

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(88) 162 final

Brussels, 13 April 1988

STRENGTHENING COOPERATION

BETWEEN EUROPEAN FIRMS

A response to the 1992 internal market deadline.

(Communication from the Commission)

Summary

This communication updates an earlier Commission document, of 27 July 1987, entitled "Business Cooperation Network (BC-NET) Strengthening cooperation between European firms".

Cooperation between firms is one way of responding to the challenge of the internal market in 1992. For several years the Commission has been active in promoting such cooperation.

In order to strengthen the assistance it gives to finding business partners, the Commission has set up a European network of business cooperation, known as BC-NET. This computerised system, operational in spring 1988, now links up 350 business advisers spread throughout the Community. The experimental phase of the system will be completed in 1989.

BC-NET contributes to the implementation of different Community policies (such as ESPRIT, BRITE, SPRINT) and to EUREKA. It also allows cooperation to extend to third countries.

The Communication also presents current developments in two related areas:

- "Europartnership", which helps to exploit the endogenous potential in regions which are lagging in development or in industrial decline, by promoting cooperation between firms of a particular region with those of other Community regions.
- Promoting trans-national subcontracting. Here the objectives are:
 - ° to analyse the technical, economic and legal aspects of subcontracting (for end-1988 a study is to be completed of trans-national subcontracting relations in Europe);
 - ° to improve relations between main contractors and subcontractors (preparation of multi-lingual sectoral terminologies, publication of a subcontracting vademecum, possible creation of a European centre for subcontracting);
 - ° to support the modernisation efforts of subcontracting SMEs (pilot training schemes, initiatives in quality control and certification).

The Commission is invited

- to approve this communication
- to transmit it to the Council, the European Parliament and the Economic and Social Committee.

STRENGTHENING COOPERATION

BETWEEN EUROPEAN FIRMS

A reponse to the 1992 internal market deadline.

AIMS OF THE COMMUNICATION

The aims of this paper are:

- to update the Commission's communication of 27 July 1987 entitled "Business Cooperation Network" (BC-NET)
-Strengthening cooperation between European firms;
- to give a progress report on the BC-NET project;
- to provide a progress report on the Europartnership scheme and measures to promote transnational subcontracting;
- to indicate policies and measures to support businesses in their efforts to cooperate in preparation for the internal market in 1992.

1. A RESPONSE TO THE INTERNAL MARKET CHALLENGE

Completion of the internal market (1) could open up major opportunities for development to European SMEs. It could also make them more vulnerable if they are not prepared for it. Faced with this challenge, one way to enable European SMEs to take the best advantage of the existence of the Community is to strengthen cooperation between firms: their productivity and competitiveness will be stimulated by greater integration of their activities into the European industrial fabric.

Cooperation, therefore, is one way in which European businesses can expand, innovate and conquer new markets. Transnational agreements enable businesses to face increasingly tough competition and adjust to ever faster paces of change brought about by the economic environment and technological developments. Global markets mean that businesses have to acquire new know-how and information. A cooperation strategy is an effective economic response which will increase the chances of success of all parties.

But SMEs often lack the manpower, financial resources and experience to engage in such necessary cooperative ventures.

As well as being important for the SMEs themselves, the move towards cooperation also serves the Community objective of achieving greater cohesion between the Member States' economies as this type of business plays a key role in the less developed economies. This cohesion is important in the creation and the operation of the single internal market without frontiers.

Therefore, whilst ensuring scrupulous compliance with the Treaty of Rome provisions on competition, the Community also has a role to play in promoting and stimulating cooperation between businesses. The Commission's White Paper on the completion of the internal market confirms this priority, which is in line with the Single Act's requirement to "strengthen the scientific and technological basis of European Industry and to encourage it to become more competitive at international level".

The Action Programme for SMEs (2) lays particular emphasis on support for cooperation between smaller firms. Similarly, the SPRINT (Strategic Programme for INnovation and Technology transfer) programme - which the Council decided to extend in June 1987 - encourages technological cooperation between businesses, and particularly between SMEs, from different Member States, in order to accelerate the spread of new technologies in the Community economies.

2. PURPOSES AND FORMS OF COOPERATION BETWEEN BUSINESSES

Cooperation is a good way of:

- minimizing market costs;
- achieving economies of scale in marketing and production;
- gaining access to new technologies;

- expanding products ranges;
- guaranteeing security of supplies;
- limiting the need for setting up in another country (a costly matter because of legal and administrative requirements);

Cooperation can also enable a business to operate on an optimum scale in a certain line of activity (manufacture, marketing, distribution, finance, research) within a relatively short time and without itself expanding.

The concept of cooperation is gaining greater acceptance: it consists in seeking opportunities for operators to work together, without losing their own individuality, with the aim of mutual reinforcement in order to increase their competitiveness and efficiency.

The type of cooperation envisaged is the creation of joint subsidiaries (joint ventures) and consortia, agreements not involving financial links (assigning/acquiring licences, transferring know-how, marketing, etc.) and acquisition of holdings. In practice, these various forms of cooperation are often combined.

Cooperation is not always based on a contractual agreement. It may be informal and agreements may vary in form depending on whether they relate to cooperation between two partners only or between several partners, including the setting up of whole networks of undertakings.

3. COMMUNITY MEASURES TO ENCOURAGE LINKS BETWEEN EUROPEAN BUSINESSES

For some years the Community has understood that greater business cooperation calls for a suitable regulatory framework and for specific measures to help businesses wishing to link up across national frontiers.

(a) Cooperation is promoted through policies in the following areas:

- Research: the ESPRIT and BRIT programmes have already had highly beneficial effects on industrial cooperation, in particular for SMEs. The Commission has sought to promote transnational technological cooperation by setting ways in which there could be cooperation between EUREKA and the European Technology Community (3).
- Competition: the Commission has always recognized the major part SMEs play in creating an economic environment based on healthy competition. It therefore takes their specific needs into account in its competition policy by including certain exemptions in respect of technology transfer and research and development agreements.
- Innovation and technology transfer: the promotion of transnational technological cooperation between businesses, particularly between SMEs, is one of the principal objectives of the SPRINT Programme.

In order to promote this form of cooperation, SPRINT encourages the establishment of links between advisory services specialising in technology and management and based in different Member States.

At present, SPRINT supports 45 transnational networks, involving some 150 business advisers. Over the last two years, these 45 networks have led to more than 125 agreements of transnational business cooperation in the areas of technology transfer, licensing, development of new products and processes, mutual commercial representation, etc.

- Training: the aim of the COMETT programme is to develop transnational training in order to respond to the needs of firms whose industrial and technological development requires skills adapted to the European context.

- Business start-up assistance: the action programme for setting up Business and Innovation Centres (BICs) will promote cooperation between SMEs by establishing a European network of BICs known as the European Business and Innovation Center Network (EBN). It is also promoted by Community Programmes (STAR, VALOREN) and by the intervention of Article 15, ERDF.

- Industrial cooperation: the Commission aims to add a European perspective to the search by firms, in particular SMEs, for partners for technical, commercial, financial and subcontracting cooperation.

(b) The contribution made by BC-NET to strengthening cooperation between firms

Business cooperation is one of the aspects of the policy on businesses, launched in November 1986 with in the new Action Programme for SMEs, whose priorities include coordinating initiatives to increase cooperation between European SMEs in the drive towards completion of the internal market.

The oldest of these initiatives is that begun in 1973 by the Business Cooperation Centre (BCC) which is now part of the SME Task Force and whose mission is to set up an SME services infrastructure. Because they have difficulty in understanding the market and perceiving what the opportunities are for cooperation, SMEs encounter problems and extra costs when they launch into interregional or transfrontier operations.

Various obstacles - language, different customs, different legal and tax regulations, the difficulty of identifying the most suitable partner, etc. - all mean that businesses, and SMEs in particular, are discouraged from entering into transnational cooperation of their own accord.

The BCC helps create an environment suited to cooperation and geared to the real needs of businesses. To ensure that it knows, what these needs are, it keeps in touch with the businesses and with national and European representative bodies.

In order to provide more help for businesses seeking partners, the Commission has set up a European network, known as the Business Cooperation Network (BC-NET) for bringing businesses together. This computerized system, in operation by the spring of 1988, links up several hundred business advisers spread throughout the Community.

The members of BC-NET are business advisers, i.e. private or public agencies whose task it is to help undertakings, particularly SMEs, determine the form of cooperation they are interested in and seek cooperation with other businesses, or bodies (regional, local or industrial) which organize and amplify the activities of business advisers. They must stay in touch with businesses and know them sufficiently well to be able to assess whether they are suitable for proposing or seeking cooperation. The success of the system depends largely on these advisers. More detailed information on the operation of the network is given in COM(87)370 final of 27 July 1987.

The system has already been designed and the various technical specifications laid down. The SME Task Force, in conjunction with other Commission departments concerned, is now defining the other functional and telecommunication aspects of the system (4).

to

In August 1987, under the action programme for SMEs, a call was issued inviting business advisers to take part in setting up the BC-NET. Over 900 replies were selected to take part in the experimental phase of the system, which will be completed by the end of 1989.

During the experimental stage, BC-NET will be used mainly to set up financial, commercial and technical (including technology and subcontracting) joint cooperative activities.

The system is based on existing business advice structures and guarantees the confidentiality required by the businesses which use it.

BC-NET could be used to provide new services for cooperative ventures. A decision to do so would have to be taken by the Commission in close consultation with the users and will have to meet clearly felt and identified business needs.

(c) Cooperation activities which serve Community priorities

BC-NET could help implement several Community policies. For instance, one aim is to secure increased participation by SMEs in Community programmes (ESPRIT, BRIT) and in EUREKA and to promote the transfer of technology and innovation, supplementing other Commission action in this field (the SPRINT Programme). It would also help spread industrial cooperation to non-Community countries.

4. KUROPARTNERSHIP

The Commission has approved a communication on the launching of "Europartenariat" operations. These local operations aim to make the best possible use of the indigenous potential of an under developed region or a region in industrial decline by promoting cooperation agreements between businesses in that region and others elsewhere in the Community.

Transnational cooperation between SMEs in different Community regions would be an effective way of mobilizing the private-sector resources (technologies, capital, know-how) of richer regions towards the Community's less-developed regions.

A pilot project, "Europartnership 88", has already been started in Ireland.

Cooperation agreements will cover various areas of activity:

- commercial (distribution, sales, marketing and franchising agreements, etc.);
- technical (assigning patents and licences, subcontracting, etc.);
- financial acquisition of holdings, taking over businesses, etc.

This pilot project will be divided into the following stages:

- A. There will be a market research stage in which the characteristics of the local industrial structure, the needs, the potential for cooperation and the likely sectors can be identified;
- B. The second stage will be devoted to discovering suitable projects, which will be listed in a catalogue together with a description of the investments and the reasons for seeking cooperation. The catalogue will be disseminated in other Member States through the correspondents of the Business Cooperation Centre, the Business and Innovation Centres and other suitable bodies.
- C. On 23 and 24 June 1988 a real cooperation request and offer exchange will be held in Dublin to put Irish businesses which have submitted cooperation plans in touch with businesses from other Community countries which have indicated an interest in cooperation.

This will be followed by an assessment of the results, focused particularly on analyzing the agreements which have been signed or are on the way to completion. Agreements will be made for efficient follow-up services to ensure that these cooperation projects, particularly the most complex, are successful.

This first venture in Ireland is an experiment which could be repeated in other Community regions.

5. PROMOTING TRANSNATIONAL SUBCONTRACTING

In connection with subcontracting the Commission is implementing measures to remove obstacles to the negotiation of transnational contracts.

The aims are:

- To obtain an analysis (technical, economic, legal) of the phenomenon of subcontracting, particularly its European dimension. The Commission has begun examining transnational subcontracting in Europe from both the macro economic and sectoral points of view.

An analysis of economic flows in transnational subcontracting in Europe and a comparative examination of these flows in the different Member States will be available by the end of 1988.

- To improve relations and communications between principals and subcontractors. In the early 1980s a start was made by producing multilingual glossaries for different sectors. These glossaries - two of which are already available (metals, and plastics and rubber) - are widely used in international dealings and in setting up databanks. Four more are being prepared (electronics and the electrical industry, industrial services, textiles, wood and its byproducts).

At the end of 1988 a practical guide on the legal aspects of subcontracts in Europe will be available for subcontractors.

This guide will mean that subcontractors will be able to negotiate fair contracts with principals in other countries.

Consideration is also being given to setting up a European subcontracting centre with three main functions:

- ° gathering legal, economic and technological information relevant to subcontracting in Member States;
 - ° promoting studies and maintaining contacts with trade circles in order to monitor subcontracting developments in Europe;
 - ° providing assistance for subcontractors wishing to tender for public procurement contracts in EEC countries other than their own.
- To help subcontracting SMEs in their efforts to modernize and make use of new techniques, the Commission has launched a pilot project for "just-in-time" training for small entrepreneurs and their employees. The results of this action will provide practical pointers for more extensive measures by the Commission in this field. Consideration is being given to quality control and certification with a view to the possibility of launching a Community initiative in this field.

6. CONCLUSIONS

The new environment created by the establishment of the single market by 1992 will change certain underlying factors on which the competitiveness of firms and stability or growth of their market shares depend (e.g. marketing, standardization of products, management systems, etc.).

The Commission has launched a number of measures, directly or indirectly aimed at promoting cooperation between Community businesses and at helping them move smoothly into 1992. These measures will make them more competitive so that they can hold their own on the global markets.

These measures are an integral part of the policies the Community is implementing in the drive towards the single large European internal market and towards expanded employment.

Footnotes

- (1) White Paper from the Commission to the European Council "Completing the Internal Market", June 1985, (COM(85)310 final.
- (2) COM(86)445 final.
- (3) COM(86)664 of 20 November 1986.
- (4) Communication of 27 July 1987, "Business Cooperation Network (BC-NET), Strengthening of cooperation between European firms", COM(87)370 final.