P - 46

**INFORMATION • INFORMATORISCHE AUFZEICHNUNG • INFORMATION MEMO • NOTE D'INFORMATION
ΠΛΗΡΟΦΟΡΙΑΚΟ ΣΗΜΕΙΩΜΑ • NOTA D'INFORMAZIONE • TER DOCUMENTATIE**

~~Strasbourg~~, Brussels,
11 July 1990

INDUSTRIAL COOPERATION WITH CENTRAL AND EASTERN EUROPEAN COUNTRIES: SUPPORT FOR ECONOMIC REFORMS

The Commission considers that, if practical support is to be given to the radical economic reforms announced in the countries of Central and Eastern Europe, measures should be taken to develop industrial activities in those countries.
It is not enough for those countries to acquire capital goods, to engage in joint ventures with firms from Western Europe and to have access to new technologies. In the Commission's view, they also need help in creating an entirely new legal, administrative, banking and tax environment in order to pave the way for industrial expansion and to improve the conditions for foreign investors, thereby enabling hitherto closed economies to integrate into the European economy and to participate in world trade, from which they have been almost entirely cut off.

Such is the message contained in a discussion paper which the Commission has now adopted on Mr Bangemann's initiative and the main lines of which will serve as a basis for the debate called for by the Ministers for Industry of the Twelve.

In essence, the document sets out the practical measures already taken under the PHARE programme. The aim is not to modify this major programme but to supplement it with specific measures - to be defined at a later date - to help all the countries of Central and Eastern Europe, including those, such as the USSR, which are not included in the PHARE programme.

Handicaps suffered by planned economies

The bottlenecks in planned economies are well-known: obsolete factories, polluting and energy-intensive heavy industries, overmanning, managers inadequately trained for the modern management of decentralized enterprises, poor-quality products, technological backwardness, economies isolated from the world market.

- effective protection of intellectual, industrial and commercial property;

- support for the development of small and medium-sized firms: use of a data bank for comparing offers of, and requests for, cooperation. The Business Cooperation Network set up by the Commission - a computer-backed network of European business advisers - would be extended to the countries of Central and Eastern Europe and could speed up identification of potential partners;

- cooperation in the fields of standardization and certification, which will substantially improve the quality of products made in these countries and thus give them better access to world markets;

- finally, sectoral measures; the choice of sectors would lie with economic operators in the countries concerned and could focus on:

  - sectors and enterprises in which radical restructuring will be necessary to achieve levels of productivity and competitiveness comparable with those in the Community; steel, shipbuilding, basic chemicals, paper and cement are notable examples;

  - sectors which are expected to expand sharply, provided that proper production and distribution structures are established; these sectors include the car industry, agri-foodstuffs, and, consumer and capital goods generally.

CZECHOSLOVAKIA

- the legislation governing joint ventures has been greatly liberalized; transfers of profits and foreigners may acquire majority holdings;

- it will be possible for joint ventures to be set up in the form of public limited companies incorporated under Czechoslovak law;

- the tax regime is favourable in that tax on profits is levied at only 40%; agreements to prevent double taxation have been concluded with EC countries;

- there are no agreements on investment protection.

ROMANIA AND BULGARIA

Foreign trade has not been liberalized in either of these countries; subject to authorization, both countries allow foreigners to acquire majority holdings; neither country has introduced convertibility, although Romania permits domestic trade to be transacted in foreign currencies.

****

USSR

- the limit on foreign participation in the capital of joint ventures has been scrapped and the conditions governing the nationality of managers eased;

- after two years, joint ventures pay a 30% rate of tax on profits and a rate of 20% on repatriated profits; tax relief may be granted for certain categories of investment (in remote areas and for the production of consumer goods) and exemptions from the employment and social security laws are possible;

- joint ventures are free to import or export but must themselves obtain the foreign exchange they need, possibly by selling on the Soviet foreign exchange market.

****