

COMMISSION OF THE EUROPEAN COMMUNITIES

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**Community initiative on the modernization of the textile
and clothing industry of Portugal**

Explanatory memorandum

Community initiative on the modernization of the textile and clothing industry of Portugal

1. Throughout the GATT negotiations the Portuguese authorities stressed that its textile and clothing industry, which represents one third of Portuguese employment and industrial exports, was less able than industry in the rest of the Community to face the increasing international competition which will result from the gradual abolition of import restrictions. When agreement was reached on the results of the GATT negotiations, the Commission and the Council recognized the specific and vital nature of the textile and clothing sector for Portugal and agreed on the following text:

"To help Portugal resolve the core problem of the future of its textile industry, having regard to the specific nature of its economic structures, the Council noted, and endorsed, the Commission's intention of drawing ECU 400 million from the resources set aside for the Community initiative programmes. This exceptional allocation will serve to modernize Portugal's textile sector, supplementing the programme submitted by Portugal under the Community support framework for Objective 1; it will also be additional to the Retex initiative operative until 1997.

Moreover, as part of the same modernization drive, Portuguese textile and clothing undertakings will, alongside other undertakings, have access to European Investment Bank loans. To facilitate this type of financing, Portuguese undertakings will qualify for interest subsidies to be financed, up to ECU 100 million over the six years covered by the period 1994-1999, from the exceptional ECU 400 million allocation".

2. This initiative, although it concerns only one Member State, is in accordance with Article 3 of the ERDF Regulation, which provides that, among the tasks assigned to the Funds, the purpose of Commission initiative is "to help resolve serious problems directly associated with the implementation of other Community policies and affecting the socio-economic situation of one or more regions".
3. A major part of the textile and clothing industry is highly susceptible to the on-going or expected growth in international competition. At a technological level, this susceptibility is leading to a very low rate of investment, which is less than half the Community average for the same sectors. At a commercial level, it is linked to an excessive concentration of production in work done to order for customers located outside.

Being heavily concentrated in the north and centre of Portugal, where in some regions it accounts for more than 50% of industrial employment, the textile and clothing industry must undergo a process of sustained restructuring.

There is a risk that this process will involve significant job losses, as was the case in most of the other countries in the European Union in the seventies and eighties.

4. By contributing towards the modernization of the textile and clothing industry in Portugal, this initiative will help the regions in that country which are heavily dependent on the sector to overcome a difficult stage in adapting their entire industrial base which, due to a lack of alternatives and a favourable environment, have so far been unable to sufficiently diversify their economic activities or modernize their industry.
5. In addition to this initiative, these regions are benefiting from the Retex initiative, which should make it possible for them to speed up the diversification of their industrial base.

Furthermore, the textile initiative complements the measures provided for in the Portuguese CSF, which covers all Portuguese industry, by means of measures specifically intended for the textile and clothing sector to enable it to meet the challenges it faces.

This major challenge to adapt makes a cultural change in the internal organization of undertakings necessary, and a change in cooperation between them and external bodies. Therefore these undertakings should be given assistance to modernize, on a sound basis, by taking account of developments in organizational methods, technologies and the international market.

To this end the emphasis will be on improving know-how in undertakings, an exchange of experience, and cooperation between businesspeople, with the aid of teams of experts and promotion agents.

In order to strengthen undertakings in the technological field, and raise the level of Portuguese industrial productivity to the Community average, adaptation under this initiative may also cover the modernization of production equipment.

6. In order to prevent aid for the modernization of the Portuguese textile and clothing industry from leading to an unacceptable distortion of competition conditions on the Community market, the Commission proposes, in its general guidelines relating to this initiative, to make the grant of Community aid conditional on the following:
 - projects to be financed under this initiative must be part of the existing horizontal aid schemes in Portugal. Therefore, no specific aid scheme will be introduced for the textile and clothing sector.
 - furthermore, the financing of investments in production equipment under this initiative will be limited to improving business access to risk capital, interest subsidies and/or guarantees.

- the projects must form part of a strategy of adjustment in the textile and clothing industry agreed between the Commission and the Portuguese authorities. The latter will ensure that, for Portugal as a whole, modernization does not lead to an increase in production capacities in terms of volume.

Implementation of the measures financed under this initiative must be checked periodically for consistency with the above conditions, by the appropriate monitoring committee on the basis of progress reports and an independent assessment of the programme.

Draft notice to the Member States, laying down
guidelines for the initiative concerning
the modernization of the
Portuguese textile and clothing industry

1. At its meeting on, the Commission of the European Communities decided to establish a Community initiative forming part of a general regional development framework and concerning the modernization of the Portuguese textile and clothing industry, within the meaning of Article 11 of Council Regulation (EEC) No 4253/88, as amended by Regulation (EEC) No 2082/93⁽¹⁾, and Article 3 of Regulation (EEC) No 4254/88, as amended by Council Regulation (EEC) No 2083/93⁽²⁾.

I. OBJECTIVES

2. The reason for the initiative is to promote the modernization of textile and clothing undertakings in Portugal to facilitate their adaptation to increasing international competition.

The grant of Community aid under this initiative is subject to approval by the Commission of a strategy of adaptation for the textile and clothing industry for the period 1994-99 to be submitted by the Portuguese authorities. The strategy will also define rules governing aid for undertakings, in particular as regards compliance with the requirement that there is to be no overall increase in Portuguese production capacity in the textile and clothing industry in terms of volume.

II. ELIGIBLE MEASURES

3. The measures cover undertakings in the textile and clothing sector at present situated on Portuguese territory. The programme submitted by the Portuguese authorities should comprise a balanced set of measures consistent with the general framework of regional development in Portugal and the overall strategy for the adaptation of the textile and clothing sector, centring on the preparation and implementation of individual modernization plans for the undertakings in the sector, the development of cooperation between undertakings, and an improvement in their environment in terms of services.

(1) OJ No L 193, 31.7.1993, p. 24.

(2) OJ No L 193, 31.7.1993, p. 36.

Eligible measures may cover:

- (a) Aid for the financing of external expert reports intended to assist undertakings in preparing their modernization plans and improving their know-how, for example in the fields of design, quality policy, computer-assisted design and production, marketing, internal business organization and employee health and safety;
- (b) Vocational training measures linked to the preparation and implementation of modernization plans and retraining for personnel threatened by unemployment or already unemployed;
- (c) In the case of SMEs which already have a modernization plan drawn up with the aid of external experts, a temporary contribution towards the financing of the salaries of engineers, technicians or management personnel employed to assist in the implementation of those plans;
- (d) The financing of business modernization plans to cover non-material investments, improvements in know-how or material investments, including equipment intended directly for production.

Investments in production equipment will be promoted only by means of providing access for undertakings to risk capital, by means of loans from the EIB or other financial bodies with interest subsidies and by means of guarantee funds;

- (e) The setting up of promotion and advisory teams for the textile and clothing sector responsible for making businesses more aware of the need to improve their know-how, and helping them to develop cooperation amongst themselves and with their suppliers and clients.
- (f) Aid for the adaptation of textile and clothing undertakings, in particular to Community environmental requirements, intended to reduce pollution by textile and clothing undertakings by facilitating the treatment and recycling of liquid effluents and industrial waste, and by providing technical assistance for the development of less polluting production or maintenance processes.

III. CONDITIONS FOR GRANTING COMMUNITY ASSISTANCE

- 4. When each decision on the financing of business modernization plans is taken, the Portuguese authorities, who are responsible for laying down rules governing the aid, must verify that the plans are consistent with the overall adaptation strategy agreed with the Commission. They must make the grant of aid conditional upon subsequent compliance with the agreed plan.

The necessary provisions governing the examination of aid applications, monitoring the implementation of the adaptation plans and the penalties to be applied in the event of failure to comply with the conditions for aid, shall be determined by joint agreement between the Portuguese authorities and the Commission of the European Communities.

Investment projects financed under this initiative are part of the framework of existing horizontal aid schemes in Portugal. Thus, the projects must meet the eligibility criteria laid down for those schemes. Therefore, no specific aid scheme will be established for the textile and clothing sector.

Undertakings receiving aid will have to prove that they comply with national legislation on working conditions.

IV. THE COMMUNITY'S CONTRIBUTION TO THE FINANCING OF THE INITIATIVE

5. The Portuguese textile operational programme is to be joint-financed by the Member State and the Community. The total Structural Fund contribution to this initiative for the period 1994-99 is ECU 400 million. There may also be loans from the European Investment Bank. In order to facilitate this type of financing, Portuguese undertakings will qualify for interest subsidies to be financed, up to ECU 100 million, from the exceptional allocation provided for this initiative.

V. IMPLEMENTATION

6. Portugal must submit a detailed proposal for the operational programme within four months of publication of this Notice in the Official Journal.

Every six months the Commission and the Portuguese authorities will check for compliance with the overall strategy agreed with the Commission, within the appropriate monitoring committee, on the basis of reports on the progress of programme implementation and, where appropriate, independent assessments.

7. All correspondence relating to this Notice should be addressed to:

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