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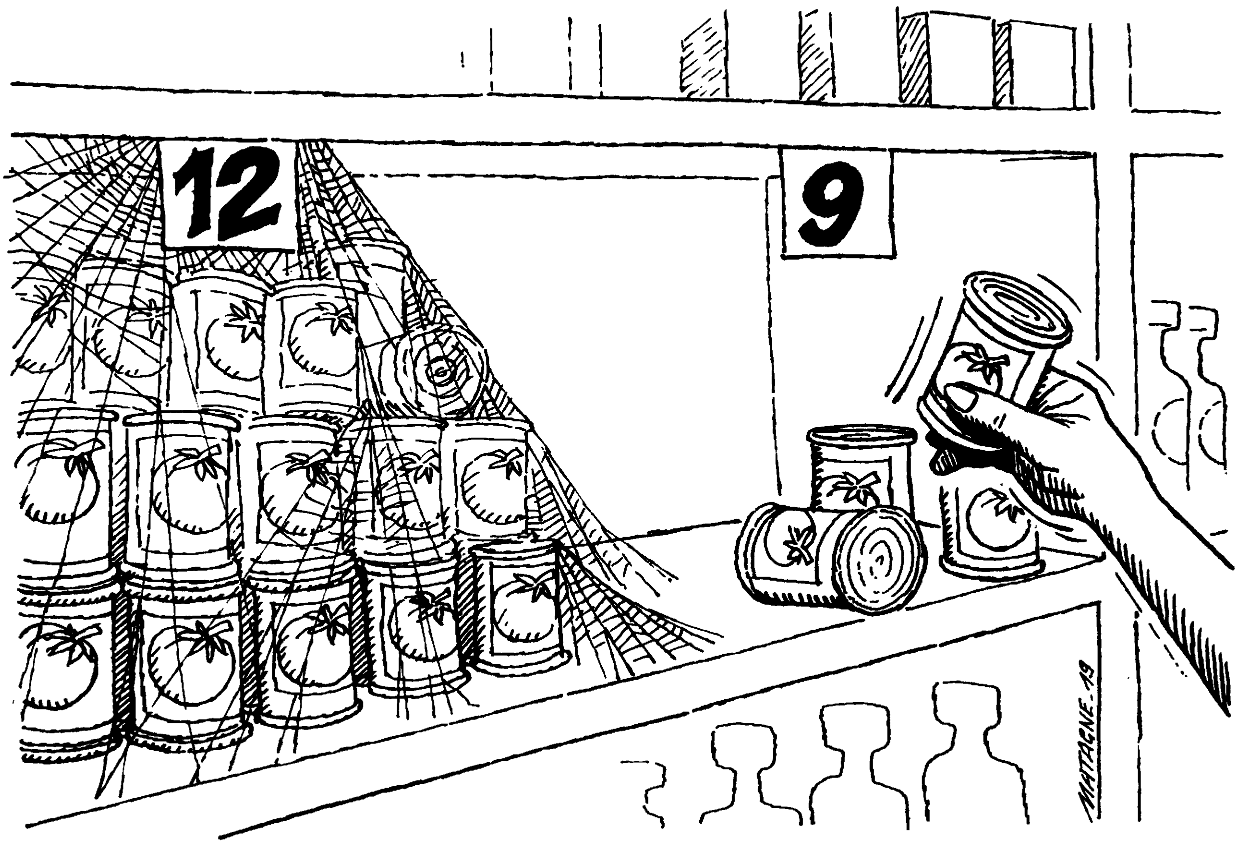

Industrial competition is the consumer's best friend (see page 3).

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++ THE COMMISSION GUARDS FREE COMPETITION

A basic principle of the founding Treaty of Rome is that competition in the Common Market should not be distorted, and it is the European Commission's responsibility to enforce the law. The Commission is active in three different areas : policing company agreements, vetting State aids to industry and analysing the growth of industrial competition in the Community.

The Commission's work and achievements in 1977 are outlined in Annex 1.

++ COMMUNITY ENLARGEMENT : UNITED OR BUST?

The accession of Greece, Portugal and Spain to the Community could put considerable strain on the Nine's economic and social fabric unless the Community is sufficiently prepared and sufficiently united. Nevertheless the risks involved with enlargement could push the Community towards implementing the fundamental objectives which they originally set out to achieve.

The Commission's latest reflections on the problems of enlargement are presented in Annex 2.

++ CHEMICALS, MAN AND THE ENVIRONMENT

Throughout the world, measures are being drawn up and introduced to oblige chemical manufacturers to inform public authorities of the probable impact of their products before or at the moment they are marketed. In 1977, France passed a law on the control of chemicals aimed at protecting man and the environment against risks from new chemicals, or old substances which are manufactured or used differently. It introduced a prior notification system (declaration and technical report). The United Kingdom is also considering a notification system covering the toxic properties of certain chemicals. The most important of the recent laws both in terms of its scope and impact on international trade, is without doubt the American Toxic Substances Control Act (TOSCA) adopted in October 1976.

The European Commission, for its part, has been implementing its environmental action programme and its general programme on the removal of technical barriers to trade. In September 1976, it submitted to the Council a proposal to modify the 1967 directive dealing with the classification, packaging and labelling of dangerous substances. This proposal stipulates that new substances should be examined before being marketed to assess the effects on man and the environment.

Control of chemicals would appear to be developing along similar lines on both sides of the Atlantic and this explains the considerable interest aroused by TOSCA due to its impact on environmental protection and also its repercussions on trade.

Community representatives in the OECD chemical products group have already stated that they intend to adopt a common position regarding the problems raised by this law.

In October 1977, the Commission organised a meeting between US authorities, Community and industrial representatives (more than 100 experts). Discussions continued at a second meeting held in Brussels this January. The Commission feels that it is now time to pass from the stage of exchanging information to that of negotiating with the US administration on specific points.

The Commission has recommended the Council to begin negotiations.

++ BEATING TAX EVASION

To improve efforts at beating international tax evasion, the European Commission has submitted a draft directive to the Council to extend cooperation between tax authorities over VAT collection (similar to cooperation over income tax collection). Three factors have led the Commission to propose these measures ; the increase in illegal practices affecting VAT in international trade; the need to avoid double taxation or non-taxation which results from current VAT legislation; the possibility of using such cross-checking to improve collection of income and profit taxes.

++ RISES IN FARM COSTS

The annual increases in production costs in the agricultural sector since 1973 have been drawn up by the European Commission in response to a question from Mr. Herbert of the European Parliament. The annual increases in agricultural input prices (1973-77) were as follows:

	1974 / 1973	1975 / 1974	1976 / 1975	1977 / 1976
Federal Republic of Germany	6.6	5.2	7.1	3.0
France	(19.6)	13.2	7.2	8.2
Italy	(34.2)	16.8	16.8	15.2
Netherlands	8.2	5.4	10.9	3.3
Belgium	9.2	6.9	10.3	3.7
Luxembourg	(12.4)	9.5	10.0	1.0
United Kingdom	25.1	15.4	18.9	15.1
Ireland	32.1	21.0	19.6	21.4
Denmark	(19.6)	9.2	8.5	8.4

++ DANGERS OF MARGARINE

According to some experts, margarine, when eaten in large quantities could cause changes in cellular tissue and encourage cancer. Mr. Pierre Lagorce of the European Parliament has consequently requested the European Commission to supply information on the adverse effects of eating butter and margarine.

The Commission has replied that the biological action and metabolic effects of the various fats are not yet fully known and for this reason it has itself embarked upon a research programme in this field in association with the Scientific Committee for Foodstuffs. The Commission cannot make any further judgements until the results of the research projects are known.

++ POSTAL RATES

The six founder Members of the Community have a mutual agreement under which inland postal rates apply to the other five Member States as well. So far, no similar agreement has been reached with Denmark, Ireland or the UK and Mr. Joris Verhaegen at the European Parliament has asked the Commission why.

The Commission has replied that the Member States which do not apply internal rates to letters weighing 20 gr. or less (and postcards sent to other Member States) claim the reason for their refusal is possible loss of revenue. A general consensus of agreement not to increase the difference between internal and external rates applicable to other Member States has been reached pending the results of a study being undertaken by the Commission.

++ BOKASSA 1st AND DIRECT ELECTIONS

Bokassa 1st, Emperor of the Central African Empire may have the right to vote in the direct elections to the European Parliament. In an interview given to French television on November 23, 1977, the African statesman explained that he was still in possession of a French passport which gave him voting rights like any Community citizen.

Questioned on his statement by Parliamentarian Mr. Willi Dondelinger, the Council of Ministers has stated that it is up to the national authorities (in this case France) to decide who will be permitted to vote in the direct elections to the European Parliament, until a new electoral procedure is introduced covering all nine countries.

++ GOVERNMENTS UP IN COURT

At the end of February 1978 the European Court of Justice was pursuing nine infringements of the founding Treaty of Rome by Community governments : two against Belgium, two against France, three against Italy, one against Holland and one against the United Kingdom. The cases against France are being suspended however since the infringements have been rectified.

++ NEW SOCIAL FUND PILOT SCHEMES

The European Commission has decided to allocate financial assistance worth 213 229 units of account (1 u.a.= 1.2 dollars) to three pilot schemes under the European Social Fund:

- a multidisciplinary training programme for owners and managers of small companies (under 50 employees) in Ireland to encourage the growth of small industry;

- a project to encourage more effective social and professional integration of handicapped people at work by improving communication methods. The scheme will be carried out in Germany;

- a training scheme for sea fishing instructors in France to bring their knowledge up to date. Young people will thereby be better prepared when they enter the profession. This will help bring continuity to the industry and preserve jobs and income.

++ PUBLIC STAKE IN BANKING

The percentage of deposits received by public sector financial institutions (in the broad sense) i.e. the public stake in banking, varies greatly from country to country. Estimates from the European Commission put this share at:

80% in France

70% in Italy

60% in Germany

50% in Belgium

40% in Holland

30% in Denmark

30% in Switzerland

10% in the UK and Ireland combined

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THE COMMISSION GUARDS FREE COMPETITION

In 1976 the Belgian Government informed the European Commission - as required to under Community law - that it intended to grant the ESSO group financial assistance for the anti-pollution equipment it was installing in the extension of its Antwerp refinery. This extension was intended to modernise the plant and raise its refinery capacity from 4.5 to 13.5 million tonnes per year at a cost of 12 billion Belgian francs (£200 million). The cost of the anti-pollution equipment amounted to 4.5 billion BF (£72 million).

The Commission had to examine whether such State aid from the Belgian Government would distort competition in the industry concerned, and the Commission concluded that such aid could not be justified as either regional help to the Antwerp area (since it is already relatively prosperous) or for environmental protection reasons (since industry is normally required to bear the cost of eliminating their own pollution under the "polluter pays" principle). Nor are there sectoral justifications for aid since the oil refinery sector currently has an overcapacity of about 15% of annual production. The Commission consequently took the view that State assistance for the new investment was against the common interest since it would be likely to increase the general overcapacity in the refinery sector.

The Belgian Government argued that the new environmental controls the firm was subject to forced the refinery to either cease operations at Antwerp or extend its capacity to offset the cost of the anti-pollution plant.

The Commission's final decision was to allow assistance to be given for only one third of anti-pollution costs, since the refinery was proposing to triple its production unnecessarily (an oil company wound not triple capacity to comply with environmental requirements). Any additional aid would tend to affect trading conditions within the European Community.

This was one of the many cases the European Commission had to deal with in 1977 as part of its competition policy, and is now cited in the recently published "Seventh Report on Competition Policy".

The Commission's main work in this field has been:

- to develop an industrial competition policy;
- to define its policy towards State assistance to industry;

- examine industrial concentration trends in the Community.

What use is competition policy?

The Treaty of Rome which is the basis of the European Community stipulates that a system should be set up to ensure that competition within the common market does not become distorted.

The three principle objectives are:

- to create a single market for the benefit of industry and consumers. This is not simply a question of removing customs offices at the borders and enabling goods to travel unhindered throughout the Nine. It is necessary to prevent companies from setting up "invisible frontiers" through restrictive agreements and cartels;

- to prevent the abuse of economic power. When companies dominate a market and have eliminated their competitors it is then up to Community regulations to ensure that the companies do not abuse the economic power they have;

- encouraging companies to rationalise and change with progress. By ensuring commercial rivalry, competition policy aims to encourage the competitivity of European industry in world markets.

COMPETITION POLICY IN 1977

Competition policy and industry

In times of economic difficulty, firms are increasingly tempted to evade straight forward competition with their rivals. Information agreements is one way in which companies can limit competition (exchanging details on prices, quantities, discounts, customers and markets etc.)

The Commission was forced to act to ban information agreements between two companies, Cobelpa and VNP, who together accounted for 80-90% of the Belgian market for printing and writing paper. By agreeing to respect each others distribution networks the two firms had effectively divided up the market, thereby restricting the free play of market forces and prices. The agreement was terminated following the Commission's decision.

Export restrictions are also written into commercial contracts and prevent free movement of goods across national boundaries. An example of this was the BMW case where BMW cars were being sold cheaper in Belgium than in other Community countries. The principal reason for the price difference was the Belgian Government's price controls but in consequence, BMW cars were being re-exported to other Community countries and undercutting local prices. BMW Belgium made an agreement with its Belgian dealers forbidding them to export new cars. As this agreement was likely to adversely affect trade between Community countries and would restrict competition under the terms of the Treaty of Rome, the European Commission fined BMW Belgium 150 000 units of account (£125 000 approx). The dealers received lighter fines.

Restriction of competition either through agreements between two or more companies or by companies who occupy a dominant position in any particular market is prohibited under Community regulations. The case of the independent oil company Avia and the three subsidiaries of BP (one of the seven oil majors) was ruled by the Commission to be an abuse of a dominant position by BP who, during the critical period of the 1973/74 oil crisis had cut off supplies of petrol to ABG (Aardolie Belangen Gemeenschap bv), the central purchasing agency for the Avia associates in the Netherlands. The Commission held that BP had committed an infringement and abused its dominant position by restricting supplies of petrol to ABG in a way that was discriminatory when compared with its behaviour towards its other customers.

Competition policy and State aid to industry

Whilst competition policy traditionally tries to ensure that company practices do not infringe Common Market regulations, the current economic crisis has forced the Commission to look more closely at public aid schemes. Obtaining State aid is one way of surviving the crisis but it can also distort trading conditions. The cost of the operation is, in the end, paid for by the market, i.e. the end users and ultimately the tax payer.

State aids must only be used in the common interest, in the Commission's view, and should ultimately lead to increased competitivity both in the sector concerned and in the Community economy as a whole.

This intransigent position over State aids may appear excessively hard in face of the current unemployment problems. The Commission justifies its position with the arguments that it is trying to prevent unemployment simply being exported (and provoking retaliatory measures) and that they wish to force those responsible to look for more positive measures than simply preserving jobs that are condemned. These arguments have guided the initiatives which the Commission took in 1977.

With regard to regional aid schemes, the Commission examined the Dutch Government's decision to extend the geographical covering of its regional aid scheme to a further regional and eighteen new growth points and found that grants were not justified in three areas (Goes, Vlissingen-Oost and Terneuzen) where the unemployment rate is relatively low and less than the national average (-20%) and where income is level with the national average. The Commission also limited aid for two other regions (Guyk and Oss) to a two year period. The increase in unemployment in Guyk and Oss has been too recent to be definitely acknowledged as structural. Also at Bergen-op-Zoom, though unemployment is higher and per capita income lower than the national average, the area is less badly off than the traditional assisted areas. Jobs in manufacturing and services increased by 5.5% and 2.2% respectively between 1973 and 1975.

The Commission is in favour of aid to industrial sectors in difficulty as long as such aid is part of a restructuration policy. This could involve for example temporary aid to a troubled sector to enable it to survive until its reorganisation is complete. Aids to employment are also permitted as long as they don't degenerate into an unjustifiable support for unviable companies or products. Such resources should be better used to guarantee future jobs.

Shipbuilding is one particular sector in trouble with orders down 40% in 1976 and down a further 20% at the beginning of 1977. This could cost the Community 50 000 jobs or a third of those employed in the industry.

To prevent large short term dismissals, the French Government decided to intervene to help its shipyards get new orders.

The proposed aid should be accompanied by measures to reorganise the sector and regroup the seven principal yards into two groups with a solid financial base.

The Commission has accepted these proposals on condition that proposals to grant aid be notified to the Commission in cases where a tender from a French shipyard is in competition with another Community shipyard (to ensure that competition is not distorted). The aid scheme has only been authorised for a limited period during which the Commission would examine progress being made in reorganising the sector.

Growth of concentration in the Community

In 1977 the Commission was particularly concerned with market structures and continued its work analysing industrial concentration, competition and pricing. The Commission also studied a sample of the market leaders in varied sectors and found some 250 cases where a firm held more than 25% of the total national market. In 100 of these cases the firm controlled more than 50% of the national market, which represents an unmistakable dominant position. Research in progress indicates the virtual permanence of such power, since over the years it appears to be the same firms who occupy the top spots in various product markets and sometimes for the same product in several Community markets.

The high degree of concentration in industrial markets is tending to stabilise. In 1976 the total number of national and international mergers, takeovers, creation of subsidiaries decreased for the first time since 1973.

The Commission has also been examining the relationship between size and performance, highlighting the fact that the largest firms are hardly ever among the most profitable nor usually among the most efficient. The most prifitable companies are generally not the most capital intensive. In the UK, for example, the five most profitable companies in the food and beverage industry account for less than 5% of aggregate sales.

Surveys undertaken in the distribution sector indicate an increase in the concentration and power of purchasers (large retailers or distributors) relative to suppliers in all countries, but particularly in Germany and Belgium. The survey confirms that there are very wide differences in prices between sales points in the same town or regions of a given country. Largest divergences are to be found in Germany and Italy.

The "Seventh Report on Competition Policy" is available from the Office for Official Publications, PO Box 1003 Luxembourg, Price £3.50

COMMUNITY ENLARGEMENT : UNITED OR BUST?

In 1975, half of Greek and Portuguese exports and 45% of Spanish exports went to the European Community and this partly explains why these three countries wish to join the Nine. In applying for membership after a long period of dictatorship, Spain, Portugal and Greece have also made a basic choice which expresses their desire to consolidate their democracies and put their faith in the future of a united Europe.

These countries naturally enough wish to become part of a Community which is strong and truly united. A weak, watered down free trade area or even a customs union is only of limited interest to them. On the other hand, enlargement of the Community involves a number of serious economic and institutional problems. Expanding membership could potentially weaken the Community to the point of threatening its basic objectives. To make a success of enlarging the Community from nine to twelve, the existing Common Market members have to extend their common policies and accelerate progress towards economic and monetary union. The Community needs to utilise the transitional membership period for the new countries to prevent potential difficulties.

Economic problems to resolve

The Community is already in the midst of considerable economic difficulties with certain industrial sectors in trouble and unemployment topping 6 million. In addition to these problems, enlargement will add further economic disparities. The three candidate countries are less developed than the present Community members and their agricultural, industrial and social organisation is by and large more heterogeneous than in the Nine.

In the Commission's view these economic difficulties can be best coped with if economic growth in the applicant countries can be boosted as much as possible. Growth could be encouraged through the financial aid received from the Community, in particular by developing those areas which could gain greatest benefit from enlargement. Aid should be considerably greater for Portugal - whose per capita income is considerably lower than that in Community countries - than for Spain which is about comparable to Italy or for Greece which is only slightly behind Ireland.

Agriculture is considerably more important in these countries than in the Common Market and the net effect of enlargement would be to expand the numbers employed in agriculture by some 55%. The area of land under cultivation would expand

49% and agricultural output itself by 24%.

The impact of the Common Agricultural Policy in trade balances will be negative as far as deficit farm produce is concerned. The CAP will however help boost sales of other foodstuffs. Improvement in the agricultural sector will reduce the number of persons employed in agriculture and free them for other sectors of industry.

The Community needs to make full use of the transitional period to reorganise agriculture to improve the quality but not the quantity of production. Other projects along the lines of the Community's Mediterranean policy could be implemented to encourage better regional balances.

Industry in the Nine is currently being forced to reorganise to adapt to the world market. The three new members would similarly have to adapt their industry.

Enlargement will have several obstacles to overcome. In particular it will expand Community production in a number of sensitive areas and will increase the disparity in production conditions in other sectors.

Spain, Portugal and Greece depend to between 78 and 88% on imported energy and this would increase the "Twelve's" energy dependence to 57%.

This implies that the Community will have to increase its efforts to reduce its energy dependence by introducing a fully fledged common market for energy and common use of resources, combined with increased support for energy saving measures. The Community will also need a policy for third countries to ensure our long term supplies.

The "Twelve" would have a total of 7.5 million unemployed workers (unemployment in Spain is 6.3%, Portugal 7.5% and Greece under 3%). Reorganising agriculture to move labour into capital intensive industry will tend to worsen unemployment in these countries. It will also force many young people into the dole queues. The Community will, in the Commission's view, have to quickly decide on a labour policy to bring maximum support to this problem.

The applicant countries suffer from serious regional imbalance which will itself aggravate the Community's own regional problems. Enlargement will doubtless give a boost to economic growth but the benefits are likley to be felt in the more developed regions, which are better equipped to exploit the potential of an enlarged market. The liberalisation of trade might, in the absence of any corrective measures, endanger the development of weaker regions and cause people to move to richer regions in search of jobs.

The Community will have to speedily implement measures designed to reduce the disparity between the developed and underdeveloped regions.

Role of the Twelve in the world

Already a major economic force in the world, the enlarged Community would be even stronger and would have significant implications for Mediterranean zone countries such as Turkey, Maghreb, Machrak, Jugoslavia, Malta, Cyprus, Israel, etc. With the Community's limited capacity to absorb further imports, enlargement will limit industrial and agricultural exports by these non-member countries to the Community. Nevertheless, trade with these countries will have to continue in line with the agreements in force.

The consequences for developing countries will be less negative since they will have a larger market in the Community for their raw materials and tropical produce.

Institutional change

Expanding from six to nine has already demonstrated the incapacity of Community countries to act in common. To avoid a further bottleneck of undecided proposals in the Council of Ministers, more frequent recourse will have to be made to majority voting instead of the current unanimity principle.

The Council will have to be freed from having to deal with many of the technical problems which, for flexibility and speed, could be delegated to the European Commission following suitable modification of the provisions of the Treaties of Rome.

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Unless the appropriate measures are taken in good time, expanding the European Community to twelve could pose serious problems. The Commission takes the view that this threat should signal a new effort by the Community to achieve its own basic goals. The alternative to strengthening a united Europe would not be stagnation, according to the Commission, but a step backwards towards dissolution. In those circumstances the Nine and the three applicant countries would have everything to lose and nothing to gain.

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