannual basis will be approved as soon as the Council formally marks its agreement on the programme proposals put forward by the Commission. The Commission takes the view that this can and should be done before Athens; the same applies to the programme of basic technological research.

The only way that these initial decisions can be given full political weight, given the prospects for the development of the Community, is by the European Council making a commitment concerning the scope, continuity and financing of these schemes, in line with the Commission's proposal.

The Commission therefore invites the European Council to:

- (1) acknowledge the priority to be assigned to the science and technology policy over other Community policies in view of the decisive role it has to play in improving the Community's international competitiveness, and accordingly approve the financial estimates put forward by the Commission in respect of the objectives selected (3 750 million ECU at 1982 prices for the period 1984-87), and in particular those relating to the ESPRIT programme;

- (2) confirm, in particular, the importance it attaches to the ESPRIT programme as a first step towards the creation by the Community of the climate necessary for the development of advanced technologies in Europe, the action taken in the research field needing to be reflected in:

- . incentives to cooperation between European undertakings;
- . the creation of favourable conditions for defining joint advanced standards;

- the setting-up of information exchange networks to facilitate the dissemination of knowledge and the application of new developments;

- the creation of the proper climate for the development of a new industrial base for future economic growth in Europe;

(3) make a sufficiently clear commitment so that the lines of action in the telecommunications and biotechnology fields proposed by the Commission in its communications of 28 September 1983 can be rapidly implemented at Community level, given the crucial importance of such matters for the future of European industry and its competitive position in the world;

(4) approve the Commission's proposal on the financing of innovation, in view of the progress the Council bodies have made so far in discussing it. The aim of this proposal is to enable innovation loans to be granted to small and medium-sized firms, whose role in the industrial innovation process is absolutely essential. The adoption of this proposal would be a significant step towards exploiting the Community's innovation potential to the full.

IV. Energy policy

On numerous occasions in the past the Commission has underlined the importance for the European economy of a more diversified pattern of energy supply and a more efficient pattern of energy use. The Commission has already made a large number of specific proposals for action at Community level which are under examination by the competent Council bodies. The rôle of the Athens meeting should not be to focus on those specific proposals as such but to pronounce upon the more general question of the rôle of the Community in the energy sector so as to set the clearest possible framework for the more detailed decisions required elsewhere.

A key role for the Community is to ensure more rapid progress towards consistency between the energy policies of Member States. Clear energy objectives have been set at Community level covering the period up to 1990¹. The time has come to look some years further forward. But the setting of objectives is only the beginning. If Member States are to move in harmony towards them they must do so in growing mutual confidence. To encourage that process the monitoring activity of the Commission must be made more searching, the Council must draw clear conclusions from it and Member States must commit themselves more explicitly to carry out any necessary remedial measures.

In the second place, however, there is a rôle for the Community as such and for its own specific instruments in a number of areas of energy policy :

¹ Council Resolution, OJ C149, 18.06.80

- (i) in stimulating the technological innovation that will help to achieve the Community's energy objectives. Here the Community has the dual task of devising and executing a basic programme at its level and of coordinating its programme and those of Member States;
- (ii) in bringing about increased investment. This applies to both the demand side, where much more can be done in the interests of more efficient use of energy, and the supply side where it is a Community interest to secure rapid development of indigenous energy resources on an economic basis and, as necessary, to accelerate or to coordinate the development of infrastructure (including interconnection of electricity and gas grids);
- (iii) in pricing policy, where principles reflecting the Community's objectives have been agreed which must now be applied equitably throughout the Community. Pricing policy is all the more important because of its relationship to investment, enabling proper judgements to be made about the effectiveness of energy saving measures and the economics of alternatives to oil;
- (iv) on the environment, where in many cases effective solutions to the problems which arise in developing a new energy economy can only be found at Community level. Key examples are emission standards for power stations and other industrial plants and disposal of nuclear waste;
- (v) in stimulating and harmonising energy legislation in order to encourage more efficient energy use (eg common labelling of electrical appliances, Directives to limit the use of oil and gas in power stations), or to remove barriers to trade in energy products or equipment (a case in point is the definition of a Community policy on lead in petrol);

- vi) in organising the most effective dissemination of information and experience gained through national energy programmes and the Community's own activities;
- (vii) in mechanisms to ensure solidarity of Member States in the face of instability on the energy markets.

The successful development of the Community role is not possible if decisions have to be taken every year on the continuation of each Community activity. The Commission has therefore proposed a pluriannual programme of energy and energy research as a more satisfactory framework for action¹. Nor can the Community role be developed successfully without the commitment of the Community's financial resources to the energy sector on a cost effective basis. This also applies to the structural funds where, as the Commission has already proposed, their specific missions can be better articulated with the objectives and priorities of the Community.

¹ COM(83)315 final of 15 June 1983