

COMMISSION OF THE EUROPEAN COMMUNITIES

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COMMISSION COMMUNICATION TO THE COUNCIL
ON INITIATIVES FOR PROMOTING INVESTMENT

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1. Introduction

1.1 In response to the conclusions reached by the European Council on 28-29 June and subsequently by the Council (Economic and Financial Affairs) on 12 July, the Commission presents below a set of proposals or guidelines, taking account of work by the Economic Policy Committee. Some of the measures discussed below are essentially national measures, but explicit joint recognition that they are a first priority is important.

Others are Community measures : the Commission proposes not only some initial tangible steps but also a set of guidelines which would have to be fleshed out in subsequent deliberations within the Council.

1.2 These different proposals need to be looked at in their proper context. They cannot by themselves generate a faster rate of investment, notably productive investment. Yet, they would be such as to improve significantly, or to create, some of the general or specific conditions under which productive activity, and consequently investment, is carried on.

1.3 Before setting out the details of any guidelines for action, the Commission has two observations to make :

(a) At a time when unemployment in the Community is approaching the 11 million mark, the Council should bring clearly to light the major contribution a policy of investment-based wealth creation can make to resolving employment problems.

The pressing need for action in this field stems from the fact that :

- ultimately, the growth of investment, that is to say the creation of productive activity that is robust, modern and competitive, determines - directly or indirectly - the growth of employment, particularly among young people. The existence of this link is well illustrated in the sectors with future potential and also in industries where investment in productivity would restore the level of competitiveness without which, ultimately, the maintenance of at least some of the existing jobs cannot be guaranteed.
- in the immediate future, when the trends of international demand, of incomes and of budgetary policies have a restrictive effect on demand, investment directly constitutes a powerful factor of growth.

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b) The ideas expounded below have to be seen against the wider setting described in the previous Communication. Improved investment performance depends to a very large extent on a stable and predictable economic environment that is in keeping with fundamental economic realities. This demonstrates the importance of moves to consolidate the EMS at Community level and of economic and monetary cooperation at international level, in the success of measures to underpin investment.

2. Action at national level

Without going over in detail once again in this Communication the ideas put forward in the document that the Commission transmitted to the Council last June, it needs to be emphasized that national measures would be more effective if they were mutually consistent and if a common approach could be agreed at Community level. The advantage of such an approach would be :

- to bring to light the objectives that should be pursued by all and to underscore the need for jointly acknowledging the high priority of those objectives ;
- by way of critical assessment and a synthesis of experiences, to determine the most appropriate measures and, where necessary, to assess how a Community approach can contribute to their success.

The approach should aim at :

- expanding the resources available to firms for investment ;
- improving the effectiveness of investment incentive mechanisms ;
- restructuring public expenditure.

Moreover, it is important to press ahead both at national level and at Community level with efforts to remove the obstacles of all kinds that are hampering productive activity, whether they stem from excessive formalities, from the constraints on use of plant and machinery or from the existence of rules and regulations ill-suited to the objective pursued. Any progress on this front will make a genuine contribution to promoting investment, in particular investment by small and medium-sized enterprises (SMEs).

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2.1 Expanding the resources available to firms for investment

Even if there were a sustained fall in interest rates, the present level of self-financing would be insufficient to enable firms to achieve a satisfactory balance between own funds and loan capital. This is because the degree of self-financing has declined steadily in recent years (1978-81), sometimes by up to 20%. When the general climate is uncertain, such a development inevitably leads to a slowdown in investment.

The aim, therefore, must be to endeavour to raise the level of firms' self-financing, expressed as a proportion of value added, while at the same time maintaining cost price competitiveness.

(a) The first condition for such a development is that the general trend of production costs, including wages and taxation in the broad sense, should permit this increase in self-financing.

(b) Furthermore, it is up to the authorities :

- to see to it that the tax and regulatory mechanisms necessary for firms to achieve the highest possible levels of self-financing and hence of development are set in place and to channel these extra resources into investment ; this requires :
 - . a modification of the system of taxing profits and of the rules governing the "ploughing back" of profits ;
 - . the introduction of tax rules on depreciation that are such as to encourage investment ;
- to pursue the two-fold objective of :
 - . devising appropriate mechanisms that help to channel savings into the financing of industrial investment ;
 - . to reduce the crowding-out effect of unduly large public deficits on the loan capital available for investment, which generates high interest rates.

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Member States have each introduced a set of mechanisms in these areas. The Commission proposes that their effectiveness and results be assessed jointly, with each Member State providing the necessary information and the Commission summarizing the findings and presenting any conclusions to the Council for discussion in the first half of 1983.

2.2 Improving the effectiveness of the incentive mechanisms

The concern caused by the deepening recession explains why there has been a very marked tendency in recent years for aids to proliferate and to increase, whether they involve tax exemptions or direct aids. This has exacerbated the problem of aid transparency, led to a growing fragmentation of mechanisms and the increasingly apparent risk that measures taken haphazardly and not based on an overall strategy will ultimately no longer be really effective.

Consequently, both for reasons to do with general budgetary constraints and for reasons of simple effectiveness, a thorough critical analysis of the various aid and incentive mechanisms in force must be undertaken.

This review should produce a system based on certain guiding principles : there is a need to establish general mechanisms which are simple to apply and sufficiently permanent for firms to know how far they can rely on them in their economic calculations.

The purpose of such an exercise would be two-fold :

- to assess the extent to which changes in the present arrangements would make them more effective while at the same time ensuring their consistency with the smooth operation of the common market, in particular the Treaty's provisions on aids and competition, where the Commission has special responsibility ;
- to the extent that some of the aids are seen to be of limited or indeed doubtful effectiveness, to decide either to use the financial resources released for strengthening other mechanisms or, given the general need to trim budgets, withdraw them altogether.

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The Commission expects the Council to adopt the principle of such an exercise and to draw up a precise timetable forthwith.

2.3 Restructuring public expenditure

The general principles of the policy to be pursued in the area of public finance were outlined by the Commission in its Communication on budget discipline and economic convergence.

The Economic Policy Committee's recent work on the role of the public sector in promoting investment is based on similar principles.

A real effort must be made as a matter of urgency to increase investment through shifts in public expenditure, whose share of GDP rose from 32 % in 1960 to more than 50 % in 1982.¹⁾, while public investment as a proportion of total public expenditure declined from 10 % to 6 % during the same period.

Within public investment itself, greater emphasis must be placed on investment which directly affects the growth of the productive economy.

The objective to be pursued must therefore be two-fold :

- to increase the share of public expenditure going on investment,
- and, within this larger share, to shift investment efforts towards expenditure that will improve the framework within which productive activity is carried on.

The objective of achieving a lasting increase in the share of public expenditure providing support for growth must be reflected in national budgets starting in 1983.

The Commission therefore requests that :

- between now and the end of 1982, an assessment should be made of the way in which this policy is beginning to be put into effect in each of the national budgets for 1983.

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(1) In its communication on convergence and budgetary policy, the Commission recommended that this trend should be checked.

- as soon as possible during 1983, Member States should start studying ways in which public finance can be restructured in the medium term in favour of investment expenditure ; this reallocation calls for a review of current expenditure, which is particularly inflexible - a review which will inevitably lead to adjustments in laws or regulations.

3. Action at Community level

Action at Community level must consist first in establishing jointly guidelines at national level, which while reflecting interests which have priority ranking for each Member State, will be of the same type and involve similar measures. In this respect, the essential value of Community action is that of joint recognition, demonstration and stimulus.

Over and above this, the Community can make its own more specific contribution in the following three areas :

- achieving real development of the single market so as to allow for additional economies of scale, and strengthening the effects of an area in which there is competition between forms belonging to one and the same economic entity and largely governed by similar rules ;
- providing the extra effectiveness which can be obtained through a joint effort either to organize (e.g. aids) or to underpin (e.g. through incentives) certain strategic activities (R & D, innovation, energy, improved vocational training) which are both job-creating and key targets for investment ;
- developing the Community's financial instruments and adapting them to the need for improved performance in the area of industrial investment.

3.1 The single market

Despite the progress achieved over a period of almost 25 years, a common market between the Community countries has not yet been fully established. Giving European firms the sure knowledge that they will be able to develop their activities in an economic entity comparable in size to the American market, and significantly larger than the Japanese market, could play a key role in boosting investment : a sufficiently broad base for technological development, financing and sales is essential for managements to be able to meet the challenge of world competition.

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It is a matter of urgency that rapid, decisive progress be made in developing the single market and measures introduced that will help to speed up realization of the potential for progress that will flow from the single market. The Commission therefore to step up generally its efforts to ensure that firms can increasingly enjoy the advantages of equal access to the common market and that the obligations deriving from the Treaty, particularly where State Aids are concerned, are observed. Also, the Commission will do all it can to promote the development of the common market in services and effective freedom of capital movement.

The Commission has put forward specific proposals along these lines, on which decisions must be taken rapidly. The proposals that have been made and those which will follow them may be divided into two groups :

- some are intended to ensure that the single market becomes a full reality : these are the proposals designed to remove obstacles which still exist or to introduce appropriate prevention mechanisms (for example, the proposal to improve information on standards and technical regulations so as to prevent the emergence of new obstacles to intra-Community trade), and to ensure compliance with the rules on the opening up of public contracts in certain sectors so as to create sufficient development potential for advanced technologies (for example, in the area of telecommunications), etc. ;
- others are designed to provide firms with a Community framework which is both simple and sufficiently homogeneous : these proposals cover the substitution of European standards for national standards, the simplification of customs formalities, an appropriate legal status for firms operating at European level, the gradual establishment of tax neutrality in respect of intra-Community investment etc.

In view of its general responsibility for economic development and the establishment of the basic conditions for any acceleration in productive investment, the Economic and Financial Affairs Council should draw the attention of more specialized Council meetings to the importance which real progress in unifying the market has for the investment decisions of firms.

The Ministers for Economic and Financial Affairs should also make arrangements for a regular assessment of progress in unifying the market.

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3.2. Specific stimulation measures

There are areas of activity where specific action by the Community within wider policies can stimulate productive investment.

3.2.1. The Commission intends first of all to take horizontal measures to promote industrial innovation and R + D in general.

a) Industrial innovation

In the field of innovation, the Commission considers that priority should be given at this stage to identify the specific financing problems encountered by innovative SME; it is currently studying the possible choices with a view to proposing ways in which the Community instruments could be used more effectively to cover the specific risks of innovative investment. The results will be presented to the Council by the end of 1982, and specific proposals will follow in the spring of 1983

b) R & D in general

R & D is one of the main pillars of innovative investment, which, by incorporating new technologies into production processes and new products, in turn ensures more efficient structures and, ultimately, more competitive economies. In this field, action takes the form of policies which evolve over time and the effectiveness of which determines the very future of European industry. The Commission will submit at the end of 1982 an outline programme for the period 1984-87 which will have to ensure, in particular, the coherence of Community and national measures for modernizing traditional technologies (steel, basic technologies), fostering advanced technologies (information technology, biotechnology, new materials), promoting and developing renewable sources of energy, and introducing standards and references.

3.2.2 There are other areas of activity where specific action by the Community within wider policies can stimulate productive investment.

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a) Information technology and bio-technology

Although every sector, even the traditional sectors, have potential for development, and the Commission will not concentrate on sectors that are regarded as more promising, there is no doubt that certain products and services are characterized by rapidly expanding demand and by their strategic impact on the economy as a whole : this applies especially to information technology and bio-technology.

These sectors provide the Community with considerable potential for development because they require little in the way of raw materials and energy, and enable Europe to exploit its outstanding advantages : an advanced technology, a qualified labour force, abundant capital, and a market on a continental scale. Moreover, there are numerous very dynamic small and medium-sized firms working in these sectors.

To date, however, the efforts of European companies and a number of Member States have not managed to expand production in Europe in line with the growth of the European market, and even more the growth of the world market, mainly because the size of the European market has not been exploited. This is true in particular of information technology, although it has absorbed a considerable amount in public expenditure on R & D and public procurement.

By developing an overall strategy with companies and governments, to reinforce the strong points of the new information technology in Europe and catch up with the USA and Japan both on the technological and on the commercial front, the Community can make a unique contribution to the redeployment of industry and services.

This strategy must necessarily involve all available industrial policy instruments : cooperation in R & D, public contracts, the promotion of common standards and specifications, Community financial instruments and possibly trade policy.

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The Commission has put before the Council, under the 1983 budget procedure, a set of pilot R & D projects to prepare the vast "pre-competitive" R & D programme to be launched in 1984, which includes a major Community effort to supplement the programmes of Member States and firms.

This initiative supplements earlier proposals and measures concerning telecommunications (the gradual opening up of markets, deregulation, integrated digital network (INSIS), micro-electronics, data-processing applications and data-banks (Euronet)).

The Commission is also currently studying the possibility of launching a major biotechnology programme in 1983, taking account of the special features of that sector.

b) Energy

The Community's strategy in the field of energy is to reduce dependence on the rest of the world by diversifying the sources of supply and by energy conservation.

This requires both technical progress and considerable investment. Action on the technical front involves both research and the demonstration of new techniques. Action on the investment front involves mainly financing conditions : the lending possibilities for the Community's financial instruments have been broadened and will have to be further extended ; moreover, the Commission has recently proposed interest subsidies on loans to finance certain categories of investment in the rational use of energy, which can be profitable over a relatively long period.

c) The steel industry and steel areas

i) By reason of its obligations under the ECSC Treaty, the Community participates, in the framework of steel policy, in financing the very considerable investments that make up the restructuring programmes submitted by firms and governments.

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It should be stressed that, besides the immediate impact of these streamlining investments on suppliers upstream, they consolidate employment in the steel sector by reinforcing international competitiveness after the elimination of excess capacity. It is estimated that these investments, which totalled about 2.500 million Ecus in 1981, could account for 2.900 million Ecu in 1982, about 10% of which would be financed by ECSC loans.

- ii) In the areas affected by the closing-down of steel plants, the creation of alternative jobs could be helped if ECSC and ERDF subsidized loans were granted for investments in manufacturing industry and services. The Commission will be sending the Council a proposal along these lines before the end of October.

- d) A key element in any revival of investment is horizontal action to ensure an adequate supply of labour and managerial skills, which frequently presents an appreciable obstacle to the introduction of new technologies. The promotion of investment must therefore be accompanied by a sustained effort to improve the training of the young and the retraining of workers and management.

The new Social Fund guidelines will have to take account of the need to contribute more to the training of the labour force and its adaptation to the new technologies.

3.3 The development of the Community's financial instruments

Various Community financial instruments help to promote investment.

a) With regard to the lending mechanisms, the structural loans granted by the Community and by the EIB amounted to more than 4 000 million ECU in 1981, 47% being allocated to the energy sector, 33% to the development of infrastructures and 19% to the productive sector.

The steady development of the Community's lending capacity has been helped by the setting up of the NCI, the second tranche of which, approved in April 1982, should have been fully committed by the beginning of 1983.

The Commission requests that this policy be confirmed and developed. The Community's supporting role in this field is three-fold :

- firstly, within the framework of established priorities, to ensure the financing of suitable projects which, for financial reasons, would not have been carried out or would not have been carried out as rapidly without the additional support the Community provides ;
- secondly, to mobilize additional resources for investment by exploiting the Community's credit-rating ;
- finally, to provide a practical demonstration of the Community's commitment to a policy of promoting investment (and the symbolic value of such action cannot be underestimated) and to give tangible expression to the priority given to certain sectors of activity.

It is in this context that the Commission has presented to the Council a new proposal concerning the NCI (NCI III) which would make it possible to borrow an additional 3 000 million ECU. The following would be given priority :

- renovation or modernization investment in industry, with special attention being given to development opportunities for SMEs ;
- the spread of new technology and innovation ;
- energy investment, particularly investment encouraging the efficient use of energy ;
- infrastructure investment linked to the development of the productive economy.

The Commission also reserves the right to consider, along with the Member States, the possibility of promoting major projects of European interest if a greater joint effort is justified.

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This lending policy has been developed and will continue to be developed so as to ensure maximum effectiveness without putting too great a strain on the financial markets or entering into competition with domestic borrowers. The Commission is guided by two objectives here :

- to develop its borrowing policy in a manner compatible with trends on the financial markets ;
 - to manage its lending facilities in such a way as to ensure the greatest possible consistency in the use of the various Community instruments.
- The agreements with the EIB have been concluded with this in mind.

This is the background to the Community's lending policy. It is important that the value of this policy be recognized and its capacity expanded.

- b) Among the budgetary instruments available to the Community, some are specifically designed to promote and guide investment and Community loans, particularly subsidies for priority activities (research, energy, industry etc.) or to make investment possible in spite of structural handicaps in particular of a regional or social nature.

The Commission once more calls attention to the fact that it recommends, with the support of Parliament, a regular increase in the resources allocated to the structural Funds, and that it has submitted to the Council, as had been decided following the discussion on the Mandate of 30 May 1980, proposals for amending the mechanisms to take account of experience and ensure optimum use of the available resources.

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4. Conclusions

The guidelines and proposals advocated here supply a framework for the required development of investment, i.e. to improve competitiveness and to modernize the European economies, call a halt to industrial decline and thereby restore the employment situation.

The Commission asks the Council to approve these guidelines and proposals, which will form the essential part of a report to be presented to the European Council next December.

The Commission therefore asks the Council :

1. to decide that the investment support measures at national level should be implemented in a joint framework on the basis of three principles :

- the establishment of conditions for a lasting increase in firms' self-financing capacity and own capital, where appropriate by making changes in taxation and regulations ;
- making the investment incentive mechanisms more transparent, more simple and more effective ;
- undertaking, as of 1983, a reorganization of public finances in order to promote the modernization of the economy.

On the basis of the conclusions of the European Council, the Commission will organize meetings with the Member States to define precise arrangements for the measures advocated ; it will draw together the results obtained and lay draft conclusions before the Council by the middle of 1983 ;

2. to reach a rapid decision on the recent proposal concerning the development of the New Community Instrument ;

3. to call on the specialized Councils to adopt without delay the proposals before them in the following fields :

- the completion of the single market, essential to exploit further economies of scale, supply the European economy with a basis for technological development, financing and sales comparable to that of its competitors and thus facilitate the development of firms on a European scale,
- Community support measures in certain priority sectors : innovation, research and development, technology, energy, vocational training.