

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(90) 205 final

Brussels, 16 May 1990

P E D I P

SPECIFIC PROGRAMME FOR THE
DEVELOPMENT OF PORTUGUESE INDUSTRY

*

Progress report

(presented by the Commission)

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INTRODUCTION

(a) Basic decisions

The Specific Programme for the Modernization of Portuguese Industry (Pedip) gives practical expression to the Declaration by the European Economic Community on the adaptation and modernization of the Portuguese economy, annexed to the Act of Accession of Spain and Portugal to the Community. In the Declaration, the Community recognized in particular the need "to modernize the (Portuguese) production sector and to adapt it to European and international economic realities" and said that it was "prepared ... to aid Portuguese undertakings, by letting them benefit from its technical support and its credit instruments".

Following this Declaration, work was begun by the Commission's departments most directly concerned, together with representatives of the Portuguese Government and from the economic and social interests involved in the industrial development of Portugal, on deciding ways and means of enabling Portuguese industry to catch up with the other Community partners and attain the level of competitiveness it needed for 1992.

In October 1987 the Commission drew up the general framework for a specific programme for the modernization of Portuguese industry,¹ in which it proposed that Community support should be allocated under four priority headings:

Priority 1: Faster improvement of basic industrial infrastructure;

Priority 2: Stronger foundations for basic and further vocational training for careers in industry;

Priority 3: Financing of productive investment;

Priority 4: Productivity drives.

At its meeting on 12 and 13 February 1988, the European Council adopted the principle that a special heading (ECU 500 million over five years) additional to the structural Funds should be entered in the budget. These resources would supplement the ECU 400 million from the ERDF and the ECU 100 million from the ESF already allocated by the Commission to Portugal in October 1987 with a view to improving industrial competitiveness. The total Pedip appropriation was further supplemented by EIB and NIC loans amounting to ECU 1 billion over the programme's five-year duration.

¹ SEC(87) 1518.

The resources to be allocated to this special budget heading were decided by the Council in June 1988 in the Regulation on financial assistance for Portugal for a specific industrial development programme,¹ of which the two principal provisions are as follows:

- (I) Introduction of a specific budget heading for a five-year period (1988-92), to which ECU 500 million was allocated at the rate of ECU 100 million a year (at constant prices). These resources are additional to assistance from the structural Funds (Article 1);
- (II) confirmation of the Pedip's objective, namely "to promote industrial development in Portugal", and of the four priorities previously identified by the Commission.

(b) Implementation of the basic decisions

Every year, in accordance with Article 7 of the Regulation, the Commission draws up general guidelines for the implementation of Pedip's priorities.

Fundamental to Pedip's implementation are the principles of partnership (Article 3 of the Regulation), complementary functions, subsidiarity, and additionality of resources introduced by the reform of the structural Funds, compliance with the rules and budgetary procedures for Community assistance (Article 4), compliance with Community law and policies (Article 5) and Community monitoring of the programme's implementation (Article 6).

The Commission is assisted as regards implementation by an Advisory Committee, made up of representatives of the Member States and chaired by a representative of the Commission (Article 8).

The Commission is required to send the Council and Parliament reports concerning all the modernization measures introduced, detailing the expenditure incurred and assessing their effects (Article 9). The first (interim) report has to be presented by 1 June 1990. A final report will be submitted by the end of 1993.

This report is divided into four parts:

- (I) a summary of the programmes;
- (II) implementation, partnership and monitoring procedures;
- (III) budgetary implementation;
- (IV) assessment.

¹ Regulation (EEC) No 2053/88 of 24 June 1988, OJ No L 185, 15.7.1988.

1. PEDIP'S STRUCTURE

1.1 Industrial strategy: general context

Portugal's Industrial development strategy bears witness to powerful external constraints, especially as regards indebtedness, high unemployment and an archaic, fragmented and underdeveloped Industrial base. The combination of these factors explains why the exporting Industries have been chosen as the engine of Industrial development and why the Industrial strategy's success depends on the ability to exploit as soon as possible the opportunities created by progressively opening up the economy to the outside world.

Two conditions must be met if the Industrial strategy is to be successful.

First, the present Industrial base must be strengthened and its technological content increased just as much as its trading potential. In Portugal's case there are two obstacles to be surmounted:

- (I) Industry is too confined to the coastal areas, a sure indication of the productive Infrastructure's inadequacy;*
- (II) the productive base is too weak and not innovative enough, the result of too much past specialization in labour-intensive activities.*

Second, there must be a shift towards progressive specialization in new Industrial activities, both capital goods and high technology. One of the main reasons for this change is that Portuguese Industry cannot rely forever on its low-wage cost advantage, which will gradually be eroded as Portugal becomes integrated with the Community economy.

In short, Portugal's Industrial development strategy combines investment in fixed and productive capital, in invigorating commercial structures, exploiting pre-commercial R&D projects and schemes to promote investment in the modernization and diversification of the Industrial base.

These priorities are expressed in Pedip under four headings:

Priority 1: Faster improvement of basic Industrial Infrastructure;

Priority 2: Stronger foundations for basic and further vocational training facilities for careers in Industry;

Priority 3: Financing of productive investment;

Priority 4: Productivity drives.

Priorities 3 and 4 are given preference in Pedip and absorb nearly 90% of the resources in the additional budget heading.

In the case of Priorities 1 and 2, the additional budget heading is used to supplement assistance from the ERDF and the ESF, the intention being, in principle, to supplement these two Funds in cases where their assistance criteria did not allow them to provide aid at the time when Pedip was launched.

Concrete expression is given to the four priorities through seven programmes:

Programme 1: Basic and technological infrastructure;

Programme 2: Vocational training;

Programme 3: Incentives to productive investment;

Programme 4: Financial engineering;

Programme 5: Productivity drives;

Programme 6: Industrial quality and design;

Programme 7: Publicity, implementation and monitoring.

All seven programmes have been adopted and are now being implemented. Only the setting up, under Programme 4, of the mutual guarantee scheme is still being studied by Portuguese officials.

PROGRAMMES: SUMMARY TABLE
(1988 / 1992)

(ECU million)

PROGRAMME	TOTAL COST	FINANCING			
		PRIVATE SECTOR	PUBLIC SECTOR	OTHER	COMMUNITY BUDGET Ah(1)
1. BASIC AND TECHNOLOGICAL INFRASTRUCTURE	50,44	15,13	8,83	--	26,48
2. VOCATIONAL TRAINING	23,84	2,80	5,26	--	15,78
3.1 PEDIP FINANCIAL INCENTIVES (SINPEDIP)	1.418,80	283,41	81,49	809,40	244,50
3.2 ENERGY EFFICIENCY (SIURE)	64,02	--	3,24	51,12	9,66
3.3.1 RESTRUCTURING OF WOOLLEN INDUSTRY	54,97	10,11	5,90	21,31	17,65
3.3.2 RESTRUCTURING OF THE FOUNDRY INDUSTRY	68,98	--	8,50	34,98	25,50

(1)Additional heading

PROGRAMMES: SUMMARY TABLE
(1988 / 1992)
 (cont'd)

(ECU million)

PROGRAMME	TOTAL COST	FINANCING			
		PRIVATE SECTOR	PUBLIC SECTOR	OTHER	COMMUNITY BUDGET
3.4. SUPPORT FOR SPECIFIC SECTORS (PITIE/PRODIBE)	30,46	9	5,34	--	16,12
4. FINANCIAL ENGINEERING	76	32	11	--	33
5. PRODUCTIVITY DRIVES	103,20	34,80	17,10	--	51,30
6. INDUSTRIAL QUALITY AND DESIGN	41,47	9,47	8,00	--	24,00
7. PUBLICITY, IMPLEMENTATION AND MONITORING	11,18	--	--	--	11,18
RESOURCES NOT YET ALLOCATED	--	--	--	--	24,83
GRAND TOTAL	1943,36	396,72	154,66	916,81	500

1.2 Basic and technological infrastructure

Industrial and technological development in Portugal has for many years been characterized by dependence on external technology. Prime examples are the technical inadequacy of basic infrastructure and the weakness of technological R&D infrastructure. If the country's industrial base is to be strengthened and diversified, the excessive reliance on imported technologies must be progressively reduced.

This need is broadly reflected in Portugal's industrial strategy and hence, in Pedip, in the two components of Programme 1 (Basic and technological infrastructures) which are:

- (i) stronger basic infrastructures, i.e. principally the improvement of road and rail communications and the exploitation of natural resources;*
- (ii) the development of technological infrastructure.*

The additional budget heading contributes to the financing of the following measures:

- (i) support for the building of facilities for industrial and trade associations (exhibition pavilions and multi-purpose buildings which can be used for training and general business support);*
- (ii) assistance for the improvement of other basic services and utilities in particularly poorly serviced areas. In virtually all industrial areas there are deficiencies in basic sanitation, water supply, effluent treatment and site services which have a very negative effect on competitiveness and severely impair the environment and even occupational and public safety.*

PROGRAMME 1

BASIC AND TECHNOLOGICAL INFRASTRUCTURE

(ECU million)

MEASURES	YEAR	COST	FINANING		
			PRIVATE SECTOR	PUBLIC SECTOR	COMMUNITY BUDGET Ah(1)
FACILITIES FOR INDUSTRIAL AND TRADE ASSOCIATIONS					
	1989	4,37	1,31	0,76	2,29
	1990	11,77	3,53	2,06	6,18
	1991	9,44	2,83	1,65	4,96
	1992	5,78	1,74	1,02	3,03
	TOTAL 1989/1992	31,36	9,41	5,49	16,46
BASIC SERVICES AND UTILITIES					
	1989	7,16	2,15	1,25	3,76
	1990	1,98	0,59	0,35	1,04
	1991	3,50	1,05	0,61	1,84
	1992	6,44	1,93	1,13	3,38
	TOTAL 1989/1992	19,08	5,72	3,34	10,02
T O T A L S					
	1989	11,53	3,46	2,01	6,05
	1990	13,75	4,12	2,41	7,22
	1991	12,94	3,88	2,26	6,80
	1992	12,22	3,67	2,15	6,41
	GRAND TOTAL 1989/1992	50,44	15,13	8,83	26,48
OTHER MEASURES					
		COST	PRIVATE SECTOR	PUBLIC SECTOR(2)	COMMUNITY BUDGET (ERDF)
	1989/1993	620,20	29,56	267,52	323,12(3)
PROGRAMME 1, TOTAL		670,64	44,69	276,35	349,60

(1) Ah: Additional heading

(2) Public and quasi-public expenditures

(3) In 1988, the ERDF financed infrastructure projects to the amount of 76,72 m ECU

1.3 Vocational Training

For several decades Portugal has been virtually without an active vocational training policy . As a result, there are skills shortages. In recent years there has been a vigorous reaction to this situation: short and medium-length intensive training schemes have been set up, intended primarily for young persons who are unemployed or seek access to university education. Action by the Portuguese authorities has started to have a positive impact on the industrial base.

Despite these efforts, vocational training in Portugal still suffers from serious deficiencies:

- (I) training demand is characterized by the lack of systematic assessments of requirements by activity, region, type of firm, potential trainees and subject area. Firms, however, are becoming more open to cooperation with training institutions, in particular higher education establishments;*
- (II) training supply is characterized by poor knowledge of requirements and the predominance of "standard" training courses. Recognition of certain traditional occupations and of new occupations which do not fit any existing career pattern is also poor. These deficiencies have a significant adverse effect on exports of capital goods, which often require the services of skilled professionals. The increase in supply has not been accompanied by a rise in standards. There has been some overall improvement, however, as a result of Community assistance before accession, used to establish occupational training centres on a decentralized basis.*

The purpose of Pedip as far as training is concerned is to enhance the value of human resources in industry, focusing on entrepreneurs and executives, senior and middle technical management and technical specialists. The fact that in 1989 assistance from the ESF was not yet programme-based and that certain measures were not eligible for its

assistance explains why the additional budget heading is used to support implementation of three major Pedip initiatives:

- Increasing awareness of the importance of basic education, engineering and technology;*
- assessment of specific training schemes;*
- preparing and publishing instruction materials for Pedip training measures.*

Organizations (especially firms and trade associations) are the real targets of training: the measures to be carried out must have an impact on the organization of firms and not just on the enhancement of workers' skills.

P R O G R A M M E 2

VOCATIONAL TRAINING

(ECU million)

MEASURES	COST	FINANCING		
		PRIVATE SECTOR	PUBLIC SECTOR	EEC BUDG. Ah(1)
<u>INCREASING AWARENESS</u>				
TOTAL	4,59	0,46	1,03	3,10
1989	3,11	0,31	0,70	2,10
1990	1,48	0,15	0,33	1,00
1991	--	--	--	--
1992	--	--	--	--
<u>PROMOTION OF INSTRUCTION MATERIALS</u>				
TOTAL	11,70	2,34	2,34	7,02
1989	4,13	0,83	0,83	2,47
1990	0,66	0,13	0,13	0,40
1991	3,50	0,70	0,70	2,10
1992	3,41	0,68	0,68	2,05
<u>ASSESSMENT</u>				
TOTAL	7,55	--	1,89	5,66
1989	2,85	--	0,71	2,14
1990	0,56	--	0,14	0,42
1991	2,03	--	0,51	1,52
1992	2,11	--	0,53	1,58
TOTAL	23,84	2,80	5,26	15,78
1989	10,09	1,14	2,24	6,71
1990	2,70	0,28	0,60	1,82
1991	5,53	0,70	1,21	3,62
1992	5,52	0,68	1,21	3,63
<u>OTHER MEASURES</u>				
	COST	PRIVATE SECTOR	PUBLIC SECTOR	EEC (ESF)
1989 - 1992	178,55	21,05	57,50	100,00
<u>TOTAL PROGRAMME</u>				
1989 - 1992	202,39	23,85	62,76	115,78

(1) Ah = Additional heading

1.4 Incentives to productive investment

By virtue of its scope and the size of its budget, the programme of incentives to productive investment is the core of Pedip.

The programme comprises various schemes of aid to industry and is expected to have a direct impact on the intensity, rate and allocation of investment in Portugal in the years ahead. Its success will be primarily determined by the support it receives from entrepreneurs.

It is estimated that more than two thirds of the resources provided under the special budget heading will be channelled to firms through Programme 3 alone.

The objective is to support the implementation by industrial firms of investment projects aimed at modernization, rationalization and technological innovation. Initially, activities are horizontal in scope and give priority to:

- industry-oriented research, including the adaptation and local development of technologies;*
- measures to install and expand productive capacity, to convert or diversify production and to modernize plant and equipment;*
- investments in quality management;*
- measures to protect the environment and improve health and safety conditions at work;*
- energy saving in industrial production.*

The above measures are supplemented by assistance in certain sectors, covering:

- restructuring measures in a limited number of struggling traditional industries;*
- measures aimed at the development of certain modern industries with considerable growth potential.*

The assistance granted under Programme 3 is in the form of outright grants. Rates of intensity for each project, defined as the ratio of the grant to eligible expenditure, vary according to:

- *the proposed policy objective;*
- *the characteristics of the project;*
- *the geographical area;*
- *the industry concerned;*
- *the age of the industrial plant.*

Programme 3 is divided into four subprogrammes:

- *financial incentives (Sinpedip);*
- *energy efficiency (Slure);*
- *support for industrial restructuring or modernization;*
- *support for specific industries.*

There are three reasons for this structure: (i) clarity - the criteria can be determined for granting assistance geared to specific subprogramme objectives; (ii) Pedip has absorbed previous national programmes, designed on the same lines and pursuing similar objectives, e.g. the energy efficiency scheme (Slure) and the woollen industry restructuring plan; and (iii) to implement measures required under national strategic programmes but not covered by their resources, e.g. the Integrated Information Technology and Electronics Programme (Pitie) and the Development Programme for Capital Goods Industries (Prodibe).

1.4.1 Financial Incentives (Sinpedip)

The object of Sinpedip is to assist certain types of investment project contributing to innovation, rationalization and modernization in firms, especially with regard to technology.

Measures

(I) *Investment in the purchase and development of technology*

Financing the development of new products or manufacturing processes and the pre-competitive stage of the construction of prototypes or of pre-production models.

The categories of project eligible are:

- (a) research and technological development;*
- (b) new products and manufacturing processes, including the construction of prototypes and experimental plant;*
- (c) technologically advanced products or processes;*
- (d) the manufacture of pre-production models and the construction of pilot plants.*

(II) *Investment in innovation and modernization*

Specifically, investment projects of considerable technological potential and projects for the modernization, innovation and rationalization of firms involving the introduction of advanced technology and improved productivity.

The categories of project eligible are:

- (a) investment with considerable technological potential;*
- (b) investment in modernization/innovation;*
- (c) investment in modernization/rationalization.*

(III) *Investment in quality management and environmental protection*

The financing of investment projects relating to industrial quality and design, the protection of the environment or the reduction of occupational health and safety hazards at the workplace.

The categories of project eligible are:

- (a) laboratory quality-control or metrology equipment;*
- (b) introduction and development of quality-management systems;*

- (c) *product certification and the calibration of measuring instruments abroad;*
 - (d) *the purchase of workplace health and safety equipment;*
 - (e) *the purchase of environmental protection equipment.*
- (iv) *Specific investment in capital equipment*

This measure finances the replacement and upgrading of equipment in cases not covered by other programmes and not requiring detailed preliminary studies.

Two categories of project are eligible:

- (a) *the purchase of equipment to improve productivity;*
- (b) *the purchase of equipment to improve health and safety, product and process quality and environmental protection.*

Compatibility with the Regional Incentives Scheme (SIBR)

The Regional Incentives Scheme, or SIBR, approved in January 1988 under the national programme of Community Interest financed by the ERDF, complements Sinpedip.

To ensure that these two schemes are complementary, it has been decided that Sinpedip will be targeted at industry and, except in well-defined exceptional cases, will cover the most developed areas of the country around Lisbon and along the coast, i.e. areas 1 and 2 (see attached).

The rest of Portugal will be covered by assistance from the SIBR.

Sinpedip grants cover 20% to 70% of eligible expenditure, depending on a project's technological characteristics. By contrast, SIBR assistance can be as much as 75% of the investment cost.

1.4.2 Energy efficiency (Slure)

Slure is a scheme of incentives to promote energy efficiency, authorized by the Commission as a national aid scheme (Decision of 20 January 1988 under Articles 92 and 93 of the EEC Treaty), which is currently in force.

SUBPROGRAMME 3.1

PEDIP FINANCIAL INCENTIVES (SINPEDIP)

(Ecu million)

MEASURES	COST	FINANCING			
		PRIVATE SECTOR	PUBLIC SECTOR	OTHER	EEC BUDG. Ah(1)
1. TECHNOLOGY					
TOTAL	70,94	14,18	6,62	30,28	19,86
1988	10,60	2,12	0,40	6,89	1,19
1989	16,39	3,28	1,69	6,35	5,07
1990	14,81	2,96	1,53	5,74	4,58
1991	14,57	2,91	1,50	5,65	4,51
1992	14,57	2,91	1,50	5,65	4,51
2. INNOVATION/ MODERNIZATION					
TOTAL	1205,77	240,83	63,54	710,79	190,61
1988	198,89	39,42	11,70	112,69	35,08
1989	340,04	68,06	17,52	201,90	52,56
1990	180,22	36,05	9,29	107,00	27,88
1991	243,31	48,70	12,50	144,60	37,51
1992	243,31	48,60	12,53	144,60	37,58
3. QUALITY/ ENVIRONMENT					
TOTAL	63,41	12,67	6,45	24,93	19,36
1988	3,07	0,61	0,23	1,54	0,69
1989	16,39	3,28	1,69	6,35	5,07
1990	14,81	2,96	1,53	5,74	4,58
1991	14,57	2,91	1,50	5,65	4,51
1992	14,57	2,91	1,50	5,65	4,51
4. PLANT AND EQUIPMENT					
TOTAL	78,68	15,73	4,88	43,40	14,67
1988	1,20	0,24	0,04	0,78	0,14
1989	21,04	4,21	1,31	11,57	3,95
1990	19,00	3,80	1,19	10,45	3,56
1991	18,72	3,74	1,17	10,30	3,51
1992	18,72	3,74	1,17	10,30	3,51
T O T A L	1418,80	283,41	81,49	809,40	244,50
1988	213,76	42,39	12,37	121,90	37,10
1989	393,86	78,83	22,21	226,17	66,65
1990	228,84	45,77	13,54	128,93	40,60
1991	291,17	58,26	16,67	166,20	50,04
1992	291,17	58,16	16,70	166,20	50,11

(1) Ah: Additional heading

Pedip Subprogramme 3.2 provides for Slure to be part-financed from the Pedip budget without modification of the scheme.

Slure is thus financed from two sources: its own budget, and the special heading for Pedip in the Community budget.

The object of the scheme is to promote energy saving in industrial firms.

The particular goals can be summarized as follows:

- (a) to promote energy efficiency (management, conservation and diversification of supply);*
- (b) to decentralize energy production (renewable resources, energy from waste, combined production of heat and power);*
- (c) to stimulate R&D on new forms of energy production and use, and associated technologies, including the manufacture of energy equipment.*

Projects eligible for the aid scheme are of three types:

- (I) Investment projects in the conservation and saving of energy and fuel, including changes to production processes and equipment, whose purpose is to reduce specific consumption or energy costs;*
- (II) Investment projects concerning the production of energy and fuel, renewable resources, energy from waste or by-products, or combined heat and power technology;*
- (III) Investment projects relating to the substitution of other sources of primary energy for the burning of oil products.*

Pedip assistance cannot be combined with assistance granted under the Community's Valoren programme.

SUBPROGRAMME 3.2
ENERGY EFFICIENCY (SIURE)

(ECU million)

MEASURES	COST	FINANCING		
		PUBLIC SECTOR	OTHER	EEC BUDGET Ah(1)
1. CONSERVATION				
TOTAL	23,42	1,29	18,26	3,87
1989	4,90	0,27	3,82	0,81
1990	5,26	0,29	4,10	0,87
1991	8,00	0,44	6,24	1,32
1992	5,26	0,29	4,10	0,87
2. PRODUCTION				
TOTAL	23,42	1,29	18,26	3,87
1989	4,90	0,27	3,82	0,81
1990	5,26	0,29	4,10	0,87
1991	8,00	0,44	6,24	1,32
1992	5,26	0,29	4,10	0,87
3. SUBSTITUTION				
TOTAL	17,18	0,66	14,60	1,92
1989	3,60	0,14	3,06	0,40
1990	3,86	0,15	3,28	0,43
1991	5,86	0,22	4,98	0,66
1992	3,86	0,15	3,28	0,43
T O T A L	64,02	3,24	51,12	9,66
1989	13,40	0,68	10,70	2,02
1990	14,38	0,73	11,48	2,17
1991	21,86	1,10	17,46	3,30
1992	14,38	0,73	11,48	2,17

(1) Ah = Additional heading

1.4.3 Aid for Industrial restructuring or modernization

Pedip is part of a general strategy that reflects the priority given by the Community to the establishment of a favourable environment for industrial development.

In its definitive structure, however, Pedip must, since it is an integrated programme, take account of sectoral measures already in progress. Such measures have indeed been incorporated, under separate arrangements, resulting essentially in restructuring plans for the woollen industry and metal manufacture.

(1) Restructuring programme for the woollen industry

The woollen industry is currently the fourth largest branch of Portugal's textile and clothing industry: it accounts for 12% of total production, employs some 25 000 workers and is almost entirely located in north-east Portugal (Inland Beira).

The industry plays a pivotal role between the various parts of the textiles and clothing sector, especially as a supplier to manufacturers of knitted and woven garments, which make an important contribution to the sector's total exports. It also accounts for 80% of economic activity in inland Beira.

The industry developed on the basis of low-cost equipment, raw materials, energy and labour, which resulted in low investment and a plethora of small firms with inadequate operational structures. Lack of capital prevented the cost-structure adjustments needed to keep up with the changes in production conditions.

Most firms in the industry are in sharply worsening financial and technological straits, and lack skilled labour and management capacity; they cannot recover without outside help.

Despite considerable structural difficulties, which became apparent in the 1970s, no specific aid scheme has been introduced for Portugal's textiles and clothing sector, or for its woollen industry in particular.

The purpose of this programme is to increase the industry's competitiveness, modernize its structures, improve the quality of its production, strengthen its technological capacity and upgrade the skills of both workforce and management.

Measures

The scheme provides grants for:

- *the restructuring of firms;*
- *investment in the modernization of plant and equipment;*
- *technical assistance for rationalization, employee training, market research, the development of new products and processes, energy saving, etc.;*
- *part-financing for the salaries of executives with a higher-education or equivalent qualification in textiles, mechanical or chemical engineering, business organization, management or economics, in the context of a restructuring project.*

On these considerations, the Commission authorized the programme as a national aid scheme (Decision of 27 April 1988 under Articles 92 and 93 of the EEC Treaty), at the same time providing, at the request of the Portuguese authorities, for the possibility of part-financing under Pedip.

SUBPROGRAMME 3.3.1
RESTRUCTURING OF THE WOOLLEN INDUSTRY

(ECU million)

YEAR	TOTAL COST	FINANCING			
		PRIVATE SECTOR	PUBLIC SECTOR	OTHER	COMMUNITY BUDGET Ah(1)
1988	30,11	3,38	1,97	7,11	17,65
1989	16,59	4,51	2,62	9,46	-
1990	8,27	2,22	1,31	4,74	-
TOTAL	54,97	10,11	5,90	21,31	17,65

(1)Ah: Additional heading

(11) Restructuring of the foundry industry

The object is to restructure the foundry industry with a view to increasing competitiveness by reducing costs, improving quality, and strengthening technological and management capacity.

The main features of the foundry industry in Portugal are the regional concentration of firms and their small size. Annual output (1987) was 120 000 t, of which 80% was produced by the ferrous metals sector. The latter exports nearly 45% of its production, but the non-ferrous sector only 25% (most ferrous exports come from three plants manufacturing malleable cast iron). Ferrous production increased by 31% between 1985 and 1987, non-ferrous by 55%.

The industry has a workforce of about 8 000, 22% of whom are aged 50 or over, and 75% of whom are unskilled; 80% of the total workforce is directly employed in production.

Raw materials and electricity are the two largest cost components. Plant and machinery is generally old - 26% is over 20 years old and 7% of machinery must be regarded as obsolete.

Productivity is about one third of the Community average, partly as a result of the low level of mechanization, especially at the casting stage.

The objectives are:

- reduce production costs and losses;*
- maximize capacity utilization;*
- reduce specific energy consumption;*
- improve financial indicators;*
- step up training;*
- adopt a more aggressive marketing strategy;*
- increase productivity, in particular by improving working conditions;*
- implement environmental protection measures.*

The means of achieving these objectives can be classified as follows:

(I) *specific measures*

(a) *structural measures*

- *productive investment: outside consultants for drawing up restructuring plans; modernization/rationalization/innovation plans; quality management and environmental protection or health and safety plans; energy efficiency projects;*
- *technological assistance and tighter management: technical assistance, licences, etc., familiarizing staff with techniques and technologies introduced under restructuring plans, salaries of technical management recruited for an indefinite period;*
- *financing: interest subsidies on borrowings to improve cash flow;*

(b) *Infrastructure measures*

technical assistance, training and marketing measures on a sectoral scale, submitted by existing bodies and unconnected with other measures;

(c) *other (no financial contribution under the programme)*

consolidation of social security debts; tax reliefs and exemptions;

(II) *complementary measures*

for restructuring projects, preferential access to other Pedip programmes (not Sinpedip or Siure): combined applications by firms, guaranteed receipt of aid, maximum rate of assistance;

(III) *social measures*

In connection with Ministry of Employment alternative job creation measures, grants for firms taking on workers made redundant by restructuring in the industry.

SUBPROGRAMME 3.3.2

RESTRUCTURING OF THE FOUNDRY INDUSTRY

(ECU million)

MEASURES	COST	FINANCING		
		PUBLIC SECTOR	OTHER	COMMUNITY BUDGET Ah(1)
STRUCTURES				
TOTAL	68,82	8,46	34,98	25,38
1990	22,75	2,78	11,63	8,34
1991	22,95	2,83	11,63	8,49
1992	23,12	2,85	11,72	8,55
INFRASTRUCTURE				
TOTAL	0,16	0,04	0,00	0,12
1990	0,04	0,01	0,00	0,03
1991	0,06	0,015	0,00	0,045
1992	0,06	0,015	0,00	0,045
T O T A L	68,98	8,50	34,98	25,50
1990	22,79	2,79	11,63	8,37
1991	23,01	2,85	11,63	8,54
1992	23,18	2,87	11,72	8,60

(1) Ah = Additional heading

1.4.4 Support for specific Industries

Portuguese Industry is under-represented in sectors that are regarded as strategically important for competitive specialization, in particular:

- Information technology; and*
- capital goods.*

Those two areas account for only 10% of gross value added in Portugal's manufacturing industry.

Moreover, they exhibit structural weaknesses in technological capacity and workforce skills.

They nevertheless have potential for development in the years ahead, and aggressive expansion strategies are needed.

The aim of subprogramme 3.4 is to provide the specific additional support necessary for implementing two strategic industrial policy programmes drawn up by the Portuguese Government:

- the Integrated Information technology and electronics programme (Pitie);*
- the development programme for capital goods industries (Prodibe).*

These strategic programmes are implemented chiefly through two other types of instrument:

- (1) Preferential support for Pitie and Prodibe projects under Pedip operational programmes. Under special rules, Pitie and Prodibe projects are granted preferential treatment in the form of higher or maximum rates of assistance, guaranteed support up to certain ceilings and permission to submit combined applications;*

(2) *Other regional development operational programmes, in particular the SIBR regional Incentives scheme and the Community support Instruments, especially in the scientific and technological field.*

(1) *Additional support under the Integrated Information technology and electronics programme (Pitie)*

Information technology (IT), embracing the software and information industries, and electronics-based products play a major role in developing economic competitiveness in industry, services and marketing.

In industry, IT is involved in the technological upgrading of products and manufacturing processes and in the computerization of management tools.

In services, information technology is used to automate administrative operations.

In marketing, IT applications facilitate relations between producers and consumers.

Four schemes are planned.

A. Evaluation of human resources and training

The aim is to match the manpower skills and resources to the needs of industry by influencing training structures.

B. Information Technology and Electronics Promotion Office (Gatie)

The task of the Information Technology and Electronics Promotion Office (Gatie) is to boost the development of the IT and electronics industry and market in Portugal in accordance with the Ptile strategy.

Gatie is a standing advisory body.

It is to be launched with four projects:

Project 1: *Strategic survey of markets, technologies and regulatory provisions*

The aim is to observe national and international trends in markets, technologies and legislation with a view to carrying out studies prior to launching integrated management, CAD-CAM, automation and microelectronics programmes;

Project 2: *Support for the development of the domestic IT and electronics industry and its products*

This project seeks to vitalize the industry as regards products, processes, management and intersectoral integration;

Project 3: *International cooperation*

Gatie is furthering Portugal's participation in international projects and Community schemes aimed at stepping up technology transfer in Europe and fostering the international exchange of technology and experience;

Project 4: *Support for the use of information technology and stimulation of the IT market; integration of IT systems in services, industry, commerce and agriculture.*

C. Software Industry

The development strategy in this area is based on:

- training for persons educated to secondary level or above to satisfy employers' needs;
- development of R&D centres;
- development of software houses;
- incentives to encourage major international firms to set up subsidiaries in Portugal developing software for operational systems;
- wider use of computer technology through scheduled contracts with domestic production entities;
- helping businesses to move into the European market with priority support for joint ventures.

D. Information Industry

Portugal's information industry is to be developed through:

- training in information science at postgraduate and higher and secondary education level;
- promoting R&D activities by setting up multidisciplinary teams of suitable size;
- supporting the establishment in Portugal of one or more database development and operation centres;
- supporting the industry's commercial integration into the European information market with priority support for joint ventures.

SUBPROGRAMME 3.4.1

**INTEGRATED INFORMATION TECHNOLOGY AND
ELECTRONICS PROGRAMME (PITIE)**

(Ecu million)

MEASURES	COST	FINANCING		
		PRIVATE SECTOR	PUBLIC SECTOR	COMMUNITY BUDGET Ah(1)
A. <u>HUMAN RESOURCES AND TRAINING</u>				
1989	0,06	--	0,02	0,04
1990	0,76	--	0,19	0,57
1991	0,41	--	0,10	0,31
1992	0,41	--	0,10	0,31
TOTAL	1,64	--	0,41	1,23
B. <u>GATIE</u>				
1989	0,28	--	0,07	0,21
1990	0,47	--	0,12	0,35
1991	0,58	--	0,15	0,43
1992	0,47	--	0,12	0,35
TOTAL	1,80	--	0,46	1,34
C. <u>SOFTWARE INDUSTRY</u>				
1989	0,82	0,39	0,11	0,32
1990	2,34	1,09	0,31	0,94
1991	2,85	1,28	0,39	1,18
1992	2,85	1,28	0,39	1,18
TOTAL	8,86	4,04	1,20	3,62
D. <u>INFORMATION INDUSTRY</u>				
1989	0,43	0,16	0,07	0,20
1990	3,34	1,29	0,51	1,54
1991	4,38	1,60	0,70	2,08
1992	3,50	1,19	0,57	1,74
TOTAL	11,65	4,24	1,85	5,56
T O T A L	23,95	8,28	3,92	11,75

(1) Ah: Additional heading

(II) Development programme for capital goods Industries (Prodibe)

Prodibe's general objective is to improve Portugal's technological capacity by both expanding and upgrading its capital goods industries.

The strategy adopted is to encourage innovative investment in the capital goods industries for producing new capital goods or upgrading existing production, with the back-up of sectoral measures to increase technological assistance and information resources (technology, vocational training, quality, organization and management).

The programme covers the following activities:

A. Publicizing the opportunities for manufacturing new capital goods

Prodibe's main aim is to introduce the manufacture of new capital goods into Portugal. This campaign by the Ministry of Industry and Energy (MIE) supports that strategy by publicizing the specific development opportunities in the area.

Existing producers and potential foreign investors are being targeted in order to encourage them to set up joint ventures.

B. Campaign to improve the image of the capital goods industries

The aim of this measure is to devise and conduct a campaign to improve the image of Portugal's capital goods industries, first determining the target markets and the resources to be used.

Specialized firms for carrying out the campaign have been selected by competition.

Two mobile units have been set up for the purpose of promoting, both nationally and abroad, technologically advanced equipment already manufactured in Portugal, publicizing and promoting prototypes that could be put into production in Portugal and organizing specialized training schemes in firms.

C. Framing a vocational training policy

The aim here is to stimulate the supply of training by drawing up a list of the training needs of the capital goods industries (courses, number of potential trainees, training areas to be covered and geographical distribution).

D. Office for Promoting the Production of Capital Goods (Gape)

The aim of the Office is to steer and stimulate the necessary activities for implementing the Prodiibe strategy.

Gape's tasks are to:

- provide information on Prodiibe and assist firms in drawing up applications;*
- carry out the activities planned in Prodiibe and take part in studies that do not form part of the programme;*
- monitor progress and evaluate results.*

Gape is composed of an Advisory Committee (whose members are appointed by the Ministry of Industry and Energy) and a technical team (three or four highly qualified professionals).

E. Prototype development

The aim of this action is to help launch prototype development projects mounted, in conjunction with technological research centres, by commercial firms engaged in importing or exporting capital goods.

F. Preparation and use of manufacturing specifications

This scheme will finance the preparation of complete manufacturing specifications, with descriptions and drawings of parts, to define and optimize goods already in production and the manufacturing processes and technologies used.

SUBPROGRAMME 3.4.2

DEVELOPMENT PROGRAMME FOR CAPITAL GOODS INDUSTRIES (PRODIBE)
(ECU million)

MEASURES	COST	FINANCING		
		PRIVATE SECTOR	PUBLIC SECTOR	EEC BUDG. Ah (1)
A. PUBLICIZING OPPORTUNITIES				
1989	0,20	--	0,05	0,15
1990	0,60	--	0,15	0,45
1991	--	--	--	--
1992	--	--	--	--
TOTAL	0,80	--	0,20	0,60
B. IMAGE PROMOTION				
1989	0,16	--	0,04	0,12
1990	0,85	--	0,21	0,64
1991	0,12	--	0,03	0,09
1992	0,12	--	0,03	0,09
TOTAL	1,25	--	0,31	0,94
C. VOCATIONAL TRAINING				
1989	0,10	--	0,03	0,07
1990	0,20	--	0,05	0,15
1991	--	--	--	--
1992	--	--	--	--
TOTAL	0,30	--	0,08	0,22
D. GAPE				
1989	0,20	--	0,05	0,15
1990	0,50	--	0,12	0,38
1991	0,50	--	0,12	0,38
1992	0,50	--	0,12	0,38
TOTAL	1,70	--	0,41	1,29
E. PROTOTYPES				
1989	--	--	--	--
1990	0,41	0,12	0,07	0,22
1991	0,41	0,12	0,07	0,22
1992	0,41	0,12	0,07	0,22
TOTAL	1,23	0,36	0,21	0,66
F. MANUFACTURING SPECIFICATIONS				
1989	--	--	--	--
1990	0,41	0,12	0,07	0,22
1991	0,41	0,12	0,07	0,22
1992	0,41	0,12	0,07	0,22
TOTAL	1,23	0,36	0,21	0,66
T O T A L	6,51	0,72	1,42	4,37

(1) Additional heading

1.5 Financial engineering

This programme was devised in order to open up access to the Pedip financial incentives scheme (Sinpedip) for firms which, although viable, would otherwise have been disqualified because of temporary cash-flow problems or their inadequate financial structure.

The aims of the programme are to:

- 1. Finance investment projects, alongside companies' capital and reserves and any grants they receive, on more advantageous terms;*
- 2. Put back on a sound footing businesses that are economically viable but suffer from serious financial handicaps;*
- 3. Inject capital into firms so that they can qualify for assistance under Sinpedip;*
- 4. Set up a guarantee system facilitating access for small and medium-sized businesses to the banking operations involved in international trade;*
- 5. Set up mutual guarantee companies to facilitate access to credit for SMEs.*

The measures to be carried out will supplement and catalyse the incentive schemes already in existence or set up under Pedip; they are targeted chiefly on small and medium-sized businesses and are coordinated with activities in the banking sector, in order to identify and make the most of possible synergies.

A. Investment financing (Guarantee Fund)

This action should be regarded as an essential concomitant to the aid scheme to be set up under Pedip Programme 3.

"Fundos consignados" (participation securities, issued as debt certificates) are a special means of financing specific investments whereby the return that holders receive depends on the results of the investment (or exceptionally, the results of the business).

Investment projects are therefore financed in the following manner:

- *Investment projects involving normal risk exposure are financed through the banking system, and in particular loans from the EIB;*
- *Projects involving greater risk exposure are financed by "fundos consignados" issued by venture capital companies (either private or set up under scheme B) and underwritten by Iapmel.*

The Guarantee Fund set up under Programme 4 provides the necessary security for "fundos consignados" issued in order to finance high-risk projects.

B. Financial restructuring and industrial development: Creation of two venture capital companies

The Portuguese Government has assisted in the setting-up of two venture capital companies (Norpedip and Sulpedip, which operate in the north and south of the country respectively), with the following aims:

- (a) *to acquire a stake in investment and technological innovation projects of special value to industry (wherever possible in addition to the holdings taken up by other venture capital companies or other market/private sector investors);*
- (b) *to contribute to the financial recovery of companies carrying a heavy inherited burden of debt, but making a clear operating profit and enjoying a genuine chance of survival.*

C. Mutual guarantee system

Small and medium-sized businesses find it difficult to obtain bank loans. There are many reasons for this, but one is the problem of bank exposure stemming from the undercapitalization and small size of many firms.

The mutual guarantee system is a financial mechanism whereby member firms take joint liability for credit defaults by contributing to a fund.

A mutual guarantee system was suggested by Commission departments as an essential means of providing financial support for small businesses.

This scheme is still under consideration by the Portuguese authorities and will be finalized in the course of 1990 once the preparatory work (regional and national workshops and fact-finding missions) has been completed.

The financial contribution to this programme has the peculiarity of being disbursed on a one-off basis, for the introduction of the scheme in question (setting up the abovementioned funds or companies, which then continue to operate without any additional financing).

PROGRAMME 4
FINANCIAL ENGINEERING

(ECU million)

MEASURES	TOTAL	FINANCING		
		PRIVATE SECTOR	PUBLIC SECTOR	COMMUNITY BUDGET Ah(1)
A) GUARANTEE FUND				
1988	12	--	3	9
1989				
1990				
1991				
1992				
B) VENTURE CAPITAL COMPANIES				
1988	64	32	8	24
1989				
1990				
1991				
1992				
T O T A L				
1988	76	32	11	33
1989				
1990				
1991				
1992				

(1)Ah: Additional heading

1.6 Productivity drives

The aim of this programme is to boost industrial productivity by promoting demonstration/publicity schemes aimed at significantly increasing the efficient use of factors which affect productivity or by supporting schemes which serve the same purpose but are too specialized to be included in the other Pedip programmes.

The competitive advantage enjoyed by Portuguese industry can be chiefly ascribed to low wages; considering that labour costs will have a decreasing influence on production costs and that unit labour costs will rise steadily as new technology is introduced, it can be concluded that Portugal's present competitiveness cannot last and will not guarantee a gradual long-term rise in the return on the factors of production.

Low productivity is therefore a fundamental obstacle to preparing industry for the structural changes needed to bring about a substantial and lasting improvement in competitiveness.

The programme comprises two subprogrammes:

Subprogramme 1: Demonstration, publicity and promotion

The specific aim of this subprogramme is to promote and spread ideas, concepts and techniques that have a significant impact on improving industrial productivity.

It comprises four schemes:

(1) Business demonstration scheme

Schemes for increasing business productivity are not sufficiently widespread: this stems from a lack of information on the impact of given technologies and management methods and, indeed, the difficulty of applying technologies for general use to particular cases.

These schemes will be implemented in stages:

- *assessment of a particular firm's productivity and identification of action for improving it. The firm in question will constitute a "demonstration enterprise";*
- *aid to enable the "demonstration enterprise" to carry out the course of action identified;*
- *publicizing and promoting the course of action among other firms in the same or other branches of industry;*
- *aid for replicating the demonstration in other industrial firms.*

Demonstrations will differ according to the level of disclosure agreed to by the demonstration enterprise at the publicity stage.

Effective transfer of the technology or technique demonstrated must be ensured by handing the publicity work over to an independent outside body known as a "Competence Centre".

(11) Promotion of business cooperation

Cooperation between firms, in particular SMEs, enables them to achieve the necessary "critical mass" in such fields as production (specialization and complementarity), supplies and marketing.

The purpose of this scheme is to stimulate cooperation by creating favourable conditions for its development, and it involves two types of action:

(a) Stimulation of cooperation, subcontracting and "partnership" schemes

The aim of this measure is to develop cooperation - whether vertical or horizontal, occasional or lasting - between Portuguese firms;

(b) Support for the participation by industrial firms in Community programmes

Cooperation on such programmes with firms in other Member States will strengthen the technological know-how and management capacity of Portuguese firms and internationalize their operations by giving them a firmer foothold not only on their traditional markets but also on new markets within the Community or non-member countries.

(III) Promotion of health and safety at work

The purpose of this scheme is to study, promote and publicize action undertaken in the field of health and safety at work (HSW) and working conditions in industrial firms. Aid will be granted for the following:

- 1. Studies on HSW in firms belonging to branches of industry where the problem is most acute;*
- 2. Publicity for national or Community legislation on HSW (preparation of leaflets and brochures, organization of symposia and seminars, etc.);*
- 3. Promoting the use of technologies and methods of organization leading to an improvement in conditions affecting health, safety and the working environment (e.g. publicizing "clean technologies", demonstrating and publicizing successful HSW experiments carried out by firms, etc.).*

(IV) Studies

The purpose of including aid for studies under Pedip is to help increase productivity by providing firms with information already processed and analysed.

Accordingly, aid will be granted for studies in this field where they are of direct interest to industrial firms and provided that their findings are properly disseminated among the economic operators.

Subprogramme 2: Support for productivity management

This subprogramme comprises five schemes:

(1) Improving company management capacity

Increased productivity in many industrial firms using updated processes and equipment depends essentially on the ability to put existing factors of production to good use. One of the complex influences on competitiveness is the capacity for business management and organization.

The following types of action will be carried out under this scheme:

- 1. Audits and analyses in industrial firms to identify bottlenecks*

affecting productivity and/or product costs and quality, particularly as regards production, supply, marketing, energy and organization and management in general;

- 2. Education in, and promotion of wider use of, management methods and techniques, especially those involving information technology, and business management techniques such as strategic planning, coordination and motivation.*

(11) Strengthening technical assistance capacity

The purpose of this scheme is to strengthen the advanced technical assistance network for industrial firms which are too small to employ staff of their own at that level.

The scheme will consist of two measures:

(a) Introduction and development of Competence Centres

Competence Centres (CCs) are small business organizations whose function is to provide technical assistance to industrial firms in the field of productivity and especially industrial engineering and management.

The tasks of the CCs are:

- to help implement business demonstration schemes and to publicize the results among other industrial firms, especially by carrying out assessments;*
- to promote the transfer of knowledge from the universities and technological infrastructure to industrial firms;*
- to help organize technical training schemes within their specialized field;*
- to disseminate information on scientific and technical projects.*

(b) Industrial extension network

The industrial extension network operates on the basis of qualified technical specialists working together with industrial associations capable of establishing a permanent and creative link between those firms and the various institutions and bodies providing assistance to industry.

(III) Aid for market access

The chief emphasis of Pedip is on production and technology, and the purpose of this scheme is to supplement it with measures to help industrial firms gain access to markets both in Portugal and the rest of the Community and outside. The scheme comprises two measures:

- (a) Export market prospecting and intelligence;*
- (b) Publicizing Portuguese industry.*

(IV) Information for industry

It is essential for the purposes of improving Portuguese industrial productivity that firms should be given ready access to the technical, scientific, commercial, legal and financial information they require.

This scheme aims to achieve that objective by developing the Information System for industry already set up, on an experimental basis, by the Ministry of Industry and Energy with a view to coordinating and supplementing the various sources of documentation available in Portugal and abroad. Support may also be given for setting up and offering access to new databases.

(V) Support for industrial associations

Specific aid for industrial associations is justified in view of the role which they can play in providing firms with technological, technical, commercial and financial assistance and information and in representing the interests of Portuguese industry at Community level through European trade associations. The scheme will comprise the following measures:

- (a) Participation in EEC trade associations;*
- (b) Enhancement of technical capacity.*

PROGRAMME 5

PRODUCTIVITY DRIVES

(ECU Million)

MEASURES	COST	FINANCING		
		PRIVATE SECTOR	PUBLIC SECTOR	EEC BUDG. Ah (1)
1.1 DEMONSTRATION				
1989	8,89	2,89	1,50	4,50
1990	14,53	4,72	2,45	7,36
1991	17,29	5,65	2,91	8,73
1992	11,50	3,74	1,94	5,82
TOTAL	52,21	17,00	8,80	26,41
1.2 COOPERATION				
1989	0,40	0,10	0,075	0,225
1990	0,40	0,10	0,075	0,225
1991	0,40	0,10	0,075	0,225
1992	0,40	0,10	0,075	0,225
TOTAL	1,60	0,40	0,300	0,900
1.3 HEALTH AND SAFETY AT WORK				
1989	0,13	0,03	0,025	0,075
1990	0,13	0,03	0,025	0,075
1991	0,13	0,03	0,025	0,075
1992	0,13	0,03	0,025	0,075
TOTAL	0,52	0,12	0,100	0,300
1.4 STUDIES				
1989	1,14	0,34	0,20	0,60
1990	1,43	0,43	0,25	0,75
1991	1,43	0,43	0,25	0,75
1992	1,43	0,43	0,25	0,75
TOTAL	5,43	1,63	0,95	2,85
SUBPROGRAMME 1 :				
TOTAL				
1989	10,56	3,36	1,80	5,40
1990	16,49	5,28	2,80	8,41
1991	19,25	6,21	3,26	9,78
1992	13,46	4,30	2,29	6,87
TOTAL	59,76	19,15	10,15	30,46

(1) Ah = Additional heading

PROGRAMME 5

PRODUCTIVITY DRIVES (cont'd)

(ECU million)

MEASURES	COST	FINANCING		
		PRIVATE SECTOR	PUBLIC SECTOR	EEC-BUDG. Ah (1)
1. COMPANY MANAGEMENT				
1989	1,14	0,34	0,20	0,60
1990	1,43	0,43	0,25	0,75
1991	1,43	0,43	0,25	0,75
1992	1,43	0,43	0,25	0,75
TOTAL	5,43	1,63	0,95	2,85
2 a) COMPETENCE CENTRES				
1989	3,39	1,03	0,59	1,77
1990	4,29	1,29	0,75	2,25
1991	2,86	0,86	0,50	1,50
1992	1,43	0,43	0,25	0,75
TOTAL	11,97	3,61	2,09	6,27
2 b) INDUSTRIAL EXTENSION NETWORK				
1989	1,12	0,33	0,20	0,59
1990	0,71	0,22	0,13	0,36
1991	1,62	0,48	0,27	0,87
1992	1,41	0,42	0,25	0,74
TOTAL	4,86	1,45	0,85	2,56
3. MARKET ACCESS				
1989	2,80	1,40	0,35	1,05
1990	2,60	1,29	0,33	0,98
1991	2,40	1,20	0,30	0,90
1992	2,00	1,00	0,25	0,75
TOTAL	9,80	4,89	1,23	3,68

(1)Ah = Additional heading

PROGRAMME 5

PRODUCTIVITY DRIVES (cont'd)

(ECU million)

MEASURES	COST	FINANCING		
		PRIVATE SECTOR	PUBLIC SECTOR	EEC-BUDG. Ah(1)
4. INFORMATION FOR INDUSTRY				
1989	1,73	0,34	0,35	1,04
1990	0,63	0,12	0,13	0,38
1991	1,67	0,34	0,33	1,00
1992	1,35	0,27	0,27	0,81
TOTAL	5,38	1,07	1,08	3,23
5. INDUSTRIAL ASSOCIATIONS				
1989	1,20	0,60	0,15	0,45
1990	1,60	0,80	0,20	0,60
1991	1,60	0,80	0,20	0,60
1992	1,60	0,80	0,20	0,60
TOTAL	6,00	3,00	0,75	2,25
SUBPROGRAMME 2 TOTAL				
1989	11,38	4,04	1,84	5,50
1990	11,26	4,15	1,79	5,32
1991	11,58	4,11	1,85	5,62
1992	9,22	3,35	1,47	4,40
TOTAL	43,44	15,65	6,95	20,84
T O T A L				
1989	21,94	7,40	3,64	10,90
1990	27,75	9,43	4,59	13,73
1991	30,83	10,32	5,11	15,40
1992	22,68	7,65	3,76	11,27
TOTAL	103,20	34,80	17,10	51,30

(1)Ah = Additional heading

1.7 Industrial quality and design

Few firms in Portuguese industry manufacture their goods according to standards or other technical specifications and use laboratory checks on product quality. There are innumerable small businesses which do not use testing or other methods of evaluating their products and are not acquainted with quality management techniques. Such businesses operate with deficient structures and inadequate technical staff. As far as product conformity is concerned, only a few products are covered by certification schemes.

Industrial design, which is one component of quality, adds an innovative aesthetic, functional and cultural dimension to the relationship with consumers and users when applied to products or services. In Portugal there is a distinct lack of official interest in design; institutional arrangements, assistance and promotion are minimal.

Decree-Law No 165/83 of 27 April 1983 provides the legal framework for the national system of product and service quality in industry. This law, which set up the National Quality Management System (SNGQ) and the National Quality Council (CNQ), covers various areas associated with quality: standards, metrology and certification. The CNQ is an advisory body. Its duties are to adopt the general procedures for the preparation and approval of Portuguese standards, the recognition of sectoral standardization bodies, the organization of certification procedures and the recognition of bodies involved in the certification process. At present 26 sectoral standardization bodies, 30 testing laboratories and quality control systems in eight firms are recognized.

The aims of Pedip Programme 6 are to promote consumer protection and improve industry's competitiveness by creating the conditions necessary to ensure that the legal provisions governing industrial activity are observed as national legislation is adapted to Community law.

The programme pursues the following detailed objectives:

- (a) to strengthen the three target areas (standards, metrology and certification) of the National Quality Management System;*

- (b) to create a national awareness among producers and consumers of the need for quality;
- (c) to develop industry's own quality management capacity;
- (d) to create the conditions for mutual or multiple recognition of certification systems and bodies;
- (e) to make design an integral part of industrial production.

The planned measures are as follows.

A. Quality Incentives Scheme (SIQ)

Guaranteeing and improving quality are the objectives of the National Quality Management System (SNGQ), which lays down technical reference procedures for mutual recognition between countries. The SIQ is primarily concerned to develop the ability to guarantee the quality of goods and services produced or supplied in Portugal and provide greater scope for mutual recognition of certification systems and bodies. Under this scheme, non-repayable investment subsidies are provided for the creation or development of testing or metrology laboratories and for the reorganization of sectoral standardization, certification, inspection or audit bodies.

B. Campaign to promote motivation in industrial quality and design

The basic aim is to promote an awareness of the need for quality and design. Measures will take the form of awareness training, publicity and information campaigns on the practical aspects (obligations, rights and techniques) and the social and economic benefits of quality.

C. Integrated planning to improve customer/supplier relations

This subprogramme will improve dialogue and cooperation between firms, with the following specific results:

- customers will take account of the capacity and potential of their suppliers and will be saved the cost of inspection on arrival, shortfalls in supply or overstocking;

- suppliers will tailor their production to the needs of their customers and will be saved the cost of batch rejection on arrival or of rectifying shortcomings in quality.

D. Analyses and forward studies of quality and design or related fields

Such analyses and studies must be of direct interest to potential users (producers, consumers and the public authorities):

- stocktaking of existing laboratory capacity and availability for industry;
- sectoral or regional analyses of industry from the viewpoint of quality and design;
- forward studies of investment needs;
- cost/benefit analyses of quality in sectoral terms;
- sectoral studies of the impact of industrial quality and design on the domestic and European market for industrial products.

E. Development of the regulatory framework

This activity has a twofold objective:

- to provide backing for the work of technical committees and sectoral standardization bodies;
- to help firms systematically organize their production know-how in the form of standards or technical specifications which will ensure the transfer, dissemination and/or promotion of manufacturing technologies.

F. Promoting calibration of measuring instruments

To ensure accuracy in measurements taken during production, it is essential that measurement and testing equipment should comply with the standards and calibration.

G. Promoting the use of certification systems

Directive CNQ 5/85 adopted by the National Quality Council governs the organization and use of certification systems. Under this Directive, there are eight possible types of certification system, all of which require manufacturers to enter into commitments vis-à-vis the certifying body,

which issues an approval mark for different products, providing the user with a guarantee of quality.

H. Measures to promote industrial design

Work under this heading will be carried out by bodies specifically concerned with industrial design, particularly the National Design Centre. The following measures could be taken:

- creation and setting-up of regional or sectoral centres concerned with developing, assisting, publicizing and exhibiting industrial design;
- investment projects to develop products with a high design content;
- aid for measures to promote industrial design (competitions, exhibitions, publications).

I. Assistance to trade and social associations

This scheme will supplement the support given to industrial associations under Programme 5 (Productivity drives). It is confined to providing human resources to back up technical capacity:

- aid for the recruitment of technical staff;
- aid for traineeships in similar associations in other European countries and to help national associations take part in the work of Community bodies, particularly those concerned with consumer protection.

PROGRAMME 6

INDUSTRIAL QUALITY AND DESIGN

(ECU million)

MEASURES	YEAR	COST	FINANCING		
			PRIVATE SECTOR	PUBLIC SECTOR	EEC-BUDGET Ah(1)
A. QUALITY INCENTIVES SCHEME	1989	9,55	2,07	1,84	5,64
	1990	6,85	1,48	1,35	4,02
	1991	6,85	1,48	1,35	4,02
	1992	6,75	1,47	1,32	3,96
	TOTAL	30,00	6,50	5,86	17,64
B. MOTIVATION IN QUALITY AND DESIGN	1989	0,90	--	0,25	0,65
	1990	0,60	--	0,15	0,45
	1991	0,60	--	0,15	0,45
	1992	0,60	--	0,15	0,45
	TOTAL	2,70	--	0,70	2,00
C. CUSTOMER/SUPPLIER RELATIONS	1989	0,27	0,07	0,05	0,15
	1990	0,27	0,07	0,05	0,15
	1991	0,27	0,07	0,05	0,15
	1992	0,27	0,07	0,05	0,15
	TOTAL	1,08	0,28	0,20	0,60
D. ANALYSES	1989	0,43	0,05	0,10	0,28
	1990	0,32	0,04	0,07	0,21
	1991	0,32	0,04	0,07	0,21
	1992	0,30	0,04	0,06	0,20
	TOTAL	1,37	0,17	0,30	0,90
E. REGULATORY FRAMEWORK	1989	0,63	0,29	0,08	0,26
	1990	0,63	0,29	0,08	0,26
	1991	0,63	0,29	0,08	0,26
	1992	0,63	0,29	0,08	0,26
	TOTAL	2,52	1,16	0,32	1,04
F. PROMOTING CALIBRATION	1989	0,14	0,06	0,02	0,06
	1990	0,14	0,06	0,02	0,06
	1991	0,14	0,06	0,02	0,06
	1992	0,14	0,06	0,02	0,06
	TOTAL	0,56	0,24	0,08	0,24
G. PROMOTING CERTIFICATION	1989	0,14	0,03	0,03	0,08
	1990	0,14	0,03	0,03	0,08
	1991	0,14	0,03	0,03	0,08
	1992	0,14	0,03	0,03	0,08
	TOTAL	0,56	0,12	0,12	0,32
H. PROMOTING DESIGN	1989	0,63	0,20	0,11	0,32
	1990	0,44	0,14	0,07	0,23
	1991	0,44	0,14	0,07	0,23
	1992	0,49	0,16	0,09	0,24
	TOTAL	2,00	0,64	0,34	1,02

(1) Ah = Additional heading

I. TRADE AND SOCIAL ASSOCIATIONS	1989	0,17	0,09	0,02	0,06
	1990	0,17	0,09	0,02	0,06
	1991	0,17	0,09	0,02	0,06
	1992	0,17	0,09	0,02	0,06
	TOTAL	0,68	0,36	0,08	0,24
T O T A L	1989	12,86	2,86	2,50	7,50
	1990	9,56	2,20	1,84	5,52
	1991	9,56	2,20	1,84	5,52
	1992	9,49	2,21	1,82	5,46
	TOTAL	41,47	9,47	8,00	24,00

1.8 Publicity, implementation and monitoring

Pedip could be the ideal instrument for enabling Portuguese industry to modernize and Portugal thus to be fully integrated into the single market.

The measures planned and the instruments and funding available will not, however, be sufficient to achieve the objectives set unless industry becomes fully involved and makes a genuine contribution to the implementing, monitoring and, where necessary, adjustment of the many programmes covered.

Economic agents will be able to become involved only if they are clearly informed of Pedip's objectives, the measures it includes, the advantages it can offer and the instruments at its disposal.

For its own implementation, then, Pedip must provide for a set of publicity measures that will provide potential beneficiaries with all the information necessary to enable them to take part.

Since Pedip is an evolving programme, critical reviews will have to be carried out periodically to see how the different schemes are progressing and how successful they are in achieving the objectives set. Such reviews may lead to changes in the measures and instruments being used or even prompt more searching studies. An information network, linking all the bodies involved in implementing Pedip and providing up-to-date information at any given moment on the various programmes and their state of progress towards the objectives fixed, will therefore have to be set up.

The programme is divided into two subprogrammes:

(1) Implementation, follow-up and monitoring

The aim of this subprogramme is to lay the foundations for efficient implementation of Pedip and set up an information system that will enable the Portuguese and Community authorities to follow its progress and constantly assess and monitor the activities under way.

It comprises the following measures:

- (a) Information system;*
- (b) studies to prepare for formulation/alteration of programmes;*
- (c) project assessment teams;*
- (d) financial and technical audits;*
- (e) Impact studies;*
- (f) comparative studies.*

(II) Publicity, awareness and information

Since Pedip's central objective is to modernize Portuguese industry, the programme must be promoted in the business world and particularly among small and medium-sized enterprises, which are widely dispersed and have special difficulties in gaining access to information.

If Pedip is to be a success, it is vital to make information freely and widely available to encourage the submission of projects that can be incorporated in the programme.

At the same time, Portuguese workers must be made aware of the importance of their active participation in the measures to modernize their industry, and the significance of the programme must be impressed upon public opinion.

The overall strategy behind this subprogramme is based on the development of four areas:

- (a) information campaign;*
- (b) publicity campaign;*
- (c) public relations campaign;*
- (d) complementary activities (trade fairs and exhibitions, logo).*

After the programme was launched, although not required to do so under Regulation (EEC) No 2053/88, the Portuguese authorities agreed to set up, in the spirit of the reform of the structural Funds, a Pedip Monitoring Committee to examine all measures funded by Community Instruments (the additional budget contribution for Pedip, the ERDF and the Social Fund). Operation of the Monitoring Committee is funded by Programme 7.

PROGRAMME 7

PUBLICITY, IMPLEMENTATION AND MONITORING

(ECU million)

		COST	FINANCING
			EEC-BUDGET (1)
<u>SUBPROGRAMME 1</u>			
IMPLEMENTATION, FOLLOW-UP AND MONITORING			
	1988	0,65	0,65
	1989	0,81	0,81
	1990	1,34	1,34
	1991	0,80	0,80
	1992	1,15	1,15
	TOTAL 1988/1992	4,75	4,75
<u>SUBPROGRAMME 2</u>			
PUBLICITY, AWARENESS AND INFORMATION			
	1988	1,60	1,60
	1989	1,54	1,54
	1990	1,23	1,23
	1991	1,00	1,00
	1992	0,88	0,88
	TOTAL 1988/1992	6,25	6,25
<u>MONITORING COMMITTEE</u>			
	1988	----	----
	1989	0,06	0,06
	1990	0,04	0,04
	1991	0,04	0,04
	1992	0,04	0,04
	TOTAL 1988/1992	0,18	0,18
<u>TOTAL</u>			
	1988	2,25	2,25
	1989	2,41	2,41
	1990	2,61	2,61
	1991	1,84	1,84
	1992	2,07	2,07
	TOTAL 1988/1992	11,18	11,18

N.B. : This programme is funded entirely by the Community under the additional heading

2. LAUNCHING AND INITIAL IMPLEMENTATION OF THE PROGRAMME; CONTROLS AND MONITORING

2.1 The first practical application of the reform of the structural Funds

The launching and implementation of Pedip was the first actual application of the principles underlying the reform of the structural Funds.

As soon as the Council had adopted the Regulation on the additional budget heading for Pedip and the framework Regulation on the reform of the Funds in June 1988, the Portuguese authorities and the Commission set up the operational machinery for the Programme.

A salient feature is the centralization of management on both sides, the aim being to minimize procedural delays in launching the operational programmes and to maximize the use of the budget appropriations for 1988 while complying with the annuality principle which that year's new budget rules had introduced.

After being given political responsibility for Pedip by the Government, Portugal's Minister for Industry appointed a "Gestor do Pedip" with overall responsibility for the management of the Programme and reporting direct to the Minister.

The Commission's approach was similar: it assigned to the Commission Member for internal market and industrial affairs the primary responsibility for Pedip, and to the Directorate-General for Internal Market and Industrial Affairs the task of administering the additional budget heading, since the Integrated Programme relates to industry and is designed to contribute to the completion of the single market.

The Advisory Committee, which was set up under Article 8 of Regulation (EEC) No 2053/88 so that Member States could oversee the management of the resources of the additional budget heading, held its first meeting on 20 July 1988.

A measure of the exemplary importance attached to the Programme lies in the fact that it was on several occasions the subject of talks between Portugal's Prime Minister and the President of the Commission (in particular in October 1988, during the preparatory phase), and between Portugal's Minister for Industry and the Vice-President of the Commission responsible for industrial affairs.

The procedures followed have enabled the Programme to reach a satisfactory "cruising speed" in record time. The Commission had undertaken to have the main programmes adopted before the end of 1988. By the end of November all the relevant appropriations for 1988 had been committed, and by 7 December funds corresponding to the maximum advance of 50% had been deposited with Portuguese banks.

2.2 A prompt start to the programme

While, thanks to the work of the two teams, the main Pedip operational programmes had, in the words of Portugal's Industry Minister, been launched in "record time", implementation depended on the extent to which the programmes, once approved, could meet the requirements of Portuguese Industry.

As early as April 1989 the Portuguese Government and the Commission agreed to take every step to build on the success of the launch phase and to ensure that the Pedip "pilot scheme" continued to serve as a model for the implementation of the reform of the structural Funds. Indeed, the budget appropriations concerned were fully utilized both in 1988 and 1989.

2.3 Introduction of the ecu

Pedip has also produced encouraging results in several other fields.

The Portuguese authorities responsible for the management of Pedip agreed to the use of the ecu as the sole unit of account for drawing up not only the financial schedules but also the statements of expenditure. The experience gained as a result is a major contribution towards the phasing in of the ecu in the management of the structural Funds.

2.4 Partnership: compliance with Community policies

For each programme the Commission must adopt a Decision specifying the funding allocated and laying down the financial and control arrangements.

Before the Decision is adopted the content of the programme is finalized by consultation between the Portuguese authorities and the Commission departments concerned. The consultation procedure begins when the

Portuguese authorities send in a draft programme, which is then discussed by the Commission's Interdepartmental Technical Coordination Group. In line with the partnership principle the Portuguese authorities are normally involved in the work at this stage.

Once the draft programme has been finalized (after taking into account the comments of all those concerned) a draft Decision is put before the Commission for adoption. As soon as it is adopted the implementation of the programme begins and an initial advance equivalent to 50% of the Community's annual contribution is paid over to the Portuguese managers of the programme.

Once the Decision is adopted the programme combines with the rest of Pedip, in that it is dealt with as both its own characteristics and its links with other programmes require.

This integrating process is furthered by the centralized management structure referred to in 2.1. It has enhanced the practical impact of the partnership principle, since having a single contact makes it easier to solve practical problems and can help to identify synergies with other programmes being considered by Portugal or the Community.

Since it is an integrated programme bridging the important areas of industry, social affairs and infrastructure, special emphasis was placed on compliance with Community policies. In particular, the work carried out concurrently for the purposes of adopting the financial plans and scrutinizing the programmes for compatibility with the competition rules ensures the necessary consistency between those two aspects. Since all the programmes can have repercussions on competition they are examined, prior to adoption, under Articles 92 and 93 of the EEC Treaty. There is an additional control system for Sinpedip and the Financial Engineering Programme.

In the case of Sinpedip, Community rules currently require prior notification for investment projects relating to sensitive products and sectors in critical difficulty and for large-scale projects. With effect from January 1990 those rules were adjusted in the light of the new principles of the reform of the structural Funds, and Sinpedip is now required to meet new standards (higher notification thresholds and annual reports).

In the case of the Financial Engineering Programme it is stipulated that the Commission must receive prior notification of contributions which increase corporate capital by more than ECU 100 000, where the two venture-capital companies formed under the Programme do not involve other venture-capital companies operating under market conditions.

The Commission attaches special importance to technical assistance and cooperation.

At the request of the Portuguese authorities an introductory seminar for Pedip programme managers was held in December 1989 on compliance with the provisions of the Community policies on public procurement and environmental protection.

In September 1989 a briefing mission to Lisbon dealt with the application of the financial and control provisions. Portuguese officials involved in the management of the programmes were given a short period of training at the Commission's Directorate-General for Financial Control in July 1988.

2.5 Controls

Controls operate at several levels.

Initially the Commission, having consulted the Advisory Committee, approves the General Guidelines for the implementation of measures in the priority areas which take practical shape in Pedip's programmes and subprogrammes.

The General Guidelines cover each annual period and have a twofold purpose, namely to assist implementation by specifying the priorities for the period and to make adjustments in the light of the performance in the preceding period.

Since Pedip was launched late in 1988, the General Guidelines for the first year and for 1989 were set at the same time.¹ The General Guidelines for 1990 were approved and published in good time.²

The control structure is based on the General Guidelines and the content of the programmes. First-level control seeks to provide a continuous overall view of the implementation of Pedip.

The Portuguese authorities keep the Commission departments (in particular the Directorate-General administering the additional budget heading) regularly informed on progress on the programmes. All the relevant information is communicated, and frequent contacts provide an up-to-date picture of the performance of the programmes. In addition, the Portuguese authorities present regular progress reports to the Monitoring Committee.

1 OJ No C 336, 31.12.1988, p. 4.

2 OJ No C 322, 23.12.1989, p. 3.

Under the monitoring procedure internal reports on the implementation of the programmes are made available to the Commission department concerned on a monthly basis.

At the meeting of the Advisory Committee held on 23 October 1989 the Commission representatives advised the Portuguese authorities that, as far as possible, the Pedip monitoring arrangements should fit in with the system which will be introduced for the Community support framework. The various monitoring systems used for the Portuguese programmes in the context of the Community support framework would then be sufficiently aligned to allow overall monitoring of the entire Community support framework.

An annual report on the implementation of all the operational programmes must be presented to the Commission by 30 June the following year. The 1988 report was sent to the Commission on 19 June 1989 and the 1989 report on 23 April 1990. The reports are forwarded to the members of the Pedip Advisory Committee for discussion.

The second level is the control of expenditure. A Commission team visited Lisbon in October 1989 for discussions with the Portuguese Pedip authorities on the introduction of a financial management and control system which meets the Community's requirements. This was followed, in March 1990, by a first official visit by the Commission's Financial Control staff to collect information affording a description of the management and control system adopted by the Portuguese authorities.

2.6 Monitoring

Financial controls cannot be dissociated from programme monitoring. For Pedip the correct linkage between the two is achieved through the Monitoring Committee and the Advisory Committee.

2.6.1 The Monitoring Committee

The Monitoring Committee has nine permanent members: four representing the Commission and five the Portuguese authorities. A representative of the European Investment Bank may attend meetings discussing items specifically concerning the EIB. The Chairman is from Portugal.

The role of the Committee is as follows:

- to stimulate the implementation of Pedip;
- to facilitate coordination between the various agencies involved;

- to authorize budget changes within the limits laid down by the Decisions, provided that such changes do not affect the overall budget forecasts and that Commission approval is not required;
- to submit, as required, proposals to the Commission and the Portuguese authorities for discontinuing programmes or measures or for introducing major changes in them;
- to be informed on the projects selected and on the selection criteria;
- to assess and deliver opinions on the annual reports by the Portuguese managers on the implementation of Pedip before they are sent to the Commission;
- to decide on the assessment procedures for each programme and to propose to the Commission and the Portuguese authorities any changes which it feels are required;
- to ensure that the specific provisions of each programme are complied with;
- to ensure compliance with Community policies, in particular on competition, public procurement, environmental protection and the notification of projects relating to sensitive products and sectors in critical difficulty.

The Monitoring Committee, which was set up at the end of July 1989, has so far met twice, on 7 November 1989 and 8 March 1990. The plans are that it should henceforth meet at least three times a year.

2.6.2 The Advisory Committee

The Advisory Committee consists of representatives of the Member States. It is chaired by a representative of the Commission, and a representative of the EIB participates in the Committee's work.

The Committee - established under Article 8 of Regulation (EEC) No 2053/88 - met for the first time on 20 July 1988. Since then it has met regularly every quarter. Its role is to assist the Commission in the implementation of the Regulation, and it delivers opinions on the General Guidelines for the implementation of Pedip.

The Committee is regularly briefed, both orally and in writing, on the progress of Pedip. All the operational programmes and the decisions approving them are sent to the Committee members, as well as the annual report on the implementation of the programmes, presented by the Portuguese authorities not later than six months after the end of the reference year. No formal comment on the management of the funds available under the additional budget heading was made at any of the Committee's eight meetings so far.

3. BUDGET EXECUTION

3.1 The additional budget heading for Pedip

Article 1(2) of Council Regulation (EEC) No 2053/88 states: "Financial assistance from the Community budget for implementation of the Pedip shall be provided, over and above support from the structural Funds, by means of additional resources amounting to an average of ECU 100 million per year (1988 prices) for the financial years 1988 to 1992."

In the financial implementation of the resources allocated under the additional budget heading, the pilot role played by Pedip in the reform of the structural Funds is borne in mind.

Since the amount of ECU 100 million per year is fixed in terms of constant 1988 prices, it is increased each year in line with the price rise measured by the annual price deflator. The commitment entered for the year 1989 was ECU 103.5 million and for 1990, ECU 108.8 million.

3.2 Commitment and payment procedures

Regulation No 2053/88 does not lay down commitment or payment procedures, merely authorizing the Commission to apply the appropriate provisions, as required by the nature of the measures in question. In general, the procedure under the rules governing the structural Funds, in pursuance of the Financial Regulation, has been followed, that is:

- the initial budget commitment and subsequent budget commitments are based on the annual schedule of expenditure contained in the Decisions approving the programmes;
- the budget commitment for the first annual instalment is made when the Commission adopts the decision on assistance. Budget commitments for subsequent instalments are made on the basis of expenditure as it is incurred, which is indicative of the progress of the programmes;
- apart from the initial budget commitment, in principle successive annual commitments are made only when the Portuguese authorities are able to certify to the Commission that actual expenditure has been incurred amounting to 70% of eligible expenditure for the previous annual

instalment. The Commission does not commit a third instalment until the Portuguese authorities are able to show that the first commitment has been used in full;

- following each commitment, an initial advance corresponding to a maximum of 50% of the commitment for the year may be paid;
- a second advance, calculated so that the total amount of the two advances does not exceed 80% of the commitment, may be paid when the Portuguese authorities are able to certify, by notification of expenditure actually incurred, that half of the first advance has been expended and the programme as a whole is progressing satisfactorily and in accordance with the objectives laid down.

The commitment and payment procedures mentioned above are indicated in the annexes to the various Decisions approving the Pedip programmes (financial and monitoring provisions).

The following should be noted: the political authority responsible for the management of the resources granted is the Minister for Industry; the financial coordinator is the Pedip Director ("Gestor do Pedip"); and the administrative authority responsible for the management of funds is the Institute for Aid to Small and Medium-Sized Industrial Firms (IAPMEI) and Investment.

The financial plans for Pedip's operational programmes are expressed in ecus. Statements of expenditure actually incurred are drawn up and submitted in ecus by the Portuguese authorities, the expenditure being converted monthly at the rate for the month in which the expenditure was entered in the books of the agencies responsible for the financial management of the programmes. The statements of expenditure submitted in ecus to the Commission represent the sum of the amounts converted at the end of each month.

In order to avoid discrepancies, the Directorate-General administering the resources of the additional budget heading notifies the Pedip Director at the beginning of each month of the ecu/escudo conversion rate for accounting purposes.

3.3 State of execution of the budget

The following table shows the position at 30 April 1990 with regard to commitments and payments for the Pedip operational programmes.

IMPLEMENTATION OF BUDGET AT 30 APRIL 1990

ECU million

PROGRAMMES	Programme Decision	Budget contribution to PEDIP	1988 Budget		1989 Budget		1990 Budget	
			Commitment	Payments	Commitment	Payments	Commitment	Payments
1. Basic and technological infrastructure (measures D and E in Subprogramme 1.1)	13.7.89	26,48	-	-	6,05	3,025	-	-
2. Vocational training (measures A,I,J)	26.4.89	15,78	-	-	6,71	5,368	-	-
3.1. Financial incentives (SINPEDIP)	11.11.88	244,5	37,1	18,55	66,65	42,387	-	7,42**
3.2. Energy efficiency (SIURE)	20.3.89	9,66	-	-	2,02	1,01	-	-
3.3.1. Restructuring-Woollen Ind.	11.11.88	17,65	17,65	8,825	-	-	-	-
3.3.2. Restructuring-Foundry Ind.	26.04.90	25,5	-	-	-	-	8,37	4,185
3.4. Support for specific Ind. (PITIE and PRODIBE)	27.11.89	16,12	-	-	1,28	0,63	-	-
4. Financial engineering	28.11.88	33,0	33,0	16,5	-	16,5	-	-
5. Productivity drives	7.3.89	51,3	-	-	10,9	5,45		
6. Industrial quality and Design	7.3.89	24,0	-	-	7,5	3,75		
7. Publicity, implementation and monitoring	11.11.88	11,18	2,25	1,125	2,41	1,88		0,45**
SUB-TOTAL	-	475,17	90,0	45,0	103,5	80		
Resources not yet allocated	-	24,83	-	-	-	-	-	-
TOTAL (as % of appropriations entered in the budget)		500,0 (*)	90,0 (100)	45,0 (100)	103,5 (100)	80 (100)	8,37 (7,7)	12,055 (12)

(*) at constant 1988 prices

(**) 1988 balance

With the exception of Programme 7, Publicity, Implementation and monitoring - Monitoring Committee, which is financed entirely from the additional budget heading under Article 4 of Regulation (EEC) No 2053/88, 75% of the public funds for the other operational programmes come from the additional heading and 25% from the Portuguese State.

The main events in the implementation of the budget in each year are set out in greater detail below.

3.3.1 1988

The four Commission Decisions adopted in November 1988 concerned the following programmes:

<u>Programmes</u>	<u>Notification to the Commission</u>	<u>Commission Decision</u>
3.1. Financial Incentives (Sinpedip)	8 September 1988	C(88)2119, 11 November 1988
3.3.1. Restructuring of the woollen industry	9 August 1988 ¹ 11 November 1988	C(88)2117,
4. Financial engineering	29 September 1988	C(88)2220, 28 November 1988
7. Publicity, Implementation and monitoring	27 September 1988	C(88)2118, 11 November 1988

The entire Community contribution for the restructuring of the woollen industry (ECU 17.65 million) was committed under the 1988 budget.

The Commission Decision on Programme 4, Financial engineering, lays down that the second and final instalment may be paid only after an agreement had been reached between the Commission and the Portuguese authorities concerning:

- . the articles of association of the venture capital companies to be set up;
- . the operating rules of the "fundos consignados".

After a number of meetings and exchanges of letters with those with political and technical responsibility for Pedip, agreement was reached on

¹ This programme had been notified on 5 February 1988 under the Article 92 and 93 procedure before the Pedip co-financing decision.

the interpretation of the proposed texts and the remainder of the funds necessary for setting up this programme in 1989 was paid.

The Decision concerning Programme 7, Publicity, Implementation and monitoring, was amended in 1989 to take account of the agreement by the Portuguese authorities to set up a Monitoring Committee conforming to the principles underlying the reform of the structural Funds but not explicitly provided for in Council Regulation (EEC) No 2053/88.

Although Regulation (EEC) No 2053/88 was not adopted until 24 June 1988 and published in the Official Journal on 15 July 1988, all the 1988 budget resources were used, i.e. ECU 90 million in commitment appropriations and ECU 45 million¹ in payment appropriations.

3.3.2 1989

The dates of decisions in 1989 were as follows:

<u>Programmes</u>	<u>Notification to the Commission</u>	<u>Commission Decision</u>
1. Basic and technological Infrastructure	25 January 1989	C(89)1287, 13 July 1989
2. Vocational training	1 December 1988	C(89)765, 26 April 1989
3.1. Financial Incentives (Sinpedip)	-- --	C(89)1965, 20 November 1988 (amendment of C(88)2119)
3.2. Energy efficiency Incentives (SIURE)	8 September 1988 ²	C(89)484, 20 March 1989
3.4. Selective support (PITIE/PRODIBE)	29 August 1989	C(89)2045, 27 November 1989

¹ During the budget adoption procedure, ECU 10 million was transferred provisionally to the EAGGF and will be recovered in following years (cf SEC(88)1401 final).

² This programme had been notified on 8 May 1987 under the Article 92 and 93 procedure before the Pedip co-financing decision.

<u>Programmes</u>	<u>Notification to the Commission</u>	<u>Commission Decision</u>
5. Productivity drives	21 October 1988	C(89)390, 7 March 1989
6. Industrial quality and design	21 October 1988	C(89)391, 7 March 1989
7. Publicity, implementation and monitoring	-- --	C(89)1 400, 25 July 1989 (amendment of C(88)2 118)

The following should be noted.

- Programme 1, Basic and technological infrastructure

In 1988 the ERDF provided assistance totalling ECU 76,72 million for infrastructure projects under Programme 1. In 1989 the Commission approved, by Decision C(89)1 287, the contributions from the ERDF and the additional budget heading to the co-financing of the programme, the amounts being ECU 323.12 million and 26.48 million respectively.

It thus honoured in full its October 1987 commitment to allocate ECU 400 million to Pedip from the ERDF budget.

- Programme 2, Vocational training

In order to speed up the launch of this programme it was agreed to adopt an ad hoc decision for the three measures financed from the additional heading (promoting greater awareness, developing training materials and assessment). This was necessary because the ESF could not adopt the programme approach until 1990.

A draft programme covering the period 1990-92 was notified by the Portuguese authorities on 29 September 1989 and was examined by the Commission under the new ESF Regulation.

Co-financing from the ESF was approved by Commission Decision C(90)587 of 30 March 1990. Like the ERDF contribution to Programme 1, the resources approved by this Decision met the Commission's undertaking in October 1987 to allocate ECU 100 million to Pedip.

- Subprogramme 3.1, Pedip financial incentives (SINPEDIP)

Given the progress made on this programme and as provided for in Decision C(88)2119 of 11 November 1988, the Portuguese authorities submitted a revised financial plan to the Commission before the end of the year which takes account of experience gained during the first operational year of the programme.

The main change is to bring forward ECU 10.28 million from 1990 to 1989, without changing the overall 1988-92 financial plan.

The system for notifying projects in sensitive industries and industries in critical difficulty which exceed certain amounts has been applied without so far giving rise to any particular problems.

- Programme 4, Financial engineering

In 1989 the Portuguese authorities requested the payment of the second and final instalment of the 1988 appropriations, i.e. ECU 16.5 million. They had informed the Commission that the various authorizations needed for the legal formation of the venture capital companies had been granted.

- Programme 7, Publicity, implementation and monitoring

Decision C(89)1400 introduced a single Monitoring Committee for the whole of the Pedip.

As was the case in 1988, the budget appropriations for 1989 were used in their entirety, i.e. ECU 103.5 million in commitment appropriations and ECU 80 million in payment appropriations.

In 1989 the EIB made loans totalling almost ECU 150 million to small businesses eligible under PEDIP. Basic infrastructure projects received loans amounting to ECU 72 million which can be regarded as being in addition to assistance under PEDIP.

3.3.3 1990 (position at 30 April)

<u>Programmes</u>	<u>Notification to the Commission</u>	<u>Commission Decision</u>
2. Vocational training	-- --	C(90)136, 29 January 1990 (amendment of C(89)765)
3.3.2 Restructuring of the foundry industry	9 January 1990	C(90)704, 26 April 1990
7. Publicity, implementation and monitoring	-- --	C(90)281, 23 February 1990 (amendment of C(89)1400)

For Programme 2, Vocational training, it was necessary to adopt Decision C(90)136 of 29 January 1990 amending Decision C(89)765 of 26 April 1989 as a result of the transfer of budget resources between measures without change to either the amount for the year or the total amount for the programme.

The Decision adopted for Programme 7, Publicity, implementation and monitoring, satisfies the request of the Portuguese authorities to make transfers between measures without changing the annual and total amounts.

The progress of the programmes indicates that the budget appropriations will be used to the full in 1990 as well.

4. ASSESSMENT

The practical results of Pedip will be the subject of assessment, with the following objectives:

1. To measure the economic effectiveness of Pedip and of each of its operational programmes.
2. To evaluate the impact of Pedip on the Portuguese economy, both at macroeconomic level and in terms of industrial structures and performances (meso and microeconomic levels).
3. To verify that the implementation of the Pedip serves its objectives, and accords with the priorities set out in Regulation (EEC) No 2053/88.
4. More generally, to evaluate the Pedip as a model for Community-assisted multiannual and multi-objective industrial development programmes.

Assessment of Pedip's results is provided for under Programme 7, Publicity, implementation and monitoring. The purpose of this measure, assigned a budget of ECU 700 000 and financed entirely by the Community, is to devise a model scheme for evaluating the results of Pedip, studying the impact of operational programmes and preparing periodic reports.

Decision C(89)1400 of 25 July 1989 set up a Monitoring Committee for Pedip, with the authority to decide on procedures for implementing an assessment scheme and a budget of ECU 180 000, most of which will be used for evaluation measures not provided for in Programme 7.

A Task Force has been set up in the Ministry of Industrial Affairs to organize and monitor the system for evaluating Pedip. At its first meeting on 7 November 1989, the Monitoring Committee approved the guidelines concerning the assessment scheme on the basis of a report by the Task Force and decided that a Commission representative should henceforth be directly involved in the work.

In accordance with these guidelines, two methods of evaluating Pedip were established: analysis of the scale and effectiveness of Pedip, and "the semi-input-output analysis". The need for an information system for the assessment was also considered.

- (1) The semi-input-output analysis seeks to measure the contribution of Pedip and in particular of the productive investments financed

thereunder to the first-level or macroeconomic objectives, including consumption, income, savings and balance of payments.

- (II) The analysis of the scale and effectiveness seeks to measure Pedip's impact on a number of objectives stemming specifically from the operational programmes, i.e. second-level objectives. A series of impact indicators have been selected to give a picture of the scale and effectiveness of each operational programme in terms of its specific objectives and subsequently to enable an overall evaluation of Pedip.

A comparative analysis at microeconomic level of the impact on the performance of Pedip-assisted businesses will also be carried out with aid of a "follow-up method".

- (III) A specific data base for the assessment scheme is planned, with four sections: national, Pedip programmes, firms assisted and EEC businesses.

The analysis of the Pedip in terms of the first-level objectives will be carried out by a department of the Ministry of Industry, the GEP (Research and Planning Office).

The analysis in terms of the second-level objectives and the establishment of a large part of the information system will be carried out by an external consultant who has already been selected by the Task Force.

A protocol has been signed with the Portuguese National Statistical Institute (INE) for the supply of part of the information to be included in the national section of the evaluation system. The Communities' Statistical Office is expected to contribute to the Community section of the information system.

From 31 July 1990, the consultant will submit to the Task Force quarterly reports setting out the results of the assessment of the second-level objectives.

The Commission representatives on the Monitoring Committee will if necessary propose any additional impact studies to be financed from the resources made available to the Committee, possibly in relation to specific objectives (impact of Pedip on quality, technological innovation, the environment etc.).

No overall picture of the impact of Pedip is yet possible as the major part of it was not launched until 1989 and the new measures need a running-in period before their effects can be determined.

As an indication, the following should be noted.⁽¹⁾

- 1 The two measures under Programme 1, Basic and technological infrastructure, which draw on the additional budget heading (facilities for industrial and trade associations; support for basic services and utilities) received 14 applications.
- 2 The three measures in Programme 2, Vocational training, financed from the additional heading attracted 295 applications for assistance.
- 3 SINPEDIP took over 461 projects from other incentive schemes in force in 1988 and attracted 2 504 applications; 28% of the projects and 79% of investments concern measure 2, investment in innovation and modernization; measure 4, Specific investment in capital equipment, accounted for 63% of applications representing 15% of investments; 1 552 projects have been approved.
- 4 For SIURE, 6 projects have been assessed.
- 5 The restructuring of the woollen industry drew 48 applications, 19 of which have been approved.
- 6 The two venture capital companies SULPEDIP and NORPEDIP have received applications concerning 76 projects, 44 of which are still pending, and contributions to eight projects have been decided.
- 7 Programme 5, Productivity drives, attracted 405 projects, 156 of which have been approved. Subprogramme 1, Demonstration, publicity and promotion, has so far taken up 44% of the aid allocated and measure 1, Business demonstration scheme, 86%. In Subprogramme 2, Support for productivity management, it is measure 3, Aid for market access, which accounts for the major part of investments (87% of the total for the subprogramme) and contributions (57%).

(1) Figures as at 31 December 1989.

- 8 Programme 6, Industrial quality and design, has received 88 applications, 50 of which have been approved; 48% of applications and 83% of subsidies relate to measure A, Quality Incentives scheme.
- 9 Under Programme 7, the Information system for the management of Pedip has been implemented, and the publicity, awareness and information programme is running smoothly, as Pedip is now known and appreciated by many businesses, which are showing their interest by making use of its measures.

Taking the analysis a little further and applying qualitative considerations, within the narrow time constraints already mentioned, it may be noted that:

- (a) the sectoral analysis of SINPEDIP aids shows some diversification. Three branches (the textile, clothing and leather industries; non-metallic minerals; metal products, machinery and transport equipment) have received almost 73% of the subsidies. From a regional point of view, the districts of Porto and D'Aveiro are contributing some 60% of investment;
- (b) for the venture capital companies, 13 of the 24 projects pending in SULPEDIP and two of the 20 in NORPEDIP involve corporate financial restructuring. Even in these cases, projects for development through innovation or modernization have been submitted. The remaining projects all have these aspects of modernization or innovation;
- (c) In the case of Programme 5, Productivity drives, the analysis criterion is more the type of entity involved. Almost one third of the subsidies granted have been allocated to projects submitted by associations of firms, but they represent scarcely 11% of the total cost of projects registered. By contrast, projects submitted by companies account for 55% of the aid, while the cost is around 82% of the total. The nature of the costs generated by the operations promoted by firms, some of which are not eligible, accounts for this difference. It should be noted that most of the projects submitted by associations come under Subprogramme 2, Support for productivity management, while those from firms come under Subprogramme 1, Demonstration, publicity and promotion. As far as the sectoral distribution of projects is concerned, it is the manufacturing of metal products, machinery, and transport equipment which accounts for the largest number of firms receiving assistance (38% of assisted firms and 41% of assistance

granted); the textile, clothing and leather industries and timber and furniture industries are in second place and it can be said that applications are sectorally diversified;

(d) as regards Programme 6, Industrial quality and design, the analysis of beneficiaries shows that 44% of applications were submitted by entities providing assistance for industry, 32% by associations and 24% by firms. Broken down by business sector, it is once again the manufacture of metal products, machinery, and transport equipment which is the most active, with 76% of projects. From a regional point of view, Lisbon and Porto account for the largest number of applications.

As an overall conclusion, it may be said that although it is premature to present Pedip's results because of the short time that has elapsed since the launch, the number of projects submitted under the various programmes and the amounts earmarked for them, and the breakdown by sector, indicate that Pedip is progressing satisfactorily and that no major problems have arisen.

COM(90) 205 final

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Catalogue number : CB-CO-90-201-EN-C

ISBN 92-77-60106-X
