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Report

drawn up on behalf of the Committee on Economic and Monetary Affairs

on the proposals from the Commission of the European Communities to the Council (Doc. 1-249/79) for

- I. a Decision on Community aid for restructuring or conversion investments in the shipbuilding industry;**
- II. a Decision on Community aid for restructuring or conversion investments in the textile industry, particularly in the man-made fibres industry**

Rapporteurs: Sir David NICOLSON

Miss N. FORSTER

2.2.4

By letter of 24 July 1979 the President of the Council of the European Communities optionally requested the European Parliament to deliver an opinion on the proposal from the Commission of the European Communities to the Council for I. a decision on Community aid for restructuring or conversion investments in the shipbuilding industry and II. a decision on Community aid for restructuring or conversion investments in the textile industry, particularly in the man-made fibres industry.

On 27 July 1979 the President of the European Parliament referred this proposal to the Committee on Economic and Monetary Affairs as the committee responsible and to the Committee on Budgets and the Committee on Social Affairs and Employment for their opinions.

On 3 October 1979 the Committee on Economic and Monetary Affairs appointed Sir David Nicolson and Miss Forster as rapporteurs.

The committee considered the proposal at its meetings of October 3-4, October 30-31 and November 20-21. It adopted the motion for a resolution and the explanatory statement on 19 December by 22 votes to 1 with 3 abstentions.

Present: Mr Delors, chairman; Sir David Nicolson and Miss Forster, rapporteurs; Mr Beumer, Mr Bonaccini, Mr Damseaux, Mr Fernandez, Mr I. Friedrich, Mr Giavazzi, Mr Herman (deputizing for Mr Sayn-Wittgenstein-Berleburg), Mr Hopper, Mr Leonardi, Mr Notenboom (deputizing for Mr Collomb), Mr Nyborg, Mr Petronio, Mr Piquet, Mr Purvis (deputizing for Mr de Ferranti), Sir Brandon Rhys Williams, Mr Schnitker, Mr Schwartzberg, Mr Seal, Mr Tindemans, Mr von Bismarck, Mr von Wogau, Mr Wagner and Mr Walter.

The opinion of the Committee on Budgets is attached. The opinion of the Committee on Social Affairs and Employment will be produced separately.

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The Committee on Economic and Monetary Affairs hereby submits to the European Parliament the following motion for a resolution, together with explanatory statement:

MOTION FOR A RESOLUTION

embodying the opinion of the European Parliament on the proposals from the Commission of the European Communities to the Council for

- I - a Decision on Community aid for restructuring or conversion investments in the shipbuilding industry;
- II - a Decision on Community aid for restructuring or conversion investments in the textile industry, particularly in the man-made fibres industry

The European Parliament,

- having regard to the Commission's proposals to the Council (COM(79) 769 final),
 - having been consulted by the Council (Doc. 1-249/79),
 - having regard to its earlier resolution¹ on the basic regulation laying down general criteria for Community aid for industrial restructuring in crisis sectors,
 - having regard to the fact that this basic regulation has not yet been adopted by the Council, but that the Commission has gone ahead and designated the shipbuilding and textile industries as being eligible for such aid for restructuring,
 - having regard to the report from the Economic and Monetary Affairs Committee and the opinions of the Budgets Committee and the Social Affairs Committee (Doc. 1-623/79);
1. Regrets that the Council has not yet come to a decision on the proposed basic regulation and finds it unacceptable that Parliament's budgetary powers can thus be rendered void of content by the Council's inertia as regards the adoption of a regulation;
 2. Deplores the unsatisfactory procedure whereby the Commission has had to go ahead and allocate appropriations to projects before the Council has come to a decision and the European Parliament has given its opinion;

¹ O.J. No. C 127 of 21.5.79

3. Recommends that an overall policy for the next 5 years for aids for restructuring and conversion of industries in crisis should be established without delay. The necessary financing should be defined and coordinated with other Community activities such as the Social and Regional Funds, and the European Investment Bank, and with assistance provided by Member States;
4. Calls as a matter of urgency on its Committee on Economic and Monetary Affairs to draw up an own initiative report on aid to industries in crisis and to growth industries;
5. Approves meanwhile, in order for work to start on this programme, the designation of textiles and in particular man-made fibres, and shipbuilding as being eligible for Community assistance;
6. Urges the Commission to provide the Parliament with more details about the precise uses to which it intends to put the 17 million EUA in payment appropriations, which must be spent by the end of 1979, and which the Commission appears to want to spend on projects in the synthetic fibres sector, and also the 10 million EUA in payment appropriations from the 1979 budget, which does not yet appear to have been allocated between shipbuilding or textiles, without there being any interruptions or delays in the implementation of the programmes in question.

EXPLANATORY STATEMENTBackground to the proposal

1. This consultation concerns the designation of the shipbuilding and textiles sectors as the first two sectors eligible for Community aid for restructuring and conversion investments.
2. In October 1978 a proposed regulation on the Community aid for industrial restructuring and conversion operations was submitted by the Commission to the Council (Doc. 456/78). This did not define which sectors should be assisted but laid down general guidelines, suggesting criteria and procedures to be followed in implementing Article 375 of the Community budget.
3. This basic regulation envisaged two main objectives for Community aid, firstly aid for restructuring, such as investments in rationalisation research, modernisation of equipment and of plant, training in management and sales techniques and, secondly, aid for conversion. This latter is defined as investment to help undertakings change to other types of activity, or to create in the areas concerned and in other fields of activity, new jobs intended primarily for redundant workers.
4. The aid mechanisms envisaged may include investment premiums or interest rebates but can extend to other forms of aid. The specific sectors to be chosen are to be decided by the Council by qualified majority, acting on proposals by the Commission.
5. The Parliament was consulted on this draft general regulation and gave its opinion in March 1979, on the basis of a report produced by Mr Spinelli (Doc. 637/78 for the Committee on Economic and Monetary Affairs). Parliament requested that it be consulted on which sectors were eligible for aid prior to any Council decision and the Commission subsequently amended this proposal to provide for such consultation.
6. The basic regulation has not yet been adopted by the Council, and it appears increasingly unlikely that the Council will give its approval in the near future.
7. The Commission went ahead, however, and in January this year it proposed that the shipbuilding and textiles sectors, in particular synthetic fibres, were eligible for such Community assistance. The Parliament and the Economic and Social Committee were then consulted.

Current status of the proposals

8. This proposal merely designates these sectors as eligible for aid with a minimum of explanation and with no detailed proposals. The limit, size and scope of Community actions in this area have been left undefined.

9. No specific appropriations have been earmarked for industrial restructuring in the 1980 budget. 21 million EUA in payment appropriations and 35 million EUA in commitment appropriations were proposed in the 1980 preliminary draft budget but subsequently deleted by the Council in the draft budget. Parliament did not insist on their re-instatement and a token entry was provided instead.

10. However, certain limited appropriations are still available from previous budgets, 17 million EUA in payment appropriations carried over from the 1978 budget and 10 million EUA in payment appropriations from the 1979 budget. The question of what use to make of the 17 million EUA is particularly urgent, since these appropriations must be spent at the end of the year if they are not to lapse.

11. It was not specified how these appropriations were to be divided between actions in the textiles and in the shipbuilding sectors, but it is now becoming apparent that the Commission intends to use them in connection with restructuring and conversion in the synthetic fibres sector, in particular in Italy, where the situation seems specially acute. Two types of proposal are being given particular consideration, the modernisation of plants and the redeployment of employees in alternative and, where possible, related industries.

Central issues

12. Three central issues are therefore raised:

- are these two sectors, shipbuilding and textiles/synthetic fibres, worthy of priority treatment, both in their own right and compared to other industrial sectors in difficulty?
- what criteria should be used to judge this programme, and how will it be coordinated with national and other Community measures?
- what should be done with the limited appropriations already provided for?

Choice of sector

i) Designation of textiles - in particular synthetic fibres

13. Although the textile industry as a whole is undergoing a period of serious difficulty, there seems to be a general consensus that the synthetic fibres sector is in a particular state of crisis.

14. In synthetic fibres gross over-capacity exists today because the market growth forecast in the late 1960's has not been achieved. This has been mainly due to the massive increase in the price of oil in 1973/74 and the further rises in price since that time, since naphtha derived from oil is the prime raw material for the synthetic fibres industry. The resultant rise in the cost of manufacture of synthetic fibres coupled with under-utilisation of plant capacity has had a severe impact on the economics of producing such fibres. There have, therefore, already been plant closures and more are threatened. The situation is particularly severe in Italy, where the greatest under-utilization of capacity exists.

15. There is the added complication that the industry is now meeting severe competition from fibres imported from the U.S.A. This is because the lower cost of oil in the U.S.A. enables American-based companies to produce fibres at prices about 30% lower than those applicable in the Community. The rise in costs and the competition from American-based producers affects not only the synthetic fibres producers but also the down-stream converters, such as the manufacturers of carpets and of clothing. The continuing viability of companies at many levels is therefore threatened and it is essential that a coherent strategy for the Community textiles industry be developed.

16. Discussion in this report has been

focused particularly on synthetic fibres rather than on natural fibres because the former have been faced with special difficulties over the last 5-10 years. However, textile industries based on both synthetic and natural fibres have faced similar problems arising from the changing patterns of textile manufacture and consumption in the countries outside the Community. Future strategy must therefore take account of both the synthetic and natural fibres sectors. These problems are accentuated not only by the sheer size and importance of the textile industry of the Community (it provides 10% of wage earning industrial jobs in the Community, and, in terms of value added accounts for some 8% of the Community's industrial activity) but also because of its structural characteristics and its interdependence with other industries.

17. Textile employment is concentrated in particular regions and in some of these represents more than 30% and even up to 50% of all employment. Another characteristic of the industry is the very high percentage of women in the labour force.

18. Furthermore, the loss of jobs in this sector has not been steady but has come in sudden drops, and certain regions and groups have been affected with particular force.

19. Finally, interdependence with other industries, such as mechanical engineering and chemicals, is also considerable. The chemical fibres sector in Western Europe absorbs a very significant proportion of the total production of petro-chemicals.

20. Given this background, it would appear appropriate for this sector to be given a high priority.

ii) Designation of the shipbuilding industry

21. The merchant shipbuilding industry is in a state of crisis worldwide. The Community shipbuilding industry in particular has been affected both by the downturn in orders which began in 1974 and by intensifying competition from the new shipbuilding countries. According to the Commission, the level of new orders since 1976 represents only 50-60 per cent of completions in spite of the fact that the shipyards' output has been reduced by 25-30 per cent since that date.

22. The impact on employment in the sector has already been striking and from 1975 to 1978 employment in the shipyards was reduced by some 50,000.

23. The outlook is highly uncertain but the first half yearly report on the state of the shipbuilding industry recently prepared by the Commission paints an extremely gloomy picture. It anticipates that the low demand for new building will continue and that the shipbuilding crisis will extend well into the 1980's. It estimates that even in 1985 expected shipbuilding production will be below the average for the period 1975-1977.

24. So, before any upturn in demand, the viability of more shipyards will be put into question and more jobs will be lost. The impact on particular regions will be especially hard.

25. Not only are many jobs directly at risk within the industry, but since it is an assembly industry, a large number of jobs are also at risk among the suppliers. The Commission estimated in a report in 1978 that, while 75,000 jobs might be affected in shipbuilding itself, a further 30,000 jobs might be lost in directly related industries.

26. The health of the shipbuilding industry is also closely related to that of the Community shipping industry. There are also important strategic reasons for maintaining a sound level of shipbuilding capacity within the Community.

27. It is therefore appropriate that this sector be made eligible for Community assistance, both to provide for orderly adaptation, and to help maintain a certain level of infrastructure intact to meet an eventual upturn in demand.

Criteria for granting assistance

28. The basic principle of providing Community aid for industrial restructuring and conversion has been accepted by the Parliament. The purposes, however, towards which this particular Community instrument are to be directed, must be very carefully defined.

29. Basically it should be used to help provide an orderly retrenchment rather than chaotic run-down of the industry, and to assist in the adaptation and redeployment of the workforce.

30. The spending of Community funds on items which should be funded by the industries themselves should generally be opposed. Aid should not be used simply to assist projects which would have gone ahead otherwise. Assistance should instead go towards alleviating the social consequences of over-capacity, or the establishing of new industries where such industries would find difficulty in developing without public support. It is also important to improve infrastructure.

31. Among the types of projects which should be given priority are measures to increase mobility, such as by providing for retraining of both the workforce and of management.

32. Measures aimed at developing research or at improving economic forecasting and the provision of information can also be useful.

33. Aids to modernisation and redevelopment within each sector should be regarded with caution, and increased capacity should not be created.

34. In shipbuilding, measures to encourage new industries within the yards themselves should be examined, since it is important to ensure that a sufficient level of shipbuilding capacity is maintained during the current trough in demand so as to respond to any future upturn in demand. Among the alternative uses to which they could be put are the manufacture of chemical plants or of environmental equipment, energy related projects or other structural engineering projects, growth industries, small firms, industrial estates.

35. On the other hand, unlike shipbuilding yards, synthetic fibre plants are purpose-built and Community assistance should not go towards finding new ways of using existing plants.

36. As regards means, an important point in the Parliament's opinion on the proposed basic regulation was that it believed the granting of interest rebates and investment premiums to be a satisfactory procedure provided that it had a significant impact on the projects for which aid was to be granted. This should again be emphasised.

Coordination with national and other Community aid

37. An essential principle is that this new aid for industrial restructuring and conversion be carefully coordinated with existing national and Community measures, in order to avoid wasteful overlaps and a proliferation of ad hoc measures.

38. The Commission has long been active in trying to limit distortions of competition caused by state aids. The Community must try to strengthen coordination of such aids, particularly in a sector such as synthetic fibres where such aids have helped to create some of the over-capacity.

39. As for coordination of other Community instruments, many of the measures that are envisaged are of a social nature and financial assistance has already been available from the Social Fund, for such purposes as retraining. The Regional Fund can also play a considerable role as can the European Investment Bank and the Community's new borrowing and lending facilities.

40. As regards shipbuilding, the Commission has forwarded a scrap-and-build proposal to the Council, which is intended to increase orders for new building. Parliament should be formally consulted on this proposal, which is so clearly complementary to restructuring and which should be considered in harness.

41. Another measure that might be re-examined is for the Commission to provide for derogation from strict application of Article 85 of the Treaty of Rome, using Article 85-3. In its 8th report on competition policy, the Commission declares it is prepared to recognise that under certain conditions agreements between firms aimed at the reduction of structural over-capacity can be authorised under Article 85-3, but only where firms do not, at the same time, by agreement or concerted practice, fix prices, production quotas or levels of deliveries.

42. The proposed agreement reached between the majority of synthetic fibres producers was not accepted by the Commission, after a great deal of time and money had already been spent on consultation within the industry, with the objective of minimising the undesirable effects of the crisis. The Parliament points out the advantages of a liberal interpretation of the Treaty of Rome in this respect, when such arrangements are for a limited period only and are notified in full to the Commission before being put into effect. This could help to alleviate the crisis and to minimise expenditure of Community funds in this sphere.

Need for a coherent strategy in specific industrial sectors

43. The exact size and scope of the Community's involvement in industrial restructuring and conversion is still uncertain. Council delays in passing the basic regulation are clearly, at least, partly due to fears that such programmes will grow rapidly in size and be extended into a number of other industrial sectors besides textiles and shipbuilding. It is also easy to see why it is difficult for the Commission to be too precise at this stage and, in fact, the Parliament has acquiesced in token entries being substituted for specific appropriations in industrial policy for the 1980 draft budget.

44. Nevertheless such imprecision involves the danger that either nothing is done or else ad hoc measures are patched together at the last moment. Clearly the scope of this programme does have to be better defined within the framework of an integrated Community programme for the textile and shipbuilding sectors. It is recommended that an overall policy for the next 5 years for aids for restructuring and conversion of industries in crisis should be established as soon as possible, and that

the necessary funding requirements for the recommended policy should be established without delay.

Use of budgetary funds already available

45. The point just made about ad hoc measures is well illustrated by what is happening to the limited budgetary funds already available for use in this sector. As mentioned above, 17 million EUA in payment appropriations have been carried over from the 1978 budget and must be spent by the end of this year. Together with the 10 million EUA in payment appropriations from the 1979 budget, which will meet the same fate next year, these are the only specific appropriations for this programme.

46. The Commission is currently examining a number of specific proposals from synthetic fibres producers to see if their projects meet the criteria for eligibility for such aid.

47. In the absence of further detail it is hard for the Parliament to judge the value of what is being intended. However, the procedure by which these funds are to be allocated in the last couple of months before their expiry is an unsatisfactory one.

OPINION OF THE COMMITTEE ON BUDGETS

Draftsman: Mr. Altiero SPINELLI

On 3 October 1979 the Committee on Budgets appointed Mr SPINELLI draftsman of its opinion.

It considered the draft opinion at its meetings of 21 - 22 November and 27 - 28 November and adopted it unanimously on 27 November.

Present: Mr Lange, chairman; Mr Notenboom, vice-chairman; Mr Spinelli, vice-chairman and draftsman; Mr Adonnino, Mr Arndt, Mr Balfe, Mr Barbi, Mrs Boserup, Mr Flanagan, Mr Forth, Mr Gouthier, Mrs Gredal, Mr Hord, Mr Langes, Mr Nord, Lord O'Hagan, Mr Konrad Schön, Mrs Scrivener, Mr Simonnet, Mr J.M.Taylor and Mr Tuckman.

On 27 July 1979 the Committee on Budgets was consulted on a draft opinion for the Committee on Economic and Monetary Affairs on proposals from the Commission for a decision on Community aid for restructuring or conversion investments in the shipbuilding industry and a decision on Community aid for similar investments in the textile industry, particularly in the man-made fibres industry.

Brief description of the Commission proposals

1. On 26 October 1978 the Commission submitted to the Council a proposal for an outline regulation on Community aid for industrial restructuring and conversion operations (Doc. 456/78).

This proposal established the principle and the mechanisms of a new form of Community aid and provided that the industrial sectors eligible for such aid were to be selected on the basis of implementing regulations subsequently adopted by the Council.

2. On 26 April 1979 Parliament adopted a favourable opinion on this proposal, but requested that two amendments be made to the text.

3. So far the Commission has not modified its original proposal, nor has a decision on it been taken by the Council.

4. In the latter half of 1979 the Commission has indicated that it intends to go ahead with the financing of its restructuring policy without waiting for the Council's decisions on the outline regulation and the implementing regulations. It seems that it is prepared to commit before the end of the 1979 financial year the appropriations carried forward from the 1978 financial year (20 m EUA) and use them to finance a number of restructuring projects in the man-made fibres industry in one of the Member States.

5. The two proposals for decisions on which the Committee on Budgets is now asked for its opinion follow on from the proposed outline regulation and single out two industrial sectors that could benefit from Community restructuring or conversion aid. These are:

- the shipbuilding industry, and
- the textile industry (in particular the man-made fibres sector).

6. The projects to be financed will be selected by the Commission with the more or less formal agreement of the Council and Parliament will then be notified of the decision taken. In other words, an ad hoc procedure will be applied in the absence, and pending the establishment, of a precise legal basis. This procedure is similar to that used for several years now in connection with the financing of Community aid to the non-associated developing countries.

7. The Commission has also sought the budgetary authority's agreement to the transfer from Chapter 100 to Article 375 of part of the appropriations earmarked for industrial restructuring in the 1979 budget (i.e. 7.5 m EUA in payment appropriations and 15 m EUA in commitment appropriations.)

Budgetary analysis

8. Exercising its budgetary powers, Parliament did actually table amendments to bring the resources available in the budget up to the level necessary to permit the financing of the industrial restructuring/conversion policy. Thus, it adopted the following appropriations for the 1978 and 1979 budgets:

	<u>Payments (m EUA)</u>	<u>Commitments (m EUA)</u>
1978 Art. 375	17	20
1979 Chap. 100 ¹	10	20

¹ These appropriations are to be shared, probably in the ratio 2 : 1, between Art. 375 and Art. 512 (Social Fund - consequences of industrial conversion)

To date, the Commission has made no commitment or payment under Article 375. The appropriations for 1978 will have to be cancelled on 31 December 1979, while those for 1979, unless utilized during the year, will automatically be carried forward to 1980.

9. As for the availability of funds in 1980, the picture is as follows:

	<u>Payments (m EUA)</u>	<u>Commitments (m EUA)</u>
Prelim. draft budget Art. 375	21 ¹	35
Draft budget "	token entry	token entry
Committee on Budgets "	token entry	token entry
European Parliament ² "	token entry	token entry

¹ Consisting of 6 m EUA carried forward from 1979 and 15 m EUA for 1980

² At the end of the first reading on 7 November 1979

Views of the Committee on Budgets

10. The Committee on Budgets notes, however, that the appropriations voted since 1978 for the financing of the new industrial programme have been made available only as a result of Parliament's amendments, since the Council has always opposed their inclusion in the budget in the absence of appropriate regulations.

11. The committee regrets the lack of financial and budgetary transparency which still characterizes the particularly difficult process of launching a Community conversion and restructuring programme. It feels that it must again make the point that - notwithstanding the irresolution of the Council - the Commission could and should have produced fuller and more precise financial estimates.

12. The Committee must also reiterate the objections expressed in its opinion on the outline regulation (Doc. 637/78) concerning:

- the failure to provide a clear definition of the financial machinery envisaged (investment premiums and interest rebates);
- the cumbersome nature of the decision-making procedure;
- the role of the Management Committee (right of veto on choice of projects).

13. If, as is alleged, the Commission intends to embark on its financial aid programme in the man-made fibres sector without waiting for the adoption by the Council of the regulations concerned, the Committee on Budgets must lend it its support - at least in principle. However, it remains to be seen whether the Commission will refer the projects thus financed for the prior, formal or informal, approval of the Council.

14. If it does, the Committee on Budgets should recommend to Parliament that it strongly protest, since such a procedure would seriously undermine the responsibilities of the Commission in regard to the implementation of the budget, not to mention the supervisory powers vested in Parliament itself. Parliament has already formally condemned procedures of this kind and issued warnings to the Commission. If these warnings continue to go unheeded, the Committee on Budgets should propose to Parliament that it should in future freeze appropriations where the projects concerned might regularly have to be approved by the Council on a case-by-case basis before they can be implemented.

Conclusions

15. The Committee on Budgets would therefore ask the committee responsible to call attention in its motion for a resolution to the following:

- (a) the Commission must provide Parliament, before 31 December 1979, with a detailed analysis of its financial estimates for each of the industrial sectors for which restructuring aid is envisaged - and with precise proposals for implementing such aid;
- (b) the launching by the Commission of its programme - prior to the adoption by the Council of the proposed regulations - must be encouraged;
- (c) the Commission must undertake to amend its proposal for an outline regulation in the light of the objections raised by Parliament and its Committee on Budgets in the opinion of 26 April 1979;
- (d) on no account can the launching of the programme in question be made conditional on the prior approval by the Council of the projects selected by the Commission.

