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TO THE COUNCIL AND THE EUROPEAN PARLIAMENT

**INDUSTRIAL COOPERATION WITH THE COUNTRIES OF
CENTRAL/EASTERN EUROPE**

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Communication of the Commission to the Council and the European Parliament

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EXECUTIVE SUMMARY

The European Council in Copenhagen (June 1993) had agreed that the associated countries that so desire shall become members of the Union, as soon as they are able to assume the obligations of membership. In April 1994, Hungary and Poland introduced their application for membership. Other countries in Central/Eastern Europe have declared their intention to do so.

The perspective of accession of the associated Central/Eastern European countries to the Union implies a qualitative shift in the relations with the region. The fundamental decisions taken by the European Council in Essen (December 1994) illustrate the dimension of the tasks ahead. It adopted the *pre-accession strategy* to prepare associated countries for membership.

A main element of the strategy is to prepare these countries for integration into the internal market of the Union, and the Commission will present a White Paper on this subject to the next European Council. This strategy also deals with investment promotion, in which the need for an increased volume of foreign investment is acknowledged. The programme covers continued support for investment promotion agencies, the creation of a Business Advisory Council and continued support, through the PHARE programme, for initiatives such as the restructuring and modernisation of production capacities and the development of small enterprises, as well as contributing to the financing of infrastructure investments. In this context, industrial cooperation has a key role to play in the promotion of private investment.

In April 1994, the Industry Council invited the Commission to prepare communications on industrial cooperation with certain third countries, and took note of the Commission's intention to present, in the first half of 1995, a communication on industrial cooperation with Central/Eastern Europe (further communications on industrial cooperation with other third countries are to follow). On two previous occasions, the Commission prepared communications on the subject¹, and the Council adopted a resolution² supporting the Commission's general approach and orientations.

The perspective of accession has changed the overall context fundamentally. In response, this communication intends to reflect upon the industrial implications of Central/Eastern Europe's progressive integration into the global European economy, and in particular, how industrial cooperation can contribute to the facilitation of this process.

Therefore, this document focuses on those Central/Eastern European countries which have already concluded Europe Agreements with the Union or which are shortly expected to do so: Poland, Hungary, the Czech Republic and Slovakia, Romania,

¹ SEC (90) 1213 final of 13 July 1990 and SEC (92) 363 final of 13 March 1992.

² O.J.C 178 of 15 July 1992

Bulgaria, the three Baltic Republics and Slovenia. Although the stage of development, e.g. in terms of industry privatisation/modernisation, is very different from one country to another, overall the Central/Eastern European industry continues to have very considerable restructuring/modernisation needs, which are unlikely to be satisfied without foreign investment, transfer of technology and know-how in cooperation with EU industry, aiming at the development of an environmentally sustainable industrial sector.

The European Union has already made an important contribution to the transition process through:

- Europe Agreements with Central/Eastern European countries which *inter alia* aim at free trade and offer a broad platform for cooperation in virtually all areas affecting the economy
- the Essen European Council conclusions, which notably aim to encourage the regional cooperation between the associated countries for the promotion of their economic progress: a programme has been adopted to stimulate cooperation e.g. in trade
- European Union assistance and industrial and R&D cooperation which have been launched to help to exploit and develop the industrial and R&D potential of Central/Eastern European countries.

The future strategy should continue to follow three priority objectives:

- the improvement of framework conditions for industrial development
- the privatisation, restructuring and modernisation of industry
- the promotion of investment (e. g. through synergies with other operators, like EBRD and EIB).

The proposed orientations start from existing instruments and consider useful adaptations and additional action.

Three types of instruments should be used in priority to achieve these objectives:

1. The Europe Agreements provide the basic orientation for **the Union's assistance policy**, within which technical and financial assistance under PHARE will increasingly be a major tool to pave the way for cooperation and ultimately integration. Main areas of action will include

- the exploitation of the institutional set-ups of the Europe Agreements (e.g. the mixed committees)
- the White Paper on the preparation of the associated Central/Eastern European countries for the integration into the internal market
- quality management (standards/ certification) infrastructures
- the legal/administrative framework for investments
- support to the privatisation, restructuring and modernisation of industry
- the promotion of business links, investment and cross-border/inter-regional cooperation
- competition policy, trade, environment and training.

2. **Scientific and technological cooperation** should be further promoted and Central/Eastern European countries should be encouraged to participate in the move towards the **Global Information Society**.
3. Stronger **mobilisation of EU industry** is considered to be another key element to achieve industry modernisation in Central/Eastern Europe.

1. INDUSTRIAL COOPERATION IN THE FRAMEWORK OF THE UNION'S PRE-ACCESSION STRATEGY: THE UNION'S MAIN GOALS AND ROLE

The European Council in Copenhagen (June 1993) had agreed that the associated countries that so desire shall become members of the Union, as soon as they are able to assume the obligations of membership. In April 1994, Hungary and Poland introduced their application for membership. Other countries in Central/Eastern Europe have declared their intention to do so.

The perspective of accession of the associated Central/Eastern European countries to the Union implies a qualitative shift in the relations with the region. The fundamental decisions taken by the European Council in Essen (December 1994) illustrate the dimension of the tasks ahead: It adopted the *pre-accession strategy* to prepare associated countries for membership.

PRIORITY OBJECTIVES

In response to this qualitative change, this communication intends to reflect upon the industrial implications of Central/Eastern Europe's progressive integration into the global European economy, and in particular, how industrial cooperation can contribute to the facilitation of this process.

A brief survey of the industrial situation will show that Central/Eastern European industry is still facing considerable restructuring and modernisation needs. An additional challenge is the promotion of sustainable development, an important element of both the 5th Action Programme "Towards Sustainability" and the White Paper on Growth, Competitiveness and Employment, through, inter alia, the integration of environmental objectives and criteria into industrial cooperation activities. Furthermore, the development of a competitive industrial sector will need to include a high level of consumer protection, through appropriate quality and security standards.

Therefore, three priority objectives need to be pursued:

- **the improvement of framework conditions for industrial development**
- **the restructuring and modernisation of industry itself**
- **the promotion of investment.**

Industrial cooperation will have to play a key role in all areas. Of course, a large part of the resources needed to accomplish the process of industry modernisation, has to be provided by the transition countries themselves. In addition, Western public financial assistance supports the transition. However, it must be recognised that the industry privatisation, restructuring and modernisation process cannot succeed without the broad mobilisation of EU industry, for investment and the transfer of technology and knowhow. This role of EU industry in the transition process will gain relative importance, compared to the other elements, the more the process advances.

THE EUROPEAN UNION'S ROLE IN INDUSTRIAL COOPERATION

In September 1994, the Commission has adopted a Communication on an Industrial Competitiveness Policy³, which develops further the key features of its industrial policy. The promotion of industrial cooperation - both inside the Union and with third countries - is considered to be one of the priority action areas of the Union's industrial policy. Regarding Central/Eastern Europe, the promotion of *industrial cooperation* should serve the double *purpose* and interest of strengthening the economies of these countries with a *view* of integrating them into the Union and of strengthening the European industry's presence on expanding markets, thus enhancing the competitiveness of industry throughout Europe.

It is clear that industrial cooperation has to be defined and carried out by the economic operators themselves, in all the different forms it may take, ranging from distribution and licensed production arrangements to subcontracting, outward processing, joint ventures and equity stakes.

The main role of public administration is to create favourable framework conditions and to facilitate the active participation of EU companies in the development of industrial cooperation, e.g. through

- the creation of appropriate structures for horizontal support to business operations
- the organisation of contact fora bringing together industry and administration and
- concrete cooperation projects (example: the consumer electronics' components project with Japan).

Industrial cooperation should also involve the social partners, according to the objective of promoting the social dialogue.

The Commission's and the Member States' actions should be complementary. Furthermore, increased synergy should be achieved with the activities of other institutions such as the EBRD and World Bank. Thus, mutual information and - to the extent possible - coordination are essential.

A major *task for the Commission* is to ensure that in the overall EU relations with third countries, action continues to be based on the respective industrial situation and national priorities, and is coherent with EU industrial cooperation and industrial policy purposes. This applies notably to commercial relations (e.g. cumulative rules of origin), technical assistance actions, and financial support including through the EIB and the EBRD, in which the Union participates. For example, in cases where the privatisation, creation, modernisation or conversion of production capacities in Central/Eastern Europe affects sectors where EU industry is itself in a restructuring process, the Union's concerns need to be taken into account, through e.g. a dialogue and exchange of views between the parties.

³ COM (94) 319 final

This example refers to a broader issue: ***The integration process and the industrial transition in Central/Eastern Europe will certainly lead to new patterns of division of labour among Central/Eastern Europe and the EU.*** This is already taking place, e.g. in the textiles sector for which Central/Eastern Europe is highly important as a market and as cooperation partner (outward processing trade - OPT). EU industry needs to be present on growth markets: this is one of the key objectives of EU industrial policy. The cooperation in the field of OPT which has started already some time ago between Central/Eastern European countries and certain Member States is now going to be extended and intensified by almost all Member States of the Union. Central/Eastern European countries have become the most important partners for the Union's clothing industry's production and are essential for its competitiveness. By granting duty-free entry of OPT imports from Central/Eastern European countries from January 1994 and the necessary quota increases, the Union has further encouraged such cooperation.

For certain industry sectors this process involves delicate issues of employment and ongoing restructuring in Western Europe. While support measures have to be based on the priorities and needs of the partner countries, these issues have also to be taken into account in the design of assistance, to ensure the overall coherence with other Union policies (e.g. in the field of competition). A main criterion should be the effect on industrial competitiveness.

The integration process and industrial transition in Central/Eastern Europe should lead to the development of new economic activities based on complementary sets of competitive advantage. In order to ensure that these activities are mutually beneficial wherever possible, it will be necessary to identify those areas in which possibilities exist for repatriating to Europe activities which are wholly or partially sourced off-shore. Integration through the reconstitution of production chains has the added benefit of providing Central/Eastern European countries with both technology and a source of hard currency income with which to purchase the investment goods required for their development. Possibilities for combining the advantages of Central/Eastern Europe in highly qualified manpower and lower operating costs with EU technology, capital and managerial capacity to create competitive enterprises in new growth markets on which European firms are currently insufficiently represented should also be examined.

Industrial cooperation represents an effective way of implementing such an approach, since it aims at a long term strategic partnership between economic operators based around the mutual interest of both sides. By actively identifying new possibilities and ensuring that potential partners are aware of these possibilities, but leaving actual implementation and a maximum of the financing of cooperation to the interested partners, public authorities can play an active role without intervening in the efficient allocation of resources by markets.

2. INDUSTRIAL SITUATION IN CENTRAL/EASTERN EUROPE: A BRIEF SURVEY

Following decades characterized by state ownership of production means and by central planning, the transition countries of Central/Eastern Europe inherited an economic and industrial set-up which is generally characterised by serious **weaknesses**: First of all, this relates to badly maintained and obsolete capital equipment, as well as out-dated production techniques with low productivity, waste of energy and bad environmental performance. Distorted incentives resulted in resource mis-allocation in production and investment decisions, with for example, an over-emphasis on heavy industries. While management was often inefficient, business support services have been weak, and the mandatory standardization and conformity assessment procedures inadequate.

At the start of the reform process, industrial production, for the economies in transition as a whole, declined sharply by 30% during the period 1990-1993. The GDP contracted by roughly a quarter (1989-1993, weighted average for Central/Eastern Europe). The decline of production inevitably had negative consequences for the population in terms of a decrease in real income. Inflation devalourised savings, and unemployment which was almost unknown under the former central planning regime, increased in most of the countries (see table in annex). As from 1993, a certain stabilization or even slight growth took place in some of the countries, while others do not yet show significant signs of sustainable recovery.

The Central/Eastern European industry can draw on some **strengths**, which have not yet been exploited to their full extent, mainly a good level of technical qualification in many sectors and relatively low labour costs. These strengths will have a stronger effect the more the governments realise their intentions to complete privatisation, to restructure industries and place companies on a sounder financial footing.

Thus, privatisation, intense restructuring, investment (both domestic and foreign), stronger exposure to competition and training will be needed to address the inherited weaknesses of the industrial landscape and to penetrate highly competitive Western markets.

INDUSTRY PRIVATISATION AND RESTRUCTURING

Given the economic, social and political importance of the state-owned enterprise sector in most Central/Eastern European countries, privatisation and restructuring are among the authorities' top priorities for ensuring a durable transformation from a planned to a market economy.

Major successes have been achieved in privatisation, with the private sector reaching a level of 55% to 65% of GDP in the most advanced transition countries (source EBRD). However, this overall success should not hide the remaining problems. While the privatisation and the restructuring of large state-owned enterprises (mainly in the energy, mechanical, metals, agro-food and chemical sectors) has been sometimes

delayed, the transformation of smaller-scale companies (retail trade, agriculture, services to companies, tourism, etc.) has progressed well.

There are great disparities between the Central/Eastern European countries in the degree to which they have created the base for a market economy, especially concerning the sequence at which privatisation and financial restructuring take place. Two broad alternative policy approaches to restructuring and privatisation can be identified: priority on early privatisation leaving most of restructuring to private owners, and priority on comprehensive financial restructuring before launching privatisation. The second strategy targets high-quality owners for enterprises through comprehensive financial restructuring before the sale takes place. The advantage of the first approach lies in its higher speed, compared to the second. However, both approaches might not always ensure high quality of corporate governance and the necessary modernisation.

Apart from the degree of privatisation and restructuring achieved, further major differences concern the creation of the basic institutions which are necessary for the functioning of a market economy, the introduction of competition and the elimination of subsidies, the progress in price liberalisation and the development of an effective banking and financial sector. This implies that the instruments which should be used to promote transition, need to be adapted to the specific situation of the country concerned.

FOREIGN DIRECT INVESTMENT

The success of recovery in Central/Eastern Europe depends first of all on the countries' progress in macro-economic reform, but then needs to be supported by sustained high rates of investment (and, as a necessary corollary, "immaterial investment" - the transfer of technology, know-how and modern management techniques). Domestic savings will have to be the main source of investment, but they presently remain at a level that will not permit a rapid catch-up close to that of the EU. *Foreign direct investment should thus be of considerable importance in the current reform phase.*

Inward investment flows have been on the whole disappointing in the region (see table in annex), despite of the particular importance given by the economies in transition to the establishment of favourable conditions to attract investment. Indeed, the legal framework has made considerable progress in some of the countries, while in others, it is far from congruent with the political statements of principle in support of the liberalisation of the economy. However, in all countries, a main shortcoming of the legal and institutional system are the difficulties of the administrations to apply the regulations.

Experience in the past years has shown that decisions on the location of investment often follow and strengthen prevailing trends. This explains to a large extent the successes of Hungary, Poland and the Czech Republic (ie the early start-ups) which keep attracting a lion's share of all inward investment in the region.

FRAMEWORK CONDITIONS FOR INDUSTRIAL DEVELOPMENT AND INVESTMENT

The success of industrial development relies very much on **macroeconomic progress** towards a full market economy. In this respect, the Central/Eastern European countries' reforms towards market-based pricing systems and exchange rates are particularly important for industrial development.

Among the most important factors for investment are framework conditions such as adequate **infrastructures** (*telecommunications, transport and energy*) as well as **business services** (*insurance, banks, business consulting, accountancy, chambers of commerce, industry associations*), which play an increasingly important role for the economy as a whole. Their availability and cost have a large horizontal impact on industrial activity. In the energy sector for example, the European Energy Charter is an important EU initiative to create a favourable investment climate for the sector, and signatories of the Charter Treaty include the Central/Eastern European countries.

Prospering **trade** relations are another indispensable framework condition for industrial development, both in terms of input supply and export revenues. Moreover, the potential for trade is a major criterion for investment decisions. Traditional trade relations within Central/Eastern Europe and the Former Soviet Union have virtually collapsed, and supply-production chains have been disrupted. In fact, market reforms and economic transition in Central/Eastern Europe were then supported by an unprecedented expansion of trade between the Union and these countries. Coinciding with the very rapid expansion of EU imports from the Central/Eastern European countries has been a radical trade liberalisation by the EU towards them, formalised in the signing of the Europe Agreements. One of the striking features of the trade between the Union and the associated countries is the high degree of intra-industry trade, which has been growing significantly in the recent years, indicating a greater convergence of industrial structures between the Union and the region: Associated countries are becoming mature for industrial cooperation.

In conclusion, despite positive developments in macroeconomic reform, privatisation and investment growth (from low level), overall investment in the region still remains too low: It does not meet the persisting industrial restructuring and modernisation needs, and it does not permit the rapid growth necessary if these countries are to catch up at least partially with the EU. This situation cannot be overcome without further increased trade, foreign investment and industrial and technological cooperation with the European Union. The Union has thus an essential role to play in the process of privatisation, modernisation and integration of the Central/Eastern European industries.

3. PAST AND PRESENT EUROPEAN UNION ACTION

The Union has constantly and progressively improved contractual relations with Central/Eastern European countries, has developed comprehensive technical and financial assistance programmes and scientific & technological cooperation with the

region (a more detailed description of assistance and S&T cooperation is given in annex).

The Union's consistent policy of rapidly granting market access to imports from Central/Eastern European countries is a very substantial contribution to a favourable framework for industrial development. As far as industrial products are concerned, the process of liberalisation by the EU begun with the conclusion of the Europe Agreements in 1991/2 is nearly complete. The dismantling of EU tariff and quantitative restrictions was accelerated at the Copenhagen European Council in June 1993 and the terms of the Europe Agreements with Romania and Bulgaria were aligned with those of the other Central/Eastern European countries at the Essen European Council in December 1994. Consequently, for industrial products there remain only some tariffs on steel items until 1 January 1996 and on textiles until 1 January 1997. The last quotas on textile products will disappear by January 1998. In the case of the Baltic States, under the terms of the Free Trade Agreements in force, all industrial imports into the EU except for textiles are already completely liberalised from 1 January 1995.

The Union's assistance is first of all related to the development of framework conditions, such as the legal and administrative framework e.g. for investment and competition, through the approximation of laws. This also includes quality management: A normalisation/certification system may either constitute new trade barriers or facilitate exchanges: Without an appropriate normalisation/certification system, Central/Eastern European industry will be unable to ensure sufficient product quality, to develop its export opportunities and to launch cooperation with EU industry. The objective of mutual recognition of conformity assessment will also be harder to achieve.

Furthermore, assistance has been provided to the process of privatisation and restructuring of companies, to the development of business links, investment promotion and training. In addition to the assistance, action has been started to bring industry representatives into direct contact to explore the cooperation possibilities (Round-Table conference in Riga 1994, with high-ranking industry and administration representatives from the EU and the three Baltic states).

Scientific and technological cooperation has been developed with Central/Eastern Europe, to maintain the RDT potential of these countries as a source for industry modernisation. Activities have now been integrated into the 4th Framework Programme.

4. EUROPEAN UNION INITIATIVES FOR FUTURE COOPERATION

Past and present action have already provided a substantial contribution to the transition process. The proposed orientations for the future start from existing instruments and consider useful adaptations and additional action, to take account of the pre-accession context. The implementation of the overall horizontal approach will have to take into account the specific situation of the country and industrial sectors concerned on a case-by-case basis. A regional approach, to stimulate cooperation among the Central/Eastern European countries themselves, is important in many of the following areas of action (e.g. trade, cross-border cooperation, sectoral industry reviews.)

A. The Europe Agreements and the Union's assistance policy: paving the way to cooperation and integration

The **Europe Agreements** provide the overall framework for a very close cooperation covering practically all areas of economic activity including industrial cooperation, and they contain specific provisions which aim to improve the business environment. Thus, they provide a basic orientation for PHARE and other instruments. In the perspective of progressing transition and future membership, following the Essen European Council, the PHARE technical and financial assistance and other assistance measures will increasingly assume the role of a major tool to prepare associated Central/Eastern European countries for accession.

EXPLOITING THE INSTITUTIONAL SET-UP OF THE EUROPE AGREEMENTS

The Europe Agreements offer an institutional set-up (besides a general joint committee e.g. contact groups for steel, mining, raw materials; sub-committees on economic cooperation) which may serve as a vehicle for cooperation.

STARTING AN INDUSTRIAL POLICY DIALOGUE

An industrial policy dialogue should be started with Central/Eastern Europe, using this institutional set-up. This would serve two purposes:

- Administrations of the two sides should consider together which initiatives should be taken to better exploit the potential for industrial cooperation, and which solutions should be adopted to remove the obstacles which industry has experienced in cooperation projects.
- The European Union has developed further its industrial policy in view of enhancing the competitiveness of its industry and, in the White Paper on Growth and Competitiveness, adopted an approach on how to promote change in the economy in order to face the future challenges, such as sustainable development and the information society. Central/Eastern Europe will very much be confronted with the same challenges. Thus, the dialogue should include the exchange of views on this adjustment process.

DEVELOPMENT OF REGULATORY FRAMEWORK AND APPROXIMATION OF LAWS

The **White Paper** on the preparation of associated Central/Eastern European countries for integration into the internal market is a core element of the pre-accession strategy, as endorsed by the Essen European Council. Its purpose is to provide these countries with a guide to those areas of the *acquis communautaire* which are essential to the maintenance of the integrity of the internal market to facilitate integration. It will propose a logical sequence of adaptation of internal market legislation, but without attempting to set a timetable for action.

Not only will the White Paper list the legislative core *acquis* on the internal market, but it will equally describe the organisational and institutional structures and infrastructures needed to enable effective application of EU legislation. Technical assistance would then be provided under PHARE according to each country's specific needs.

With these indications, *the White Paper will facilitate future industrial cooperation.* It will be tabled to the European Council in Cannes.

QUALITY MANAGEMENT: STANDARDS/CERTIFICATION

In principle, the Union could follow the assistance already given to some Central/Eastern European countries as a model for further action, ie a bilateral approach to satisfy the needs of the respective country, completed with a regional approach combining a number of countries to create a "regional quality management infrastructure", which would encourage intra-regional trade.

Technical assistance should be based on two principles:

- It should be linked to a political commitment of the beneficiaries to adopt norms, technical regulations and certification systems based on European and international models.
- The participation of these countries in the European norms, certification and quality organisations (CEN, CENELEC etc.) should imply that they are subject to the same rights and obligations as their European partners. This would largely facilitate the conclusion of mutual recognition agreements.

In this context, consideration should be given to strengthening cooperation, in particular in sectors where mutual recognition agreements would be appropriate.

INVESTMENT FRAMEWORK (LEGAL AND ADMINISTRATIVE SYSTEM)

As a corollary to the promotion of investment projects, the framework for investments needs improvement. This relates in the first place to the legal and regulatory framework which the Central/Eastern European countries have to develop themselves. While much progress has been achieved, this differs substantially from one country to the other, in particular in terms of more or less effective implementation and enforcement of laws and regulations. Other common problems are related to the need to consolidate legal decision-making and the existing legislation, and to the remaining inconsistencies (e.g. definition of responsibilities between administrations - from national to local level - involved in foreign investment and the cooperation between them; complicated administrative procedures). A major effort will also have to be made to enhance the transparency and stability of the legislative and regulatory framework, e.g. potential investor's access to information.

In the discussion on the investment framework, too many parallel efforts should be avoided. To achieve a certain homogeneity, framework principles should be elaborated together with the Central/Eastern European countries, on the basis of the Europe Agreements. In addition, other fora should continue to play a role in this respect (such as OECD/Investment Advisory Group, World Trade Organisation). The Commission has adopted a Communication⁴ on the importance of establishing worldwide uniform rules on Foreign Direct Investment, to strengthen the levels of transparency of rules, and the liberalisation and protection of investment flows: Acceptance by Central/Eastern

⁴ COM (95) 42

European countries of multilateral rules would help to increase the confidence of Western investors.

PRIVATISATION, RESTRUCTURING, MODERNISATION OF INDUSTRY

Regarding further assistance to industry sectors, priority should be given to:

Transparency of Central/Eastern European industries: Sectoral industry reviews should be done where important sectors have not yet been covered and where an operational value of such reviews is ensured. To avoid any duplication, Commission services have started to explore with industry sectors, Member States and other organisations (OECD, UN...) which data are already available. It is equally important to ensure, to the greatest extent possible, that much more than in the past, existing studies are made available to the industries concerned, so that they may base future action on this information.

Feasibility/viability reviews of concrete sectoral projects: Within its privatisation/restructuring branch, PHARE should also encourage Central/Eastern European countries to pursue projects designed to examine the feasibility and viability of restructuring and modernising Central/Eastern European companies, with an immediate operational value to facilitate investments and cooperation with EU companies (example: establishment of business plans, search for appropriate investors). Positive examples for such projects are the study (financed by the PHARE-COOPME facility) on the situation of the food, drink and tobacco industries in six associated countries and on potential cooperation with EU industry, and the viability reviews of some 15-20 Central/Eastern steel companies made following the national restructuring programmes. As the example of the ECSC loan facility for Central/Eastern European countries shows, in some cases such technical assistance can be combined with specific loan instruments with a view to supporting the restructuring of particular sectors.

Conversion into civil production is not only an important political goal, but in some sectors (such as aerospace) also a valuable cooperation tool. The information technology sector offers a considerable (R&D and industrial) potential for conversion, which should be increasingly exploited (e.g. in the areas of microelectronics, optoelectronics and microsystems).

Socio-regional accompanying measures, similar to RESIDER, RETEX, RECHAR etc, should be considered for industries characterised by excess supply of labour and strong regional concentration, in order to facilitate, as soon as possible, the creation of alternative employment opportunities. In fact, regional reconversion and development programmes are being implemented in certain countries (Poland, the Czech and Slovak Republics in particular). The Polish STRUDER programme, for example, is clearly based on EU programmes and experience, including a grant scheme for investments and a risk capital company. The Union has a large experience with structural programmes. Central/Eastern European countries should draw from the Union's experience in the design of such programmes supporting the building up of a competitive industry.

BUSINESS LINKS AND INVESTMENT PROMOTION
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Future action should consider the areas of **partnering events and subcontracting**.

Regarding **partnering events**, the question arises in view of the interest expressed by Central/Eastern European countries in extending the participation of their firms in partnering events with those from the EU whether more such events should be organised in the Central/Eastern European countries. Merely extending existing schemes to Central/Eastern Europe would not appear an appropriate response to the specific needs for industrial cooperation of the region.

A more productive approach could be to develop specific cooperation instruments with the Central/Eastern European countries based on existing formulas. A precedent already exists with the Med-Invest and AI-Invest schemes, which provide under their facility one for the organisation of PARTENARIATS and INTERPRISES in these countries. Bearing in mind the experience with the pilot action "Doing business with Central/Eastern Europe" and with existing EUROPARTENARIATS, which are becoming very large, an innovatory approach could be developed. For instance, it would be possible to conceive a new "CEEC PARTENARIAT". Such events could further specific models of regional integration between European regions. They could cover groups of inter-related industries, both manufacturing and services, instead of many different industries, as in the case of EUROPARTENARIATS, or narrowly defined ones, as in the case of regular INTERPRISES.

In the area of **subcontracting**, with regard to participation in events organised in the EU, the technique of "Salons Inversés" where assemblers meet potential suppliers lends itself to participation from firms from Central/Eastern European countries.

In addition to participating in existing actions, a specific action to develop subcontracting amongst the Central/Eastern European countries and with assemblers from the EU would be warranted. It could comprise four types of measure:

1. interconnection of data bases/exchanges established in these countries for subcontracting with those in the EU;
2. evaluation of the current situation of sub-contracting in Central/Eastern Europe;
3. pilot actions in specific sectors;
4. training of technicians and enterprises in the principles of total quality management and implementation of certification procedures and accredited laboratories.

As with the development of special partnering events, sufficient resources would be required to run such a specific programme.

The Essen European Council has confirmed the increasingly important role of PHARE in the areas of **investment support** for both infrastructure and SME development.

The JOPP programme has an important role to play, in particular for projects with smaller amounts of investment which are less likely to be considered by institutions such as the EBRD. An external evaluation of JOPP is currently underway, the results of which will be taken into consideration when considering any changes that need to be made to the programme. The evaluation will look at e.g. the use of facility three (support for productive investment), the response to investment needs and the appropriate size of companies to be supported.

Further increased synergies should continue to be sought with organisations involved in investment, notably the EBRD and the EIB, as it is the case in existing PHARE operations where EBRD and PHARE finances are combined to provide technical assistance, training and capital for industrial restructuring. One example concerns the Project Preparation Committee, which has been set up (following the Ministerial conference "Environment for Europe" in 1993) to improve coordination between international financial institutions and donors in the area of environmental investments in Central/Eastern Europe.

On the basis of the experiences made with the ECSC loan facility adopted in favour of Central/Eastern European countries in 1990, the possibilities of lending instruments which are linked to some sort of industrial cooperation between EU and Central/Eastern European companies should be explored further.

CROSS-BORDER COOPERATION

As the Essen European Council has confirmed, a regional approach is important to stimulate cross-border and inter-regional action among Central/Eastern European countries and among them and the Union. This will also help to ensure that in future investments, duplications and misuse of scarce financial resources are avoided. While current actions (PHARE-cross border cooperation, PHARE INTERREG and INTERREG) are already important contributions, a further strengthening should be considered.

There is considerable scope for developing industrial cooperation between craft and small firms in border areas. The combination of INTERREG and PHARE programmes opens the specific dispositions of these programmes to cross-border cooperation. Since after the current round of enlargement all Central/Eastern European countries with the exception of Romania possess a common border with the EU, possibilities for this local integration can be pushed forward as the basis for subsequent wider internationalisation of firms and broader forms of cooperation. It will be necessary to ensure that cross-border agencies be grouped in a network with other similar existing or planned agencies in the EU in order to ensure the transfer of best practice and to promote further transfers of business opportunities.

The closure of missing links in the infrastructures will strongly promote cross-border cooperation. As the Essen European Council acknowledged, the integration of Central/Eastern European countries into the Trans-European networks is a key element in strengthening their ties with the Union. In the framework of EU work on Trans-European Networks, concepts such as interoperability are being further developed and their impact on the transport industry assessed. In a context of progressive integration of the Central/Eastern European countries, the initiation of a dialogue with them to explore possibilities of industrial cooperation in transport would be particularly helpful in ensuring that their transport systems are compatible with developments in the European Union.

COMPETITION

The establishment of a viable competition and state aid control system is an essential condition for the development of the market economy and a healthy industrial sector in the transition countries. The implementation of competition rules comprising rules on monopolies and undertakings with special or exclusive rights is needed to avoid public monopolies being replaced by private monopolies and to ensure that market structures will become pro-competitive, whereas obvious public finance reasons speak for a strict state aid control. Even more importantly, transparency in the field of state aids and their control are essential elements in the process of transition towards a market economy which is open to international competition. While state ownership should not be seen as inherently unacceptable, state-owned companies should be carefully scrutinised, e.g. regarding their way of investment financing, to ensure that normal private sector investment criteria apply. Hidden subsidies would lead to serious distortions of competition.

The efforts of harmonisation of legislation undertaken so far under the *Europe Agreements* still need to be pursued further in order to ensure that competitors may operate under the same conditions without undue advantages for some, in a competitive environment. The *White Paper* will also include an analysis of the Union's competition rules which form an essential element of the basic fabric of the internal market. The Commission will set up a competition policy training programme which will draw on the experience and expertise of the Commission's and the Member States' competition authorities.

In addition Central/Eastern European countries should be encouraged to adhere to relevant international disciplines aiming at normal competitive conditions such as the OECD agreement on shipbuilding.

TRADE

Not as a substitute, but as a complement to the Union's opening, increased efforts should be undertaken to multilateralize the region's trade. These efforts should be directed at two main areas.

Promotion of intra-regional trade: Domestic markets of the Central/Eastern European countries are often undersupplied because of local production being exported to more accessible (infrastructures, networks) and better paying (hard currencies) foreign markets, normally in the Union, despite the establishment of intra-regional agreements such as CEFTA⁵. The closer economic integration of markets in the region therefore needs to be encouraged, in order both to strengthen and diversify the trading relationships and the division of labour between the countries themselves.

Promotion of a convertible trading environment ("Aid for Trade"): Assistance should continue to be given, when needed, to the development of reliable and effective banking and payments systems in Central/Eastern Europe. In particular, aid should be

⁵ CEFTA: Central European Free Trade Area, agreement concluded between the Visegrad countries in December 1992

directed towards the establishment of payment clearing systems and export credit mechanisms, in order to facilitate the growth of trade and to support the objective of closer economic integration already mentioned earlier. Export credit mechanisms would have to fulfil the same standards as those laid down in international rules (ie OECD) and those applied in the Member States, which are part of the EU state aid rules and are therefore applicable under the Europe Agreements.

Rules of origin play an important role for growth and direction of trade flows. Following the decisions taken by the Essen European Council, the impact of the proposed rules of origin strategy⁶ will be carefully examined from an industry/trade point of view.

Similarly, agreements on the **mutual recognition of conformity assessment** can stimulate trade. Efforts must therefore be made to identify areas where mutual recognition agreements could be feasible with individual Central/Eastern European countries, and within particular sectors, during the pre-accession phase.

An initiative to promote intra-regional trade is being launched under PHARE, following the Essen European Council. This will include support for the introduction of modern trade legislation, transfer of know-how for export promotion and for the development of export insurance and guarantee schemes.

ENVIRONMENT

The envisaged accession of Central/Eastern European countries to international standardisation bodies (CEN, GENELEC) allows for adapting environmental requirements in this region. The creation of the Trade and Environmental Committee within the World Trade Organisation provides a platform to discuss the questions of environmental, technical and non-technical, standards in relation with trade.

The situation of infrastructure in the field of environmental services (waste and waste water treatment, air pollution control) needs to be assessed. According to OECD, Central/Eastern European countries might reach growth rates up to 25% by the year 2000. **Industrial cooperation therefore would be an important instrument to ensure that essential requirements are introduced in this region with a view to both leading to better environmental performance and providing industry a level-playing field.**

Action should also include practical measures to contribute to sustainable development: Industry holds a main responsibility to ensure a high level of environmental protection, and the industry active in Central/Eastern Europe should adhere to an environmental code of conduct on the basis of the "Guiding Principles on the Environment, Industry and Investment Decisions in Central/Eastern Europe" (Budapest 1991). In addition to the technical assistance provided under PHARE environmental programmes for clean-up operations, priority action should also be given to cleaner industrial production in both the private and public sectors. In particular, there is a need to increase information, to those who can implement cleaner production solutions, about both the technology

⁶ SEC (94) 1897 final. The strategy proposes (i) to extend diagonal cumulation with the Union to all Central and Eastern European countries; (ii) to integrate EFTA countries into this cumulation, (iii) to introduce full cumulation into all agreements

involved and the environmental tools which industry needs to make cleaner production assessments of its activities and products. The improved access to information should be complemented through technical assistance, demonstration projects and training.

ENERGY

Implementation of SYNERGY, the energy cooperation programme with third countries including Central/Eastern Europe, in coordination with other technical assistance is of considerable importance. It aims e.g. at the implementation of the European Energy Charter and transboundary projects. The THERMIE programme on the transfer of innovative energy technologies, has set up Energy Centers which play an important role as a link between EU and Central/Eastern European industries.

TRAINING

Investments and technology transfer will only achieve their objectives if at the same time, a massive effort will be undertaken to improve the managerial know-how of Central/Eastern European company personnel in all areas of company operation under transitional and market economy conditions (such as organisation, cost planning and control, optimisation of production process, marketing/distribution, quality control). This should also include training of trainers, to facilitate dissemination. Training should as well include the environmental components, which are essential for the establishment of a sustainable market economy (e.g. cleaner production, environmental legislation).

In the field of adult training and especially management training, the newly established ***European Training Foundation*** is considering specific measures to foster the cooperation between organisations and institutions responsible for training in Central/Eastern Europe and their counterparts in the Union. The aim will be further to encourage the development of local structures, to improve their links with the industrial world and to orient curricula towards professions and labour structures relevant to the new market conditions. The activities to be developed by the Foundation will draw on the experience with the Community action programmes FORCE and, in the future, LEONARDO.

The dialogue with EU industry should be used as well to explore opportunities and to mobilise a broad range of EU host companies for traineeships offered to Central/Eastern European managers (e.g. in the Industrial Training Attachments Programme). Account should be taken of training initiatives set up by individual industries (examples: shipbuilding, clothing, chemicals, steel, energy) independently.

Furthermore, more efforts should be taken regarding the training of Central/Eastern European administration officials, in particular those who deal with the legal framework conditions and restructuring programmes in their countries (e.g. traineeships in EU administrations and companies). This would help to enhance legal security and a stable framework, which are crucial for the attraction of investment.

Finally, the experience acquired by the Union in the framework of industrial restructuring measures and redeployment of workers can also benefit the Central/Eastern European countries. The Union has established networks for the purpose of identifying sound experience in these areas and disseminating it to other organisations in the Member

States. Research and assessment work has led to recommendations widely publicised via these networks, to interested parties at local and regional level.

B. Scientific and technological cooperation

Future action should pursue the following priorities:

RESEARCH AND DEVELOPMENT

Industry modernisation relies, *inter alia*, on effective implementation of R&D results. Thus, industrial cooperation should build upon and valorise scientific and technological cooperation with, and where appropriate supported by, the Union. Cooperation between researchers and industrial companies should be strengthened by appropriate use of all the available instruments, including the 4th Framework Programme and the agreements with Central/Eastern Europe, bearing in mind the ultimate objective of strengthening the scientific and technological base of the Union's industry, and the commitment to encourage its international competitiveness. In that context, the Union's efforts to promote RDT cooperation aim at a stronger relationship between EU and Central/Eastern European research communities to their mutual benefit. Central/Eastern European researchers should be encouraged to stronger participate in EU RDT initiatives and programmes, particularly in areas where their expertise and know-how will add value to the results of cooperative work, and they should be helped to maintain contact with their EU partners after participation in joint projects. Dissemination and valorisation of RDT results, although not covered by "activity 2" of the 4th Framework Programme, should also be encouraged.

INFORMATION INFRASTRUCTURE AND INFORMATION SOCIETY

Europe and other major players are moving towards the Global Information Society. This implies to modernise the physical telecom infrastructure, to develop and disseminate new information services for business and individuals, to promote information technology applications and user skills and to enlarge the use of electronic data interchange (EDI). The Union will ensure that the process will indeed be global and will gradually extend all its relevant programmes to Central/Eastern Europe, to bring it into the realm of the Information Society. This will also help to assess the likely impact of the Global Information Society on Central/Eastern European industry. The G-7 Ministerial Conference (Brussels, February 1995) has underlined the revolutionary impact of the Information Society on business and individuals, has recognised the necessity of worldwide cooperation for its achievement and has identified 11 pilot projects which should help to support the objective of an international consensus on common principles of the Information Society. The pilot projects will be open to third countries.

The Commission plans to organise an informal Forum on the Information Society, at ministerial level, with 10 Central/Eastern European countries, in 1995.

C. Mobilisation of European industry

To stimulate the private sector's closer involvement in the transition process in Central/Eastern Europe, the Commission should envisage a partnership with the private

sector as a complement to its assistance programmes. The objective would be to yield more complementarity and synergy for example in market development strategies, through an exchange of information and experience.

DIALOGUE WITH EUROPEAN INDUSTRY

To explore the opportunities of and the obstacles to industrial cooperation, the European industry needs to be more closely implied in a ***constant information and consultation process with the Commission***. Most importantly, the Commission should continue to discuss with Community industry sectors, in a concrete country- and sector-specific way, which problems industry has encountered when launching cooperation projects, and which are the reasons behind the slow pace of investment in many Central/Eastern European countries. The "Maritime Forum" is an example of an instrument for permanent dialogue which could be used in other sectors.

Dialogue with industry should also explore the usefulness of different forms of investment promotion. For example, consideration should be given to the possibility of improving existing instruments and seeking solutions which may partially guarantee investment, in order to stimulate specific projects for which there is demand in the partner countries (in Central/Eastern Europe) and which businesses in the European Union have the capacity to meet (energy saving, water purification, telecommunications, transport schemes, etc.). Such an initiative could be based on an analysis of existing guarantee schemes (e.g. Member State and other schemes such as the World Bank's Multilateral Investment Guarantee Agency), to ensure that action taken by the Union genuinely provides added value.

INTER-INDUSTRY DIALOGUE

Contact between Central/Eastern European and EU industries should be promoted in different forms and at various levels.

- ADVISORY BUSINESS COUNCIL

The pre-accession strategy adopted by the European Council in December 1994 includes the establishment of an Advisory Business Council, to provide advice to the Commission and the associated Central/Eastern European countries' authorities on support to economic recovery and especially the promotion of foreign investment.

- INDUSTRY ROUND-TABLES

Apart from general macro- and microeconomic obstacles to investment and other cooperation, specific obstacles appear in individual industry sectors (example: specific importance of intellectual property protection in pharmaceuticals). Industry Round-Tables are an effective instrument to identify and discuss them, and they can offer a useful informal complement to the official contact fora between administrations created under the Europe Agreements.

The Commission should initiate further Round-Tables involving EU and Central/Eastern European industries as well as the appropriate interlocutors in the Central/Eastern European administrations, following the model of the Round-Table organised in Riga

with the Baltic states in 1994. In order to avoid duplication of other bilateral or international fora already in place (e.g. OECD Investment Advisory Group), these Round-Tables should avoid a too large and heterogenous participation and should rely on agendas of immediate operational value. They should not be perceived as permanent institutions: Organised on an ad-hoc basis when the two sides deem it useful, they can help to initiate a cooperation process which should then be carried on by the economic operators themselves.

- INDUSTRY-SECTOR SPECIFIC ACTIVITIES

Depending on specific opportunities and the state of mutual knowledge/cooperation already achieved, **sector-specific inter-industry contacts** should take the form that fits best: Examples include the agro-food industry trade fair envisaged in 1995 and a Round-Table on consumer electronics industries.

Where appropriate, EU companies could conclude sponsorship (parrainage) arrangements with Central/Eastern European enterprises, e.g. in view of training, or further-reaching cooperation such as distribution arrangements.

Another area should be the **inter-industry follow-up to technical assistance** actions: To increase the impact particularly of restructuring assistance, the establishment of inter-industry contacts could provide an operational follow-up. Such contacts could take the form e.g. of seminars to discuss the appropriate consequences of assistance actions/restructuring studies with Central/Eastern European and EU industries, including the design of cooperation projects.

Finally, **concrete cooperation projects** should be developed where they meet demand from the industries of both sides. An example is the pilot programme to improve competitive subcontracting for the consumer electronics industry in the EU. This project has allowed in the past three years European suppliers of components to visit factories in Japan and then to design and implement improvement programmes in their own companies. Programme participants are in favour of extending participation to suppliers in Central/Eastern Europe, which is seen as an increasingly important market and production location. Consideration should be given to projects demonstrating that "pollution prevention pays", ie that no-cost or low-cost measures can reduce the use of resources and pollution while yielding economic benefits.

- "INSTITUTION BUILDING": INTERLOCUTORS FOR INDUSTRY

The creation of industry associations in Central/Eastern Europe should be further encouraged: This growing network - in addition to the other business services supported by PHARE - will provide the competent advice which EU industry needs for the development of cooperation. EU industry associations can help to broaden the process.

The financing of the envisaged actions relies first of all on PHARE, for the assistance part, on the 4th framework programme, particularly its international cooperation part, and on the Information Society budget line. In particular, existing actions under PHARE will be developed further and new initiatives launched to facilitate industrial cooperation with PHARE financing on the basis of the Central/Eastern European countries' own priorities and demand. Inter-industry dialogue initiatives will be financed, to the extent possible, by both the PHARE-COOPME facility and through the industry budget for industrial cooperation. To that aim, a minimum of budgetary resources is envisaged in the industry budget line, in order to broaden both the dialogue with EU industry and the inter-industry dialogue (notably through the organisation of Round-Tables and other ad-hoc inter-industry contact fora), and in order to facilitate concrete inter-industry projects such as the extension of the consumer electronics programme described above. While any duplication with PHARE needs to be avoided and additionality ensured between these financing sources, the added value would be to facilitate accompanying actions directly involving industries of the two sides.

ANNEXES

Table: Industrial Production and Unemployment in Central/Eastern Europe

		1992	1993	1994
Bulgaria	Industrial Production (a)	- 7.0	- 8.5	- 4.8 (Jan - May)
	Unemployment rate in % (b)	15.6	15.9	13.4 (June)
Estonia	Industrial Production (a)	-38.7	- 28.4	
	Unemployment rate in % (b)	1.5	1.7	2.1 (June)
Hungary	Industrial Production (a)	-9.8	4.0	7.8 (Jan - April)
	Unemployment rate in % (b)	12.2	12.1	11.0 (June)
Latvia	Industrial Production (a)	-35.1	-39.6	
	Unemployment rate in % (b)	2.3	5.3	32.4 (Jan - June)
Lithuania	Industrial Production (a)	-51.6	-46.0	
	Unemployment rate in % (b)	1.0	1.6	3.2 (June)
Poland	Industrial Production (a)	4.2	7.9	9.9 (Jan - June)
	Unemployment rate in % (b)	13.6	16.1	16.6 (June)
Romania	Industrial Production (a)	-21.8	1.3	-1.8 (Jan - May)
	Unemployment rate in % (b)	8.4	10.2	10.8 (June)
Czech Republic	Industrial Production (a)	-11	-5	4.6 (June)
	Unemployment rate in % (b)	3	3	3.0 (June)
Slovak Republic	Industrial Production (a)	-13	-14	3 (February)
	Unemployment rate in % (b)	1	14	13.9 (May)
Slovenia	Industrial Production (a)	-13.2	-2.8	-5.8 (Jan - May)
	Unemployment rate in % (b)	13.3	15.4	14.6 (April)

(a) percentage change compared to previous year

(b) end of period

Source: European Economy
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Table: Foreign Direct Investment in Central/Eastern Europe

Foreign Direct Investment in transition countries 1990-1994: cumulative total (cash basis)						
	Level (million US\$)					FDI per capita
	1990	1991	1992	1993	June 1994	
Bulgaria	4	60	101	157	182	17
Czech Republic	436	947	1951	2519	2820	242
Hungary	512	1971	3442	5781	6316	558
Poland (cash)	93	210	494	1074	1365	28
Poland (BOP)	218	509	1187	n/a	n/a	0
Romania	0	40	120	207	323	9
Slovakia	28	110	210	354	390	83
Slovenia	n/a	41	152	263	292	130
Estonia	0	0	58	218	337	139
Latvia	0	0	43	82	112	30
Lithuania	0	0	10	50	70	13
Stocks of FDI (off. estimates)						
Czech Republic	72	595	1556	2053	2490	n/a
Hungary	569	2107	3424	5576	6383	n/a
Slovenia	n/a	n/a	n/a	762	792	n/a

Source: UN/ECE; figures in italic are UN/ECE estimates; "0" means no or a negligible amount of investment occurred; per capita figures are in US \$

STEEL INDUSTRY: A CASE OF SUCCESSFUL COOPERATION

In many Central/Eastern European countries, the steel industry represents a major industrial sector which requires an enormous technical and managerial restructuring, in order to survive. At the same time, and considering the ongoing structural adjustment of this sector in Europe as a whole, steel trade is creating certain tensions which can best be solved through cooperation and better mutual understanding.

Due to traditional contacts with the countries of Central/Eastern Europe in the steel sector and to internal EU restructuring experience, Commission services were able to help to establish rapidly a strategy and implement cooperation, with PHARE support. The approach has been worked out in close cooperation with both government representatives and the industry of the countries concerned and then been implemented by experienced consultants and with the assistance of experts from the EU-steel industry. The assistance usually starts with a steel restructuring study to provide an overview of the future of the steel industry in the country concerned. In parallel, training programmes are organized to transmit specific experience in such areas as marketing, cost accounting, personnel, etc. from the EU steel industry (for example, training programmes for Central/Eastern European managers in EU steel companies). Finally, exchange programmes were set up, pooling the experience of managers of steel companies from both regions. In addition, Central/Eastern European steel companies have the possibility to apply for loans under the ECSC Art. 95 loan facility adopted in 1990, provided that the project implies cooperation with a EU partner and does not have disruptive effects on the market of the product concerned.

These types of programmes are successfully progressing in seven countries of Central/Eastern Europe and will be started in Russia and in the Ukraine, with a slightly different approach considering both the different industry size and the historical background. In Central/Eastern Europe, the cooperation will have to take account of future accession, requiring assistance in adapting to the rules and norms of the European Union and the ECSC, and exchange of experience with their counterparts in the European Union.

The project Global Study Steel was set up in 1992. It brings together all steel producing countries of Central/Eastern Europe under the guidance of a Steering Committee composed of the European Commission, the EBRD, the World Bank, the United Nations and IISI. This regional approach ensures that the restructuring is not done on a purely national basis without taking account of the Central/Eastern European and CIS regional implications and the world steel situation, and helps to favour foreign investments and possible joint ventures. Regular meetings allow an open exchange of experience, bringing together the people responsible for steel in Europe. A first study under this guidance looked at demand and capacity in the year 2000, thus helping in the individual restructuring concepts. A second study has just started, dealing with the possibilities, advantages and requirements for regional cooperation, synergies and opportunities in this sector.

After five years of industrial cooperation in the steel sector, the first results are not only a better knowledge of the sectoral situation in this region, but also reasonable restructuring efforts. Secondly, an exchange of experience is taking place with direct cooperation between managers and government representatives from all over Europe, leading to the first joint ventures or other partnership arrangements and better mutual understanding. This has been possible due to the involvement of EU steel producers. In the future as part of the technical assistance programme, it should be possible to deepen the cooperation further. For this reason and in a period of growing steel trade, trade tension has lessened so that in fact nearly all barriers to imports from Central/Eastern Europe have been eliminated in steel.

INFORMATION SOCIETY: A CASE FOR DEVELOPING COOPERATION

Information and communication technologies are generating a new industrial revolution, critical to the future of European society. For Central/Eastern Europe, the emergence of the Information Society is one of the keys to industrial, economic and social renewal. These countries have highly qualified human resources and significant industrial equipment in the fields involved. The global nature of the issue calls for proper coordination mechanisms at an international level and for cooperation in the whole of Europe.

Involving Central/Eastern Europe in the building of the European Information Society is crucial to reinforce social, economic and political cohesion in the whole of Europe, and to reach the critical mass which is going to allow the Union to compete more efficiently with the USA and Japan. Also, cooperation is essential for the achievement of key elements in the development of advanced information and communications infrastructure, in particular those related to standardisation, protection of intellectual property rights, interconnection of networks and interoperability of services and applications. Cooperation can play a fundamental role in favouring a rapid penetration of information and communication technologies and the dissemination of know-how in Central/Eastern Europe, and open at the same time opportunities for investment in this market by EU industrial and service companies. This involves the removal of obstacles related to a number of regulatory aspects.

The European Commission is organising an informal Forum on the Information Society with ten Central/Eastern European countries in 1995, in order to start a joint reflection and to launch selected cooperation projects. The Forum will bring together the competent ministers and representatives of telecom industries and operators from Central/Eastern European countries interested in actively participating in the dialogue on the Information Society, which has been started notably in the G-7 Ministerial Conference organised by the Commission in February 1995. Initiatives such as the trans-European public administration network, telematic services for SMEs etc. could greatly facilitate the integration of these countries into the Internal Market and the overall E.U. structures.

In a side-look at Russia, Article 77 of the Partnership and Cooperation Agreement between the European Communities and their Member States and the Russian Federation mentions various aspects regarding possible cooperation in the area of communication, informatics and information infrastructure. The Commission and the Presidential Committee of the Russian Federation for Informatisation Policy will start a dialogue to exchange their views on the development of the global information society.

A substantial effort is to be put on co-operative research and development, to share advances and expertise, to promote the interoperability of networks, services, systems and applications, to preserve the research excellency and human resources in Central/Eastern Europe, and to help creating small knowledge-intensive companies and revitalising larger enterprises. Several joint projects have already been undertaken under E.U. programmes such as COPERNICUS. More will certainly be initiated under the Fourth Framework Programme, since its specific programmes "Information Technologies", "Telematics applications of common interest", "Technologies for Advanced Communications Services" and "International Cooperation" are now open to the participation of Central/Eastern European organisations. Because of the strong reduction of funds available to Central/Eastern European countries under the 4th Framework Programme and because some expensive Information Society-related activities are not research-oriented, mobilisation of other Commission programmes and funds for this area should be considered.

Selective survey of EU assistance and RDT cooperation

Under the Europe Agreements, special working groups on **approximation of laws** have been established and are addressing, on a regular basis, priority areas. The PHARE general technical assistance facility also provides support to approximation of laws, notably for the regulatory framework for investment. Other specific programmes cover areas of importance to business development, such as customs and statistics.

Adequate and effective **protection of intellectual property** is essential to encourage R&D and to stimulate foreign direct investment. In order to facilitate the compliance with the provisions of the Europe Agreements (legal obligation undertaken by the Central/Eastern European states to provide in five years time a level of protection similar to that in the Union), two specific regional programmes were set up in the framework of PHARE. RIPP (Regional Industrial Property Programme) started in 1993 and will continue until the end of 1996. It concerns especially patents, marks and industrial designs. The second programme called "Intellectual Property" started in 1994 and concerns copyright and neighbouring rights.

Quality management covers certification and normalisation, which are of high importance for industrial development. Examples are pharmaceuticals (e.g. registration, recognition of testing), aerospace and motor vehicles (harmonisation of technical legislation to Western standards).

The European standardisation bodies (CEN, CENELEC, ETSI) have granted the status of affiliated member or corresponding member to the national standardisation bodies in certain Central/Eastern European countries, without obliging them, when they adopt European standards, to withdraw their divergent national norms.

The Union has developed assistance programmes under PHARE (programme of assistance for quality assurance) to help to adapt quality infrastructures to the new market environment, in the areas of approximation of legislation and of standardisation. Certain partner countries continue to adopt rules or standards which are not compatible with EU standards/regulations, which then lead to new trade obstacles. Ad-hoc groups on certification are being created, under the Europe Agreements, to help the Central/Eastern European authorities to align their certification system with the Union's and to avoid in future the creation of new trade barriers.

PHARE provides comprehensive assistance for **privatisation and enterprise restructuring** (250 million ECU 1990-93). In the first phase of transition, characterised by macro-economic stabilisation and the establishment of a legal, regulatory and institutional framework, assistance concentrated on support to emerging (mainly public) institutions and on traditional instruments such as studies, training and provision of expertise. Major privatisation and restructuring programmes have been funded in almost all the countries, adapted to the governments actions and country needs. Support has been given horizontally (to privatisation ministries/agencies), to sectors and to individual companies being privatised.

In addition to these actions, projects with strong cooperation components have been undertaken in a number of industry sectors, such as steel (see separate text in this

annex). Furthermore, some support has already been provided to facilitate the conversion of military companies into civilian production.

In terms of the provision of information on possibilities for **developing business links**, the Commission will have completed the extension of correspondence centres for the Euro-Info centre network to the Central/Eastern European countries by the end of 1995. This network can act as the first point of contact for a EU firm interested in Central/Eastern Europe and for firms from this region wishing to internationalise towards the Union by direct exchange between members of the network without the need to pass through Brussels.

The Commission is also in the process of extending its networks for industrial cooperation to Central/Eastern Europe. The non confidential Bureau de Rapprochement des Entreprises (BRE) has already been implemented in most of Central/Eastern Europe, whereas the more elaborate and fee-paying BC-Net has been extended to five countries. Experience with those countries where BRE is already operational shows that this non-confidential partner search network is well suited to many Central/Eastern European countries. Firms from Central/Eastern Europe also participate in the various partnering events organised by the Commission. These include the big EUROPARTENARIAT events held on a regional basis twice a year and smaller scale INTERPRISE events which bring together three or more regions usually on a sectoral basis.

Regional cooperation is encouraged by PHARE-CBC (cross-border cooperation), by actions undertaken along the Union's external borders under INTERREG, as well as by PHARE-INTERREG and by the OUVERTURE/ECOS programme which aim at interregional cooperation between the Union and Central/Eastern European countries.

Regarding **investment promotion**, PHARE has supported the establishment of investment promotion agencies in Central/Eastern Europe. Furthermore, financial assistance has been provided through JOPP (JOint ventures Phare Programme), which supports the creation of joint ventures among EU and Central/Eastern European (mostly small and medium-size) companies, from the feasibility to the operational stages. Considerable PHARE funds have been used to set up **financial schemes** (including regional investment companies, credit lines, guarantee funds and privatisation funds) and to co-financing with the EBRD.

In view of regional **trade promotion**, the Commission has already taken measures to assist the creation of a private payment and settlement system in these countries. In April 1994 a new clearing and settlement system for payments in hard currencies among Central/Eastern European commercial banks (ABC ECU-linked Clearing and Settlement System) became operative in its first stage.

Environmental degradation in many Central/Eastern European regions is severe. The Europe Agreements acknowledge the need for **environmental cooperation**. In the framework of PHARE, environmental programmes were launched and an "Environmental sector strategy for Central/Eastern Europe" (adopted in 1991) identified the transfer of information and technology as one of the policy objectives and priorities. Moreover,

"Environment and Industry" is on the agenda of the Sofia Ministerial Conference in October 1995, part of the "Environment for Europe" process.

Through the Europe Agreements and PHARE, exchanges of views take place related to issues of environmental protection.

Support to **training** activities is being provided under PHARE and other programmes. Apart from assistance to the education systems of beneficiary countries, many horizontal and sectoral privatisation/restructuring projects contain training elements:

The "Industrial Training Attachments Programme" sets an example for cooperative training schemes: It supports professional traineeships for Central/Eastern European managers in EU companies, to provide insight into production and working methods of companies in a market economy environment. The TEMPUS programme (cooperation in higher education) provides support to Central/Eastern European universities to strengthen their links with enterprises, to develop degrees and courses which are in tune with the needs of industry and to increase their capacities to provide continuing education. The opening-up of the LEONARDO and SOCRATES programmes to the associated Central/Eastern European countries provides significant new opportunities to pursue constructive cooperation in these areas between them and the Union.

Scientific and technological cooperation with Central/Eastern Europe mainly intends:

- to help safeguarding the scientific and technological potential of these countries in order to redirect research towards social needs, restore their production system and improve the quality of life
- to help solving major social, economic and environment problems specific to Central/Eastern European countries by means of targeted technical, scientific and socio-economic RDT.

The earlier PECO and COPERNICUS schemes already aimed at industrial cooperation with Central/Eastern Europe in certain areas. The approach has now been integrated into the 4th Framework Programme (1994-98), which includes a new international cooperation programme. 43% of the budget of this international cooperation programme are devoted to finance cooperation projects with Central/Eastern Europe (and the Newly Independent States of the Former Soviet Union), representing less than 2% of the 4th Framework Programmes overall budget.

Within the international cooperation programme, a substantial effort is put on applied research directed towards industry, particularly in the fields of information technologies, advanced communications and telematics, materials technology, biotechnology. The budget for this programme is significantly lower than the corresponding one under the previous schemes. Indeed, partners from all European countries may now participate in all programmes of the 4th Framework Programme, but the fact that only limited financial support by the European Union is available, constrains the potential of this cooperation policy.

Action has been started to promote **direct contact between EU and Central/Eastern European industries**, for example through Round-Table discussions. A first Round-Table has been held in Riga in May 1994. The conference gathered high-ranking representatives of EU companies and their Baltic counterparts in four sectors (telecommunication, food processing, wood/paper, maritime industry), high level

representatives of the Commission and the governments of the three Baltic states, to discuss the conditions for foreign direct investment and industrial cooperation. Potential cooperation opportunities have been identified, and an appropriate follow-up agenda has been agreed. The occasion has also been used to start the Baltic Information Infrastructure Pilot Project, designed to close some of the bottlenecks in the current information infrastructure and to help to develop some business information services. The setting-up and the development of industry associations, chambers of commerce, SME business centers and similar institutions in Central/Eastern Europe has been a significant area of support under the relevant PHARE programmes.

**COMMUNICATION FROM THE COMMISSION REGARDING INDUSTRIAL CO-OPERATION
WITH THE CENTRAL/EASTERN EUROPEAN COUNTRIES**

FINANCIAL SHEET

1. ACTION

Industrial Co-operation with Central/Eastern European countries

2. RELEVANT BUDGET LINE

See point 7. (below)

3. LEGAL BASIS

- Treaty establishing the European Coal and Steel Community and its transposition in the protocol no. 2 of the association agreements with the Central/Eastern European countries

- Treaty establishing a European Community and in particular its articles 3 and 130, heading XIII (Industry), XV (Technological Research and Development - 130 F and ss) and XII (Trans-European Networks - 129 C)

4. DESCRIPTION OF THE ACTION

4.1. General objective of the action

To develop in the frame of the pre-accession strategy, the industrial co-operation between companies in the European Union and the Central/Eastern European countries with the aim of facilitating integration of these countries in the internal market, and for this purpose to:

- improve the framework conditions for the industrial development of the Central/Eastern European countries;
- encourage the restructuring and modernisation of the industry;
- promote investments

4.2. Period covered by the action and the procedures set for its renewal

The actions proposed in the Communication are for the most part, in the frame of continuously pursued activities.

5. CLASSIFICATION OF THE EXPENDITURE

NOE; DA

6. EXPENDITURE TYPE

Expenditure mainly consists of:

- funding of actions aiming to facilitate partnerships with the different parties involved (co-ordination with the ministries of Industry, developing support services to industries in Central/Eastern European countries)
- funding of the operational actions aiming to gather the data needed for a thorough knowledge of the enterprises and the industrial sectors (punctual analysis leading to a concrete industrial co-operation action - e.g. trade fair)
- funding of meetings between industrialists or between professional associations from both regions (industrial Round-Tables, sectorial information days...)
- financial contributions to the scientific and technological co-operation activities

7. FINANCIAL INCIDENCE

7.1. Launching of concrete industrial co-operation actions (B5-4110 "Industry")

Provisions for 1996

	<u>Action</u>	<u>Ecus</u>
a) Information seminars, for example on the activities of the Agencies for the promotion of investments of the Central/Eastern European countries for support services of the EU industry (following Essen)		150.000
b) Round tables/meetings at the time of trade fairs between EU industrialists and those of Central/Eastern European countries: multi-sectorial or uni-sectorial actions		350.000
TOTAL		500.000

These concrete industrial co-operation actions will be developed in close relations or even as partnerships with the action funded in the framework of other financial resources and in particular of the PHARE programme (budget line B7-6000), the sectors covered by the 4th research and development framework programme (B6) and of the activities in the field of the Information Society (B5-722).

7.2. PHARE (line B7-600)

The general budget of the European Union forecast for the year 1995 the global amount of 930 MECU on the line B7-600. The comments on the budget allow for the development of industrial co-operation actions such as those suggested in the Communication and especially in the following fields:

- Restructuring, privatisation;
- support to the private sector, especially for small and medium size enterprises (e.g. JOPP);
- promotion of private investments;
- reforms linked to the rehabilitation of the fundamental infrastructure and especially in the sectors related to transport, environment, energy and human resources;
- education, training and research, especially for the actions linked to industrial development.

7.3 Activities within the 4th Framework Programme on research and technological development (B6-)

Research and development activities closely related to industrial co-operation actions will be launched throughout specific programmes, implementing the 4th framework programme, open to Central/Eastern European countries. Activity 2 of the 4th framework programme concerning the international co-operation directly, forecasts a global amount of 208.98 MECU for the co-operation with the CEECs/NIS, that is 14.64 MECU in 1995 and 59.25 MECU for 1996. The three important fields and objectives forecast in this region are "stabilisation of the research and technological development potential" (50 MECU), "environment and health" (79.49 MECU) and "RTD oriented towards industry" (79.49 MECU). The industrial co-operation actions suggested by the Communication envisage the development of close links between the researchers networks and industry which could certainly be part of the field "RTD towards industry".

7.4. Activities relating to the development of the Information Society (B5-722)

The global amount for this budget line is 10 MECU for 1995. Concrete projects linked to the development of the Information Society are forecast by the Communication in the following fields:

- development of data exchange networks between administrations
- telematic services for the small and medium enterprises
- development of information and communication infrastructure concerning standardisation, protection of intellectual property rights etc.

8. ANTI FRAUD PROCEDURES (AND RESULTS OF THEIR USE)

The verification of the funding or of the reception of services and ordered preparatory, feasibility or evaluation studies is undertaken by the Commission services before payment, taking into account the contractual obligations and the economical and good financial or global management principles. The anti-fraud procedures (control, preparing reports, etc.) are included in all the agreements or contracts signed between the Commission and the payments beneficiaries.

9. Cost efficiency analysis elements

9.1. Specific quantifiable objectives, target groups

a) Specific objectives

- Develop support services to the Central/Eastern European countries industry (professional associations, chambers of commerce...)
- Promote investments (organisation of meetings, forums, sectorial round tables, information days with the Central/Eastern European agencies for investment promotion aiming at support services for the EU industry)
- Improve exchange of expertise regarding the industrial implication of the technological research development actions (information seminars, use of the researchers networks)
- take useful initiatives to promote the co-ordination between administrations responsible for industry (especially meeting with directors general of industry).

b) Target groups

Industrial operators, professional associations, competent public administrations, international partners of the Community in the industrial field

9.2. Justification of the action

a) Cost

The requested credit will be used to undertake in close collaboration with DGI/PHARE the Essen summit conclusions that forecast among others:

- The establishment between the associated countries and the European Union institutions of "structured relations" that will favour mutual trust and that will provide a framework for the study of questions of common interest;
- a programme to stimulate investments (use of the services of the agencies for the promotion of investment, the creation of a "Business Advisory Council")
- the development of initiatives such as the modernisation of production capacities.

The Member States will be informed of the actions launched either through the PHARE management committees or at meetings of directors general of industry.

b) The following effects can be expected from the launching of such co-operation:

- contribution to the development of a viable industrial structure in view of the accession of the Central/Eastern countries to the European Union
- better synergy between industrial partners
- development of competitiveness and investment.

9.3. Follow-up and evaluation of the action

A regular evaluation is foreseen according to the proper modalities of each concrete industrial co-operation project. Furthermore, the Commission has agreed to transmit to the Council an annual report on the competitiveness of the European industry; the industrial co-operation with Central/Eastern Europe will be one element of this report.

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