

Official Journal

of the European Communities

ISSN 0378-6986

C 158

Volume 40

26 May 1997

English edition

Information and Notices

<u>Notice No</u>	<u>Contents</u>	<u>Page</u>
	I <i>Information</i>	
	
	II <i>Preparatory Acts</i>	
	Economic and Social Committee	
	Session of March 1997	
97/C 158/01	Opinion of the Economic and Social Committee on: — the 'Communication from the Commission to the European Parliament, the Council and the Economic and Social Committee concerning regulatory transparency in the internal market for information society services', and — the 'Proposal for a European Parliament and Council Directive amending for the third time Directive 83/189/EEC laying down a procedure for the provision of information in the field of technical standards and regulations'	1
97/C 158/02	Opinion of the Economic and Social Committee on the 'Annual Report of the Cohesion Fund 1995'	5
97/C 158/03	Opinion of the Economic and Social Committee on the 'Proposal for a Council Regulation (EC) establishing a European monitoring centre for racism and xenophobia'	9
97/C 158/04	Opinion of the Economic and Social Committee on the 'Proposal for a Council Directive on the approximation of the laws of the Member States relating to collective redundancies'	11



Price: 19,50 ECU

(Continued overleaf)

<u>Notice No</u>	Contents (Continued)	Page
97/C 158/05	Opinion of the Economic and Social Committee on the ‘Proposal for a European Parliament and Council Decision establishing the Community action programme “European voluntary service for young people”’	12
97/C 158/06	Opinion of the Economic and Social Committee on ‘Employment, Competitiveness and Economic Globalization’	14
97/C 158/07	Opinion of the Economic and Social Committee on the ‘Communication from the Commission — The challenges facing the European defence-related industry, a contribution for action at European level’	32
97/C 158/08	Opinion of the Economic and Social Committee on ‘Relations between the European Union and China’	42
97/C 158/09	Opinion of the Economic and Social Committee on ‘Craft industries and small- and medium-sized enterprises’	53
97/C 158/10	Opinion of the Economic and Social Committee on: — the ‘Proposal for a Decision of the European Parliament and of the Council amending the basic Decision relating to the Socrates programme to include Turkey among the beneficiary countries’, — the ‘Proposal for a Decision of the European Parliament and of the Council amending the basic Decision relating to the third phase of the Youth for Europe programme to include Turkey among the beneficiary countries’, and — the ‘Proposal for a Decision of the Council amending the basic Decision relating to the Leonardo programme to include Turkey among the beneficiary countries’	74
97/C 158/11	Opinion of the Economic and Social Committee on the ‘Proposal for a European Parliament and Council Directive concerning the approximation of the laws, regulations and administrative provisions of the Member States relating to the classification, packaging and labelling of dangerous preparations’	76

II

(Preparatory Acts)

ECONOMIC AND SOCIAL COMMITTEE

Opinion of the Economic and Social Committee on:

- the 'Communication from the Commission to the European Parliament, the Council and the Economic and Social Committee concerning regulatory transparency in the internal market for information society services', and
- the 'Proposal for a European Parliament and Council Directive amending for the third time Directive 83/189/EEC laying down a procedure for the provision of information in the field of technical standards and regulations' ⁽¹⁾

(97/C 158/01)

On 14 February 1997 the Council decided, in accordance with Article 100A of the Treaty establishing the European Community, to consult the Economic and Social Committee on the above-mentioned communication and proposal.

The Section for Industry, Commerce, Crafts and Services, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 3 March 1997. The rapporteur was Mr Kommer de Knecht.

At its 344th plenary session (meeting of 19 March 1997), the Economic and Social Committee adopted the following opinion by 41 votes to four.

1. Introduction

1.1. The Commission's policy on the information society was defined in its action plan entitled 'Europe's way to the Information Society: an action plan'. As part of this general policy on the information society, in March 1995 the Commission defined its regulatory policy in relation to information society services, that is to say, the various services that will be carried on the information superhighways.

1.2. The aim of the policy is to offer the consumer a whole range of services which can be provided by electronic means. In order that these services may be provided in the same manner in all Member States, it is necessary to have some sort of co-ordination at EU level.

2. The Commission document

2.1. The purpose of the Commission communication and of the accompanying proposal for a Council directive is to establish at Community level a procedure for the provision of information and the holding of consultations on possible future draft rules and regulations on information society services.

2.2. These services are becoming more and more diverse and include electronic newspapers, education, distance tourism services, the distance selling of goods and services by electronic services, legal and medical advice, interactive games and leisure activities etc.

2.3. As regards preregulatory mobilization, the Commission declares that in a number of Member States preparatory work has already begun on analysing and assessing future regulatory needs in the information

⁽¹⁾ OJ No C 307, 16. 10. 1996, p. 11.

society. Mention is made of Belgium, Germany, Denmark, France, Italy, Luxembourg, the Netherlands, Sweden, Finland and the United Kingdom.

2.4. The procedure laid down in respect of draft rules on goods by Directive 83/189/EEC of 28 March 1983 already pursues precisely the objective of establishing a co-ordination procedure. The fact that more than ten years' experience has been gained in applying this directive demonstrates its effectiveness, since it is the most extensively used regulatory transparency mechanism to date. The administrative co-operation it provides for and the procedures it lays down are perfectly suited to the present needs of the information society.

2.5. The Commission accordingly proposes to widen the directive's scope so as to include draft rules and regulations on information society services.

2.6. The proposal for an extended directive pursues several objectives:

- permitting the smooth functioning of the internal market, particularly by preventing the creation of new obstacles, via the exchange of information between Member States and between Member States and the Commission;
- ensuring more effective safeguarding of general interest objectives by anticipating the need for Community intervention aimed at ensuring an adequate, equivalent level of protection between Member States;
- establishing more clearly the need for new Community rules and regulations by permitting a more effective application of the Treaty, especially Articles 52 and 59, and of Community law, together with closer co-operation between the Member States;
- facilitating administrative co-operation at the drafting stage of rules and regulations;
- contributing to the stability of the regulatory framework; and
- enabling competent national authorities and consumers to have more information about, and contribute to, draft rules and regulations potentially affecting them.

2.7. The proposed transparency mechanism reproduces the procedural measures laid down in Directive 83/189/EEC:

- a procedure for the provision of information on draft rules and regulations on the services defined above;
- a consultation procedure; and
- a committee of Member States' representatives already provided for in Directive 83/189/EEC.

2.8. The proposal for a Council Directive amending for the third time Directive 83/189/EEC is perfectly in keeping with the spirit of subsidiarity.

3. General comments — Communication from the Commission on information society services

3.1. The ESC is pleased that the Commission, as part of its general policy on the information society, is keen to develop a legal framework where the new services which will be provided in the information society can benefit from the opportunities afforded by the area without internal frontiers.

3.2. The ESC would emphasize the Commission's view that the further development of the information society must bear in mind the fundamental objectives to be pursued in the general interest and the social, societal and cultural factors involved.

3.3. It is important that in ten out of the fifteen Member States preparatory work has begun on analysing regulatory needs in the information society. The ESC thinks the Council and the Member States must say that it is important for all the Member States to keep in line on this matter if possible.

3.4. In order to forestall any refragmentation of the internal market, the Commission feels that there must be co-ordination of future activities but considers it premature to submit proposals for extensive harmonization for the purpose of achieving such co-ordination. The ESC endorses this view.

3.5. In general, not enough is known about the form, nature and market developments of these new services for it to be possible to determine the need for, and content of, such harmonization in the light of the internal market. The Commission therefore proposes to co-ordinate these future rules and regulations by means of the previously mentioned information, consultation and administrative co-operation procedure.

3.6. The ESC agrees with the proposed information, consultation and administrative co-operation procedure. The ESC thus supports the Commission's view that at the drafting stage of rules and regulations national legislators must be prepared to ask other national administrations about the situation in other Member States, so as not to legislate in isolation without regard to experience gained elsewhere and the impact on service providers and receivers established in other countries.

3.7. The ESC completely agrees with the Commission that the development of information society services is of great significance for the citizens of the EU and access to them must be equal for all. This also applies to businesses, including small, very small and medium-sized firms.

3.8. The Commission has rightly stated that transparency is of great importance when developing information society services. The ESC considers that there must be transparency from the start.

3.9. The ESC wishes to emphasize that the programmes which are developed in order to allow access to information society services must be user-friendly. Research in a number of Member States has shown that modern equipment, such as televisions, videos, computers, etc. are difficult to use and their instructions are not models of clarity. The ESC urges the Commission to ensure that instructions are published in all official languages.

3.10. Information society services will develop step by step. No-one can say how long it will take to reach the final objective. It may be assumed that technological development will continue and that new ideas will be developed on the application of information society services. In this sense one can speak of a continuous process, and that calls for a process-gearred approach.

3.11. The advantage of this is that development can be followed properly, and this allows the possibility, where necessary, of making corrections and asking all concerned to continue supplying constructive contributions. Interim reports are necessary on the development of information society services and rules and regulations. The ESC asks the Commission to take this into account.

4. General comments — Proposal for a third amendment to Directive 83/189/EEC

4.1. The ESC finds it correct that the Commission involves Directive 83/189/EEC in its efforts to develop a legal framework for the information society, because this directive lays down procedures for draft provisions concerning goods and contains a co-ordination procedure, which has provided some fruitful experiences.

4.2. The result of this is that the directive must be extended and a number of articles must be adapted so

that they can be applied to draft laws and regulations concerning information society services. The Commission puts forward concrete proposals.

4.3. Directive 83/189/EEC regulates the exchange of information between Member States in the field of technical standards and regulations. The Member States are obliged to keep the Commission and the other Member States informed of any national draft for a technical regulation that they intend to approve.

4.4. The Commission's proposal to extend the scope of Directive 83/189/EEC to cover laws and regulations in the field of information society services makes it possible for those interested to acquaint themselves with developments in this area.

4.5. Although the ESC realises that the proposal for a third amendment of Regulation 83/119/EEC concerns only the technical part of the rules in the directive, it is worth stressing that standards, as well as being of capital importance to the proper operation of the single market, form the basis for the development of high quality goods and processes, varying from products for household use to products for industrial use. It is of great importance for both large and small firms, as well as ordinary citizens, to be able to acquaint themselves with developments in this area.

4.6. Owing to the sheer number of small and medium-sized firms there is no way that they can become actively involved in all aspects of the process of developing information society services. The same applies to employees' and consumers' organizations.

4.7. It is therefore important to pursue a policy aimed at stimulating and maintaining interest in the development of information society services.

4.8. The Commission reports regularly on the effect of Directive 83/189/EEC. The ESC has taken note of the communication from the Commission that the ESC will receive officially a copy of the report on the effect of Directive 83/189/EEC.

4.9. The ESC notes that under Article 9 of Regulation 83/189 a Member State may prepare technical regulations for urgent reasons relating to the protection of public health, safety or the protection of the life and health of animals and plants. The Treaty too provides for the possibility of enacting urgent measures for the protection of public order.

The ESC has also been consulted on the Green Paper on the protection of human dignity in audiovisual and information services and of the Commission communication on illegal and harmful contents on the Internet ⁽¹⁾.

⁽¹⁾ COM(96) 487 fin.

As problems of this kind will occur more and more often on networks, the ESC urges the Commission to define more closely the machinery and criteria that can be handled under the urgency procedure.

4.10. The third amendment will introduce new elements into the directive which are tuned to the development of information society services. The directive as submitted is rather complicated, but it must still be accessible.

5. Co-ordination at the Commission

5.1. As part of the development of the information society a number of documents have been published by the Commission⁽¹⁾. These documents are closely connected. But it is not always clear to the ESC, or to others, who is responsible for co-ordinating all the activities involved in developing information society services and where this co-ordination takes place.

5.2. All documents rightly speak about the 'transparency' of the information society. In the interests of all those who feel concerned, it is important to know who within the Commission is responsible for co-ordinating this key issue, which departments are involved and what developments are going on.

⁽¹⁾ COM(96) 395 final — 'From Corfu to Dublin' and 'The Implications of the Information Society for European Union Policies — Preparing the next steps'; COM(96) 359 final — 'Standardization and the global information society: the European approach'; COM(96) 389 final — 'Green Paper — Living and working in the information society: people first'; and COM(96) 392 final — 'Regulatory transparency in the internal market for information society services' and a 'Proposal for a European Parliament and Council Directive amending for the third time Directive 83/189/EEC laying down a procedure for the provision of information in the field of technical standards and regulations'.

Brussels, 19 March 1997.

6. Conclusions

6.1. The ESC can agree with:

- the Commission's policy of developing appropriate legislation for information society services;
- the proposed information, consultation and administrative co-operation procedure; and
- the proposed third amendment to Directive 83/189/EEC.

7. Recommendations

7.1. The ESC thinks that:

- the Commission must encourage national and regional authorities to be involved in the development of the information society;
- interim reports should be issued, providing information on the development of information society services and of laws and regulations;
- the development of user-friendly programmes must be encouraged in order to allow access to information society services;
- a platform entitled 'the development of information society services' should be set up for the benefit of employees' and consumers' organizations, small and medium-sized firms and very small firms;
- the machinery and criteria that can be handled under the urgency procedure should be defined more closely;
- it should be clearly stated in some sort of publication who within the Commission is responsible for the development of information society services and which departments are involved;
- an information centre entitled 'the development of information society services' should be set up for the benefit of ordinary people; and
- the newly amended version of Directive 83/189/EEC, together with a good explanation, should be published in full as soon as possible after its adoption by the Council.

*The President
of the Economic and Social Committee*

Tom JENKINS

Opinion of the Economic and Social Committee on the 'Annual Report of the Cohesion Fund 1995'

(97/C 158/02)

On 16 September 1996 the Commission decided to consult the Economic and Social Committee, under Article 198 of the Treaty establishing the European Communities, on the 'Annual Report of the Cohesion Fund 1995'.

The Section for Regional Development and Town and Country Planning, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 10 March 1997. The rapporteur was Mr Barros Vale.

At its 344th plenary session (meeting of 19 March 1997) the Economic and Social Committee adopted the following opinion with 87 votes in favour, 4 votes against and 7 abstentions.

1. Introduction

1.1. The Economic and Social Committee is again required to draw up an opinion on the Commission Report on the decisions it adopted in 1995, with the recipient Member States, under the Cohesion Fund instrument set up by the Maastricht Treaty. The purpose of the instrument is to strengthen economic and social cohesion by providing financial assistance to Ireland, Greece, Portugal and Spain to complete environmental and transport infrastructure projects. Financial support, totalling ECU 15 150 million at 1992 prices, has been planned for the 1993-1999 period.

1.2. Financial support began on 1 April 1993 when the Cohesion Financial Instrument was set up. It operated until 26 May 1994, when the Regulation establishing the Cohesion Fund came into force. Decisions taken between that date and the end of 1994 relate to the Cohesion Fund.

1.3. 1995 was therefore the first year in which the machinery set up by the Cohesion Fund was fully applied: the relevant Report was consequently the first to correspond to one calendar year, in accordance with the Regulation.

1.4. The Economic and Social Committee supported the proposals to set up the CFI and the Cohesion Fund: an opinion on the 1993/1994 CFI Report and on the 1994 Cohesion Fund Report submitted by the Commission was drawn up by the appropriate section and adopted by the plenary session of 20 December 1995.

2. General comments

2.1. The Economic and Social Committee is pleased to be asked once again to give its opinion on the Cohesion Fund Report, but must again draw the Commission's attention to two points which are essential

if the recommendations contained in the present opinion are to have the desired impact: (i) the Commission's failure to submit the Report within the established deadline and (ii) the omission, in certain cases, of adequate, comparable data enabling the ESC to analyse as effectively as possible the appropriateness of the projects presented..

2.2. Notwithstanding the recommendations made in this regard in the previous opinion, the Commission again submitted the Report in September of this year, significantly later than the six-month deadline set. This means that the Committee can only examine the decisions made at the end of the following period of Fund application: its recommendations cannot therefore be studied by the Commission with a view to making actions under the Cohesion Fund more effective.

2.3. Despite the positive developments regarding the information contained in the Report, a number of shortcomings are still apparent, in particular the lack of comparative data on the link between Fund participation and other national or Community public means, forming a comprehensive framework covering all the projects supported, which would provide an overall view of the aid supplied and how it ties in with other national and Community means and policies. Neither does the Committee view as adequate the information and conclusions presented on the economic and social impact of Cohesion Fund decisions, or regarding the criteria used in the applying the principle of conditionality, as required under Article 6 of the regulation establishing the Cohesion Fund.

2.4. The Economic and Social Committee is pleased to note that, as mentioned above, 1995 was the first

full year of Cohesion Fund activity and that, as recommended in its previous opinion, the present Report for the first time covers one calendar year.

2.5. The Committee is also satisfied at the positive trend concerning the general stabilization of legal and administrative rules and procedures. Significant improvements, reflected in the Report, have resulted, particularly in terms of management and operation, and project evaluation and monitoring.

2.6. The ESC welcomes the fact that some of the recommendations contained in its previous opinion have been taken up, although it suggests that in future reports, the Commission refer more explicitly to the Committee's recommendations.

2.7. Subject to closer examination below, the Committee is satisfied at how the Commission and the Member States have again managed to use all the financial assistance made available by the Community budget for commitment appropriations and, for the first time, for payment appropriations.

2.8. Also subject to more detailed consideration below, the Committee notes the positive developments concerning project evaluation, monitoring activities, and interinstitutional dialogue, where much remains to be done, particularly regarding the active involvement of the social partners.

2.9. The ESC would reiterate its views on the usefulness and importance of the Report making some mention of the continuation of the Fund after 1999, given the special effort which will be required of the cohesion countries in meeting and keeping to the convergence criteria and the positive influence that continuing the Cohesion Fund could have on achieving this aim.

3. Specific comments

3.1. Article 10(2) of the Cohesion Fund Regulation states that 'a suitable balance shall be struck between projects in the field of the environment and projects relating to transport infrastructure'. The Commission has, since 1993, complied with this principle, stipulated by regulation, in a flexible manner.

Over the last three years, the following balance has been struck between the two Cohesion Fund sectors:

3.1.1. Distribution by sector

	Environnement %	Transport %
1993	39	61
1994	49,8	50,2
1995	48,2	51,8
1993-1994	44,8	55,2
1993-1995	46,1	53,9

Distribution by beneficiary country was as follows:

	Environnement %			Transport %		
	1993	1994	1995	1993	1994	1995
Greece	62	60	59	38	40	41
Spain	29	51	48,5	71	49	51,5
Ireland	39	43	49	61	57	51
Portugal	43	40	38	57	60	62

The ESC is pleased to note that its earlier recommendation, that the suitable balance stipulated in the Regulation should have a reference period of more than one calendar year, has been accepted. The flexibility applied by the Commission must be viewed in this context.

The Commission has accepted this reasoning, clarifying the issue on 2 November 1995 (Cohesion and the Environment, COM(95) 509).

The Economic and Social Committee nevertheless repeats its call for a better balance between the two sectors which, while having progressed in terms of aggregate amounts (1993-95), fell back slightly in 1995 compared with 1994.

The Committee also recommends more balanced application of the 50/50 rule between the Member States.

3.1.2. Distribution by country

Again, the ESC is pleased to note that the budgetary commitment appropriations continue to be very close to the mid-point of the indicative allocation bands for each of the Member States.

Commitment appropriations	Appro- priations %	Appro- priations %	Appro- priations %	Indicative allocation
	1993	1994	1995	
Greece	18,9	17,9	18,04	16-20
Spain	54,9	54,9	55,09	52-58
Ireland	9,1	9,1	8,87	7-10
Portugal	18,1	18,1	18	16-20

The Committee is, however, obliged to point out to the Commission that the same does not apply for payment appropriations. Although understandable at this stage, the Commission and the Member States will have to tackle this question in the future:

Payment appropriations	Appropriations %	Appropriations %	Appropriations %	Indicative allocation
	1993	1994	1995	
Greece	(*)	(*)	5	16-20
Spain	(*)	(*)	65	52-58
Ireland	(*)	(*)	8	7-10
Portugal	(*)	(*)	22	16-20

(*) = not included in the 1993-1994 Report.

3.2. Distribution in the transport sector

As in its previous opinion, the Committee urges that a better balance be struck between different modes of transport, giving priority to those which are most environment-friendly.

In contrast to the claims made in the introduction to the Report, no improvements have been noted in this respect: the weight of the road sector remains excessive in relation to other modes of transport, particularly rail.

The Committee therefore again draws the Commission's attention to the need for a better allocation of resources in this area and, as mentioned above, giving priority to those sectors which are most environment-friendly and contribute most to economic development and the implementation of more balanced land-use planning. This seems to be the case with combined and multi-mode transport, where the Commission should examine the possibility of introducing differential rates of Community aid, matching the degree to which projects reflect these factors.

Commitment appropriations (transport)	Member State %				Total
	Spain	Portugal	Greece	Ireland	
Roads	79,5	88,1	40,5	73,1	75,2
Railways	19,6	11,9	5,3	22,3	16,1
Ports	—	—	39,4	4,7	6,1
Airports	—	—	14,8	—	2,1
VTS	0,9	—	—	—	0,5

Also in connection with transport and, in particular, evaluation of the impact of the resources applied to the different modes of transport, the Committee recommends that the Commission, together with the

Member States, consider adopting a common evaluation method to assess the rate of return on all the proposed projects.

3.3. Distribution in the environmental sector

The Report does not provide data on distribution of investment in the environmental sector, except in the case of Spain. It therefore recommends that the Commission extend this to the other countries in future reports.

What information is given, however, justifies repeating the recommendation to the Commission and Member State that they focus more on nature conservancy resources, which remain very low given the continuing serious danger of desertification in some of the Member States.

4. Other comments

4.1. The Committee would also recommend, in connection with the distribution of resources, that the Commission make the Member States more aware of the need for better regional distribution of resources with particular attention to the most remote regions. This echoes its previous opinion.

4.2. The Committee congratulates the Commission on the positive trends apparent in the presentation of the Report and, more generally, on the evident effort that has been made to provide higher-grade and more detailed information.

Note is taken of the enhanced data on the projects funded and the evaluation criteria used by the Member States and, as urged by the ESC, the inclusion in the Annexes of maps. These provide an overall view of how the approved investments match the established priorities in the Trans-European Networks sector.

4.3. Nevertheless, the Committee must suggest improved use of the information provided in the Report, replacing some aspects which are of less interest, on account of their nature and their highly detailed character, with the recommendations made in this opinion and, more generally, with an inventory of the effectiveness of all resources applied during the period.

4.4. The Committee also acknowledges the positive developments concerning integration of investments with national and Community objectives. However, it appears to the Committee that in addition to the concerns about double funding, which are adequately aired in the Report, progress should be made in future reports towards shedding greater light on the contribution made by the Cohesion Fund to achieving the abovementioned national and Community objectives.

4.5. In line with the previous opinion, the ESC agrees with the Commission on the initiatives undertaken under 'Assistance for studies and technical support measures — Technical assistance', although it considers that despite the progress achieved, the under-utilization of allocations under this heading remains a matter of particular concern.

4.6. The Committee also welcomes the Commission's joint initiative with the London School of Economics, and hopes that despite the delay in publication, the study will fulfil the expectations contained in the Report. However, it urges the Commission, in future reports, not simply to refer to studies, but to present a summary of their main conclusions.

4.7. The Committee again endorses the involvement of the EIB in funding, evaluating and monitoring Cohesion Fund projects, but would again recommend more detailed information on the EIB's role and on the projects it is involved in.

4.8. The Committee also welcomes the inclusion in this Report of the effect on job creation of all the investment over the period, and urges the Commission to go further in this direction, since this kind of information best describes the impact and effectiveness of the resources applied and whether they contribute to real cohesion between the recipient countries and the other EU countries.

4.9. Once again echoing its previous opinion, the Committee urges that in future reports, the Commission provide general information on the percentage of approved projects in relation to the total submitted, and clearer explanations of the main reasons for rejecting projects.

4.10. The Committee welcomes the information provided on the progress made under the convergence programmes by the four Member States. However, the report gives insufficient information regarding the content and effects of the recommendations made by Council in 1994 and 1995 to the three Member States with excessive government deficits and does not make any reference to the consequential action required to be taken by the Commission in 1996 under Article 6. The Committee considers the transparent application of this rule to be a vital safeguard and calls on the Commission

to give a full explanation of the action that has been taken in compliance with Article 6 in its report for 1996.

4.11. The ESC acknowledges the Commission's efforts in stepping up inspection missions, although these still appear inadequate given the large number of projects. As pointed out by the Committee in its previous opinion, the results must also be more detailed in future reports, particularly with regard to the management and monitoring arrangements in the Member States.

4.12. The Committee also recognizes the improvements made in terms of the meetings of monitoring committees, and urges the Commission to go further to ensure their effectiveness.

4.13. The Committee would restate that the social partners must be more closely involved in defining project priorities and in implementing and monitoring them.

In view of the lack of results in this regard, the ESC again calls upon the Commission to take on board, by analogy, the comments made in an earlier opinion on Article 4 of the Framework Regulation of the Structural Funds.

The Committee also emphasizes that the Commission must alert the Member States to the need to consult their respective economic and social councils on the prior establishment of Cohesion Fund priorities.

4.14. The Committee welcomes the Commission's intention, as expressed in the Report, to encourage grouping of the smaller-scale projects often submitted in the environmental sphere, as previously recommended by the ESC.

4.15. The Committee notes that the Commission has not recorded any cases of fraud in project funding. It again insists, however, that future reports provide proper information on any irregularities or omissions in the management of funds.

4.16. The ESC endorses the Commission's increased efforts on information and publicity, as previously recommended.

4.17. The Committee once again draws the Commission's attention to the need for future reports to include more detailed information on how, and to what extent, the Cohesion Fund is interconnected with other Community instruments and programmes. It also asks the Commission to report on the impact and importance of the investments made, with a view to assessing whether the Fund should continue to operate after 1999.

Brussels, 19 March 1997.

The President
of the Economic and Social Committee
Tom JENKINS

Opinion of the Economic and Social Committee on the 'Proposal for a Council Regulation (EC) establishing a European monitoring centre for racism and xenophobia'

(97/C 158/03)

On 14 February 1997, the Council decided to consult the Economic and Social Committee, under Article 198 of the Treaty establishing the European Community, on the above-mentioned proposal.

The Section for Social, Family, Educational and Cultural Affairs, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 5 March 1997. The rapporteur was Mrs zu Eulenburg.

At its 344th plenary session (meeting of 19 March 1997), the Economic and Social Committee adopted the following opinion by 95 votes to five, with eight abstentions.

1. General comments

1.1. The Commission's proposal for a regulation has in essence already been approved at a number of meetings of the European Council. The conclusions of the presidency of the last European Council meeting in Dublin on 13 and 14 December 1996 state:

'The European Council welcomes the progress made since its meeting in Florence and calls on the Council to complete its work with a view to the speedy establishment of a European monitoring centre on racism and xenophobia which will have to work in close cooperation with the Council of Europe'.

1.2. The Economic and Social Committee has also issued an opinion on the Communication from the Commission on racism, xenophobia and anti-semitism and the Proposal for a Council Decision designating 1997 as European year against racism⁽¹⁾, in which the Commission had already called for the establishment of a monitoring centre. Point 5.2 of this opinion states: 'The ESC supports the immediate establishment of the European monitoring centre on racism and xenophobia'.

1.3. The Committee expressly welcomes all the tasks assigned to the monitoring centre under Article 2 of the proposal.

2. Specific comments

2.1. A new point 7a should be added to the explanatory memorandum referring to the approval expressed by the European Council in Dublin. The same should be done in the financial statement attached to the proposal (part 9 — elements of cost-effectiveness analysis).

2.2. A word needs to be said about the use of Article 235 as the legal basis — which the Committee agrees with the Commission is the only possible option for this regulation — even though the Council has

already given its political backing. The reference to Article 235, and the procedure to be followed as a result, make it possible to clearly establish the remit of the European monitoring centre for racism and xenophobia.

2.3. There may be some degree of confusion over certain aspects of the Commission proposal (Article 2(e), point 20 of the explanatory memorandum and point 4.1 of the financial statement) since the English and German versions differ from the authentic French text.

The Committee feels there should be no room for doubt in this sphere and thus proposes that Article 2(e) be reworded as follows: 'formulate conclusions which shall be made public and submitted to the competent Community and national authorities'.

This new wording is aimed at guaranteeing that the monitoring centre will remain both influential and independent by allowing it to make public such conclusions as it deems necessary from its consideration of certain phenomena within its sphere of competence; however, the wording does not formally authorize it to encroach on the remits of the Community institutions and/or the Member States by drawing up recommendations, opinions or proposals.

2.3.1. The ESC stresses that this proposal has nothing to do with the question of whether any extension of the Community's powers is not in fact desirable in this particular case. The ESC broadly backed such a move in its opinion on the communication on racism mentioned above, in which it called for the inclusion of a non-discrimination clause in the Treaties; point 5.1 of the opinion expressly states that 'the ESC... associates itself with all anti-racist positions adopted by the Community bodies'. For legal reasons, however, the ESC feels bound to make it clear that Article 235 should not be used to expand Community powers by the back door.

⁽¹⁾ OJ No C 204, 15. 7. 1996, p. 23.

2.3.2. However, in line with this procedure and the respective remits of the Community institutions and the Member States, the reports, deliberations and conclusions of the monitoring centre will be able to contribute to the formulation of proposals and the adoption of measures at both Community and national level.

2.4. The ESC also proposes expanding Article 2(1) to read:

'The prime objective of the Centre shall be to provide the Community and its Member States, more especially within the fields referred to in Article 3(3), with objective, reliable and comparable data at European level on the phenomena of racism, xenophobia and anti-semitism in order to help them when they take additional measures within their respective spheres of competence. This shall also include evaluating the impact on racism and xenophobia of measures and actions implemented by the Community and the Member States for whatever reason with regard, in particular, to the groups affected by these phenomena.'

The Committee's intention here is to highlight the fact that racism and xenophobia can often be encouraged, even provoked, by measures taken in the public arena. The cause and effect of racism and xenophobia may arise in private relationships and in the public arena. This being so, the monitoring centre's remit must also be expanded to reflect this.

2.4.1. Point 5.4.4.2 of the ESC opinion on the communication on racism mentioned above called for the sixth recital on page 23 of the Commission document ('Whereas racist and xenophobic attitudes can constitute an obstacle to the effective exercise of the rights of free movement') to be replaced by: 'Whereas restriction of

the rights of free movement of third country nationals living in the EU contributes to racist and xenophobic attitudes'.

2.5. The ESC also believes that the areas of activity listed in Article 3 of the proposal are correct and comprehensive. However, it does not consider the list given in Article 3(3) to be final. Thus, the centre's remit is to monitor and address all phenomena relating to racism, especially racism in everyday life.

2.6. The ESC is pleased that cooperation with non-governmental organizations is given adequate attention in the regulation (cf. point 21 of the explanatory memorandum and Article 7(1) of the proposal), except that the monitoring centre only 'may' cooperate with such organizations. The word 'may' must be changed to 'shall'. The Committee thinks that a provision about cooperation with the social partners must be added to Article 7.

2.7. Why does Article 8 — management board — make no provision for an ESC representative? The Committee recalls its opinion on the proposal for a Council decision designating 1997 as European year against racism (CES 533/96 of 24-25 April 1996), particularly point 5.4.5, which recognizes how important it is to deal with this problem in the workplace. It also subscribed to the joint declaration of the social partners issued in Florence in October 1995 on the prevention of racial discrimination and xenophobia and the promotion of equal rights in the workplace. No further proof is thus required of the Committee's commitment to the struggle against racism and xenophobia. The economic and social interest groups represented at the ESC, which differ so greatly from one country to another, are particularly well placed to contribute to the permanent mobilization of society against racism and xenophobia. The ESC therefore asks to be represented on the management board.

Brussels, 19 March 1997.

The President
of the Economic and Social Committee
Tom JENKINS

Opinion of the Economic and Social Committee on the 'Proposal for a Council Directive on the approximation of the laws of the Member States relating to collective redundancies'

(97/C 158/04)

On 27 January 1997, the Council decided to consult the Economic and Social Committee, under Article 100 of the Treaty establishing the European Community, on the above-mentioned proposal.

The Section for Social, Family, Educational and Cultural Affairs, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 5 March 1997. The rapporteur was Mr Löw.

At its 344th plenary session (meeting of 19 March 1997) the Economic and Social Committee adopted the following opinion by 92 votes to four with eight abstentions.

1. Content of the draft directive

1.1. The Commission's intention in presenting this proposal for a codified version of the Council Directive on the approximation of the laws of the Member States relating to collective redundancies, is to help make Community legislation simple, clear and transparent.

This is the first time a directive dealing with labour or social legislation has been codified. The Commission decided on 1 April 1987 that legislation had to be consolidated or codified by the tenth time it had been amended at the latest. This is a minimum requirement. For the sake of the clarity and transparency of Community legislation, the Commission's departments tend not to wait so long before codifying or consolidating the texts for which they are responsible. This is the case with the present proposal, since the directive on collective redundancies has been amended only once. Another good reason for codifying this legislation is that numerous EU citizens are affected. To this extent the Commission's proposal is important for the building of a Citizens' Europe.

The importance of codification or consolidation was also underlined at the December 1992 European Council in Edinburgh. Here it was stated that the codification or consolidation of legislation that has been amended several times provides 'legal security as to the law which is applicable at a certain moment concerning a specific issue'.

1.2. Apart from Articles 9 and 10 concerning Members States' obligations to notify the Commission and

the directive's entry into force, the proposal makes no substantive changes to the codified legislation. The texts of Directives 75/129/EEC and 92/56/EEC have simply been amalgamated.

2. General comments

2.1. The Economic and Social Committee considers the approximation of Member States' laws on collective redundancies to be an important contribution towards the completion of the internal market in the social sector.

It welcomes the proposed codification unreservedly and agrees with the Commission that this helps to make Community law transparent and complete the building of a Citizens' Europe. The Committee would urge the Commission to continue to simplify EU legislation.

The Committee commented on the substance of the approximation exercise in its opinion of 26 June 1973⁽¹⁾ on the first proposal for a directive (the subsequent Directive 75/129/EEC) and in its opinion of 30 January 1992⁽²⁾ of the proposal for a directive amending Directive 75/129/EEC (the subsequent Directive 92/56/EEC). Since the substance of the provisions for approximating legislation is not up for discussion, the Committee will not comment again on this matter but would refer to its aforementioned opinions.

⁽¹⁾ OJ No C 100, 22. 11. 1973.

⁽²⁾ OJ No C 79, 30. 3. 1992.

Brussels, 19 March 1997.

The President
of the Economic and Social Committee
Tom JENKINS

Opinion of the Economic and Social Committee on the 'Proposal for a European Parliament and Council Decision establishing the Community action programme "European voluntary service for young people"'

(97/C 158/05)

On 19 February 1997 the Council of the European Union decided to consult the Economic and Social Committee, under Article 126 of the Treaty establishing the European Community, on the above-mentioned proposal.

The Section for Social, Family, Educational and Cultural Affairs, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 5 March 1997. The rapporteur was Mr Liverani.

At its 334th plenary session on 19 and 20 March 1997 (meeting of 19 March) the Economic and Social Committee adopted the following opinion by 102 votes to two, with five abstentions.

1. Thrust of the Commission proposal

1.1. The European Commission is proposing the implementation of a voluntary service programme, covering the period 1998-2002, to enable young people aged between 18 and 25 and legally resident in a Member State to participate in specific voluntary activities of benefit to the community in another Member State. The proposal, based on Article 126 of the Treaty, falls within the cooperation policy in the youth field set out in the programme 'Youth for Europe' (Article 1).

1.2. The programme offers young European volunteers an educational experience, at transnational level, for periods varying according to the particular project (Article 2). Young volunteers will be given an opportunity to participate in activities and innovative initiatives which meet social needs in a wide range of sectors (cultural, environmental, social, etc.) and can upgrade quality of life in the host community. The five key criteria to determine projects eligible for funding are listed in an annex to the proposal.

1.3. An ECU 60 million appropriation will be earmarked for the programme over the two-year period 1998-1999 (Article 3). The Commission is to finance up to 50 % of project costs, the balance being met by the young person's home/host country organization. The programme also makes it possible for young people resident in the Member States to take part in activities in the associated countries of central and eastern Europe (Article 5).

2. General comments

2.1. The Committee welcomes the Commission proposal and draws attention to the observations and recommendations on the voluntary 'community service scheme' contained in its own-initiative Opinion on youth unemployment⁽¹⁾ (p. 6, para. 4.2.1). The Committee also

recalls that it has already expressed its views on the Commission's intentions in its own-initiative Opinion⁽²⁾ on the Commission working document setting out a pilot action for a European voluntary service for young people, which paved the way for the current multi-annual programme.

2.2. The Committee stresses the importance of this proposal in infusing the Union with a new social and cultural dimension among other things by stepping up cooperation among the Member States to promote the active participation of young people, boost their spirit of independence and initiative and make them increasingly aware of the European idea.

2.3. The Committee is interested to note the benefits resulting from the success of this 'pilot action' in 1996, which is described and evaluated in greater detail in a first progress report in which the Commission concludes that the action can be extended to 2 000-2 500 young people in 1997.

2.4. The experience of this pilot action has also highlighted the projects' potential impact on local development, opportunities for interaction between programme-based activities and locally-run development schemes, as well as the scope for promoting social partnership.

2.5. The Committee agrees with the arguments put forward in the preamble to the proposed decision, which refer to the conclusions of the European Council meetings held in Essen (1994), Cannes (1995) and Florence (1996) and stress the importance of actions conducive to promoting a youth policy at Community level, encouraging the social and occupational integration of young people in Europe and, in this connection, transnational cooperation in the field of voluntary service.

⁽¹⁾ OJ No C 18, 22. 1. 1996.

⁽²⁾ OJ No C 204, 15. 7. 1996.

2.6. Here the Committee would draw attention to the findings and proposals of the White Papers on growth, competitiveness and employment (1993) and European social policy (1994) as well as the conclusions of its own-initiative opinion on youth unemployment referred to above⁽¹⁾, in which it called for the introduction of measures designed to improve 'national' education and training structures and prevent social exclusion. Here voluntary service, offering young people, without discrimination, special opportunities for integration into active life and the acquisition of specific work and vocational experience could contribute to action designed to combat exclusion and unemployment among the young, while generating Community added value and the desired multiplier effects for the Member States' youth policies. The selection of programme participants should invariably be guided by such criteria and aims.

3. Specific comments

3.1. The Committee takes note of the proposed measures to facilitate cooperation among the Member States within the framework of the programme (Article 7), the award of a European certificate to young volunteers (Article 8), the setting up of a committee to examine projects (Article 9) and the presentation of an evaluation report to the European Parliament and the Council (Article 10). Here the Committee too wishes to be kept informed and reiterates its call in its opinion on youth unemployment⁽¹⁾ to the effect that 'the Economic and Social Committee and the Committee of the Regions must be involved in putting together the Community Service Scheme' (page 6, point 4.2.1).

3.2. The Committee also feels that it should be able to participate in monitoring the programme's progress and assessing the results.

3.3. The Committee also repeats the need to involve the social partners in framing and developing the programme in view of the need to prevent any distortion of the labour market and to help solve the problems connected with integrating and assisting young volunteers during their stay as well as with social security protection and cover. Here the Committee would

repeat the following comments in its opinion⁽²⁾ on the Commission working document 'towards a European voluntary service for young people':

'The involvement of workers' and employers' organizations is particularly important to prevent the replacement of normal employment by voluntary work. It is now clear that the Committee can endorse the Commission proposal only on condition that full-scale employment is not replaced by voluntary activity';

'The social partners should discuss with NGOs the best way of involving volunteers in their humanitarian projects.'

3.4. Here the Committee, with the aim of strengthening partnership schemes, requests the Commission to ensure that cooperation with NGOs encompasses charitable associations as well as involving regional and local authorities.

3.5. In addition, the Committee would reiterate what it said in the opinion referred to in point 3.3 regarding the requisite social cover guarantees (health and accident insurance, civil liability) linked with the security and supervision of young people during their service, and the responsibility of the host organization.

3.6. Here the Committee endorses, and regards as a *sine qua non*, the adoption of the Council draft resolution appended to the Commission proposal, which calls on the Member States to give young volunteers participating in the programme every assistance in matters of residence permit, social welfare and security cover and preservation of unemployment and family benefit entitlements during their service in another Member State.

3.7. The Committee calls for an increase in funding to make it possible to extend the programme to third countries (e.g. the EU's neighbours, the Mediterranean countries and the United States, all of which have already expressed keen interest).

3.8. Lastly, the Committee would stress the need to promote the drive to step up information on the programme in the EU by involving national youth organizations and their international 'forums', which can play a valuable role in such efforts.

⁽¹⁾ OJ No C 18, 22. 1. 1996.

⁽²⁾ OJ No C 204, 15. 7. 1996.

Brussels, 19 March 1997.

The President
of the Economic and Social Committee
Tom JENKINS

Opinion of the Economic and Social Committee on 'Employment, Competitiveness and Economic Globalization'

(97/C 158/06)

On 28 March 1996 the Economic and Social Committee, acting under the third paragraph of Rule 23 of its rules of procedure, decided to draw up an opinion on 'Employment, Competitiveness and Economic Globalization'.

The Section for Economic, Financial and Monetary Questions, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 14 February 1997. The rapporteur was Mrs Konitzer.

At its 344th plenary session (meeting of 19 March 1997) the Economic and Social Committee adopted the following opinion by 104 votes to 27 with 11 abstentions.

Summary

Globalization means the in-depth, internationally organized interlinking of the production of goods and services, making use of technological innovations and progress in the field of transport and communications, supported by an international financial market in which financial transactions, the volume of which far exceeds real economic flows, can be carried out in seconds, complemented by the worldwide dismantling of trade barriers and by international organisations (WTO) and regional mergers.

This trend of course has a cultural significance, but its main effect is the international diversification of the production of goods and services. The permanent search for opportunities for short-term profit in the globalized currency and bond markets gives rise to a danger of turbulence, threatening national payment systems and the stability of the real economy.

Globalization has fundamentally changed competition between firms in the economy: it is not so much firms which have to compete with each other in a given location; rather, the focus of competition has shifted to the business locations themselves which have to compete for internationally mobile capital. The key to employment is thus to concentrate on making the region healthy, attracting investment and creating jobs by raising capacity.

But what does all this mean for Europe? Globalization is a challenge to be welcomed. But it creates a need for an international strategy to which all concerned contribute at European Union and Member State level. It is not impossible that the effects of globalization will be asymmetric. On the one hand there are the political institutions at local, regional and national level and they lack a worldwide communications structure. On the other hand there are the multinational corporations operating worldwide with ever lower transaction costs. Worse still, the supply-side operators remain within their isolated fields of activity (regional or local wage negotiations), whilst those providing the demand for labour make their decisions at world level. The danger to be avoided is thus that of competition between

business locations going so far that lower wages and excessive cuts in public spending lead to loss of purchasing power, falling demand, stagnation, recession and thus to higher unemployment. In order to prevent a new wave of protectionism, a trans-nationally orientated competition policy is needed offering international versions of the cartels ban, consumer and environmental protection arrangements and social obligations in regard to assets. The Committee also calls for basic minimum global standards in respect of human, workers' and environmental rights, international organizations with legitimate economic-policy powers and internationally effective collective bargaining procedures and forms of social dialogue. As Europe has most to lose from a downward socio-economic spiral, it should take the initiative towards international cooperation. Some firms have already shown the way. The multilateral investment agreement currently being negotiated at the OECD can act as a spur to further initiatives by the European Commission.

The attempt is being made to quantify globalization. There is talk of globalization in relation to most sectors, but the phenomenon is more pronounced in some sectors than in others. Although over the last few years cross-border investment has risen faster than capital-formation overall, it is not true to say that there has been unhealthy exporting of jobs from industrialized to developing countries.

Globalization is thus not responsible for Europe's present problems. A more productive approach is to ask: Which comparative advantages can Europe use to sell which products and services in the world market? And here the Committee would cite the European social model as a comparative advantage. The system of social protection should for example not just be seen as a cost factor. The social model creates social consensus, a high degree of social cohesion, social peace and thus stability, which is a significant advantage for Europe as a business location. Growth strategies should take this into account.

The Committee's answer to competition from low-wage countries is clear. These countries buy more from us than we from them. Intra-European structural change must be brought about via an active employment and labour-market policy. Workers laid off as a result of shifting production processes in Europe must be trained and made available for jobs in areas where Europe has comparative advantages to offer.

The Committee therefore feels that assigning too much weight to wages policy, i.e. imposing lower wages in order to create jobs, is not effective. Nor should one expect anything positive from the dismantling of social services. Rather, one should fear the resulting tensions and recognize that in some Member States the systematic cutting back of workers' rights and the weakening of trade unions only leads to greater tensions. Thus short-term competitive advantages sometimes have a detrimental effect on productivity. The social model is thus one of the endogenous growth forces which Europe must exploit more, at the same time as improving conditions for SMEs and developing infrastructure (trans-European networks). To these can be added the dismantling of obsolete bureaucratic hindrances and the more active provision of risk capital. Also needed is better use of human capital, so that new goods and services can be encouraged and ultimately new markets opened up. A dynamic innovation strategy is thus advocated. Better management of firms and more worker participation in the innovation process are vital. Finally, the Committee emphasises that the completion of the internal market, the process of economic and monetary union already under way and the European social model are the basic conditions for Europe's entry to the next century.

Preliminary remarks

Scarcely a day goes by without some discussion of globalization and very few topics seem more suited to media debate. Thus whilst some people scapegoat economic globalization as the source of all our current problems, from the employment crisis and the dismantling of social services to environmental and distribution problems and even the public debt, others would prefer to delete the term from the political vocabulary altogether, perceiving it as a facade for politically-motivated scare-mongering.

This own-initiative opinion by the Economic and Social Committee steers a middle course. By addressing globalization as a serious phenomenon, the ESC identifies both its benefits and risks and points to the need for greater international cooperation. Thereafter, it puts globalization into perspective. Whilst the data do point

to a process of globalization, we do not yet live in a fully globalized economy. In the light of this finding, the Committee advocates an appropriate competition policy for the European economy.

The Committee believes that the passion generated by the current political discussion of globalization is explained above all by the continuing failure to solve the EU's employment problems. It is, therefore, a major concern of this own-initiative opinion to pinpoint the relationship between globalization, competitiveness and employment.

1. Economic principles

1.1. *The globalization process*

1.1.1. The world is currently facing new technical, economic and social challenges.

1.1.2. Technological innovation is creating undreamt of opportunities for mankind. The remotest parts of the world can be reached in ever shorter time; thus, supersonic flights link London or Paris to New York in less than 3 hours. Worldwide goods and passenger transport is becoming increasingly cheaper. The computer, the micro-chip and the satellite have revolutionized communications. Information can be transmitted from any part of the earth to any other in a few seconds, with communication between the remotest areas becoming ever cheaper. As a result, it is becoming increasingly technically feasible and inexpensive for firms to operate across national frontiers.

1.1.3. This technological development is complemented by changes on the international political scene. The logical transformation of GATT into the WTO, the associated world-wide abolition of trade barriers and the association of nation states in economically integrated regions (EU, NAFTA and ASEAN) are also making it easier for firms to operate across national frontiers.

1.1.4. Technological development and international trade liberalization produce a common effect: the costs of international trade are reduced. As international transaction costs fall, distance is reduced and national frontiers become economically insignificant. The European internal market is an example of this trend.

1.1.5. The first consequence of this trend seems likely to be a general improvement in living standards. The reduction of transaction costs will make it possible to

improve the international division of labour. Value-added networks can now be increasingly spread throughout the world in order to ensure the best possible conditions for the manufacturing processes concerned.

1.1.6. At present, this process can still produce very different sectoral consequences. Put simply, regions blessed with a sound infrastructure, a highly-skilled workforce and a high degree of social cohesion tend to specialize, for example, in high-tech products, information and communications services, research-intensive production processes and communications-orientated manufacturing. Areas without these resources are more likely to be attractive to simple manufacturing processes or basic materials production. Whilst these always provided the basis for international trade, the global division of labour is acquiring a new character. It is becoming increasingly possible to distribute the individual stages of production or service provision throughout the world.

1.1.7. This type of international division of labour is most effectively operated by international undertakings in which production and sales units can be located in different countries from the head office. These enterprises, created as a result of the reduction in transaction costs, are in a position to locate production, trade and service processes wherever optimum conditions exist. Economic globalization is thus hallmarked by a transition from horizontal trade-based international relations between individual economies to vertical production-based international links established by transnational undertakings⁽¹⁾. Concepts such as global sourcing, the global village and the global factory were developed to describe this worldwide integration of production and service processes.

1.1.8. This trend is supported by a globalized financial market. With the help of new communication technologies a short-term investment opportunity arising anywhere in the world can be exploited in seconds, and transaction volumes are many times greater than financial flows in the real economy. The trade is increasingly dominated by funds operating alongside the traditional banking system. This trend, in conjunction with the introduction of multifarious and complex innovative financial derivatives, is giving financial flows a dangerous life of their own, unconnected with real economic processes. The permanent search for opportunities for short-term profit in the globalized currency

and bond markets gives rise to a danger of turbulence, threatening national payment systems and the stability of real economic processes.

1.1.9. There are, of course, other aspects to the globalization process, such as the shift in internal company procedures from hierarchical structures to more horizontal decision-making processes or the closer integration of different cultural currents in the social field. Nevertheless, the international diversification of production of goods and services remains the economic hallmark of this development.

1.1.10. Overall it can be said that globalization driven by transnational undertakings entails a reduction in world-wide costs in the broadest sense required to produce the range of goods that will satisfy international demand. This is a favourable development for mankind. Consequently, the globalization process cannot and should not be reversed. In its policy recommendations, however, the Economic and Social Committee will consider how all concerned can be enabled to reap the benefits of this trend.

1.2. *Competitiveness and employment*

1.2.1. This globalization goes hand in hand with a change in the concept of competitiveness. In days gone by, a country, region or location was internationally competitive, if its indigenous enterprises could produce goods at competitive prices in certain world market sectors, whilst exploiting its economic resources, especially manpower, to the full. This meant that regions where these enterprises were located prospered.

1.2.2. As globalization proceeds, however, an economy's links with its 'indigenous' undertakings are loosened. The prosperity of an individual region becomes increasingly less dependent on the competitiveness of its enterprises which are now spread throughout the world. Individual locations now face global competition. Transnational undertakings are increasingly losing contact with their 'indigenous' locations since they can invest world-wide. Regions must compete for this internationally mobile capital.

1.2.3. On this basis, locations become internationally competitive if they succeed in creating conditions which make it possible to attract industry to their region. Entire economic, social and environmental systems are thus competing to attract internationally mobile capital. At a time of high and rising regional unemployment, the goal must be to attract investment so that jobs can be created through the resultant increase in capacity.

1.2.4. What determines the investment decision? Against the background of the goal of 'employment in our region', two contradictory strands in company decision-making must be distinguished. On the one hand, business economics may require a transnational undertaking to operate close to its markets; substantial direct investment is then made in order to establish a local presence in a given region. Where, however, such a presence is not essential for commercial success, another motive comes into play with regard to location

⁽¹⁾ See UN World Investment Report 1993, from page 161, for an argument along these lines. Transnational undertakings are not necessarily the same as the major economic enterprises. The reduction in transaction costs is making it increasingly possible for SMEs to operate internationally.

choice, namely the efficiency and profitability of production, transport and trade in the broadest sense. Ultimately, a location is chosen for the manufacture of a product or the implementation of a production stage where the desired objective, whether involving a material product or a service, can be achieved most profitably: capital seeks out the best host, so to speak.

1.2.5. Whilst the first motive will always lead transnational undertakings, seeking market proximity, to establish an investment base in their own region, the second is closely linked to regional competitiveness. As globalization proceeds, local production conditions must be adjusted so as to enable transnational undertakings to operate at least as profitably in their own region as in other locations where the globalization process makes investment equally profitable. The conditions in question will be discussed in detail in this Opinion. At this point, reference will merely be made to a whole list of influencing factors. The interplay between these factors is also important, however, because they are highly interdependent.

2. A global European policy

2.1. *General opportunities and risks*

2.1.1. Globalization is a historical development, which can be an opportunity for all concerned, if the right policies are pursued. What is needed is a conscious strategy for dealing with globalization to which all players at EU and national level contribute. This strategy includes a globally orientated European policy in the sense of greater international cooperation. The Economic and Social Committee also proposes a competitiveness policy in harmony with Europe's historic roots and the common cultural heritage.

In this section it will be shown that the Economic and Social Committee considers a transnational political initiative essential. The discussion of ways in which Europe as a region can meet the challenge of globalization with a long-term competitiveness strategy for the European economy is set out in chapter 4.

2.1.2. The danger that globalization will proceed asymmetrically provides the starting-point for the ESC's global policy recommendations. As stated above, with increasing globalization, company policies are integrated on a world scale and this gives rise to the present form of competition between locations. On the other hand, economic policy is, by and large, still nationally orientated. Existing supranational structures have mainly helped to reduce the transaction costs of international company diversification. There is, however, no concomitant international coordination aimed at economic regulation of this process (e.g. from the standpoint of competition). Most existing economic policy institutions continue to operate within a regional or national radius. When establishing supply conditions, i.e. organizing individual taxation, environmental-protection and social systems and regulating industrial relations, transnational undertakings are faced with economic policy institutions without a similar global, organizational and communications structure. The same is true of the workforce. The fact that wage negotiations are conducted at regional or local level is not a problem. Asymmetry develops because job-seekers have to operate at a regional or local level, whereas employers can base their decisions on global calculations.

2.1.3. This inherent asymmetry of globalization is fraught with great danger. Instead of keener competition between firms to satisfy consumers, which global markets might be expected to promote for the benefit of all, it becomes clear that the 'global players' are in a position to increase and extend their market power. As a result, the competitive machinery underpinning all market organization is limited. This is the origin of the frequently voiced fear of a 'race to the abyss'.

The following scenario could be imagined: in their efforts to attract production processes, individual regions undercut each other in order to offer transnational enterprises optimum (short-term) supply conditions. Industry, the State, the Länder and the regions attempt to increase site competitiveness via pressure on wages and social and environmental costs. Lower wages and dramatic cuts in public spending, however, also mean loss of income, a fall in purchasing power and declining demand. This leads to stagnation, recession and unemployment. In the long term, the social and material infrastructure deteriorates with a further adverse impact on competitiveness. And this provides justification for further cuts. Politically there are renewed calls for trade barriers and protection of domestic industry. Thus, the asymmetric pattern of globalization means that the benefits of free trade will not be shared equally. It is not globalization itself but its asymmetric development which will ensure downward harmon-

ization of labour, social and environmental conditions. On the basis of existing experience, this scenario is still theoretical. But the Economic and Social Committee is concerned that regions might start to undercut each other in this respect.

2.1.4. A long-term EU policy for international competitiveness will attempt to reverse this downwards spiral by adopting a transnational orientation. The ultimate aim should be to create international versions of the cartels ban, consumer and environmental protection arrangements and social obligations in regard to assets. Basic minimum global standards must be established in respect of human, workers' and environmental rights. International organizations would be endowed with legitimate economic-policy responsibilities. Internationally effective collective bargaining procedures and forms of social dialogue would be created to re-establish the negotiating balance on the labour market.

2.1.5. Such a transnational economic initiative should proceed from Europe, a region with a high level of social protection. As a result, there is much to be lost from a downward spiral. Europe also has more than 40 years' experience of organization of the internal market and its social and environmental framework legislation. Not least for the sake of its own survival, therefore, Europe should quickly contact other international blocs and press for a globally coordinated economic and social policy which respects the principle of subsidiarity.

2.1.6. In addition, there is a general awareness in Europe that the prospects for long-term economic development are directly linked to environmental conservation and that sustainable development for every country must be recognized as a major national and international objective⁽¹⁾. To avoid environmental dumping, Europe should take the lead in efforts to create an international framework for the establishment of environmental standards and, to this end, should assist countries in which such standardization is still relatively poorly developed. In this context the Economic and Social Committee advocates consistent implementation of Agenda 21, adopted at the United Nations' Conference on Environment and Development held in Rio de Janeiro in June 1992 and signed by 170 states. Agenda 21 sets out concrete programmes of action for the 21st century both for industrialized and developing countries and important commitments on the combating of poverty, trade and the environment, policy on waste, chemicals, climate and energy, and on financial and technological cooperation between industrialized and developing countries.

⁽¹⁾ Commission Communication to the Council and European Parliament on Trade and the Environment (COM(96) 54 final).

2.1.7. The Economic and Social Committee is convinced that an international initiative of this kind would provide a new impetus to all concerned. The current mood of powerlessness in the face of the problems needing to be solved, e.g. unemployment, results in part from the fact that at present the worldwide process of globalization is being met by isolated national or regional strategies. The Economic and Social Committee feels however that greater international cooperation is a suitable way of preventing the worst excesses of globalization.

2.1.8. In this sense the Economic and Social Committee is pleased to note that a number of far-sighted companies, the National Westminster Bank of London, and the Volkswagen AG of Wolfsburg, Germany, for example, have already begun to construct worldwide information and communications structures for workers' representatives. In this connection the Economic and Social Committee stresses the special role of the trade unions in building international workers' solidarity and refers to the European Parliament's Resolution⁽²⁾.

2.1.9. The world economy is faced with major problems and challenges. There is increasing awareness that the Bretton Woods' institutions and the existing UN system are not adequate to respond to the challenges of globalization. Lack of coordination is a particular shortcoming. One practical proposal for reform has been put forward by the Commission on Global Governance⁽³⁾, which calls for an 'economic security council' to be set up within the UN framework as well as an overhaul of the Bretton Woods' institutions, e.g. to bring voting rules more into line with current economic realities.

The responsibilities of this economic security council would encompass economic and social as well as environmental matters. It would be set up as a parallel body to the Security Council, but its composition would be different. It would be more representative than the G7 and Bretton Woods' institutions and have an advisory role. One main task should be to ensure that the IMF, World Bank and WTO pursue more consistent political lines.

The ESC supports these ideas and wishes to develop them further.

2.2. *The OECD multilateral investment agreement: a case study*

2.2.1. The Committee's demands for internationally agreed economic policy rules should be met for example

⁽²⁾ European Parliament, Resolution on human rights in the EU 1994, esp. points relating to freedom of association.

⁽³⁾ 'Our Global Neighbourhood' (Commission on Global Governance), London, 1995.

in the context of ongoing multilateral negotiations organized by the OECD and the WTO.

2.2.2. A current example is provided by the OECD Multilateral Investment Agreement (MIA). Recognizing that cross-border investment is the driving-force behind globalization, the OECD ministers called in May last year for negotiations to commence. The essential aim of the agreement is to facilitate cross-border investment by means of safeguard clauses and procedural rules with a view to promoting globalization⁽¹⁾.

2.2.3. In the light of the comments made in the preceding section, the Economic and Social Committee believes that this agreement must incorporate basic employment, social and environmental provisions if asymmetric global development is to be stopped. By itself, the liberalization of cross-border investment flows merely makes it easier for enterprises to ignore national frontiers and to diversify internationally. There is no guarantee that it will generate the anticipated increase in wealth. On the other hand, the MIA could provide a model for effective economic globalization through a socially-orientated definition of investment rules⁽²⁾.

3. The extent of globalization

3.1. The above call for greater international cooperation constitutes the requisite response to the globalization trend outlined in theory in the first section, where cross-border production and service processes were identified as the hallmark of globalization. This section will seek to quantify the extent of this international integration in order to assess the true seriousness of this debate.

3.2. Foreign direct investment (FDI) provides an indicator of the scale of integration. An increasing FDI

flow accelerates the international transfer of capital, technology and know-how and promises further integration. FDI stocks, on the other hand, indicate existing levels of capital investment abroad and, consequently, the extent to which production is already integrated. In this context, reference is generally made to outflows or outward FDI stock⁽³⁾. Table 1 illustrates these data in relation to other indicators of economic globalization.

3.3. The indicators reveal a dramatic rise in global internationalization, particularly between 1986 and 1990. Although incomes rose by less than 11 % per annum in this period, global exports increased by more than 14 %. The scale of FDI flows, however, was far greater, rising by almost 30 % per annum at this time. Outward FDI stock also grew by an impressive 20 % compared with a rise of only approximately 10 % in global capital. In the early 1990s, there was however a worldwide fall in all these figures, which can be attributed to the general recession. But even at this time, FDI growth rates were greater than those for overall income, trade or capital formation.

3.4. This impression is confirmed by the wide diversification of the major international undertakings. Table 2 provides a snapshot from 1993. This indicates that the leader, Royal Dutch Shell, held more than two-thirds of its total capital abroad recorded just under half its turn-over abroad and employed more than 70 % of its workforce abroad. Since these rankings are based on absolute values, even more impressive breakdowns along these lines can be found in the subsequent placings.

3.5. By contrasting FDI inflows and outflows, Table 3 shows that the highest degree of integration between developed countries occurs when values are generally rising. In 1994, for example, the developed countries accounted for 60 % of inflows and 85 % of outflows. Whilst this table also reveals that FDI inflows to developing countries are two to three times greater than outflows, they account for a relatively small proportion of the total volume (approximately one third of total inflow in 1994). These figures suggest that the widespread concern of the developed countries about jobs being exported to the developing countries is exaggerated.

3.6. Figure 1 provides a snapshot of FDI stock within the Triad. This reveals a far higher degree of European

(1) See the Committee Opinion on global harmonization of direct investment regulations for a thorough assessment of these negotiations. The Rapporteur was Mr Cal. OJ No C 153, 28. 5. 1996.

(2) Reference should be made to the ILO Convention in this connection. The Committee has already looked at this subject on a number of occasions. In relation to the social clauses, see the opinion on the global challenge of international trade: a market access strategy for the European Union. OJ No C 56, 24. 2. 1997; rapporteur: Mr van Dijk, in particular point 5 on the enshrinement of environmental rules at multilateral level; see the own-initiative opinion on international trade and the environment, OJ No C 56, 24. 2. 1997; rapporteur: Mr Koopman.

(3) According to balance-sheet theory, inward and outward FDI flows and stocks should balance out world-wide. Nevertheless, differences in data collection give rise to variations.

integration with the US than with Japan. At the same time, it shows that there is no imbalance in FDI stock, either with Japan or the US.

3.7. Figure 2 quantifies the importance of FDI flows for total domestic investment. It provides a sobering picture with regard to the alleged extent of globalization. Thus, even in peak periods (1989 and 1990), foreign contributions represented only a little more than 5% of gross fixed capital formation in the developed economies. This means that almost 95% of capital formation can be attributed to domestic investment by national undertakings⁽¹⁾.

3.8. In the light of the above, globalization, in the form of the global integration of production, can be said to exhibit high growth rates. It is possible to identify an economic globalization trend on this basis. At the same time, sober analysis of the situation reveals that on balance there are no grounds for concern with regard to large-scale job transfers⁽²⁾. There is no general, unilateral shift of production sites to developing countries and other developed areas of the world are not uniformly attractive.

4. The competitiveness of European undertakings

4.1. Preliminary remarks

4.1.1. Quantitative analysis has shown that, whilst the globalization process has been under way for many years, its overall scale is still relatively small. Thus, the considerable room for manoeuvre still available in regional policies must be exploited. The elimination of international transaction costs is a slow process which does not have the same impact on all sectors. The spectrum in question ranges from fully integrated international markets (e.g. the currency markets) to sectors totally shielded from international competition (e.g. certain sections of the services sector).

4.1.2. Many of the problems facing Europe would exist in similar form even without globalization, or are merely of domestic origin. There is still a European economy (in contradistinction to transnational undertakings) and it is necessary to identify the products which European undertakings can successfully market internationally.

This raises the question of the comparative advantages which Europe enjoys. In attempting to answer this question, the Economic and Social Committee's policy recommendations will call for the reinforcement of these advantages.

4.1.3. In general, Europe's comparative advantages are concentrated in the skills of its workforce, backed up by an extensive physical and social infrastructure. The development of these comparative advantages is closely linked to the European social model. The Economic and Social Committee is therefore convinced that the dynamic further development of the employment-promoting aspects of the European social model, whilst preserving social consensus, constitutes an absolute precondition for any competitive strategy for the European economy⁽³⁾. In this connection, economic policy must not treat the social organization and social institutions as mere components of the economic climate, or the social welfare system as no more than a cost factor in the context of international competitiveness. Rather, the social framework must be viewed as the basis for the development and activation of a wide variety of skills and capacities. This is all the more important since the developed economies are currently in transition from the industrial model to information, service and cultural societies. From the economic standpoint, therefore, the European social model — or the social cohesion and peace and resultant stability associated with it — represents a specifically European production factor and, consequently, a locational advantage which should be fully exploited. The further development of the social welfare system in the broader sense therefore represents an investment; it facilitates economic development, reform and modernization and promotes smooth economic structural change.

4.2. Competition with 'low-wage' countries

4.2.1. In some sectors the productive potential associated with a highly skilled workforce and an extensive social welfare system cannot be easily translated into corresponding productivity. These areas of production

(1) Table 4 shows external trade as a percentage of GDP. Surprisingly it shows that over the last 30 years exports to and imports from non-European countries have remained constant at some 10% of GDP.

(2) A recently published ILO study concludes that only 5-6% of global employment is directly or indirectly dependent on transnational undertakings and concludes: 'No doubt this overall contribution of MNEs to employment hardly seems significant at present'. *World Employment 1995: An ILO Report*, Geneva 1995, p. 45. However, worldwide almost 50% of workers are employed in agriculture. In relation to employment in industry and services the figure is doubled, therefore, to 10-12%.

(3) Similarly, Article B of the EU Treaty refers to the need 'to promote economic and social progress which is balanced and sustainable through the strengthening of economic and social cohesion'.

are increasingly moving to lower-wage countries in the framework of the international division of labour. In this respect however the belief that 'low-wage countries are stealing our jobs' is unfounded. As has already been pointed out, there is no imbalance of international investment flows to the developing countries. Moreover, Europe's balance of trade with these countries is in surplus. Their export revenue generates internal growth, with a resultant increase in domestic demand. Europe then responds competitively by exporting to meet this demand, i.e. converting it into European production.

4.2.2. A political recommendation on this subject must call for the necessary intra-European structural change to be based on active employment and labour market policy. The unproductive European manpower released by this transfer of production processes must be integrated through improved qualifications into other sectors in which Europe has a relative competitive advantage. The macroeconomic growth effects resulting from this structural change will at the same time enable new job opportunities to arise in the non-marketed goods and services sectors. Insofar as international trade promotes growth, this sector will help to ensure equilibrium on the labour market.

4.3. *Price competition within the EU-NAFTA-ASEAN triad*⁽¹⁾

4.3.1. In many economic sectors, firms in the developed countries are facing strong competition for a slice of the global market. As a result, analysis of the international competitiveness of the European economy focuses on price competitiveness. Put simply, the developed economies essentially enjoy similar equipment advantages and therefore seek to supply the same global markets. There is thus a need for a European economic strategy which will make it possible, on the one hand, to understand this market competition and, on the other, to react flexibly to new market opportunities in a highly dynamic environment.

4.3.2. The Commission has defined competitiveness in the following terms: A country is competitive if its productivity growth is at least as great as that of partner countries with a similar level of development and if it can maintain external economic equilibrium under open market conditions and with a high level of employment.

The appendix shows that Europe fulfils all the above criteria, with the exception of a high level of employment (see table 5). With the balance of payments in equilibrium (see also table 5) Europe shows productivity growth similar to that of Japan and higher than that of the USA (table 6).

4.3.3. In order to achieve a high level of employment as well, a wider wage scale is often discussed with a view to making sectors with lower productivity viable. In the Committee's view this could theoretically produce a dramatic improvement in the unemployment figures, but would not bring about any corresponding improvement in the living standards of those affected. If this form of increased employment is not accompanied by supplementary transfer payments to the low-paid, the problem merely takes on a different form. Instead of the social challenge of 'poverty as a result of unemployment' the problem to be addressed is now 'poverty despite employment'. Table 7 also shows that since 1975 real unit wage costs have fallen steadily in the EU, whilst in the USA they remained at roughly the same level and in Japan they actually rose significantly. As has been argued elsewhere⁽²⁾, the Economic and Social Committee considers that excessive pressure on wages policy would be counter-productive.

4.3.4. Short-term cost-cutting based on further dramatic reductions in social welfare benefits in the broadest sense does not bring any lasting improvement in competitiveness. Instead, it raises the question of whether economic output will not also fall as a result of increasing social tensions. This trend has been strengthened by the systematic undermining of workers' rights and the weakening of the trade unions in some Member States, which has in particular reduced the scope for the controlled conduct of disputes. The Economic and Social Committee sees this as a threat to democratic systems. The Committee therefore concludes that policies which lead to the growth of poverty are no more conducive to Europe's competitiveness than unemployment itself. Short-term competitive advantages achieved by cutting costs through further dismantling of the social welfare system and pressure on wages impair economic output, owing to the overall social impact of such measures and therefore constitute competitive disadvantages.

4.3.5. The Economic and Social Committee recommends a diametrically opposite strategy. Europe should concentrate on endogenous growth forces in

⁽¹⁾ The term triad is used in this context by the United Nations Conference on Trade and Development (UNCTAD).

⁽²⁾ See Opinion on the 1996 Annual Economic Report, rapporteur: Mrs Konitzer, points 3.3.1 to 3.3.3, OJ No C 204, 14. 7. 1996.

the framework of a long-term and environmentally acceptable strategy for competitiveness. The dynamic further development of the European social model coupled with the upgrading of human resources will create a stable framework in which the potential of the internal market can be exploited. The accelerated development of infrastructure, trans-European networks for example, will create a climate in which SMEs, in particular, can make their contribution to employment. The availability of risk capital will encourage entrepreneurs, technological progress and innovation. These endogenous growth factors will enable Europe to boost total output without raising costs, with resultant gains in competitiveness and positive effects on employment. The growth effects to be expected will also mean that labour-saving technological progress will not lead to higher unemployment.

4.3.6. The Economic and Social Committee also sees political scope for boosting market efficiency within the EU. Obsolete bureaucratic barriers and procedures, which unnecessarily curtail market flexibility should be eliminated. In spite of recent efforts, entrepreneurial financing opportunities remain inadequate. More incentives must be created for the provision of risk capital, subject to fiscal and monetary policy requirements.

4.3.7. In this connection, the Economic and Social Committee would urge firms to make greater efforts to mobilize dormant productivity reserves among their workforce. The overall competitiveness of the European economy can be improved if employees' skills are effectively exploited at company level by developing structures for participation and dialogue, by dismantling outmoded company hierarchies and by introducing new management concepts. This is a prerequisite for achieving the aforementioned productivity of the European social model⁽¹⁾.

4.4. *From price competition to competition between ideas*

4.4.1. The foregoing considerations focus on how European price competitiveness can be ensured in existing economic sectors. Nevertheless, the efficiency of a developed economic system is also demonstrated, in particular, by its ability to open up new markets. Europe is therefore facing the challenge of how to use its human resources to develop new goods and problem-solving concepts and to produce and to export high-quality goods and services.

(1) See also ESC Opinion on the impact of the introduction of new technologies in employment, OJ No C 66, 3. 3. 1997, p. 78; rapporteur: Mr Cal.

4.4.2. Insofar as the European economy succeeds in translating R&D results into product and process innovation, it will enjoy high returns before price competition begins as a result of increasing production opportunities. These returns create scope for a high standard of living and major investments which can, in turn, provide a basis for innovation. Nevertheless, research fundings and innovation cannot be forced. By contrast with the standardized production of goods or services where, for a given technology, likely output can be inferred from input level and structure, the innovatory capacity of an economy is largely determined by intangible unquantifiable factors and their interaction. This Opinion therefore focuses on a form of competitiveness in which the 'environment' is structured so as to produce a climate favourable to innovation.

4.4.3. The Commission Green Paper on innovation⁽²⁾ revealed that something was clearly wrong with the European innovation climate. The statistics examined show that, whilst Europe can boast outstanding scientific achievements, a great deal still needs to be done to convert R&D results into industrial or commercial output. This 'lack of transposition' goes hand in hand with R&D expenditure levels which are already low in comparison with countries such as the US or Japan.

4.4.4. The Economic and Social Committee perceives a serious lack of competitiveness and an urgent need for political action in this area. It regards the Commission report as an exceptional document and fully endorses its political recommendation⁽³⁾:

'Europe needs to react resolutely. It has to rely on intelligence and invest in the intangible. Education and lifelong training, creativity, the exploitation of research results and the anticipation of technical and commercial trends need to be developed. There is also a need to improve the management of enterprises, their openness to external influences and the involvement of employees in the innovation process, so that all the essential skills can be mobilized. Lastly, a climate conducive to innovation needs to be generated with regard to financing (venture capital, stock markets), effective use of industrial property rights, regulations or standards'⁽⁴⁾.

4.4.5. The Economic and Social Committee would point out that the Commission's proposed policy for the

(2) Bulletin of the European Union, Supplement 5/95 (based on COM(95) 688 final of 20. 12. 1995).

(3) See also ESC Opinion on the Green Paper on innovation; rapporteur: Mrs Sirkeinen; co-rapporteur: Mrs Konitzer, OJ No C 212, 22. 7. 1996.

(4) Bulletin of the European Union, Supplement 9/95, p. 6.

attainment of competitiveness through innovation does not conflict with the price competitiveness policy outlined in the preceding section. Rather, the Commission's quoted proposals on innovation and the ESC's price competitiveness recommendations can be said to complement each other to produce a comprehensive and coherent strategy for the competitiveness of European undertakings.

5. Outlook

5.1. Europe should look ahead. Globalization is desirable and should offer opportunities for all. What is needed however is a new kind of international initiative in economic and social policy to limit the risks of globalization and ensure that its fruits are more fairly distributed. The tendency of firms to think globally creates a need for effective international institutions to provide a framework for political decisions. Accepting this requires courage from all concerned as it entails re-orientation. Old recipes will no longer be effective: already calls for protection are being heard. The Economic and Social Committee resolutely opposes these. A new form of international cooperation is no utopia. It

is a vision and the Economic and Social Committee has pointed the way. All operators are called on to become actively involved in their fields of activity in promoting broadly based international cooperation.

5.2. Europe has a firm footing on the path which leads to the new century. Its advantages include completion of the internal market and well planned economic and monetary union on the one hand and its hard-won social safety net on the other. Neither of these projects must be allowed to fail. In addition to economic integration, social integration in a competitive economy must also be promoted. Marginalization and discrimination are signs of weak policy; social cohesion and involvement of all on the other hand promotes a strong economy and a healthy society. 'Revival requires society driven by citizens who are aware of their own responsibilities and imbued with a spirit of solidarity towards those with whom they form local and national communities — communities that are so rich in history and in their common feeling of belonging' ⁽¹⁾.

⁽¹⁾ From the preamble to the White Paper on Growth, Competitiveness and Employment, European Commission, 1993.

Brussels, 19 March 1997.

*The President
of the Economic and Social Committee*
Tom JENKINS

APPENDIX 1

to the opinion of the Economic and Social Committee

TABLE 1

Selected world FDI, economic and financial indicators, 1981-1993

Indicator	Value at current prices, 1993 (billions of dollars)	Average annual growth rates (percentage)		
		1981-1985	1986-1990	1991-1993
FDI Outflows	222	0,8	28,3	5,6
FDI Outward stock	2 135	5,4	19,8	7,2
Sales of foreign affiliates of TNCs (a)	5 235 (b)	1,3 (c)	17,4	- 2,6 (d)
Current gross domestic product at factor cost	23 276	2,1	10,6	3,3
Gross fixed capital formation	5 351	0,7	9,9	3,2
Exports of goods and non-factor services	4 762	- 0,1	14,3	3,5
Royalties and fees receipts	38	- 0,7	21,8	13,0

Source: UNCTAD, Division on Transnational Corporations and Investment, based on International Monetary Fund, balance-of-payments tape, retrieved in June 1995; and unpublished data provided by the Organization for Economic Cooperation and Development Secretariat and the World Bank, International Economics Department.

(a) Estimated by extrapolating the worldwide sales of foreign affiliates of TCNs from France, Germany, Italy, Japan and the United States on the basis of the relative importance of these countries in worldwide outward FDI stock. However, the data on sales of foreign affiliates for France are included only after 1988 because of unavailability of the data prior to that year. For Italy the sales data are included only in 1986, 1988, 1990 and 1992.

(b) 1992.

(c) 1982-1985.

(d) 1991-1992.

TABLE 2

The 25 largest non-financial transnational undertakings

Ranked in line with foreign capital (1993)

Rank	Undertaking	Country	Branch	Foreign capital (Billions of \$)	Total (Billions of \$)	Foreign turnover (Billions of \$)	Total turnover (Billions of \$)	Foreign employment	Total employment
1	Royal Dutch Shell	GB/NL	Oil	69,4	100,8	45,5	95,2	85 000	117 000
2	Exxon	USA	Oil	47,4	84,1	87,7	111,2	57 000	91 000
3	IBM	USA	Computers	44,1	81,1	37,0	64,1	130 655	256 207
4	GM	USA	Vehicles	36,9	167,4	28,6	133,6	270 000	756 000
5	GE	USA	Electronics	31,6	251,5	11,2	60,5	59 000	222 000
6	Toyota	Japan	Vehicles	—	97,6	41,1	94,5	23 824	110 534
7	Ford	USA	Vehicles	30,9	198,9	36,0	108,5	180 900	332 700
8	Hitachi	Japan	Electronics	—	86,7	16,5	71,8	—	330 600
9	Sony	Japan	Electronics	—	41,5	26,3	36,3	70 000	130 000
10	Mitsubishi	Japan	Trade	—	85,2	65,3	168,4	—	157 900
11	Nestle	Switzerland	Food	24,8	30,6	38,4	39,2	203 000	209 800
12	Mobil	USA	Oil	23,1	40,7	42,5	63,5	28 600	61 900
13	Nissan	Japan	Vehicles	—	68,3	24,2	56,5	34 564	143 900
14	Matsushita	Japan	Electronics	22,5	77,2	31,7	64,3	98 600	254 000
15	Elf Aquitaine	France	Oil	22,4	45,5	14,9	35,5	44 600	94 250
16	ABB	Switzerland	Industrial plant	21,5	24,9	24,7	28,3	—	206 500
17	Philips	Netherlands	Electronics	—	23,8	26,6	30,3	200 000	244 400
18	British Petroleum	GB	Petroleum	19,0	28,1	39,2	52,4	62 600	84 500
19	Hanson	GB	Building mats.	19,0	37,9	7,6	15,4	53 000	71 000
20	Siemens	Germany	Electronics	—	58,4	13,8	50,0	153 000	403 800
21	Unilever	GB/NL	Food	18,0	24,7	16,1	40,0	187 000	294 000
22	Mitsui	Japan	Trade	—	72,5	49,8	172,9	—	11 500
23	Alcatel Alsthom	France	Electronics	—	44,2	5,0	26,5	115 500	196 500
24	Du Pont	USA	Chemicals	16,4	37,1	16,8	37,1	36 400	114 000
25	B.A.T. Industries	GB	Tobacco	15,7	50,5	25,3	33,2	175 500	190 300

Source: UNCTAD. World Investment Report 1995.

TABLE 3

FDI inflows and outflows, 1982-1994

(Billions of dollars and percentage)

Year	Developed Countries		Developing Countries		Central & eastern Europe		All countries	
	Inflows	Outflows	Inflows	Outflows	Inflows	Outflows	Inflows	Outflows
Value (billions of dollars)								
1982-1986	43	53	19	4	0,02	0,01	61	57
1987-1991	142	183	31	12	0,6	0,02	174	195
1989	172	202	29	15	0,3	0,02	200	218
1990	176	226	35	17	0,3	0,04	211	243
1991	115	188	41	11	2,5	0,04	158	199
1992	111	171	55	19	4,4	0,02	170	191
1993	129	193	73	29	6,0	0,08	208	222
1994 (a)	135	189	84	33	6,3	0,07	226	222
Share in total (percentage) (b)								
1982-1986	70	94	30	6	0,03	0,01	100	100
1987-1991	82	94	18	6	0,4	0,01	100	100
1992	65	90	32	10	3	0,01	100	100
1993	62	87	35	13	3	0,03	100	100
1994 (a)	60	85	37	15	3	0,03	100	100
Growth rate (percentage) (b)								
1982-1986	24	25	- 11	7	3	53	11	24
1987-1991	0,5	9	16	15	278	47	4	9
1992	- 3	- 9	34	76	81	- 54	8	- 4
1993	16	13	34	51	35	353	22	17
1994(a)	5	- 2	15	13	5	- 13	8	0,04

Source: UNCTAD, Division on Transnational Corporations and Investment, based on International Monetary Fund, balance-of-payments tape, retrieved in June 1995; and data provided from the Organization for Economic Cooperation and Development Secretariat.

(a) Based on preliminary estimates.

(b) Calculated on the basis of FDI flows expressed in millions of dollars.

Note: Here and in other tables, the levels of worldwide inward and outward FDI flows and stocks should balance; however, in practice, they do not. The causes for the discrepancy include differences between countries in the definition and valuation of FDI; the treatment of unremitted branch profits in inward and outward FDI; the treatment of unrealized capital gains and losses; the recording of transactions of 'offshore' enterprises, the recording of reinvested earnings in inward and outward FDI; the treatment of real estate and construction investment; and differences in the equity threshold between inward and outward FDI. The size of the world FDI discrepancy has declined over the past years.

TABLE 4

Degree of openness of the Community, USA, Japan

	Current prices								
	Exports of goods as a percentage of GDP					Imports of goods as a percentage of GDP			
	Intra-EC	Extra-EC	USA	Japan	World	Intra-EC	Extra-EC	USA	Japan
1965	8	6	4	9		8	8	3	9
1970	10	7	4	9	8	10	8	4	9
1975	12	8	7	11	13	12	9	6	12
1980	13	9	8	12	16	13	11	9	13
1985	15	10	5	13	15	15	11	9	9
1990	15	8	7	10	15	15	8	9	8
1995	15	9	8	9	17	14	9	11	7

Source: Ameco, European Commission, DG II.

TABLE 5

Assessment of competitiveness

	EU	USA
GDP growth per head		
1971-1995	1,9	1,6
1971-1980	2,6	1,6
1981-1990	2,1	1,8
1991-1995	0,9	1,3
Current account (as a percentage of GDP)		
1971-1995	0,0	-1,0
1971-1980	-0,1	0,2
1981-1990	0,0	-1,9
1991-1995	0,1	-1,3
Unemployment rate		
1971-1995	7,7	6,7
1971-1980	4,0	6,4
1981-1990	9,0	7,1
1991-1995	10,1	6,5

Source: Ameco, European Commission, DG II.

TABLE 6

Total factor productivity (index)

	EUR 15	USA	Japan
1970	100	100	100
1975	106	102	108
1980	116	105	118
1985	121	110	130
1990	130	113	142
1994	135	118	139

Source: Ameco, European Commission, DG II.

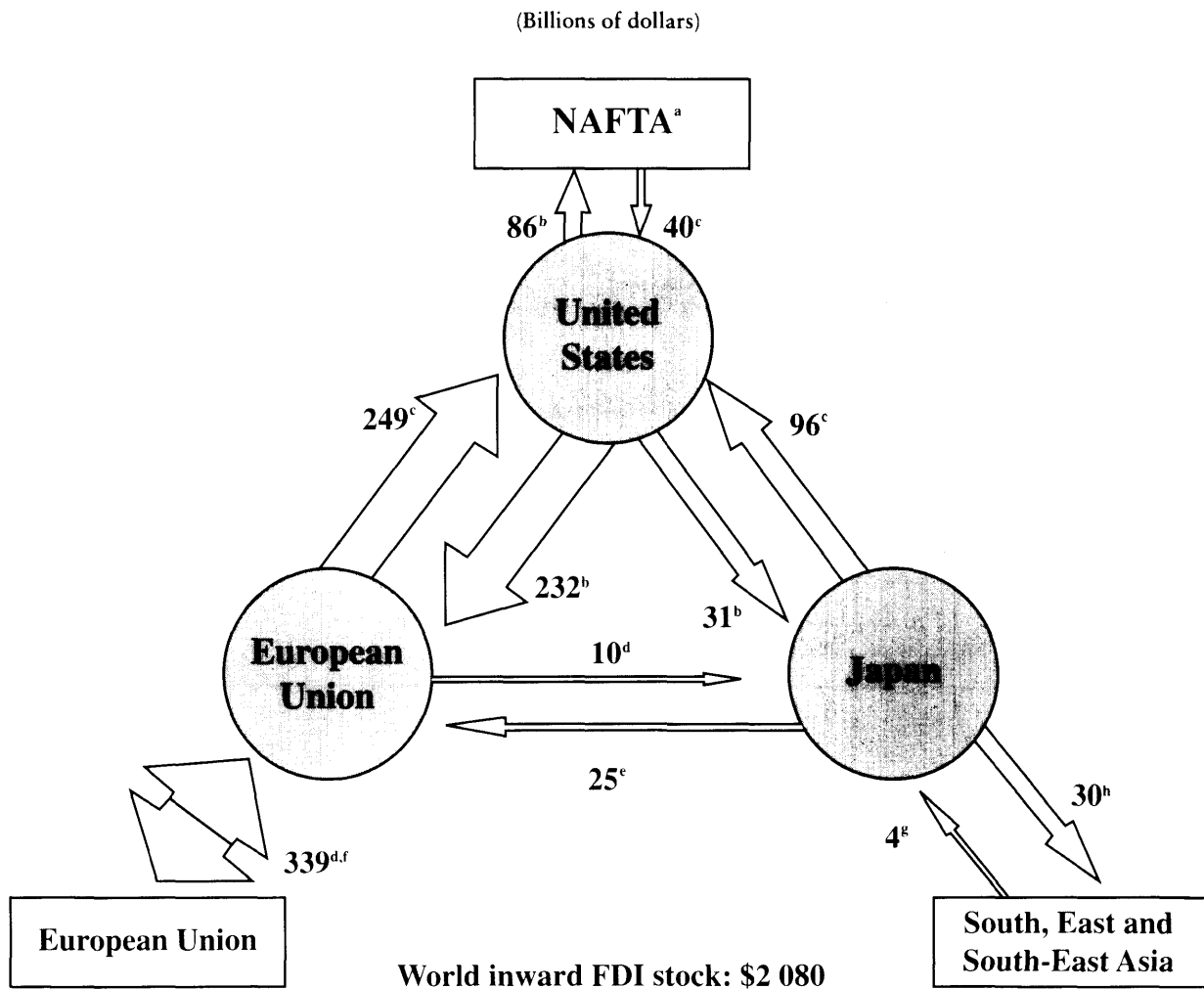
TABLE 7

Labour costs (index)

	EUR 15	USA	Japan
Real compensation per employee			
1970	100	100	100
1975	122	103	142
1980	133	106	163
1985	138	109	177
1990	146	114	202
1995	152	120	213
Real GDP per person employed			
1970	100	100	100
1975	114	105	121
1980	130	106	144
1985	142	112	166
1990	156	116	193
1995	171	122	198
Real unit labour costs			
1970	100	100	100
1975	107	98	118
1980	102	100	113
1985	97	97	106
1990	94	98	105
1995	89	99	108

Source: Ameco, European Commission, DG II.

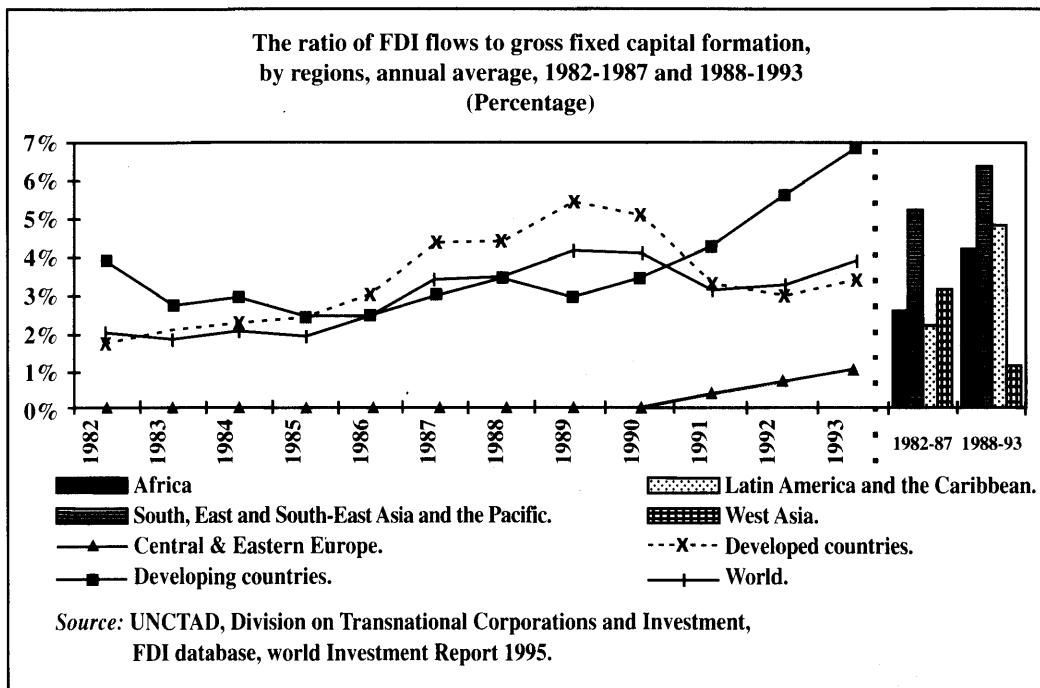
Graph 1: FDI stock among Triad members and their clusters, 1993



Source: UNCTAD, Division on Transnational Corporations and Investment, FDI database. World Investment Report 1995

- a Canada and Mexico.
- b United States outward FDI stock.
- c United States inward FDI stock.
- d Outward FDI stock of Austria, Finland, France, Germany, Italy, the Netherlands, Sweden and the United Kingdom. Data for Austria are for 1991 and data for France and the Netherlands are for 1992.
- e Data from inward FDI stock of Austria, France, Germany, Italy, the Netherlands and the United Kingdom. Data for Austria and France are 1991 and data for Italy and the Netherlands are for 1992.
- f For Sweden, the data reflect FDI to and from all European countries. Intra-European Union FDI, based on inward stocks, is \$ 225 billion.
- g Data are based on approvals/notifications and represent those from countries other than those in North America and Europe.
- h Estimated by multiplying the values of the cumulative flows to the region according to FDI approvals by the ratio of disbursed to approved/notified FDI in developing countries.

Graph 2: The ratio of FDI flows to gross fixed capital formation, by regions, annual average, 1982-1987 and 1988-1993



APPENDIX 2

to the opinion of the Economic and Social Committee

The following amendments, which received at least one quarter of the total votes cast, were defeated in the course of the debate:

Point 2.1.3

Amend to read:

'This inherent asymmetry of globalization is a cause for concern. As well as keener competition between firms to satisfy customers, which global markets can promote for the benefit of all, the "global players" are potentially in a position to increase their market share and influence on the different markets. As a result, the competitive processes can have unwelcome effects. The following scenario can be envisaged: individual regions, in their efforts to attract investment in additional production, try to create the most attractive location for transnational enterprises. Each region has a strong interest in offering the investor a combination of supply conditions which are more favourable than other regions. This means that the institutions in each region attempt to enhance the competitiveness of location in that region which, indirectly, puts pressure on wage competitiveness and keeping social and environmental costs down. It is not globalization itself which is the problem, but the asymmetric consequences which enhance the returns to investment by placing competitive pressure on the labour market and social and environmental conditions. Many regions within the EU have benefited from investment made by firms within their global strategies. However, there is a growing concern that, in some circumstances, the balance of advantage to the local region could disappear. The Economic and Social Committee is concerned that regions might be tempted to engage in competitive undercutting of one another.'

Reason

To base the argument on a more widely accepted analysis of the impact of recent trends in globalization and reduce the risk of criticism that the cumulative reaction envisaged in the present draft is overstated.

Result of the vote

For: 45, against: 63, abstentions: 15.

Point 2.1.4

Amend to read:

'A long-term EU policy for international competitiveness would attempt to alleviate these concerns. The difficulties in securing agreement are all too obvious. Global standards, whether in consumer protection, workers' rights or environmental rights, are more difficult to agree and enforce than at a national or EU level.'

Reason

To base the argument on a more widely accepted analysis of the impact of recent trends in globalization and reduce the risk of criticism that the cumulative reaction envisaged in the present draft is overstated.

Result of the vote

For: 41, against: 66, abstentions: 11.

Opinion of the Economic and Social Committee on the 'Communication from the Commission — The challenges facing the European defence-related industry, a contribution for action at European level'

(97/C 158/07)

On 24 May 1996 the Commission decided to consult the Economic and Social Committee, under Article 198 of the Treaty establishing the European Community, on the above-mentioned proposal.

The Section for Industry, Commerce, Crafts and Services, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 3 March 1997. The rapporteur was Mr Sepi.

At its 344th plenary session (meeting of 19 March 1997), the Economic and Social Committee adopted the following opinion by 118 votes to four, with nine abstentions.

1. A new Commission approach

1.1. The Communication is the Commission's first comprehensive document on the problems of the defence industry.

1.2. The document shows a clear awareness of the newness of the approach and of the special nature of the sector. Bearing in mind the latter, and the need for action to be phased in gradually, the Commission provides the Member States and the social partners with examples of industrial, technological and commercial policy instruments which could also be harnessed in this sector.

1.3. This involves a new application, in the light of Court of Justice rulings, of Article 223 of the Treaty which allows Member States to derogate from Community regulations in the interests of national security. Thus far, the derogations afforded by this provision have been given a broad interpretation, virtually giving the individual Member States a free hand in industrial defence policy.

1.4. The end of the cold war and the break-up of the Soviet bloc have provided an opportunity to revamp Western European defence policies and reduce military spending ('peace dividend'). The Maastricht Treaty and the launch of the debate on the second pillar of the EU, i.e. common foreign and security policy (CFSP), are evidence of the fact that European governments wish to include armaments policy in this.

1.5. The Treaty and successive Council Decisions have called on the WEU⁽¹⁾ to frame a European integration policy for the armaments sector, and have also raised the possibility of setting up a European Armaments Agency. The WEU Member States have agreed on the need to develop a genuine European

defence and security identity and a greater European responsibility for defence matters. The WEU would be developed as the defence component of the European Union and as a means to strengthen the European pillar of the Atlantic Alliance. The Western European Armaments Group (WEAG), bringing together 13 European members of NATO, was set up and attached to the WEU as the body responsible for cooperation on armaments issues within the WEU. The objectives of the WEAG are to create a European defence equipment market, to reinforce Europe's technological and industrial base in the defence sector, and to strengthen cooperation on research and development.

1.6. The WEU's activities, inter alia in the WEAG, have not yet produced tangible progress towards greater integration of national defence industries. However, recent developments at the WEAG suggest that closer cooperation between general staffs might be achieved. A growing commitment, on the part of the Commission, to industrial policy in the sector could facilitate the WEAG's action.

1.7. The decision taken by WEU defence ministers in Ostend on 19 November 1996, to establish a Western European Armaments Organization as a precursor to the European Armaments Agency, will have to be dovetailed with the various proposals currently under consideration.

2. The Commission's analysis

2.1. The Commission begins its study of the problems of the defence industry in the European Union with an analysis of the challenges facing that industry. In economic and industrial terms the main problems stem from budget constraints and the fact that the European market for armaments has always been fragmented.

2.2. The problems encountered by the defence industry in the European Union have obviously had their effects on its international competitiveness, which has duly declined, especially when compared with the US

(¹) WEU = Western European Union.

defence industry. The US industry has been much faster in concentrating and adapting its structure to present conditions, and has taken advantage of the undervaluing of the dollar.

2.3. One of the weaknesses of the defence industry in the European Union compared with the US is the fragmentation of the European market. This has allowed individual national companies to survive which are not capable of taking advantage of economies of scale; it has allowed contractual and other forms of support for national companies to continue, and international cooperative agreements to be based essentially on political arrangements guided by the principle of 'juste-retour' for each programme between the various countries. There are at least five factors which restrict industrial integration between European companies in the defence sector:

- the perception by individual governments of risks to national security;
- different operational requirements of the European armed forces;
- different practices on arms exports;
- the disparity in the various countries between public and private undertakings; and
- the lack of a legal framework in Europe which would facilitate the establishment of transnational companies.

2.4. The internal demand for defence equipment in Europe has been on the decline since 1987; in real terms the reduction in the demand for arms in the countries of the European Union has been a little less than a third.

2.5. The drop in demand has meant major industrial restructuring, the main features being a reduction in labour requirements and attempts to diversify production. Within each of the individual countries a marked process of concentration has given rise to groups of 'national champions' which have participated in cooperative programmes at the international level.

2.6. So far, there have been few cross-border mergers in the European defence industry.

2.7. The contribution from the defence industry to the civil sector in R&D in terms of high technology is still important, although the opposite, so called spin-in effect, has gained in importance. Due to their economic advantages, dual-use technologies are gaining ground. Efforts must therefore be stepped up to develop the possible synergistic effects between civil and military research activities, in both company strategies and public policies.

2.8. The Commission sees new challenges for the EU defence industry, in the context of the definition of a European security and defence identity. One of the priorities in this context is to strengthen the EU defence and technology base as a precondition for the creation of a future defence policy.

2.9. In parallel with the development of a CFSP, the EU should also promote the establishment of its own industrial base so as to have the technologies and products essential to defence in Europe. Even if these are along the lines set out by the Treaty on European Union and by the policy documents of the WEU, the results of the IGC will be crucial. This does not mean, as far as the Commission is concerned, that any action in the defence industry should await the outcome of the IGC. On the contrary, the urgent situation of the defence industry calls for immediate action as a necessity for a potential common foreign and security policy.

2.10. In particular, the Commission thinks that the defence sector could draw enormous benefit from opening public procurement to competition and transparent regulations. The Community regulations in this area could be used for this purpose, provided they are adapted to the specificity of this industry. A new regulation could lead to annual savings of between ECU 5 and 11 billion according to a study made.

2.11. The Commission feels that there is a need to encourage intra-Community trade in defence equipment. The creation of a 'European defence market' should make for increased cooperation and integration between European companies.

2.12. Civil research and technological development (RTD), as supported in the EU by way of Community research programmes, are also of growing interest to the military sector. About a third of the activities financed by the Community could be of dual interest. The Commission therefore feels that more synergy should be promoted between military research and civil research.

2.13. Standardization and technical harmonization are becoming more and more important in increasing efficiency in the single market. As far as the Commission is concerned, their application to the military sector should be one of the principal objectives of the Community's policy in the defence sector, the aim being to reduce the costs of supply, to increase competition in the supplies sector and to shorten the time needed to prepare technical standards.

2.14. The gradual establishment of a single European defence market will make it necessary to extend EU competition policy to this sector. Competition policy will obviously have to be applied gradually to the sector since it will have to be coordinated with the other Community policies and take account both of the specific nature of the sector and of the national security requirements of the Member States.

2.15. The Commission points out that more than half the areas of the European Union which depend on the defence sector can make use of financing provided for by the existing Structural Funds. However, it is important to note that even in assisted areas, Structural Fund aid is not available for investment in the defence-related industry itself. The Commission mentions the Konver and Adapt programmes, but also notes the possibility of 'financing from other EU resources'.

2.16. Among the measures needed to create a single European defence market, the Commission considers the definition of a European policy on arms exports to be essential.

2.17. The Commission can draw on the experience of setting up a Community system of export controls on dual technologies and goods which has been operative since July 1995.

2.18. In the context of a single European arms market, the Commission feels it must confirm its exclusive jurisdiction over customs agreements and, in particular, import duty on military equipment. The Commission also feels that it should define its own commercial policy in this sector, in particular with a view to improving the balance of trade in military equipment between the EU and the United States.

2.19. In short, the difficult situation within the EU defence industry, the challenges facing it and the fact that the Commission has instruments immediately available, all illustrate the wisdom of taking action at European level.

3. General comments on the Commission document

3.1. The Commission document first and foremost prompts consideration of the problems of defence and security in Europe. The approach to security problems should not be confined to military aspects alone. The European Union is already dealing with a range of intervention areas which have a direct influence on

security. Amongst these could be included diplomatic initiatives, intervention in international trade, development cooperation policies, emergency aid initiatives, etc. More generally, the EU already has the means to help ensure security in Europe by promoting economic and social development in its neighbouring areas (Eastern Europe, the Mediterranean, the Middle East).

3.2. It must also be borne in mind that the most commonly-felt security problems in post cold war Europe extend beyond the defence of borders; they also concern the need to defuse tense situations and re-establish peace in the world, and to safeguard the EU against ecological and natural disasters. Hence, these too should become the EU's future strategic objectives, and diversification of the defence industry could be directed towards this end.

3.3. In the defence sector, the gradual framing of the CFSP will have to take account of the differing membership of the international bodies (EU, WEU, WEAG, NATO, OSCE, Partnership for Peace) which play differing roles in European security. Particular attention will have to be paid to the needs of those EU Member States which have a tradition of neutrality or non-alignment on military matters.

3.4. When deciding a new 'framework for security' in Europe, the relations between the EU, WEU and NATO will have to be considered and clarified, as will relations between these and other international bodies such as the UN and the OSCE. The intention, revealed at the Berlin NATO conference in June 1996, to give European countries more responsibility in NATO military intervention (chiefly peace-keeping and peace-enforcing) brings a pressing need to clarify the role of the EU and the WEU in security matters.

3.5. However, the Commission communication is strictly confined to the defence industry, and seeks to gauge whether certain Community measures to support and rationalize the EU defence industry could be implemented before the framing of the CFSP and hence of a common defence policy.

3.6. The Committee notes that, as is the case with the EU's partners and competitors and chief amongst them the US, the European defence industry is marked by characteristics which are quite specific to it, in

respect of political and security objectives, international competition data, the organization of R&D, standardization requirements and conditions with regard to exports.

3.7. This means that for as long as national defence policies remain, account will have to be taken of the link between these policies and the national defence industries, and the possibility that different strategic options may limit or constrain the Commission's action in this sector. However, so as not to obstruct the integration process, an over proliferation of options should be avoided.

3.8. Moreover, any measures taken under industrial or competition policy must take account of the time needed to plan, develop and produce military equipment, and the fact that R&D investment can account for as much as 40 % of the overall cost, compared to around 12 % in the chemicals industry and around 8 % in the car industry.

3.9. However, there is an overriding need for early action to safeguard the industrial and technical capabilities of the EU defence industry. These capabilities are jeopardized inter alia by the reduction in military spending by Member States in recent years. This has thrown the defence industry into crisis and led to major restructuring and downsizing, with Member States adopting very different industrial policies.

3.10. The Committee therefore believes that, subject to the limitations mentioned above, the pressing need for maximum diversification in order to safeguard jobs and technological expertise in the EU defence industry calls for Community action prior to the framing of the CFSP. The Committee therefore feels it useful to make a careful evaluation of the instruments that are already available in the Community to support and rationalize the defence sector.

3.11. Lastly, the introduction of procurement systems based on more intra-EU competition should be proposed and possibly geared to different applications levels according to product type, as a way of speeding up the integration of the sector.

3.12. The Committee also thinks that in order for the EU to retain independent technological and production capabilities in the defence sector and make world trade

more balanced, governments must give preference to European production, not least in order to counterbalance the direct and indirect support given by third-country governments to their home industries.

3.13. Lastly, the Committee considers that in this sector the EU must retain a level of technological expertise commensurate with the international role which it intends to play in safeguarding the peace, independence and security of its citizens.

3.14. The Committee urges the IGC to define the second pillar as soon as possible, as this definition will have important effects on the remit, instruments and direction of industry policy.

4. Specific comments on the Commission document

4.1. *Defence spending trends in EU Member States*

As the appended table shows (Table 1), Member States further reduced their defence spending in 1995, and the information available shows that this trend is continuing in 1996. Moreover, all Member States currently have to make budgetary reforms. The recent trend thus looks set to continue in the immediate future, with arms spending continuing to fall even more rapidly than overall defence spending. In these circumstances, as the Commission suggests, the need for Community policies to support the defence industry will become increasingly urgent.

4.2. *Diversification and conversion*

Defence industries are usually high-tech and, more importantly, are often capable of producing complex systems. Their quality standards are high. In short, they are an asset which should not be lost, not only in the interests of the CFSP but also with a view to converting them to new forms of production. In the present situation, Community instruments could therefore also support a thorough-going diversification of the sector, identifying new objectives and products for the civil market which can make use of this technological and organizational capital and safeguard employment levels. Examples of industrial diversification also exist in the European military sector; these should be enhanced and consolidated.

4.3. *Dual-use activities*

Recent advances in technologies and in products have meant that the technical and operational specifications for many military components are now more similar to those for civil use. Many businesses have exploited this in order to produce for both the civil and the military market (dual products) without having to revamp their facilities. The Commission could accord priority attention to encouraging and supporting dual R&D and production activities. However, care must be taken here not to distort competition on commercial markets.

4.4. *Research and development (R&D).*

Redefining funding for scientific and technological research in dual use terms might help to improve the technology base of the European defence industry⁽¹⁾.

4.5. *Planning and management of military programmes*

When framing industrial policies in high tech sectors, coordination of the timeframe of the industry with that of public policymaking and administration can pose a particular problem. In high tech industries, and especially in ones producing complex systems (as is the case with some military subsectors), strategic decisions have to be taken for a timeframe of up to ten or fifteen years. This generates a partnership between producer and customer which would seem automatically to rule out the introduction of the competition or market elements found in other industries. However, provided that steps are taken to safeguard the technological and systems capabilities of the defence industry which cannot be recreated at short notice, the introduction of competition in public procurement, together with more competitive subcontracting sectors, could do much to boost the efficiency and productivity of the defence industry.

4.6. *Industrial cooperation in the defence sector*

The reduction of spending on armaments and the rising cost of new arms systems have obliged European firms

to work together on joint projects in order to achieve higher production levels. This has led to many bilateral and multilateral cooperation agreements (Table 2). Although this represents a step towards integration of the EU's defence industry, as it has encouraged the rationalization of some industrial activities and the establishment of consortia that can operate effectively on international markets, it raises a number of problems. Firstly, agreements tend to be intergovernmental and provide little scope for real technological and industrial integration at company level (company acquisitions and agreements are rare at EU level — see Table 3). Secondly, such acts of cooperation are generally designed to produce a single arms system, and only rarely involve wider industrial cooperation agreements. These intergovernmental agreements therefore appear unsuitable for a more complex and finely differentiated integration of the defence industry involving all the Member States.

4.7. *Industrial policy*

Restructuring of the EU's defence industry is necessary in order to prevent the loss of technological and industrial expertise that is vital for European defence. This restructuring must be guided by a resolute EU industrial policy. The Commission can help by speeding up the definition of the 'European company' as a legal instrument, so as to permit companies to rationalize and allow agreements and mergers on an equal basis. With a view to the single market and the need for equality of opportunity between European firms, the Committee also thinks that the Commission should encourage the privatization of armaments companies. The Commission's wider aim should be to establish a framework in which a single market can develop without pre-existing dominant positions and in which potential competitors are placed on an equal footing.

4.8. *The role of subcontractors*

The Committee also recommends greater outsourcing of systems and sub-systems, in order to prevent excessive verticalization of the EU defence industry and make it more flexible.

⁽¹⁾ See Point 4.5 of the ESC Opinion on coordination of research and technological development policies (OJ No C 18, 22. 1. 1996).

4.9. *The EU single market for defence*

Integration and rationalization of the European defence industry are vital in order to boost efficiency and international competitiveness. This can only be achieved by creating a single EU market for defence. The Community and the WEU should take charge of the creation of this market, inter alia by setting up a European armaments agency. The Committee calls on the Council of Ministers to frame an overall agreement on the setting-up of the agency, building on existing cooperation between France, Germany, Italy and the UK.

4.10. *The question of a single market for defence products*

The European armaments agency would have the task of steering technical standardization and market rationalization and integration without creating adverse social effects. However, when defining the role of the agency, account must be taken of the responsibilities already assigned to the WEU in the field of military strategy and the economic and industrial responsibilities of the Commission. The latter, in particular, can draw on its regulatory powers, the technical and administrative services at its disposal and the experience it has acquired in other sectors of industry; these make it well qualified to play an important support role, offering tried and tested rules and contractual provisions that are bound to facilitate and speed up the establishment, development and management of the agency

The key role of Member States' governments cannot be overlooked here; the political commitment enshrined in the Maastricht Treaty must be backed by appropriate action.

4.11. *Public procurement*

The Committee thinks that the Community could begin to gradually align the rules governing public procurement in the civil and military fields according to the principles of non-discrimination and equal treatment of Community parties, applying the competition rules (starting with the less sensitive products) and using open, transparent procedures based on objective selection and award criteria, as already occurs in the case of civil and dual-use products used by the Member States' armed forces. The Committee asks that, when applying the

competition rules, attention be paid to the special nature of the sector and the security interests of the Member States.

4.12. *Standardization and technical harmonization*

The definition of common EU technical standards is vital for the development of a single market for defence. The Committee is aware of the difficulties which effective technical harmonization has posed in other sectors. It endorses the Commission's idea of aligning military standards with existing civil standards, in cooperation with the WEU and NATO, so as to maximize the opportunities for dual production.

4.13. *Criteria for an EU arms export policy*

In recent years, partly with a view to the CFSP, the Council of Ministers has considered the framing of common criteria for regulating arms exports. The main reference point when harmonizing Member States' trade policies is provided by the eight criteria approved by the Luxembourg European Council in 1991 and confirmed in Lisbon in 1992. Legal instruments will have to be devised for applying these criteria so that the Commission can implement them under the terms of Article 113 of the Treaty. Harmonization of Member States' arms-export policies and legislation is urgently required to provide industry with transparency, hard and fast regulations and clear prospects. Here the approach should be that countries with stringent rules do not need to follow any 'downward alignment'.

4.14. *Transparency of arms exports*

In order to avoid distortions between Member States, the future EU rules should provide for close control of arms exports and a proper flow of information to the European Parliament and national parliaments. On the subject of export controls and transparency, the Committee suggests that the Commission issue a periodic report on Member States' arms sales to third countries, in order to show that the criteria are being applied properly. The Committee thinks that the criteria already discussed and approved by the Council in 1991 and 1992

should be further defined and fully implemented to prevent discrepancies in interpretation. In particular, the Committee calls for a European and international ban on the production, sale and use of anti-personnel land mines.

4.15. *Export controls on dual-use goods and technologies*

The Committee welcomes enactment of the Community rules on the export of dual-use goods and technologies, which should also be further defined and fully implemented to prevent discrepancies in interpretation.

4.16. *Social implications of the rationalization of the defence industry*

Military spending cuts and the need to rationalize production at EU level and improve productivity have led to the loss of many skilled production jobs. The social consequences have been particularly severe in regions which rely heavily on the sector. These problems merit special attention and support, with a view to redeploying former defence workers in other sectors. Such support could take the form of:

- a) pilot regional diversification and redeployment projects, drawing on existing local schemes;
- b) vocational training schemes to develop new activities;
- c) support for the development of small businesses, as part of the Community's general policies;
- d) involvement of these small businesses in R&D programmes;
- e) coordination of the various tiers of authority (regional, national, EU) with a view to making the best use of the available financial resources, notably from the Structural Funds

4.17. *Structural Funds*

Access to the Structural Funds has hitherto been made difficult by inefficient national bureaucracy and over-restrictive EU rules for medium to large defence companies. More information is needed on the results of the Konver programme; this is the only Community support

instrument for conversion of the defence sector. New programmes should be devised that are better tailored to the restructuring and diversification needs of defence firms, especially as regards the social impact on the areas concerned.

The Committee asks the Commission to check on Konver's results and re-target the programme's objectives.

4.18. *Subsidiarity*

This is the context in which the role of subsidiarity has to be defined, in an effort to coordinate financial and production resources at the various institutional levels with a view to preserving technology and employment levels.

4.19. *Further action by the Commission in the defence sector*

Lastly, the Committee thinks that it would be very useful if the Commission could draw up a master plan as soon as possible, setting out the measures which it intends to adopt in liaison with the Member States. The plan should consider the objectives of future Commission action in the defence sector, the players who will be involved in the process and their respective responsibilities, possible measures for achieving the stated objectives and, above all, the various stages in which the measures that are deemed most effective will be phased in.

5. Summary

5.1. For the first time, the Commission in 1996 presented a communication on the problems facing the EU defence industry, on the basis of a fresh interpretation of Article 223 of the Treaty and as part of the second pillar defined at Maastricht.

5.1.1. The end of the cold war has altered the concept of security and its related instruments, highlighting the limitations of a concept based on opposing blocs and exclusively military instruments.

5.1.2. The EU Member States are moving towards the framing of a new architecture for European security. This architecture must take account of existing international organizations such as the WEU, NATO and the OSCE, and of the needs of EU Member States which have a tradition of military neutrality or non-alignment.

5.1.3. The Commission's involvement in the defence industry must, at all events, take account of its special nature, namely the links with security and defence policies, the way in which R&D and production are organized, and the reliance on defence ministries for its market.

5.1.4. Such involvement should focus on safeguarding employment levels and technological expertise in the EU defence industry.

5.1.5. In this context, and given the present imbalance in the international arms trade, preference should be given to European production.

5.2. In order to maintain jobs and technology levels in the EU defence industry at a time when military demand is falling, reconversion and diversification must be speeded up. The focus should be on technological

reskilling, exploiting the opportunities offered by dual-use technologies.

5.2.1. The complexity and timeframe of military programmes and the development of intergovernmental cooperation based on the *juste-retour* principle have hitherto placed technical and political limits on the development of a European armaments market.

5.2.2. The (albeit incomplete) application of single market principles to the defence sector, in tandem with the creation of new instruments such as the European Armaments Agency, must aim to improve the efficiency and productivity and hence the international competitiveness of the EU military industry.

5.2.3. Community competence for foreign trade should gradually be extended to the armaments trade, *inter alia* with a view to preventing distortions being generated by differing national rules on arms exports. Future Community rules should be based on the principles already decided by the European Council in 1991 and 1992, and on broad criteria regarding transparency.

Brussels, 19 March 1997.

The President
of the Economic and Social Committee
Tom JENKINS

APPENDIX

to the opinion of the Economic and Social Committee

TABLE 1

Defence spending 1975-1995 by the major European countries, NATO and the United States
 Figures in local currency (million; thousand million Italian lire) at 1990 prices and exchange rates

Countries	Currency	1975	1980	1985	1990	1991	1992	1993	1994	1995
UK	UK£	21 848	22 092	24 576	22 287	22 400	19 969	19 304	18 364	17 288
France	FFR	168 701	203 950	222 363	231 911	233 239	236 044	222 677	224 180	213 450
Germany	DM	60 568	64 021	66 139	68 376	63 123	59 816	54 023	50 668	50 419
Italy	LIT	22 048	23 289	26 608	28 007	27 478	27 839	27 965	27 365	25 668
Total NATO	US\$	—	401 447	496 529	503 906	458 521	467 932	447 371	427 293	406 928
United States	US\$	213 125	224 685	301 661	306 170	265 586	283 251	267 870	253 245	238 523

Source: NATO News, January/February 1996, page 31.

TABLE 2

Principal European Cooperation Programmes (as of 31 December 1995)

Project	Eurofighter (EF-2000)	Future Large Aircraft (FLA)	Medium Extended Air-Defence Systems (MEADS)	Horizon Common New Generation Frigate (CNGF)	Trilateral Frigate Cooperation (TFC)
Type (first delivery)	Fighter plane (2000/2002)	Transport plane (2003)	Anti-missile defence system (2005)	Frigate (air defence) (2002)	Frigate (air defence) (2001/2004)
Countries/ firms/ share of the work	Germany/ DASA/23 %; UK/BAe/41 %; Italy/Alenia/21 %; Spain/CASA/14 %.	France/ Aérospatiale; Germany/ DASA; Italy/Alenia; Spain/CASA; UK/BAe; (Belgium); (Portugal); (Turkey).	France/ Aérospatiale-Thomson; Germany/ DASA-Siemens; Italy/Alenia; USA/Hughes-Raytheon-Lockheed.	France/DCN; Italy/ Fincantieri; UK/GEC Marconi.	Germany/ Blohm& Voss; Netherlands/ Royal Schelde.
Quantity	607	260	100	20	5
Status	Production awaiting launch	Development stage awaiting launch	MoU being drawn up	Development stage under way	Development stage awaiting launch

Source: Data from SIPRI Yearbook 1996, p. 424.

TABLE 3

Principal acquisitions involving EU defence firms, 1994-95

Purchaser	Purchase	Sector
Intra-EU acquisitions		
Thomson CSF (France)	24,9 % of Indra (Spain)	Informatics
THC Group (Netherlands)	Swan Hunter (UK)	Naval
Matra Marconi Space (France/UK)	Share in British Aerospace (UK)	Space
Matra Marconi Space (France/UK)	Share in Ferranti International (UK)	Satellite communications
Thomson CSF (France)	Amper Programas (Spain)	Communications
Thomson CSF (France)	Military arm of Thorn EMI (UK)	Missiles, optronics
Thomson CSF (France)	Redifon (UK)	Communications
Acquisition of third country firms by EU firms		
BGT (Germany)	AIC Electronics (USA)	Aeronautical repairs
Mercedes-Benz (Germany)	Share in Oshkosh Truck (USA)	Vehicles
Rolls-Royce (UK)	Allison Engine (USA)	Aircraft engines
Ultra Electronics (UK)	Devtek Applied (Canada)	Electronics
Sextant Avionique (France)	Mili-Com Electronics (USA)	Satellite communications
Thomson CSF (France)	Rediffusion Simulation (USA)	Simulation
Acquisition of EU firms by third-country firms		
CAE Inc. (Canada)	Trislot System (Belgium)	Industrial filters
CAE Inc. (Canada)	Invertron Simulated Systems (UK)	Simulation
Sundstrand (USA)	Share in Dowty Aerospace (UK)	Aircraft engines

Source: Data from SIPRI Yearbook 1996, p. 416.

Opinion of the Economic and Social Committee on 'Relations between the European Union and China'

(97/C 158/08)

On 30 January 1997 the Economic and Social Committee, acting under the third paragraph of Rule 23 of its Rules of Procedure, decided to draw up an Opinion⁽¹⁾ on the 'Relations between the European Union and China'.

The Section for External Relations, Trade and Development Policy, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 11 February 1997. The rapporteur was Mr Frerichs, the co-rapporteur Mr ETTY.

At its 344th plenary session (meeting of 19 March 1997), the Economic and Social Committee adopted the following opinion by 56 votes to three, with seven abstentions.

1. Introduction

1.1. On 4 September 1995 the Commission forwarded a Communication to the Council and the European Parliament on a long-term policy for China-Europe relations.

This Communication, which seeks to chart the path for long-term relations between the EU and China into the 21st century, is drawn up in the spirit of the new Asia strategy adopted by the Essen European Council.

1.2. The conclusions of the Council for General Affairs were adopted on 4 December 1995 and have become the basis for the European Union's long-term China policy.

The Council considers that the Commission Communication arrives at a very important and timely moment when China has further consolidated its role as a major economic and political power and as an important actor on the world stage and is in the process of applying for membership of international economic, security and political organizations.

1.3. The Madrid Summit took note of these conclusions and emphasized the importance of developing relations with this country.

1.4. The Economic and Social Committee likewise attaches great importance to the development of relations between the EU and China. The aim of this own-initiative opinion is to contribute to the deepening of EU-China relations and to support the EU's long-term policy on China-Europe relations.

2. Previous relations between the EU and China

2.1. The Commission states in its Communication that it is 20 years since diplomatic relations were

established between the EC and China, and 10 years since the signing of the existing trade and cooperation agreement. The steady development of bilateral relations was interrupted by the 1989 Tiananmen Square events. Europe, like other major international partners of China, reacted with a range of sanctions. But the normalization of relations, particularly in the past four years, has paved the way for a renewed upsurge in bilateral trade and investment. Since 1994 there have also been major strides in bilateral cooperation.

2.2. In June 1994 an ambitious new framework for bilateral political dialogue was set up to encourage Chinese participation in global affairs in the interests of the two parties. Regular ministerial meetings between the EU troika and China, as well as high-level political consultations between the Commission and China, are continuing. But these will now be supplemented by ad hoc meetings of foreign ministers, and twice yearly meetings, both between the Chinese foreign minister and EU ambassadors in Beijing, and between the EU presidency's foreign minister and the Chinese ambassador in the EU presidency capital of the day. There will also be meetings of senior officials responsible for a range of policy areas. This dialogue should gradually develop to include all issues of common interest and global significance. By the same token, with the ban on contacts between military personnel now lifted, the People's Liberation Army should be included among potential dialogue partners in view of its political and economic influence.

2.3. Hong Kong ranks high among the EU's trading partners. Five of the EU Member States enjoy bilateral trade with Hong Kong of over ECU 2 bn. It is also a key destination for investment from across the EU Member States, with 40 EU banks and 45 insurance companies licensed in Hong Kong. More than 60 000 EU citizens are permanently resident and working in Hong Kong.

⁽¹⁾ Modifying its decision of 22/23 November 1995 concerning an information report.

The EU's office in Hong Kong responsible for relations with Hong Kong and Macau opened in 1993, and China has agreed that the office will continue to operate as an independent entity even after the transfer of sovereignty from Hong Kong and Macau to China. Equally, there will be no change to the 1992 trade and cooperation agreement with Macau. Relations within the WTO will continue as before, as Hong Kong and Macau both participate autonomously. Cooperation is already developing bilaterally on customs, standards, university and business links.

2.4. The great changes in the Chinese economy have had a considerable impact on EU-China trade, with two-way trade exceeding ECU 30 bn in 1993, rising to an estimated ECU 35 bn in 1994 and reaching ECU 40 bn in 1995 (+ 18 %).

EU-China trade has increased fourteen-fold since the beginning of the reforms in China. But EU exports have not kept pace with imports. The EU's trade surplus of the mid 1980s has turned into a bilateral trade deficit, which has remained in the ECU 8-10 bn range over the last four years. However, this is dwarfed by the US trade deficit with China and the proportion of EU imports covered by exports (55 %) is much higher than that of the US (26 % in 1993). Moreover, the EU share in China's total imports grew from 11 % to 15 % in the first half of this decade, a better export performance than that of the US in the Chinese market (rising slowly to 12 %) but much less than the top country, the Japanese (42 %). Indeed, the EU market share in China is higher than that enjoyed by the Union in other parts of the Asian region. In 1995 the EU was China's third biggest trade partner after Japan and the USA.

2.5. The picture in the field of direct investment, however, is less bright for Europe. The EU share in total FDI in China (around 4 %) remains far lower than its share in other emerging markets. EU companies are lagging clearly behind not only Hong Kong and other overseas Chinese companies, but also US and Japanese companies.

EU (15) companies invested a total of US\$ 3,8 bn in the 1979-1996 period (US\$ 10,4 bn pledged) in some 3 900 projects. This represents less than half of the investment of either US or Japanese companies. Although the average size of EU projects tends to be bigger than that of its competitors and some of them are the undisputed leaders in key sectors of China's economy (automobiles, telecommunications, or pharmaceuticals) there is a clear perception, both within the Chinese, European and other business communities, that EU companies are being less dynamic than their competitors in the Chinese market — and are hence missing opportunities.

2.6. Bilateral trade talks since 1992 have had three interrelated objectives:

- (a) promoting China's economic and trade reforms,
- (b) helping China enter the multilateral trade system,
- (c) achieving better market access for European goods and services.

The dialogue was institutionalized in 1993 by an economic and trade working group. 1994-1996 saw sectoral meetings on intellectual property rights, agriculture, financial services and technical barriers to trade. One possible subject of future dialogue might be competition, as cooperation in this field will enhance the effectiveness of international trade.

2.7. Government loans

Up to June 1996 EU Member States and official EU financial institutions had granted loans to China to the total value of US\$ 11,9 bn, representing 49,6 % of the total value of public loans granted to the People's Republic of China over the same period.

When China's importance is taken into account, the resources allocated to cooperation schemes in China have remained small. With the improvement in cooperation since 1995, funding levels have increased each year by around ECU 50 million.

3. European Commission proposals

3.1. The Commission's Communication on a long-term policy for China-Europe relations essentially covers three main areas:

- political relations (the integration of China into the international community),
- economic and trade relations (the rise of a new economic power),
- cooperation (the new priorities).

3.2. According to the European Commission political dialogue must primarily cover all aspects of human rights. A commitment to human rights and fundamental freedoms is at the heart of EU policy worldwide. The espousal of international norms on human rights and the acceptance of political liberalization is a sine qua non for long-term social and political stability.

3.3. The EU also intends to pursue the following objectives:

- a commitment to dialogue on questions of regional and global security;

- practical support for efforts to reform public life in China and develop a civil society based on the rule of law;
- the development of a programme for purposeful and coordinated cooperation in the fields of law and justice;
- support for the principles underlying the joint declarations regulating the transfer of sovereignty from Hong Kong and Macau to China.

3.4. As far as economic and trade relations are concerned, it is clear that China's membership of the World Trade Organization (WTO) is in the interests of all trading nations. Since China's application to return to GATT in July 1986, the EU has consistently sought to accelerate progress towards a decision on Chinese membership.

The economic reform process launched eighteen years ago has dramatically changed the economic and social landscape in China. The Chinese leadership knows that reforms need to be deepened and broadened to achieve the objective, enshrined in China's Constitution, of creating a 'socialist market economy' by the turn of the century. However, China still falls well short of having a fully-fledged market economy. In working towards this goal, China must not only focus on its declared social objectives, but must further the protection and development of social rights, including the freedom to set up workers' and employers' associations. Reform of state-owned enterprises, and the creation of a social security system to cushion the consequences flowing therefrom, remain a key challenge for the future.

Over the last few years China has gradually liberalized its trade regime. Tariffs have come down, increased trading rights have been granted to firms, the dual exchange rate has been unified, foreign investment has been attracted, etc. These measures represent important steps forward, but are clearly insufficient. Thus, for example, the right to import and export goods in China remains by and large a state monopoly, with prohibitive customs duties on many consumer goods, non-tariff barriers, and licences and quotas.

3.5. There are three key areas for EC-China cooperation:

3.5.1. The Chinese Government is acutely aware of the deficiencies in the skills base in China. The EU should therefore make a concrete contribution to basic and further education. The China-Europe Business School in Shanghai already exists. One possibility would be to build on this to found a permanent centre to address skill shortages in fields from engineering to accountancy.

3.5.2. Economic and social reform should be encouraged through a more wide-ranging programme of support for reforms touching on individual Chinese in

different professions and walks of life. In particular, the development of a fair and effectively working system for the administration of justice should be firmly encouraged through an EU-wide exchange programme for young lawyers, judges and law enforcement agents. Such a programme would include internships at European civil and perhaps constitutional courts, as well as selected law firms.

3.5.3. Business cooperation: this would involve support for the general development of the business environment in China (developing up-to-date skills central to the management and administration of the modern Chinese economy), as well as the provision of information and the facilitation of direct contacts between businessmen.

3.6. Two areas of particular potential for future development are the environment and scientific and technological cooperation:

The problems faced by China in the environmental field are partly systemic (a low awareness of the long-term consequences of inaction), partly technological, and partly a question of China believing that it cannot afford the costs of high environmental standards. The EU must therefore make optimum use of expertise in environmental policy-making and technology, including clean energy technology and in particular clean coal combustion technologies. It is therefore essential that full use be made of the willingness of European business to commit itself to a long-term technological partnership with China. Scientific and technological cooperation would help in the search for science-based solutions to common global problems.

4. ESC comments on the guidelines for future relations between the EU and China

4.1. *Human rights*

4.1.1. The ESC fully supports the 'commitment to human rights and fundamental freedoms', which is at the heart of EU policy worldwide. China has a considerable record of violations of political and civil as well as of economic, social and cultural rights. While it is obvious that the country is facing enormous problems of economic development, that cannot legitimize ongoing infringements of fundamental human rights. The EU is concerned about violations of human rights not only because it regards them as a form of injustice but because it is convinced that the upholding of international norms on human rights and the acceptance of political liberalization is essential to long-term social and political stability.

4.1.2. The EU intends to pursue the issue of human rights through action on three levels. First of all it will support efforts in China to open up and liberalize all areas of Chinese life, in different sections of society as well as different parts of the economy. These trends will inevitably reinforce moves towards the development of a civil society based on the rule of law. Second, it will systematically and regularly continue to raise human rights issues in bilateral dialogue with China. Third, it will bring the international community into the debate through multilateral fora such as the United Nations. The framework for all these activities is clearly delineated by the common acceptance of the declaration⁽¹⁾ and the Programme of Action of the World Conference on Human Rights held in Vienna in June 1993⁽²⁾.

4.1.3. While the Committee thinks that in discussions with China the EU should be receptive to the specific problems and conditions prevailing in China, including those in the cultural field, it is not acceptable that the Chinese authorities should use these as an argument to provide their own interpretation of universal human rights. Such rights are only open to 'flexible interpretation' if flexibility is provided for explicitly in the texts concerned.

4.2. *Economic and social cooperation*

4.2.1. The ESC warmly welcomes the Council's and Commission's policy of medium and long-term support for reforms in a country with the World's largest population (1,21 billion), an area of 9,6 million km² and a thousand-year old culture.

4.2.2. The industrious people of China now stand on the brink of rapid, large-scale political and economic developments which will be felt not only in the USA and Asia, but will also be of growing importance to Europe.

4.2.3. Consistent support for the difficult process of economic and social reform now underway thus lies wholly in Europe's interest so that, through cooperation and mutual trust, the many common medium- and long-term tasks that lie ahead can all be accomplished.

4.3. The ESC believes that, to achieve this, cooperation needs to be stepped up in practical ways whilst frank, open dialogue on all questions of common interest needs to be expanded, notably by involving existing social organizations, as well as organizations changing under the pressure of the reform process, even if these are based on differing political, economic and social principles.

4.3.1. The ESC is of the opinion that on-going dialogue between socio-economic groups in both the EU and China requires an institutional framework if there are to be vigorous, practical discussions as well as fine-sounding declarations.

On the Chinese side the obvious dialogue partner for this major task is the National Committee of the Chinese People's Political Consultative Conference (CPPCC)⁽³⁾.

4.4. *Proposals on improving cooperation*

4.4.1. The comments that follow are designed to secure an improvement and furtherance of economic and social cooperation (including cooperation between socio-economic organizations) in the widest sense and in a wide range of fields. The ESC has received a large number of proposals but there is room here to mention only a few of the main ones. The list is therefore not exhaustive.

They include:

4.4.2. The harmonization of trade relations which are currently distorted on both sides by major differences, along with the introduction of confidence-building measures between the two trading partners to consolidate traditional trade relations between Europe and China.

4.4.3. China's gradual integration into the world economy and efforts to promote China's rapid entry into the WTO. Such admittance must go hand in hand with guarantees that the WTO system will not be weakened and that China will be able to fulfil the comprehensive array of WTO entrance requirements. Cooperation and technical assistance from the EU can help China's preparations to fulfil its WTO obligations.

4.4.4. The protection of human rights, by China's implementing, in law and in practice, the UN Charters on political and civil rights and on economic, social and cultural rights, as well the basic ILO human rights conventions on freedom of association and the right to organize, on collective bargaining, on forced labour, and on discrimination in labour and employment.

⁽¹⁾ Cf. Commission Communication of 5 July 1995 (COM(95) 279 final, p. 7).

⁽²⁾ Cf. Resolution of the General Assembly of the United Nations.

⁽³⁾ The CPPCC was established in 1949 and is composed of representatives of the Communist Party of China (CPC), democratic parties, persons without party affiliation, mass organizations, ethnic minorities and various sectors of society, as well as public figures and returned overseas Chinese. The CPPCC has 2 099 members and a Standing Committee of 315 members. The main functions of the CPPCC are to conduct political consultation and democratic supervision, to participate in government policy and to discuss political, economic, cultural and social questions, including those of concern to regional and local authorities.

4.4.5. Workers' and employers' organizations should be allowed to operate autonomously in line with the relevant ILO conventions.

4.4.6. Improvement of the climate for the rapid expansion of medium- and long-term investment in the People's Republic of China and the promotion of joint ventures, particularly with small and medium-sized enterprises (SMEs), bringing into play rural provinces and peripheral areas.

4.4.7. The intensification of scientific and technical cooperation via educational and training schemes involving universities, other higher educational establishments and language schools, alongside the carefully-controlled exchange of professors and students, young technicians and craftsmen.

4.4.8. Offering China help and encouragement to take urgent required action in the fields of environmental protection, the development of infrastructure and the improvement of energy supplies.

4.4.9. Priority support for measures to promote the interests of women, protect children and young people and combat poverty, within the context of economic and social reforms.

4.4.10. A general, all-round expansion of information to bring China closer to Europeans as well as to improve knowledge and views among the Chinese people about Europe.

5. Specific ESC comments on guidelines for future relations between the EU and China

5.1. The ESC realizes that in the short term the admittance of China to the WTO will not be possible. Provided a number of measures however are taken beforehand, eventual membership should be possible.

In this context the ESC would like to see:

5.1.1. greater and rapid liberalization on both sides, as well as a revision of dumping procedures, in order to free trade from restrictive protectionism and make it possible for both partners to pursue a customs policy permitting smooth and secure long-term trading,

5.1.2. the improvement of information on trading conditions — to be achieved by setting up an up-to-date, on-line data bank,

5.1.3. the negotiation of legislative provisions as part of the development of trading rights in order to a) regulate the right of establishment in China, b) regulate product marketing more clearly, and c) grant freedom of establishment to lawyers, banks, insurance companies, shipping agencies and company auditors,

5.1.4. the rapid setting of deadlines to be incorporated in the September 1995 amendments to the arbitration system of the China International Arbitration Commission (CIETAC),

5.1.5. the EU Commission is asked to insist during negotiations that enterprises with foreign capital (joint ventures) be allowed to import goods and market them in the People's Republic of China to build up a full range of products,

5.1.6. in view of expanding trade, the People's Republic of China should publish a permanently updated list of current import restrictions (import licenses, quotas or import controls) and be in a position to be able to say which provisions have been adopted or revoked without being made public; despite assurances to the contrary, this sorry state of affairs is still a source of complaints in trade circles,

5.1.7. the problem of restrictions on the establishment of offices representing foreign firms and on their staff recruitment needs to be solved satisfactorily and rapidly on the basis of the principle of absolute reciprocity; the same applies to restrictions on the employment of foreigners in joint venture enterprises,

5.1.8. in this connection, the Economic and Social Committee, being the assembly of socio-economic interest groups in the EU member countries, has a special interest in fundamental international labour standards; it hopes that China will be able to ratify the ILO convention on the right to organize, on the right to bargain collectively, on forced labour, and on discrimination in labour and employment, and in particular that it will take urgent measures to overcome the major difficulties currently faced in implementing fundamental trade union rights,

China, as the ILO's largest member country, should be encouraged to ratify and implement ILO Conventions 87 and 98 on freedom of association and the right to organize since the overwhelming majority of ILO members, including most developing countries, have already done so.

5.2. The changes in foreign trading practices introduced on 1 April 1996 represent the biggest liberalization package since 1979 and open up new improved opportunities for China's integration into the world trading system. Import duties on more than 4 000 tariff headings have been lowered by an average of more than 30 %.

With customs duties now down from an average of 35,9 % to 23 %, the result clearly fails to come up to the expectations generated by China's announcement in 1994 that customs duties would be lowered to an average of 17 %. The 17 % offer is linked to WTO accession and so would not yet come into force.

China announced at the APEC Conference in Manila in November 1996 that customs duties were to be reduced to an average of 15 % by the year 2000.

5.3. A second set of revised provisions, which likewise came into force on 1 April 1996, concerns foreign investors. These investors must, from this date, pay import duties and VAT on imports of machinery and raw materials. Exemptions will only cover companies authorized to set up in China before 1 April 1996. The Chinese government had paved the way for the removal of customs concessions for joint ventures in drawing up the new five-year plan, foreigners being put on the same footing as national operators.

Foreign investors are also disadvantaged not only by non-tariff investment and trade barriers but also by the fact that Chinese enterprises are frequently able to circumvent taxes.

5.4. Effective cooperation within the broad field of environmental policy with a view to approximating environmental standards requires not only the opening up of the Chinese market but also the transparency of China's environmental policy for Europe.

The exchange of information might be intensified and institutionalized. Europe's industries and specialists should all be involved in the dialogue on environmental issues. European know-how on environmental policy-making and environmental technologies (e.g. energy sector) should be passed on and steps taken to ensure that it can be successfully implemented on the ground in China.

5.5. The Committee fully shares the view of the European Commission that the two-way flow of relevant commercial information should be promoted through the establishment of a network of Business Information Centres, whilst direct business-to-business contacts should be facilitated through a coordinated cooperation programme involving trade and investment seminars for businessmen in Europe and China. SMEs in particular stand to possibly benefit from such action.

5.6. Tax arrangements for foreign companies pose major problems. There does not seem to be a clear set of rules in place concerning profit or turn-over taxes.

Negotiations with the tax authorities are often fraught and may sometimes appear to be discriminatory, i.e. dependent on nationality or the perceived usefulness of the investment. Clarification is accordingly of vital importance.

5.7. *Education and training*

The ESC considers the development of human resources to be extremely important. Assistance should therefore

be given to education and training in China. The ESC thus welcomes the EU proposals to set up new schemes once the Shanghai Business School has got off the ground. New schemes would include a programme for building up relations and networks between individual higher-education establishments in China and the EU, facilities for Chinese students to share European know-how and experiences, and a programme of vocational and specialist training geared to China's needs, as identified by market participants.

Conversely, it will no doubt also be necessary to intensify the training of the next generation of European managers. A concrete example of areas where this would be possible would be expansion in the training of more sinologists combined with economics and Chinese cultural studies.

Economic and social reforms should be further underpinned by training and technical assistance in key sectors of the reform process. New areas such as copyright, as well as quality control, standardization, and public procurement, should all be addressed. In the current absence of a modern legal framework, the vital development of legal and judicial professions must be encouraged.

5.8. *Hong Kong and Macau*

The transfer of both territories to Chinese sovereignty is being followed by the EU with great interest. The high degree of autonomy guaranteed to the two Special Administrative Regions under the Declarations is of great importance for future developments. Both territories have important roles to play as gateways to other regions of China, and can act as key facilitators for increased European trade and investment with China.

Hong Kong in particular will undoubtedly provide a clear test of China's willingness to accept certain democratic institutions that make up Hong Kong's civil society and to guarantee the autonomy promised in a number of areas (one country, two systems). In this connection, the Committee expresses its concern about China's announcement in March last year that it would replace Hong Kong's legislative Council (LegCo) with a provisional legislature which will be elected by a body appointed by China. China has said that the legislature would repeal Hong Kong's Bill of Rights.

Against this background, the Committee welcomes the conclusions of the European Council in Dublin on 13 and 14 December 1996, underlining the European Union's full support for the specific status of the Hong Kong Special Administrative Region (SAR) and its citizens in all respects, including their right to representa-

tive democratic institutions as already established and calling for the smooth transfer of government in Macao in December 1999. The Committee awaits the Commission communication on economic cooperation with the SAR Hong Kong with great interest.

China has firmly stated that after 1 July 1997 diplomatic missions in Hong Kong will have jurisdiction for Hong Kong and Macao alone. At present a number of missions have staff accredited to and allowed to operate in China. China's policy is to encourage Member States to open up consulates in Guangzhou. This policy might raise some difficulties, particularly for the smaller Member States.

The EU should pursue the line taken in the declaration on political relations in the Commission Communication on a long-term policy for China-Europe relations (COM(95) 279 final), keeping a permanent watch on future developments in Hong Kong and entering into an on-going dialogue with China. The Committee will follow with particular interest developments with respect to freedom of association and the right of workers and employers to organize themselves and engage in free collective bargaining. It will include this in its on-going dialogue with the CPPCC of China.

5.9. NGOs

There are no NGOs in China along the lines understood by the west.

The agencies like Save the Children, Oxfam and Médecins sans Frontières, who have had a presence in China for many years, have been successful by building up trust and understanding, establishing local credibility and proven commitment. They have started with small projects and work with joint financial help from the EU or UNESCO.

Save the Children have, for example, had very successful kindergarten projects and are seen as an instrument of development. Although appreciated rather more, there is no national Chinese policy to establish NGOs or offices for them.

The ESC would regard it as a sign of growing mutual openness and understanding if China were to adopt legislation on freedom of association to pave the way for the creation of genuinely independent NGOs and so facilitate their useful, charitable work.

5.10. Women

The All China Women's Association is a huge quasi-governmental association with apparently wide-ranging

responsibilities and resources. It is financed by the government and acts as an umbrella organization, with 500 groups and a newly-established China Women's College aimed at training female administrative personnel.

Its stated aim is to protect women's rights and promote equality and it claims that the 1995 UN conference and the 12 critical areas of action identified have fostered and strengthened their work. The government is paying a great deal of attention to women's affairs with a new 1995-2000 programme involving 11 focal points.

Projects exist to counter illiteracy, which is said to be 14% in China, with women making up 70% of the 14%. The government has stated that its objective is to decrease the number of illiterate women by 3 million a year. To do this, they have been mobilizing women to use their spare time to become 'teachers', and their new methods of teaching — essential literacy through skill training — has been praised by the UN.

The law stipulates that, given problems of resources and population, birth control must be practiced. There is no doubt that policies and practices vary, as is the case with disadvantaged women in ethnic minorities, but the state's policy is to achieve equality, and a commission for women's and children's affairs.

There is a network of 136 women's associations, including specialist ones like 'science' and 'family', and they are very worried about the 'spoil-one-child' syndrome. A total of 74 different magazines exist as a means of boosting communications with literate women.

The 1995-2000 programme, the first comprehensive programme relating to women's development, is designed to safeguard women's legal rights, address the problems women face in education and health, expand channels of employment for women, improve working conditions and provide some social security to cover childbearing expenditure and inoculations, and even to advocate the sharing of housework between men and women.

But the basic priority is the need to identify the 10 million women in poverty-stricken areas and to teach them at least one skill.

5.11. Labour and trade union problems

5.11.1. The economic reform process has created, and still continues to create, enormous social, labour

and industrial relations problems. Some of these are new, others existed before 1979 and have manifested themselves more clearly or have been aggravated.

5.11.2. The social and human costs of coping with these problems are enormous too. Major examples are mass unemployment, labour mobility and lack of social security.

5.11.3. Tackling these problems is very much a Government and a Party responsibility. There are no independent organizations of workers and employers to play a role in this respect. On the employers' side, very little has changed since the first phase of the economic reform process. The trade unions are still firmly under the control of the Government and the Party. The Government has created a trade union monopoly for the All China Federation of Trade Unions (ACFTU). Unions set up without their approval are illegal. This is flagrantly in contradiction with the ILO Convention on the right to organize. Efforts of workers to set up independent trade unions have been brutally repressed. In recent years, the ACFTU has started organizational campaigns among workers of (partly) foreign owned enterprises, and shown an increased interest in collective bargaining in both these enterprises and in purely Chinese firms.

5.11.4. As regards the other fundamental human rights' Conventions of the ILO, there is also a major problem with forced labour in China. The majority of people sentenced to prison or forced labour camps,

including political prisoners, usually work for little or no pay. There are credible reports by human rights' organizations of cases of prisoners in pre-trial detention who are victims of forced labour.

Some penal institutions have contracts with enterprises whereby prisoners perform manufacturing and assembly work. There have been conflicts between China and some of its trading partners on the export of prison labour products. In 1991, the Chinese Government reiterated its earlier rulings banning the export of such goods.

5.12. *Strategic cooperation*

China is and will become increasingly important in maintaining global equilibrium. Cooperation between the EU and China must accordingly have a strategic dimension. The aim should be the establishment of an effective and democratic international legal order within the framework of the UN and international organizations.

Institutionalized cultural dialogue between the EU and China is also becoming more and more important with time. Given the possibility of cultural confrontation in the next century, we have to develop alternative scenarios and situations where such pessimistic forecasts cannot become reality. The institutionalized cultural dialogue established with China might therefore be based on a multicultural model for worldwide cultural development in the next century.

Brussels, 19 March 1997.

The President
of the Economic and Social Committee
Tom JENKINS

APPENDIX

to the opinion of the Economic and Social Committee

The economic situation in China*1.1. The 9th Five-Year Plan (1996-2000)*

The 9th Five-Year Plan provides for an average annual growth rate of 8-9 %, with inflation running at 7-8 %. The volume of investments should increase by 30 %.

To stabilize the economy and so also prevent social unrest, greater investment should be made primarily in agriculture. More rural industries should also be created to offer jobs to ex-agricultural workers. The building of new towns plays an important role in this respect. In the last ten years alone more than 300 new towns have been built in China.

The 100 000 or so medium- and large-scale firms currently in state ownership should be slimmed down by investing in production and management.

Economic experts in Beijing reckon that in the long term only 1 000 of the 100 000 medium- and large-scale firms will survive. The others will either 'sink or swim' in the market place.

This rationalization process will take a long time since manpower can only be made redundant insofar as new jobs are created. A government study has calculated that 30 years will be necessary to complete this process.

Another problem that will not go away is the fact that around 48 % of enterprises in public ownership are running at a loss, a trend which is becoming more and more pronounced.

In 1994 the foreign trade of the People's Republic of China amounted to US\$ 236,7 bn.; this should rise to US\$ 400 bn. by the end of the next five-year plan.

This increase in foreign trade should be made possible first and foremost by industries — particularly in the electronics and engineering fields — pressing on with modernization and so becoming internationally competitive.

China is thus rapidly developing into a supplier of products on which Europeans used to pride themselves.

The solution for Europeans is twofold: first of all they must maintain their technological advance through investment; secondly European firms must invest in China today so that they can have a stake in China's economic success tomorrow.

1.2. Economic situation in 1995/1996

China's STATE PLANNING COMMISSION has estimated that the national economy will grow in real terms by an average of 8-9 % per annum in the next five years after average growth of 11,7 % per annum in the years 1991-95. Beijing intends to bring inflation — running at about 11,6 % per annum in the previous 1991-1995 Five Year Plan — down to 8-9 %. The austerity policy will be continued even if there are increasing expectations of, and political pressure for, a relaxation of monetary policy; some slight easing cannot however be excluded.

Despite pressing problems — the unsatisfactory development of agriculture, increasing disparities between the rapidly growing eastern part of the country and the backward interior and the declining state sector — Beijing is optimistic about further economic development.

State industry remains a problem child of the reform policy. China is currently hemmed in between rising inflation and higher unemployment. But pursuing an austerity policy means more redundancies — something which is not acceptable from the point of view of social policy.

If China wishes to halt the growing migration from the interior to the rich coastal provinces and guarantee more balanced economic development, more efforts are needed than ever before. The one-sided preference given in the past to the eastern provinces meant that 18 out of 100 renmimbi fixed investments were from abroad as opposed to only two out of 100 in the interior.

In 1995 real gross domestic product rose by 10,2 % in real terms, thereby paving the way for a 'soft landing' of the economy. This compares with the dangers of overheating in 1994 (GNP up 11,8 %) and 1993 (GNP up by 13,4 %).

The present austerity policy is showing the first signs of success in fighting inflation, with 1995 inflation levels at 14,8 %.

Private savings in banks and rural credit cooperatives also grew steadily in 1995. Total private assets amounted to renmimbi 3 550 bn. in 1995, which meant that they had risen by 40 % since the beginning of the year.

In both 1995 and 1996 foreign investments have continued to be biased heavily in favour of the rich eastern provinces. More than 70 % of these have been concentrated in the provinces and towns of Guangdong, Fujian, Shanghai, etc. Tibet and Inner Mongolia have come away completely empty-handed.

The displeasure of internal and 'Hinterland' provinces with this discriminatory treatment is likely to increase further. But for a long time now Beijing has done nothing but pay lip service to the problem. Hence the increasingly explosive consequences of one-sided development, reflected in under-employment in rural areas and a growing exodus to towns.

Foreign investment appears at first sight to be more unproblematic. In 1995 foreign capital invested in completed projects amounted to US\$ 37,7 bn., 11,7 % more than in the previous year. Together with a healthy foreign trade balance, foreign investment left Chinese foreign exchange reserves at US\$ 73,6 bn. in 1995, with the total value of all previously invested foreign capital rising to US\$ 133,4 bn. At the same time however the growth rate of new investments secured by contractual provisions fell by almost 20 % to 10,9 % in 1995.

One reason for the decline in foreign investment projects can be attributed to a tight government monetary policy so that local banks are not in a position to be able to underpin the financial contribution of the Chinese partner in a joint venture scheme.

The structure of investment projects has however improved. Speculative investments, particularly in the property market, previously accounted for about one third of all foreign investment and originated mainly from Hong Kong, Taiwan and Singapore. Nowadays a greater proportion of investment is made in the manufacturing sector, with a notable increase in particular in the number of joint ventures specializing in the production of heavy machinery, electronic goods, infrastructure equipment and the forwarding and processing of raw materials.

1.2.1. China's foreign trade grew in 1995 by 26,3 %. As a result, the trade surplus came to US\$ 1 bn: exports US\$ 126,0 bn; imports US\$ 106,3 bn.

In the course of 1995 the EU lost ground to the Pacific Rim nations as a trading partner and its share in China's imports dropped to 15 %. France (currently ranked 13th among China's importers) has been overtaken by Canada and Malaysia whilst the United Kingdom (currently ranked 15th) has also been left behind by Indonesia. Of China's ten most important importing nations, only two (Germany and Italy) still come from Europe.

Generally speaking the highest growth rates in Chinese trade have been achieved with countries of the Far East. Trade with ASEAN countries has increased by 50,5 %, followed immediately by Korea (+ 47,1 %), Japan (+ 26,9 %), Hong Kong (+ 20,1 %) and Taiwan (+ 16,8 %).

In 1995 the structure of Chinese exports continued to shift in favour of manufactured goods, which accounted for 86,5 % of the total volume. Exports in machinery and vehicles were particularly lively, rising by 61,3 %, whilst the traditionally most important export sector, clothes, only managed to expand by 8 %.

By contrast, imports of manufactures rose by only 8,1 %, i.e. below average. The Chinese government's current policy of austerity has even led to the traditionally key import sector (machinery and vehicles) falling, for the first time, by 1.4 % since the beginning of the reform policy.

Electro-technical and electronic products (+ 34,9 %), as well as chemical products (+ 49,4 %) continued to be in demand in 1995. This trend is continuing in 1996. The EU is the chief supplier of state-of-the-art technology (e.g. glass-fibre networks used in telecommunications). By June 1996 China had signed 3 297 technology-import contracts with the EU worth US\$ 26,5 bn, and accounting for 48,6 % of total imports of technology products.

Imports from the European Union rose altogether by 7,3 %, with imports from Italy expanding by 0,7 %, France 10,6 %, the United Kingdom 7,6 % and Germany 5,9 %. However, they rose considerably faster among the EU's most important competitors (Japan + 11,3 %, USA + 14,3 %, Taiwan + 11,0 % and Korea + 40,9 %).

If China's economic growth is as sustained as expected, there are likely to be long-term implications for the world's commodity and foodstuff markets.

In this connection it is worth remembering that China accounts for 22 % of the world's population, 7 % of its utilized agricultural area, 7 % of its fresh water resources, 2 % of its oil reserves and 11 % of its coal reserves. China's future is therefore of great and significant importance to EU long-term economic policy planning.

1.3. Latest figures and developments 1996⁽¹⁾

On 19 January 1997 the minister for the state planning commission, Chen Jinhua, announced the latest statistics for 1996. He said that the Chinese economy had achieved a 'soft landing' in 1996 with the economic growth rate rising to 9,7 % (instead of the planned 8 %) and inflation held at 6,1 % (instead of the planned 10 %). In December 1996 price rises were running at only 4,2 %.

Investments had risen in nominal terms by 18,9 %, in real terms by 12,5 %. Sales of consumer goods had increased by 19,3 %, in real terms by 12 %.

Exports in 1996 had been worth \$151,1 bn., a rise of 1,5 %.

Imports had risen by 5,1 % to \$138,3 bn.

Foreign investment was running at \$40 bn. and hard currency reserves amounted to \$105 bn.

Minister Chen Jinhua said that China's economic growth would continue in the second year of the ninth five-year plan. With reference to the stabilization policy launched in 1993, the minister praised the Deng-Xiaping Theory which aimed to develop a Chinese version of the 'Socialist Market Economy'. He then said that macro-economic controls would also have to be imposed in the future to check the market economy's tendency to look for short-term profits.

The minister also acknowledged that there were economic difficulties. China's oil refineries were only working to 70 % capacity. There were too many textile factories and polyester plants. 45 % of state-owned enterprises were running at a loss. Official figures for 1996 put corporate losses at yuan 69 bn. (about \$8,32 bn.), a rise of 45 % compared with 1995. The total accumulated indebtedness of state-owned enterprises amounted to yuan 3,36 trn (approx. \$405 bn.).

Savings deposits in all Chinese banks came to yuan 3,85 trn (approximately \$464 bn.) on 31 December 1996. The Chinese government had earmarked yuan 30 bn. (approx. \$3,6 bn.) to offset the fall in bank credit resulting from corporate bankruptcies.

Moves were afoot to save ailing state enterprises not only by collective redundancies but also tax reduction schemes and a moratorium on interest payments to banks.

All in all the Chinese state leadership remained optimistic about 1997, not least because of the recovery of sovereignty over Hong Kong.

⁽¹⁾ Source: 'Frankfurter Allgemeine Zeitung' of 20. 1. 1997; the figures are from official Chinese sources.

Opinion of the Economic and Social Committee on 'Craft industries and small- and medium-sized enterprises'

(97/C 158/09)

On 19 December 1995 the Economic and Social Committee, acting under Rule 23(2) of its Rules of Procedure, decided to draw up an opinion on 'Craft industries and small- and medium-sized enterprises'.

The Section for Industry, Commerce, Crafts and Services, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 7 February 1997. The rapporteur was Mr Pezzini.

At its 344th plenary session (meeting of 20 March 1997), the Economic and Social Committee adopted the following opinion by 112 votes to one, with three abstentions.

1. Introduction

1.1. The 1957 Treaty of Rome did not provide for a Community enterprise policy. It was first developed in the 1980s, when the White Paper on the single market⁽¹⁾ was implemented and new Community policies were drawn up in order to create a favourable business environment for SMEs entering the single market in 1992.

1.2. The significance of small- and medium-sized enterprises and craft industries in Europe was definitively recognized at the Edinburgh Council in December 1992, the Copenhagen Council in June 1993 and the Corfu Council in June 1994. A range of initiatives was approved at these Councils, including the multi-annual action programme in favour of SMEs 1993-1996, and the resolution, following on the memorandum from the Belgian presidency of the Council, calling for an increase in corporate competitiveness — particularly for SMEs and craft industries — and a boost to employment. This was subsequently transformed into the action plan for SMEs.

1.3. The following figures⁽²⁾ show the importance of SMEs and the craft industry in European production: 99 % of European firms employ fewer than 250 people; moreover, most of them are small, craft-based firms, since some 93 % of EU firms have fewer than 10 employees.

1.4. Within the European economy, SMEs account for more than two-thirds of Community employment, and Community micro-businesses (0-9 employees) provide almost as much employment as large companies (29 %). In the last three years, 75 % of European jobs have been created by the SME and crafts sector.

Moreover, if we consider that SMEs account for over 70 % of total EU business volume, it can be concluded that SMEs and crafts are the economic and social backbone of the European Union.

1.5. Some years ago, the EU, acknowledging the importance of the craft sector for economic growth and job creation, and wishing to provide a tangible response to its needs, launched a policy of support for small-to-medium and craft firms.

2. From the Avignon Conference to the Berlin Conference

2.1. Since the first Avignon Conference in October 1990, the Commission has been working in close cooperation with the trade organizations to meet the requirements of craft industries. The Conference prompted several actions: the Guide to craft industry and SME organizations; pilot actions for training couples who work together; cross-border training and training for standardization and quality certification. There is no doubt that the outcome of these years is positive. On the one hand, although the European Commission has begun to address the concerns of the craft industry and small enterprises, the changes brought about since the first European Craft Industry Conference in Avignon underline the need to pursue the process of dialogue and exchanges between enterprises, between their national and European representatives and with the EU Member States. Moreover, the structural challenges facing micro-businesses over the next few years will cause several problems.

2.2. These could be divided into external and internal problems. On the external side, craft industries will have to face increased competition due to:

— the creation of the single market;

(1) EU Commission, White Paper on the Single Market, Brussels, 1985.

(2) Source: Eurostat.

- large firms taking over market outlets traditionally dominated by small and very small enterprises;
- creation of large-scale commercial projects (supermarkets and hypermarkets), where each job has taken three or four away from the craft and trade sector;
- the rise in semi-professional do-it-yourself activities;
- the increase in moonlighting.

2.3. Moreover, craft workers and the owners of small businesses are feeling the effects of competition distortions caused by the lack of adequate economic information, and the delays in getting hold of it. This includes information on standards and quality certification, legislation on environmental protection, safety at work etc. On the internal side, craft workers and those who operate small businesses have to deal with:

- shortage of capital;
- a heavy tax and administrative burden;
- little familiarity with strategic management and corporate organization;
- problems with staff training.

2.4. The second Berlin Conference in September 1994 identified the main sources of concern for companies facing up to social and economic changes in the European Union. The Conference made an important contribution towards raising the profile of the craft industry at European level⁽¹⁾ and represented a new approach in terms of the quality of preparation for the discussions (preparatory conferences). At the Berlin Conference, 144 proposals were addressed to the European Commission and other Community and national institutions. These can be summarized as follows:

- more participation for the representatives of small firms and craft industries in drafting Community regulations;
- internationalization of small firms and craft industries;
- cooperation with the countries of central and eastern Europe;
- raising the profile of the crafts industry;
- awareness of the sector's economic role;
- incorporation of small firms and craft industries into the single market;
- vocational training;
- streamlining of red tape;
- cross-border areas;

⁽¹⁾ EU Commission, *L'artisanat et les petites entreprises face à l'intégration européenne, Résultats de la deuxième Conférence européenne de l'Artisanat et des Petites entreprises à Berlin, 4. 9. 1995.*

- funding and access to credit;
- greater transparency of Commission services.

2.5. After considering the proposals, the Commission concluded that some 50 % of them were already covered either by Community policies or by actions undertaken shortly before the Conference. The Committee requests the Commission to carry out an appraisal of those proposals which have already been put into practice and to specify what action it intends to take on the others to be undertaken.

2.6. In conclusion, the second European Conference on Craft Industries and Small Enterprises, held in Berlin, was an important stage in the quest to enhance the craft industry's role in the economic, social and political life of the European Union. Progress was also made on awareness of the problems facing the sector and how to solve them. The Third European Conference on the Craft Industry will be held in Milan.

3. Community policy on SMEs and the craft industry

3.1. The term 'craft industry' covers different activities in the various Member States, and there is no consistency between the legal definitions — where they exist. In its October 1992 Opinion on SMEs and Craft Industries⁽²⁾, the Committee pinpointed some of the typical features of craft industries and small firms in the Member States:

- generally small in size, except for some regions and countries;
- backbone of the local economy and/or use of advanced technology;
- customized production or working-to-order;
- legal and financial independence of the firm;
- close links between family and firm, with relatives playing an important part;
- skills of the head of the firm, who works in close contact with employees.

3.2. Moreover, the importance of micro-businesses and the craft industry in particular is not due merely to the part they play in economic activity, or to the number of firms and jobs involved, and their contribution in terms of added value. The dynamic role they play in the Community economy should also be considered. Owing

⁽²⁾ Opinion of the Economic and Social Committee on SMEs and Craft Industries, OJ No C 322, 16. 12. 1992.

to their internal organization, and their presence in expanding markets, micro-businesses and craft industries are of vital importance for productivity, innovation and flexibility, all of which are essential for the structural development of the economy as a whole, and for ailing regions in particular.

3.3. The craft industry, however, has to solve quite different kinds of problem than those facing medium-sized and larger companies. Some of these problems stem from the increasing need for companies to go beyond their traditional, local markets, and to operate on the European market.

3.4. Compared to medium-sized and large companies, it is more difficult for them to cope with legal and administrative red tape, particularly red tape relating to protection of the environment and conformity with the standards applicable in the European Single Market.

3.5. Craft industries have greater problems with funding and access to credit and to Community information and international cooperation. Their managers find it more difficult to develop strategic objectives at European level. In order to alleviate these problems and give these firms greater access to the Single Market, the Commission devised the Community policy in favour of SMEs and craft industries. At any rate, a study should be commissioned to ascertain the extent to which the craft industry and business women have access to funding and credit.

3.5.1. In the field of research and technological development too, support measures for SMEs have been adopted under the 4th Framework Programme 1994-1998, following on the positive experience of the Craft programme (cf. feasibility awards, for example). These measures are designed both for SMEs from traditional sectors, and for those in high tech sectors. The aim is to encourage them to take part in all the new Community R&D programmes.

3.6. If the policies are to have a greater impact on production, then the Community authorities will have to distinguish between policies on micro- and small enterprises, and those on medium-sized enterprises, given the obvious production, commercial, organization and management differences of these two categories of firms.

3.7. In this area, the Commission's selective approach does not offer firms direct support, but it does provide help for their intermediaries and representative bodies, such as professional bodies and associations.

3.8. Various types of initiative have been undertaken, from Euro Info Centres (information networks) and BC-NET (Business network cooperation), to the BCC, Europartenariat and Interprise (Cooperation between enterprises), and actions relating to subcontracting and pilot schemes (Euromanagement, Commerce 2000, and Start-up Capital). Furthermore, the European Union has created 24 'Start-up Capital Funds' which have pledged themselves to investing in companies which are starting up or have recently done so, and which need managerial and financial support to carry out projects which can lead to development and innovation.

3.9. The craft industry is also supported, albeit insufficiently, considering its importance for the Community's economy, within the framework of the Community regional development policy, under the Community Support Frameworks (CSF), the Community initiatives and the EIB (European Investment Bank), particularly via global loans.

3.10. The Structural Funds have budget allocations of more than ECU 141 000 million for the period 1994-1999. Most of this considerable sum (the Structural Funds account for some 35 % of the Community's annual budget) will be used to fund national CSFs, particularly infrastructure projects. However, only a small proportion of these resources are harnessed to boost SMEs and the craft industry. Moreover, 9 % of the total allocation, i.e. ECU 13 450 million, has been set aside for Community initiatives.

3.11. Of these programmes, the significance of the SME Community initiative should be stressed. It has a budget allocation of ECU 1 000 million for joint funding of a range of support activities for SMEs and craft industries.

3.12. A further problem undoubtedly arises from the need to ensure that craft industries make good use of the numerous opportunities available to them, so that they can benefit fully from existing actions and programmes, as requested by the Commission (Communication (95) 502) and the European Parliament (Thyssen Report). Only a reduction in red tape and in waiting time for disbursement of funding, improved backup and a broader, deeper partnership with the Community, national and regional authorities and the representatives of trade organizations, will generate a mass effect — greater convergence between local, national and EU action, and improved transparency, which is essential if the enterprises concerned are to participate more profitably.

3.13. The Integrated Programme for SMEs and Craft Industries ⁽¹⁾ is a step in this direction. It puts forward a new framework for the improved identification and integration of the different contributions the EU can make towards the creation and development of enterprises. In this programme, the Commission has made a particular effort towards setting up a legal and administrative framework conducive to craft industries. Although there are no new budget headings, the programme does incorporate all other policy areas which can contribute towards the development of SMEs and craft industries, such as the Structural Funds, research and technological development and vocational training. New proposed action will be funded by instruments already in place. In order to tailor these programmes still more effectively to the specific circumstances of craft industries and SMEs, the Committee requests the Commission, in a communication, to study the involvement of craft industries in Community programmes.

3.14. In recent years, the European organizations representing the craft industry and SMEs have played an important part in implementing these policies, and are increasingly involved in Community activities. The craft industry's representative organizations are members of several committees of the EU Institutions. Here, the European Commission's aim is clear: to support all forms of cooperation between Member State organizations and encourage them to pool their skills.

3.15. *The impact of Community action on the craft industry*

It transpires from the above evaluation of recent EU action to help SMEs and the craft industry, and of its impact on craft industry productivity, that although this action has generated undoubted benefits there are a number of problems:

- measures to help the craft industry are always of a somewhat general nature; this makes it more difficult to identify the beneficiaries and reduces the impact on the sector; moreover, the measures are often implemented without consulting craft sector organizations;
- action is not very specific, in spite of the distinct nature of the craft industry and micro-businesses in general;

- there is a myriad of uncoordinated measures; this confuses craft-industry managers, thus reducing the impact on the activity of the sector. In this respect, coordination of initiatives planned at European level would be desirable. To this end, the establishment of a craft industry-SME joint group at the EP and at the ESC and the setting up of a European Commission interdepartmental working party which, under the responsibility of DG XXIII, would coordinate Commission operations to assist craft industries and SMEs would help to enhance the impact of actions undertaken at local, national and Community level.

3.15.1. All this raises two fundamental problems: firstly, it is impossible to continue to use a general definition for small- and medium-sized enterprises which includes micro-businesses, whether they be craft industries or commercial enterprises; secondly, initiatives need to be fine-tuned, so that they target the special needs of the craft industry.

3.15.2. With regard to the first problem, the Commission recommendation concerning the definition of small and medium-sized enterprises is of some assistance. It emphasizes that 'a distinction must be drawn, within SMEs, between medium-sized enterprises, small enterprises and micro-enterprises; whereas the latter should not be confused with craft enterprises, which will continue to be defined at national level due to their specific characteristics.' The recommendation classes all firms with less than 10 employees as micro-businesses (turnover is disregarded); those with between 10 and 49 employees and a turnover of not more than ECU 7 million as small businesses; and those with between 50 and 249 employees and a turnover of no more than ECU 40 million as medium-sized businesses. All firms with a workforce of over 250 are classed as large firms.

3.15.3. As regards the second problem, the Commission's across-the-board approach to support for SMEs and craft industries is a source of confusion, both for those responsible for managing the funds locally, and for the beneficiaries. This confusion impairs programme planning and the ability to meet the actual needs of the craft industry could undermine the new multi-annual action programme for SMEs (1997-2000) before it even gets off the ground.

4. The legal definition of the craft industry

4.1. Not all countries have a legal definition of the craft industry, and when they do, they differ considerably. Based on an analysis of the relevant national legislation, the definitions of the craft industry

(1) See also: COM(94) 207 final, 3. 6. 1994; Council Resolution of 10 October 1994, OJ No C 294, 22. 10. 1994; COM(95) 362 final, 8. 9. 1995.

could be divided up into three approaches: sector/size; professional; and artistic.

4.2. Rather than being seen as a problem, the differences should be considered as part of our cultural and economic heritage, and as a starting point for a common strategy to foster the European craft industry and raise its profile.

4.3. The sector/size approach is defined as such according to restrictions on size (number of workers). It differs from the professional approach, which disregards size when distinguishing between craft industries and micro- and small enterprises, and is based on affiliation to certain sectors. The artistic approach is more restrictive, in that it applies to artistic activity only⁽¹⁾.

4.4. *The sector/size approach*

The criterion for the definition of a craft industry is mainly based on the size of the firm in terms of the number of employees. This may vary according to the sector (in Italy) or remain unchanged (France and the Netherlands). In practice, the countries which adopt this approach are Italy, France and the Netherlands.

4.4.1. In Italy, the first step towards regulating the craft industry came with the entry into force of law No 860 of 25 July 1956, establishing the Provisions for the legal regulation of the craft industry. The sector is currently governed by law No 443 of 8 August 1985. According to law No 443, craft industry activities may be carried out by employees working directly under a sole owner or partners, as long as the following restrictions are respected:

- a) businesses not involved in mass production: a maximum of 18 employees including no more than 9 apprentices; the total number of employees may be increased to 22 provided that the increase is made up of apprentices;
- b) businesses involved in mass production, but without complete automation: a maximum of 9 employees, including no more than 5 apprentices; the total number of employees may be increased to 12 provided that the increase is made up of apprentices;
- c) businesses involved in artistic activity, traditional crafts and off-the-peg clothing: a maximum of 32 employees including no more than 16 apprentices; the total number of employees may be increased to 40 provided that the increase is made up of

apprentices. The sectors covering artistic activity, traditional crafts and off-the-peg clothing will be defined by Presidential Decree, after consultation with the regional authorities and the Consiglio nazionale dell'artigianato (National Crafts Council);

- d) transportation business: a maximum of 8 employees;
- e) construction business: a maximum of 10 employees, including no more than 5 apprentices; the total number of employees may be increased to 14 provided that the increase is made up of apprentices.

4.4.2. In France the crafts sector is largely regulated by the Code de l'artisanat (Decrees No 55-656 and No 55-657 of 20 May 1955 — which were given legal status by law No 58-346 of 3 April 1958 — and later amendments) and by Decree No 83-487 of 10 June 1983 (as amended by Decree No 88-109 of 2 February 1988). Decree No 62-235 of 1 March 1962 set the size of French craft industries at 5 employees, subsequently increased to 10 by Decree No 76-879 of 21 September 1976. A Decree has just been approved to increase this from 10 to 15 employees (Droit de suite — Decree of December 1995 and Law of 5 July 1996). Moreover, Law 96/603 of 5 July 1996, on the development and promotion of commerce and the craft industry, was passed recently. This retains the provisions of the 'Droit de suite' unamended.

4.4.3. The Netherlands (non-legal definition) uses a method which is halfway between the two previous approaches: in practice, all firms with no more than 10 employees and which operate in certain sectors are considered craft industries.

4.5. *The professional approach*

4.5.1. This approach is particularly dynamic and follows the dictates of national legislation (in Germany, the 'Handwerksordnung 127' of 28 December 1965; in Austria, the 'Gewerbeordnung 1994'; and in Luxembourg, a law passed in 1990). These laws define which sectors can be considered 'craft industries', regardless of the size of the firm. The definition is based on a classification of 'craft occupations' (127 in Germany and 151 in Luxembourg) for which a vocational qualification is required. The countries which adopt this approach are Germany, Austria and Luxembourg.

4.5.2. In Germany, the integral legislation currently in force was introduced by the Law governing the crafts industry of 28 December 1965. It has been subjected to repeated amendments over the years, with the most recent ones following on the laws of 20 December 1993 and 5 October 1994.

⁽¹⁾ For a more detailed discussion of craft industry legislation in Italy, France and Germany, see Giacomelli G., Scudier G., Giacomelli Giovanna, Casella L.: *L'impresa artigiana in Europa*, Padova, 1995.

4.5.3. Paragraph 1(1) of the law's first title, relating to the authorization of independent craft activity, contains the main features of the traditional German concept of the craft industry, and states as follows: Independent craft activity as a fixed occupation is permitted only for natural and legal persons and for partnerships enrolled on the official register of craftsmen (first paragraph). A professional activity is deemed to be a crafts activity for the purposes of this law, when it is carried out in a craftsman-like way, and is wholly or fundamentally connected with one of the crafts listed in Appendix A of the said law (second paragraph).

4.5.4. In Austria the definition of handicrafts is contained in paragraph 1 of the Order of handicrafts: in order to pursue a crafts activity certain skills have to have been acquired through professional training courses, and extensive experience is required.

4.5.5. In order to pursue a crafts activity in Luxembourg, written authorization is required from the Ministère de l'Economie Nationale des Classes Moyennes; this is compulsory for natural and legal persons. To be admitted to the crafts sector, the craftsman must hold the relevant professional qualifications and be respected by his peers.

4.6. *The artistic approach*

This is a very restrictive approach, since only firms exclusively involved in artistic activities are classed as craft industries. The usual Spanish concept of handicrafts means applied art and art studies, carried out independently (Royal Decree of 1982). With due deference to regional autonomy, since 1985 (previous law of 1968) laws have been passed to regulate the crafts industry whilst taking account of the special, local features of the sector. Since 1995, Spain has been trying to shed the restrictions of the previous definition, using broader, more flexible criteria. These, starting with those set out in the Schleyer Report ⁽¹⁾, are as follows ⁽²⁾:

- close owner/manager links within the firm;
- great reliance on human resources which can be used in conjunction with up-to-date manufacturing and management techniques;

⁽¹⁾ ESC Opinion on SMEs and craft industries, OJ No C 322, 16. 12. 1992.

⁽²⁾ The four criteria identified in Spanish legislation were discussed at the First symposium on European craft industry statistics, organized by the Istituto G. Tagliacarne, under the aegis of Commission DGXXIII, in Rome, September 1994.

- management and manufacturing skills of the head of the firm;
- fundamental role of the head of the firm who is directly involved in organizing the manufacturing process.

4.6.1. The British, and, in part, the Irish craft industries could also be included under this approach, even though Britain and Ireland have no legal definition of the craft industry. In the United Kingdom and Ireland, only an independent worker producing traditional or artistic handmade objects is considered to be a craft worker. There is, of course, a 'small business' sector, with marked industrial features, whereas the crafts element is generally to be found in traditional and artistic production.

TABLE 1

Spanish craft industry legislation

Spain	Royal Decree 1520/1982; 390/1992; Resolution of 15 March 1993.
Autonomous Community of Catalonia	Regulation of 25 May 1992; Regulation of 14 January 1993.
Autonomous Community of Galicia	Law 4/1992; Decree 94/1992; Decree 141/1993, 145/1993; Regulation of 9 July 1993; Regulation of 12 July 1993; 68/1994.
Autonomous Community of Madrid	Regulation of 16 June 1992.
Autonomous Community of Navarra	Regulation of 12 May 1992.
Autonomous Community of Extremadura	Regulation of 4 February 1993; Regulation of 5 February 1993; Law 3/1994.
Autonomous Community of Rioja	Law 2/1994.
Autonomous Community of the Basque Country	Decree 22/94

Source: Spanish Foundation for the Craft Industry.

4.7. Moreover, other countries, for various reasons, are not covered by any of these three approaches.

4.7.1. In Belgium, craft industry legislation is very restrictive, and the economic and social importance of the sector is thus rather modest. The Belgian concept of handicrafts is closely bound up with the concept of small and medium sized enterprises, which in turn is included under the more general heading of the 'classes moyennes'.

4.7.2. In Greece there is an official non-legal definition, whilst in Portugal and Finland there is no legal or official definition of a craft industry. In Sweden, the

Royal Decree No 596 of 26 June 1976 established the procedure for granting a craft worker diploma. This provides formal recognition of crafts activity in certain occupations.

Although there is no general definition for the craft industry in Denmark, a range of criteria is used as a basis for applying specific provisions. The most widely-used criterion is that of size, and is to be found in the study on 'Handvaerket og den Mindre Industri': this category covers all manufacturing firms with 1 to 5 employees, and repairs, service and building firms, regardless of the number of employees.

TABLE 2

Definition of the craft industry — national legislation

Country	Legislation
Austria	Gewerbeordnung of 1994
Belgium	Law of 1965
France	Law of 1963 and 1983
Germany	Handwerksordnung of 1953 and 1965
Italy	Framework Act 443 of 1985
Luxembourg	Law of 1990

Source: National legislation.

4.7.3. Given the enormous differences in individual national legislation, it is to be hoped that this sector will also benefit from procedures leading to a common legal basis in all EU countries. This is particularly needed for an assessment of the sector's role in the European economy, and to enhance the economic and social impact of Community and national aid policies to promote the sector.

5. The EU craft industry — statistics

5.1. Number of firms and workers

5.1.1. While much is known of the productive network of SMEs in Europe, there is a shortage of craft industry statistics (with the exception of some European countries). It is often impossible to provide a thorough, standard assessment of the important role which the craft sector plays in the European economy. This is due to the lack of adequate Member State coordination on craft sector statistics and the use of widely varying collating methods which do not allow a satisfactory comparison of data; in any case, such data are not

always available, and this is also true with a view to the future accession of CEEC.

5.1.2. In the EU there are some 16 million productive firms (16 030 000 firms in 1995) excluding the farming sector⁽¹⁾.

5.1.3. Around 50 % of these are individual, craft, professional enterprises and small businesses with no employees. The other 50 % is made up of micro-businesses, of which 7 million have between 1 and 9 employees, and a million have between 10 and 49 employees. There are not many medium-sized (between 50 and 249 employees) and large firms (more than 250 employees) — 155 000 and 35 000 respectively — although they are of considerable significance to the economy, since they account for around 45-50 % of employment and turnover figures for the non-agricultural productive sector. Generally speaking, the average European firm has a workforce of around 6.

TABLE 3

Enterprises in the European Union (1992 — latest data)

Country	Firms (*) (1995, thousands)	Workforce (**) (1992, million)
A	145	2,480
B	410	2,410
DK	150	1,483
D	2 670	19,152
GR	690	1,908
ESP	2 200	8,634
F	1 965	12,959
IRL	130	0,824
I	3 375	12,833
L	15	0,143
NL	390	3,691
P	580	2,710
FIN	340	1,211
SV	415	1,860
UK	2 565	16,358
EUR	16 030	88,656

Source: (*) EIM Small Business Research and Consultancy — European Observatory for SMEs, 1996.

(**) Eurostat — Panorama of EC industry, Brussels, 1995.

(1) The data refers to firms in the 15 Member States, and includes those with more than 250 employees. However, these firms only make up 0,22 % (35 000 firms) of the total.

TABLE 4

European SMEs according to size

Size	% of total no. of firms (*) 1995	% of total workforce (**) 1992
Firms with no employees	49,72	9,32
1-9 employees	42,76	23,13
10-49 employees	6,33	18,80
50-249 employees	0,97	14,92
250 or more	0,22	33,83
Total	100,00	100,00

Source: (*) EIM Small Business Research and Consultancy — European Observatory for SMEs, 1996.

(**) Eurostat.

The three new Member States (Austria, Sweden and Finland) have 900 000 firms (5,6 % of the total) with around 5,55 million employees (6,3 % of the total).

5.1.4. Whilst these statistics enable us to quantify the number of firms in Europe, there is no adequate information for the craft industry. In some countries the number of firms and the size of the workforce are underestimated because definitions and criteria are applied systematically. In Spain, for example, there are 14 920 official craft firms, which is probably an underestimate⁽¹⁾. On the other hand, in countries where estimates of the extent of the craft industry are based on firms with a workforce of less than nine, it is possible to err in the opposite direction.

5.1.5. The type of legal definition also affects the size of the firm, e.g. in countries where there are no size restrictions on the craft industry, firms are much bigger than in countries where a ceiling exists.

5.1.6. The above comments show how the absence of any European regulation for craft-related firms affects an assessment of the size of the sector, and highlights three main problem areas:

- it is not currently possible to assess the size of the European crafts sector, due to diversity in calculating the reference period and in collating methods;
- no method of compiling statistics based on minimum common denominators;
- changes in the growth of the sector.

(1) IKEI in San Sebastian provided the estimates for Spain.

5.1.7. The final Resolution which was adopted by 15 European craft sector experts (one for each Member State) at the Second symposium on European craft industry statistics⁽²⁾ is a step towards initiating a common inquiry whose main objective is to help solve the statistical side of these problems.

5.1.8. The following table represents an attempt to group together available statistics referring to the approaches outlined above. The following features emerge:

- 1) an economic comparison of the data is not possible;
- 2) the available data underestimate the phenomenon;
- 3) where national legislation exists, the economic significance of the craft industry for the national economy emerges.

5.1.9. One of the most interesting indicators is the significance of the sector in terms of the number of firms and the size of the workforce compared to the figures for firms as a whole.

TABLE 5

The EU craft industry according to national approaches(*)

Country	Number of firms	Work- force	Average size
Professional approach			
Germany (1994)	623 100	5 138 000	8,2
Austria (1994)	41 829	294 322	7,0
Luxembourg (1995)	4 065	43 335	10,7
Sector/size approach			
Italy (1995)(**)	1 325 584	3 108 470	2,3
France (1995)	820 000	2 063 000	2,5
Netherlands (1994)	127 000	317 000	2,6
Artistic approach			
Spain (1995)	14 920	46 345	3,1
Ireland (1992)	n.a.	78 200	n.a.
UK (1993)	16 892	n.a.	n.a.

(2) The second symposium on European craft industry statistics was organized by the Istituto Guglielmo Tagliacarne, under the aegis of Commission DG XXIII in Rome on 20-21 March 1996.

Country	Number of firms	Workforce	Average size
Others			
Belgium (1992)	5 011	n.a.	n.a.
Denmark (1993)	39 067	197 127	5,0
Greece (1988) (***)	133 000	287 000	2,1
Portugal (1992)	32 734	n.a.	n.a.
Finland (1992)	n.a.	116 000	n.d.
Sweden (1992)	n.a.	550 000	n.a.

(*) The data cannot be compared since they refer to the national definitions of the craft industry (where applicable) or to assessments taken from national sources (where there is no legal and/or official definition).

(**) 1995 figures for firms, and 1994 for the workforce.

(***) Only the craft industry involved in manufacturing.

Sources: Germany — ZDH

Austria — Institute for small business research

Luxembourg — Chambre des Métiers du Grand-Duché de Luxembourg

Ireland — CSO, Labour Force Survey

Italy — Istat, Infocamere, Ist. G. Tagliacarne

France — Fichier SIREDI/INSEE

Netherlands — EIM

Spain — Fundación Española de Artesanía

Great Britain — Crafts Council

Belgium — Ensr, The European Observatory for SMEs, Second Annual Report, 1994

Greece — Census of Establishments in Manufacturing, Trade and Other Services, NSSG

Finland — Ministry of Trade and Industry

Sweden — National Statistics.

5.1.10. In spite of the obvious limitations (particularly the fact that these comments are valid for countries where the craft industry is not regulated), this is extremely useful in providing an albeit rough idea (overestimated in some cases and underestimated in others) of the size of the crafts-related sector in Europe.

5.1.11. Three important features emerge from the analysis of the main results:

- in general, there are more craft firms in countries which have a legal definition of the craft industry;
- the significance of the craft industry is probably underestimated in countries such as Spain and Great Britain. It is no coincidence that both countries tend to use the term 'artistic' when defining crafts-related firms;
- in countries where the professional approach prevails, the size of the craft workforce compared to the total number of people employed by SMEs is greater, with the exception of Italy. This means that, quite apart from the legal definition, in terms of employment the sector is an integral part of the Italian production system.

TABLE 6

SMEs and crafts-related firms in the European Union(*)

Country	Craft industries as a % of SMEs (**)	Craft industry workforce as a % of SMEs
A	28,8	11,7
B	1,2	n.a.
DK	26,0	13,3
D	23,3	25,4
GR	n.a.	15,0
ESP	0,7	0,6
F	42,0	17,0
IRL	n.a.	10,4
I	39,3	24,1
L	27,1	28,0
NL	32,6	9,6
P	n.a.	n.a.
FIN	n.a.	10,1
S	n.a.	26,8
UK	0,7	n.a.

Source: EIM and European Observatory for SMEs, statistics processed by Istituto G. Tagliacarne.

(*) The above percentages have been calculated on the basis of tables 5 and 3, and are merely an indication of the current trend, and do not include agriculture.

(**) For countries where no legal definition for the craft industry exists, the information refers only to craft industries involved in manufacturing.

5.2. The craft industry's contribution to GDP and exports

5.2.1. The craft industry's contribution to GDP is also of some interest. The available data only regard certain Member States. The sector plays an important role in Italy, accounting for 12 % of GDP, compared to 9,6 % in Germany and 5,6 % in Austria. The middle ground is occupied by the Netherlands (3,5 %), France (5,1 %) and Greece (3 %). The role of the craft industry is underestimated in Spain (0,33 %). In many of these countries, the craft industry's contribution to GDP is greater than that of agriculture (e.g. Italy).

Craft industry growth and employment (1991 = 100)

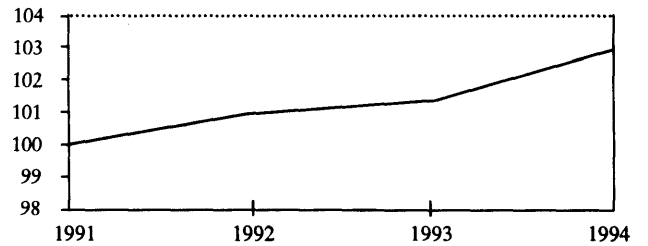
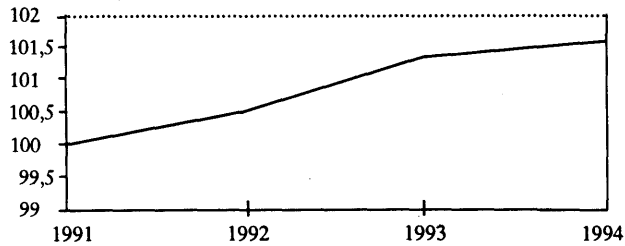
Professional approach

Enterprises

Employment

Austria

Austria

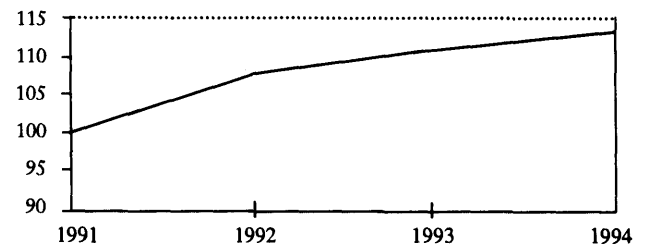
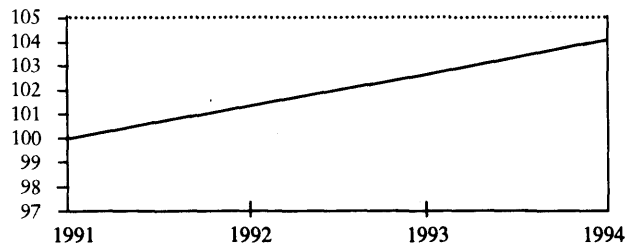


Source: Data processed by Istituto G. Tagliacarne

Source: Data processed by Istituto G. Tagliacarne

Germany

Germany

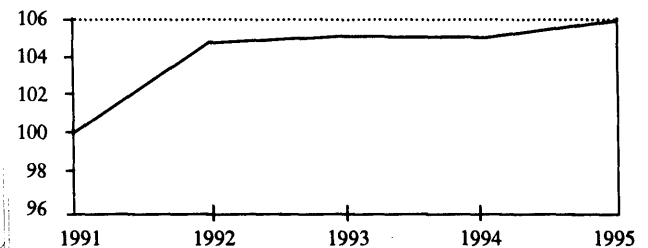
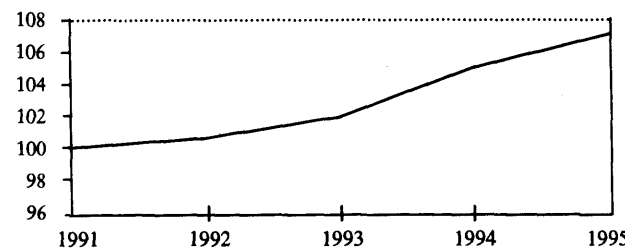


Source: Zentralverband des Deutschen Handwerks processed by Istituto G. Tagliacarne

Source: Zentralverband des Deutschen Handwerks processed by Istituto G. Tagliacarne

Luxembourg

Luxembourg



Source: Chambre des Métiers de Luxembourg data, processed by Istituto G. Tagliacarne

Source: Chambre des Métiers de Luxembourg data, processed by Istituto G. Tagliacarne

Craft industry growth and employment (1991 = 100)

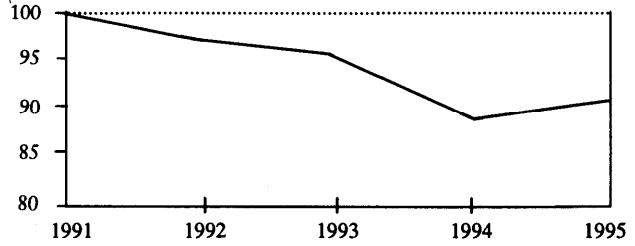
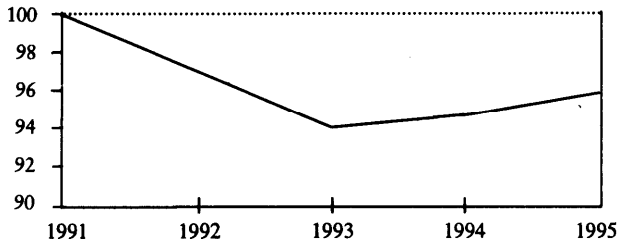
Sector/size approach

Enterprises

Employment

France

France

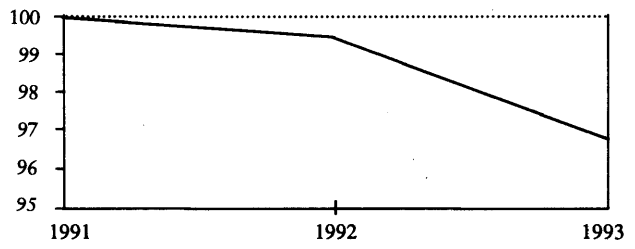
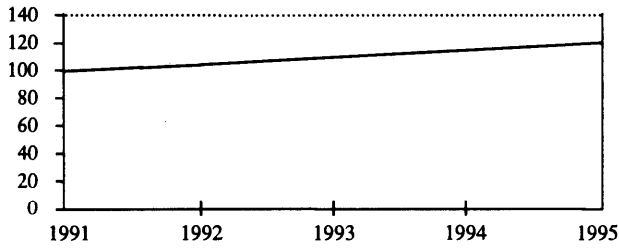


Source: SIRENE/INSEE data, processed by Istituto G. Tagliacarne

Source: SIRENE/INSEE data, processed by Istituto G. Tagliacarne

Italy

Italy

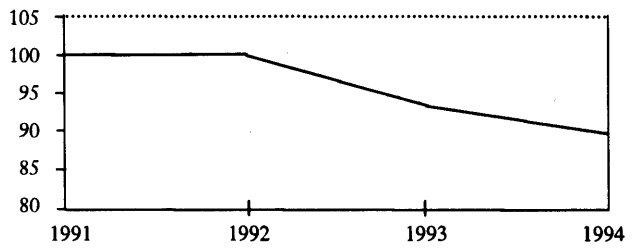
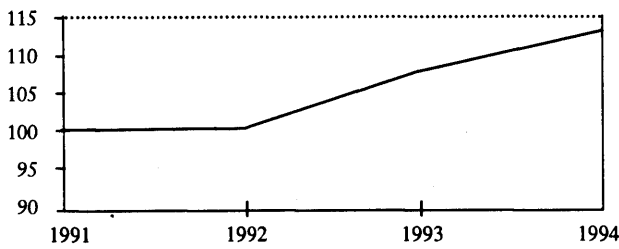


Source: ISTAT/CERVED data processed by Istituto G. Tagliacarne

Source: ISTAT/CERVED data processed by Istituto G. Tagliacarne

Netherlands

Netherlands



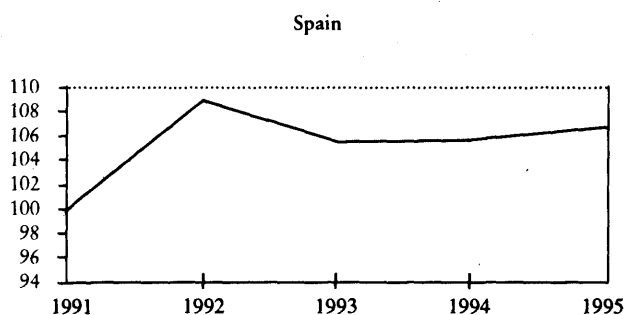
Source: EIM, Annual yearbooks of craft data, processed by Istituto G. Tagliacarne

Source: EIM, Annual yearbooks of craft data, processed by Istituto G. Tagliacarne

Craft industry growth and employment (1991 = 100)

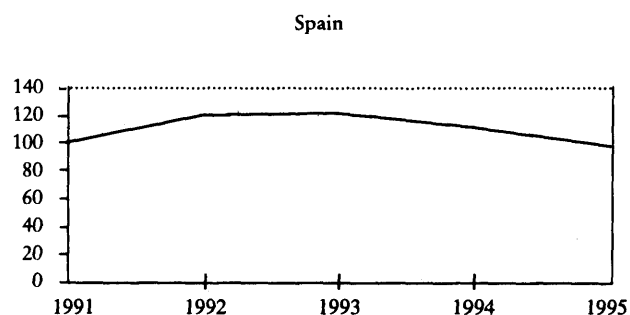
Artistic approach

Enterprises



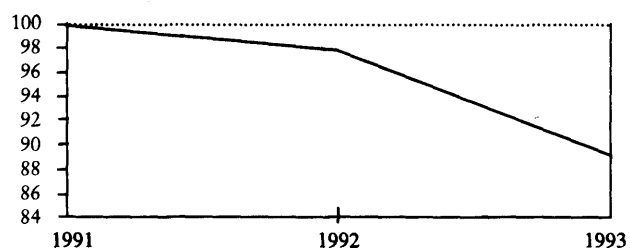
Source: Fundación Cultural Española para el fomento de la artesanía data, processed by Istituto G. Tagliacarne

Employment



Source: Fundación Cultural Española para el fomento de la artesanía data, processed by Istituto G. Tagliacarne

Ireland



Source: CSO data processed by Istituto G. Tagliacarne

TABLE 7

The craft industry's contribution to GDP in some European countries

Country	% of GDP
France (1993)	5,1
Germany (1992)	9,6
Greece (1988)	3,0
Italy (1993)	12,0
Luxembourg (1994)	15,0
Netherlands (1994)	3,5
Spain (1993)	0,3

Source: National statistics.

5.2.2. Statistics relating to craft industry exports are available for some countries. It can be seen that even the smallest firms are able to compete on the export market, which is not merely the prerogative of larger firms. A good example of this is Italy, where the craft industry accounted for 18,3 % of total exports in 1994; this figure is even higher than the sector's contribution to GDP. Craft industry exports are also significant in Denmark, where they account for 6 % of total exports. Conversely, the figures for Germany (2 % of total exports) and France (4,2 % of total exports) are lower than the craft industry's performance as a percentage of GDP. In Austria, the craft industry accounts for 2,8 % of total exports.

TABLE 8

Craft industry exports(*)

Country	% of total exports
Austria	2,8
Denmark	6,0
France	4,2
Germany	2,0
Italy	18,3

Source: National statistics.

(*) The figures are an underestimate, as they only refer to direct exports.

5.3. The craft industry in Europe — the trend of the last five years

5.3.1. Recent years have seen substantial expansion of craft industries in many European countries. Statistics show an increase in the number of craft businesses in nearly all of eight countries (Austria, Germany, France, Italy, Ireland, Luxembourg, the Netherlands and Spain) in 1991-1994/1995. France and Spain differ in that they have had uneven growth in the number of businesses. The trend in France can be divided into two periods: the decrease in 1991-1993 was followed by an increase (though insufficient to make up for the ground lost earlier) in 1994/1995. In Spain, however, the number peaked in 1992, fell in 1993, and rose again in both 1994 and 1995. There was no comparable trend in employment, which increased in Germany, Austria and Luxembourg, and decreased in the other countries. In Italy, France and the Netherlands, there have been two distinct trends in the number of craft firms and employment in recent years, with an increase in the former and a downturn in the latter. This can be partly explained by the appearance of new enterprises: many apprentices quit their salaried jobs to set up their own business; thus the employed move on to self-employment.

5.4. Regional aspects

5.4.1. In the Europe of the regions, the craft industry is less evenly distributed than might be thought. In Italy, Germany and Austria, there is a direct correlation between high per capita GDP levels and the concentration of enterprises, whereas in France it is the reverse: here, the regions with medium-low per capita GDP levels have the highest density. In practice, and contrary to common perception, the craft industry is to be found both in highly-developed areas and in those which are lagging behind — in fact in many areas it has sown the seeds for much entrepreneurial activity; in Italy, for

example, the regions with the highest level of craft activity are Tuscany, the Marches, Veneto, etc., i.e. regions with a medium-high level of economic development⁽¹⁾. In particular, the craft industry contributes to the development of areas in which there is a strong business base and/or industrial areas. A survey conducted by Istituto G. Tagliacarne reveals that the most dynamic industrial areas, or those which are more likely to act as a magnet, are those with a high concentration of craft firms, particularly the north-eastern (Veneto) and central (Tuscany and the Marches) regions⁽²⁾. The same is true of Germany, where regions such as Baden-Württemberg and Bavaria — two of the highest-income regions in Europe — have the highest craft industry density. In Austria, the high-density areas are the Vienna area and Lower Austria. On the other hand, in France it is Corsica, the Midi-Pyrénées, Limousin and Languedoc-Roussillon which are ahead of all other areas, despite having a medium-low per capita income⁽³⁾.

5.4.2. Turning to the weaker areas of the European Union, southern Italy has a less developed craft industry. This is not true of Spain, where Andalusia (a less developed region) is one of the regions with the highest level of craft activity, and Great Britain, where Scotland has the highest craft industry density.

TABLE 9

Regions with the highest density of craft industries in some European countries

Country	Region
Austria	Regions of Vienna, Lower Austria
Germany	Baden-Württemberg, Bavaria
Spain	Andalusia, Madrid Region
Great Britain	Scotland and the London area
Italy	Tuscany, the Marches, Veneto
France	Corsica, Midi-Pyrénées, Limousin, Languedoc-Roussillon

Source: National statistics.

5.5. The lack of adequate information makes this overview of craft industry statistics necessarily patchy and incomplete, thus highlighting the need for a European programme to improve craft-industry statistics.

(1) Cf Ist. G. Tagliacarne — Reddito e occupazione nell'artigianato, Roma, 1995.

(2) Cf Ist. G. Tagliacarne — Unioncamere, Rapporto sull'impresa e sulle economie locali, Roma, 1995.

(3) Source: Ministère des PME — Direction de l'Artisanat, La France de l'Artisanat, Paris, 1995.

TABLE 10

Breakdown of regions according to craft industry density per 10 000 inhabs. (descending order)

Place	Regions	Craft industry density (1991)	Per capita GDP (Italian average = 100)
1)	Marches	310	100,4
2)	Emilia-Romagna	305	123,4
3)	Veneta	281	112,7
4)	Tuscany	279	105,5
5)	Umbria	254	99,0
6)	Lombardy	245	126,4
7)	Valle d'Aosta	245	126,7
8)	Trentino	243	122,2
9)	Friuli V.G.	236	118,2
10)	Piedmont	225	112,8
11)	Abruzzo	206	89,6
12)	Liguria	191	116,6
13)	Molise	187	77,4
14)	Basilicata	177	63,6
15)	Sardinia	172	76,6
16)	Puglia	144	73,2
17)	Lazio	115	113,7
18)	Sicily	114	69,6
19)	Calabria	113	59,0
20)	Campania	102	69,5
	Italy	200	100,0

Source: Ist. Guglielmo Tagliacarne.

TABLE 11

Breakdown of regions according to craft industry density per 10 000 inhabs. (descending order) (*)

Place	Regions	Craft industry density (**)	Per capita GDP (***) (French average = 100)
1)	Corsica	232	71
2)	Languedoc-Roussillon	184	79
3)	Limousin	183	78
4)	Midi-Pyrénées	182	86
5)	Auvergne	171	80
6)	Aquitaine	166	88
7)	Rhône-Alpes	166	99
8)	Poitou-Charentes	161	79
9)	Provence-Alpes-Côte d'Azur	160	90
10)	Brittany	149	82
11)	Basse-Normandie	143	88

Place	Regions	Craft industry density (**)	Per capita GDP (***) (French average = 100)
12)	Bourgogne	142	88
13)	Franche-Comté	142	92
14)	Centre	137	91
15)	Pays-de-la-Loire	132	85
16)	Champagne-Ardenne	118	99
17)	Île de France	113	151
18)	Alsace	112	100
19)	Haute-Normandie	110	96
20)	Lorraine	107	85
21)	Picardy	107	85
22)	Nord-Pas-De-Calais Metropolitan France	81	79
	DOM overseas regions of France)	137	n.a.
	France	181	n.a.
	France	138	100

Source: Ist. Guglielmo Tagliacarne.

(*) Craft industry density is calculated according to the number of people per 10 000 inhabitants on the 1994 roll of handicrafts.

(**) La France de l'artisanat, Ministère des PMI, du Commerce et de l'Artisanat, Direction de l'artisanat.

(***) Eurostat data processed by Istituto G. Tagliacarne.

TABLE 12

Breakdown of German regions according to craft industry density per 10 000 inhabs. (descending order)

Place	Regions	Craft industry density (1994)	Per capita GDP (German average = 100)
1)	Bavaria	85	115
2)	Baden-Württemberg	83	113
3)	Saxony	78	56
4)	Thuringia	76	55
5)	Rhineland-Palatinate	76	90
6)	Hesse	71	134
7)	Mecklenburg-Western Pomerania	63	56
8)	Saxony Anhalt	63	56
9)	Schleswig-Holstein	62	95
10)	Saarland	60	93
11)	Lower Saxony	60	93
12)	North Rhine-Westphalia	57	102
13)	Hamburg	52	186
14)	Bremen	49	138
15)	Berlin	44	100
	Germany	69	100

Source: Statistisches Bundesamt, Handwerkszählung, 1994.

TABLE 13

Regional spread of craft industries in Austria

Region	% of total
Burgenland	3
Lower Austria	19
Vienna	20
Carinthia	7
Styria	13
Upper Austria	17
Salzburg	7
Tirol	9
Vorarlberg	5
Austria	100

Source: IFG estimates.

6. Training for the craft industry: an introduction

6.1. In the craft industry — perhaps more than in other sectors — the firm is the centre for training activities, and professional skill and ability are prerequisites for success. Often, access to the profession is subject to rules, certificates, etc. which specify the official 'skills' needed to carry out a particular activity. In this sense, training is a major factor in the continual growth and development of the sector, particularly when considered against the background of the range of possibilities and options available in the 'training sector': from the formal teaching of basic and specialist skills (including manual skills) and know-how, to the inculcation of good business practice and styles of management.

6.2. The national training systems — both initial and ongoing — are thus a prerequisite for the existence, continuity and development of the professionalism of the players in SMEs — and especially craft industry SMEs.

6.3. The key feature is the integration of the education system and industry provided by combined work/training schemes, apprenticeships, work-experience placements and ongoing training. The latter serves two purposes: first, it keeps workers up to date; secondly, it builds on the body of accumulated knowledge, which is often unique and passed on informally.

6.4. Finally, in some countries the status of craftsman is governed by precise regulations and is subject to an exacting procedure (exams, certificates, practical tests, etc.); this highlights the need many countries feel to

preserve the 'uniqueness' of the craft professions, by maintaining their distinguishing features. This is also necessary to achieve recognition of the quality of the craft professions, in order to safeguard the interests of consumers and end-users. In Sweden, for instance, 'journeyman's' and 'mastercraftsman's' certificates are required for 100 typical craft sector activities, representing a wide range of occupations from baker to ice-cream maker.

6.5. The institutional background

6.5.1. A coordinated group of people is involved in programming, organizing and carrying out the (initial and continuous) vocational training courses. The group is structured as follows: a) central government — ministries, ministerial departments and governments agencies; b) local government; c) sector-specific associations (both nationally and locally, with their own training centres across the country).

6.5.2. Some specific institutes and vocational training centres play an important role, (e.g. AMU, a Danish centre found in many Danish cities; the Chamber of Handicrafts in Germany; COLO — national vocational training centres in the Netherlands; and the Local Education Authorities in England and Wales).

There is a distinct correlation between (initial and ongoing) training systems and the SME sector, in particular the craft industry. It should be emphasized, however, that in some countries there are no dedicated craft industry training centres: in Ireland craft industry training is part of secondary education and training schemes for jobseekers; in Denmark it is covered by the Basic Vocational Education (EUD) section of Higher Technical Examination Courses (HTX) and the Labour Market Training System (AMU — system, which is mainly responsible for providing training and refresher courses for skilled and semi-skilled workers).

6.5.3. The two vocational training systems differ in their target groups: young people in the case of initial vocational training and adults in the case of continuous vocational training. Moreover, the two types of training have different aims: the first prepares the trainee and introduces him/her to working life by providing students with the theory and practice needed to set up a business and/or start a professional activity. Its strong links with manufacturing make it effective. The second type offers maintenance and upgrading of skills, and retraining

courses; its effectiveness is a result of the frequency of the programmes and its close links with the concept of lifelong learning.

6.5.4. The integration referred to is best exemplified by the combined work and training/education schemes. These combine hands-on training in the workplace with education or training courses in vocational and technical schools.

In these schemes, the firm and the school are partners; they share roles and responsibilities, and this formula — which assumes that the world of education and the world of work are 'permeable' — underpins the framing of active training policies which help to boost the economy.

6.5.5. Moreover, this rotation between work experience and training highlights the need to think of the formal training system and industry as being responsible for the other's growth and enhancement.

The apprenticeship is certainly the most popular way of achieving this rotation. It is a combination of work and training experience for young people, who acquire — by means of a 'learning contract' — the basics they need to work in a firm. As already shown, the apprenticeship is subject to an agreement (or contract) concluded between the employer and the apprentices (via their respective legal representatives).

6.5.6. In the crafts sector, the entrepreneur's role as trainer is particularly important. It allows the inculcation of specific professional skills, together with a package of managerial skills which are typical of the smaller firm: the development of craftsmanship at a professional level requires both intense, interactive support, backed up by detailed training procedures, and specific planning and marketing skills, and — more generally — managerial strategies.

For the most part, the actual content of the apprenticeship is the fruit of close cooperation between government organizations and the social partners which represent the craft industry.

6.5.7. The apprenticeship is often a compulsory requirement — and not only in the craft sector — for admission to a profession. In Austria more than 200 professions use the apprenticeship system; in Great Britain the modern apprenticeship system — which started up in 1995 — underlies the National Vocational Qualification System (NVQ), based on the identification of industrial skills; it guarantees a person's ability to carry out an activity at a specific level (in Great Britain there are currently 500 NVQs for 150 occupations,

which cover 80 % of all occupations); in Ireland, most apprentice training programmes have been carried out under a single system since 1995: the Standard Based Apprenticeship Programme, FAS — the government agency for jobs and employment — is responsible for planning the activities of all apprentices throughout the various stages of the apprenticeship, and for the training activities which back up hands-on experience within the firm. Training is given in Vocational Schools, Regional Technical Colleges and at the Dublin Institute of Technology.

6.5.8. The final stage of the apprenticeship often includes a theoretical/practical exam. In Germany and Austria, in order to pass the final exam which confers admission to a specified trade, e.g. carpenter, the student must show s/he can 'produce' a product, or carry out some concrete task to prove s/he has the aptitude and skills needed for the relevant profession.

6.5.9. Often the representative organizations of the sector set up and run dedicated vocational training centres (e.g. Finland: Craft Trades Training Foundation; France: Apprentice Training Centre; Italy: centres belonging to the sector's two main organizations: 'Confartigianato' [Confederazione Nazionale dell'Artigianato] and the 'CNA' [Confederazione Nazionale dell'Artigianato]), or play an active role in promoting training for the sector (in Great Britain, the government-funded Craft Councils promote craft-related education at all levels of formal and informal training).

6.5.10. The craft sector — and particularly the vocational training element — is governed by national legislation: in Spain, the Organic Law for the General Ordering of the Education System (LOGSE), which provides the main thrust of the regulations governing training for Craft Activities and Design; in Italy, the Framework Act for the Craft Industry; in Austria, the law on vocational training (Berufsausbildungsgesetz); in Germany, the vocational training programme (Handwerksordnung und Berufsausbildungsgesetz); in Holland the Framework Act for Continuous Training (Kaderregeling Bedrijfstakgewijze Scholing), in force since 1 January 1995, etc.

In France, an accord paritaire (September 1994) on vocational training, signed by the UPA (Union Professionnelle de l'Artisanat) and the social partners, aims to promote apprenticeships and, inter alia, provides craft workers with 'time benefit' for training activities.

6.5.11. Apprentices' wages are often calculated according to occupation, and are increased yearly: e.g. in Denmark, apprentices' wages are set by special sector commissions, which include social partner representatives. The level of remuneration depends on the type of work, the length of training and the age of the apprentice (usually about 18 years old).

6.6. *Craft industry participation in training activities*

The basic concept underpinning the whole training strategy is that the craft firm must be at the heart of training activities.

As the Thyssen Report for the European Parliament points out, it is no coincidence that the EP Committee on Social Affairs has called for training funds to target the craft industry, and for the following action to be initiated:

- emphasize the firm's training role by conferring the status of 'maître d'apprentissage';
- exchanges of skills and know-how;
- Europe-wide recognition of the apprenticeship diploma.

6.6.1. Training initiatives to support and encourage craft industry start-ups are mostly included in programmes and/or national and regional initiatives to boost start-ups. Training is thus one of the main tools — an integral part of a start-up package which includes financial incentives, advice, technical assistance and tutorship — which specifically aim to pass on basic managerial know-how.

6.6.2. The main problem in designing a training course of this type is usually of a cultural nature, since:

- the craftsman generally has a production-centred corporate strategy in the narrow sense;
- the craft industry concentrates too much on the product;
- new enterprises, which have grown out of older firms, are particularly prone to this problem.

6.6.3. Consequently, training becomes an instrument of growth for the craft industry, and especially for its new entrepreneurs, by:

- improving the ability to spot and solve corporate problems, other than those strictly related to manufacturing;

- giving the budding entrepreneur a more global view of company and market strategies;
- promoting cooperation between micro-businesses in order to improve business relationships and procedures for exchanges of know-how, etc.;
- developing the language skills needed to do business on foreign markets.

6.6.4. These training programmes should not, however, be occasional or 'one-off' occurrences; it is vital that they be provided on a regular basis. In practice, this means designing a strategy based on the continuous training of the budding entrepreneur.

6.6.5. In this respect, three European examples can be quoted. In Ireland, for example, the main programmes for SMEs (Enterprise Development Programme, the Training Support Scheme, the Plato Programme and the Country Enterprise Board) provide management assistance, training, assistance/guidance and back-up for (potential) small businesses. In Greece, the O.A.E.D. (Manpower Employment Organization) runs a programme to help new entrepreneurs (co-funded by the European Social Fund), the main aim of which is to provide financial support for individual start-ups.

In Luxembourg, the Chamber of Commerce — through the Enterprise Start-up Service (SCE) — provides budding young craft industry entrepreneurs with information and advice, and offers personal service and assistance.

7. National craft industry and SME policies

7.1. At Community level, the Delors White Paper on Competitiveness, Growth and Employment recognizes the important contribution made by SMEs and the craft industry to the economic growth of the European Union. At national level, too, the Member States see small firms as a flywheel for growth — particularly in the weakest areas — and as one of the best ways of creating new jobs. It is here that the craft industry has made and can continue to make a major contribution. A survey carried out in Italy in 1988⁽¹⁾ reveals that some two-thirds of new entrepreneurs came from a 'crafts' background. Further research has shown that small and micro-businesses maintain employment levels better than medium-sized and large firms when there is a downturn in the economy.

⁽¹⁾ Survey carried out nationwide by Istituto G. Tagliacarne.

7.2. This means that the small business and craft sector, if backed by selective intervention policies — targeted rather than scatter-gun — can make an important contribution towards creating new firms and new jobs.

7.3. Generally speaking, Member State legislation on the sector aims to:

- improve business competitiveness;
- enhance smaller firms' ability to cope with economic and technological change;
- safeguard and create jobs;
- ensure a wide choice and high standard of goods and services.

7.4. The following is a summary of the main types of EU Member State intervention for SMEs and the craft industry in recent years:

7.5. *Austria*

- support for SMEs (KMU — Förderungsgesetz 1996);
- subsidized credit;
- consultancy and training relief;
- funding for R & D;
- support for internationalization.

7.6. *Belgium*

- Introduction of a SME barometer to promote awareness of SME issues and encourage appropriate intervention policies;
- improved access to a topped-up 'Transfer Fund' for smoother transfers of undertakings;
- social security reforms.

7.7. *Denmark*

- Tax policy reform — more public investment and tax reform;
- special concessions for businesses.

7.8. *Germany*

- Tax relief for businesses;
- interest relief;
- reduction in corporate profit tax;

- 30-point programme to achieve the aims of the Delors White Paper, and special concessions for new businesses.

7.9. *Greece*

- Privatization, tax and competition reforms;
- Regional aid.

7.10. *Finland*

- Development fund — special guarantees for services to firms;
- insurance relief for SMEs;
- relief for minority partners.

7.11. *France*

- Medelin Plan: tax reform, access to credit, competition, bureaucracy, cooperation between firms;
- Guarantee Fund for productive investment;
- FFCGA;
- Multiannual guidance programme for the craft industry (tax reforms, access to credit, competition, red tape);
- plan for SMEs;
- Law of July 1996 on the development and promotion of trade and the craft industry.

7.12. *Ireland*

- Reduced fiscal drag on corporate profits;
- aid for new businesses (Seed Capital Scheme).

7.13. *Italy*

- A relaunch of technological innovation, with a development plan made up of 8 sub-programmes relating to tax relief, direct subsidies, etc.;
- Artigiancassa action on funding (encouraging young people and women to set up in business, protection of the environment, services for businesses, technological innovation, etc.) and concessions (interest subsidies, royalties, and subsidiary guarantees) for craft firms (26 878 interest subsidies and 2 214 subsidiary guarantees were granted in 1995);
- Laws 488 and 341 — tax relief, one-off payments, etc.

7.14. *Netherlands*

- 'Meer werk, weer werk' plan for improved market flexibility;
- R&D grants;
- apprenticeship plan;
- tax relief.

7.15. *Portugal;*

- PEDIP II Programme (SME development plan);
- PROCOM Programme (for business);
- concessions for export;
- help with funding.

7.16. *United Kingdom*

- Cooperation and improved competitiveness;
- bank guarantee plan;
- concessions for investment;
- Uniform Business Rate.

7.17. *Spain*

- credit for SMEs via the Instituto de Credito Oficial (ICO);
- capital grants;
- regional measures.

8. **Priorities for the European craft industry — some ideas for discussion**

8.1. Bearing in mind the special nature of crafts issues — dealt with in various ESC opinions and Commission and EP documents — and emphasizing the importance of the crafts sector to the European economy in terms of the number of firms, employment and contribution to GDP, the Committee feels that the sector should be backed up by appropriate EU policy action; this should be specific, but complement existing policies for SMEs, taking account of their particular circumstances, and aim to raise the economic and social profile of the craft industry, and especially to support it as a breeding ground for new enterprises and new jobs.

8.2. Action to promote the growth of the craft industry should take heed of the following four priorities:

- emphasize the distinctive features of the craft industry compared to other SMEs, both in EU, national

and local consultations and negotiations and in implementing Community economic and social policies;

- promote the creation and development of a European cultural identity for the craft industry;
- support the economic development of craft industries, by improving their competitiveness and providing easier access to the single market;
- encourage craft industries and their representatives to take part in exchange and cooperation programmes, both within the Community and in the framework of EU relations with third countries.

8.3. The following eleven action lines cannot pretend to cover all the needs of European micro-businesses, but they do provide a springboard for identifying procedures which could provide some of the answers.

8.4. The eleven priority action lines are as follows:

8.4.1. **Social consultation**

Provision should be made for representation of craft industry and SME interests in the negotiations referred to in Article 4 of the agreement on social policy in the Treaty on European Union, insofar as the relevant organizations are represented at European level⁽¹⁾.

8.4.2. **Boost business competitiveness**

The entrepreneur must have access to a team of advisors who follow the progress of the firm and its employees from start to finish ('life-long advising'), even when the firm changes hands.

To this end, we need to:

- 1) promote the sector by providing, via the ESF and the Structural Funds, specific funding from the competent ministries for SMEs and the craft industry;
- 2) support training programmes for 'business advisers' in the craft sector's organizations, and also back cooperation and exchange schemes for them in the various Member States.

⁽¹⁾ Cf. Point 1.8 of the ESC Opinion on social dialogue; OJ No C 89, 19. 3. 1997.

8.4.3. Establishment of the European Academy for Craft Industries and SMEs

The Academy's role must be to further the aims of the industry, and provide a coordination centre for European craft industry research and training institutes, and a think tank for European craft industry problems and for Commission proposals.

8.4.4. Support for the development of a 'European identity' for the craft industry and small business culture throughout Europe

Proposed action in this area includes:

- 1) strengthening the various Member State training centres which are particularly geared towards the study and implementation of new technologies;
- 2) improved awareness of the role of the craft industry and small businesses in the economy, via better statistical analysis and research into specific subjects, particularly into the sector's key role as regards women in business, and jobs for young people and the disabled;
- 3) establishment of a permanent observatory for the craft industry in Europe, within the framework of the European Observatory for SMEs.
- 4) encouraging freedom of establishment and freedom to provide services, as provided for under Directive 64/427/EEC of 7 July 1964⁽¹⁾.

8.4.5. Enhanced role for apprenticeships and promotion of combined work/training schemes

In view of the pre-eminence of the apprenticeship as a means of passing on craft-industry skills, and considering that combined work/training is vital to the development of the sector, the following four action areas are recommended:

- 1) boost the firm's role in training by involving the craft industry's representative organizations in the creation of a European qualification;

- 2) encourage skills and know-how exchanges between firms, and especially between young craftsmen who have just completed their apprenticeship and those responsible for training within a firm and/or in specialist centres;

- 3) promote recognition of apprenticeship diplomas, with a view to creating a European diploma (the cooperation experience between the French APCM (Assemblée Permanente des Chambres de Métiers) and the ZDH (Zentralverband des Deutschen Handwerks) in Germany could be useful here);

- 4) strengthen action to support employment and create new firms; this action could include finance, worker flexibility, continuous training for apprentices/budding entrepreneurs.

8.4.6. Improve information for micro-businesses

The specific nature of small and micro-businesses — acknowledged in several Committee Opinions and at the Berlin Conference — is evidence of the need to improve information for micro-businesses. To this end, the following are suggested:

- 1) improve Euro-info Centre activities via heightened cooperation between professional associations, making selected, targeted information available, and focusing on the quality rather than the quantity of the information provided, whether as hard copy or software;

- 2) make better use of the know-how of craft industry and SME organizations and networks as channels of information and advice on how to harness national and Community funds for the craft industry, particularly those earmarked for innovation and technology transfers;

- 3) develop an innovation culture which encourages use of new technologies and quality certification in micro-businesses;

- 4) build on the findings of the Munich preliminary conference — held to pave the way for the Third European Conference on Craft Industries in Milan — regarding the inclusion of the craft industry in the information society.

8.4.7. Simplify bureaucracy

Four priorities have been identified:

- 1) allow micro-businesses more time than larger firms to apply regulations (except labour law provisions),

⁽¹⁾ This was one of the European Community's first directives. Between 1964 and 1982, the Community adopted a further six directives on self-employment in industry and the craft sector, enshrining the concepts of freedom of establishment and the freedom to provide services for most craft industries.

since their lower turnover often makes compliance costly and complex for craftsmen and shopkeepers;

- 2) provide tax measures to encourage the establishment, transfer and expansion of craft firms, especially those which operate across national frontiers;
- 3) support the establishment of management centres able to help small businessmen to cope with the tax and accounting obligations prescribed by national law;
- 4) monitor the impact of new Community legislation on craft firms, particularly in relation to their specific nature as opposed to SMEs, so as to ensure that the letter of the law is respected and to avoid the disastrous financial and managerial consequences for the craft industry of unsuitable legislation.

8.4.8. Incentives for cooperation and exchanges between micro-businesses and their organizations

In order to keep abreast of economic developments, micro-businesses need to cooperate and pool information with other Community and third-country businesses.

To this end, the Committee would recommend:

- 1) support for cooperation between craft industry organizations and between technical and operational centres associated with the craft industry;
- 2) top priority to be given, within the framework of the Structural Funds, to economic and financial incentives for micro- and small businesses;
- 3) encouragement for collective organization and the development of a cooperative mentality, by helping the craft industry to organize itself around a system of

common enterprises, including at cross-Community level.

Such a strategy should be underpinned by concerted action involving the local authorities, the Member States and the European Union.

8.4.9. Promote a culture of innovation for craftsmen and small businesses

Economic growth, competitiveness and the creation of new jobs all depend on an increased ability to innovate. In order to achieve these objectives, a culture of innovation must be created. This is necessary both as far as the end-product is concerned, and also for the organizational and marketing side of the industry.

8.4.10. Promote the improvement and development of transport and communication networks

The internationalization of businesses and the globalization of the economy require, perhaps most of all, an efficient transport network and a communications capability for the individual economic operators. An important contribution could be provided by enabling the craft industry to transport its products as cheaply as possible, and providing it with the possibility to communicate easily with other craft sector operators via state-of-the-art communications technology (Internet, E-mail, etc.).

8.4.11. Step up craft industry job creation initiatives

Simple measures could be taken to make takeovers and start-ups easier, by:

- providing financial assistance, e.g. 'soft' loans, mutual guarantees, or protection of family assets;
- creating a truly equitable tax regime for capital gains, unearned income, transfer tax and VAT recovery;
- encouraging good practice amongst competitors.

Brussels, 20 March 1997.

The President
of the Economic and Social Committee
Tom JENKINS

Opinion of the Economic and Social Committee on:

- the 'Proposal for a Decision of the European Parliament and of the Council amending the basic Decision relating to the Socrates programme to include Turkey among the beneficiary countries',
- the 'Proposal for a Decision of the European Parliament and of the Council amending the basic Decision relating to the third phase of the Youth for Europe programme to include Turkey among the beneficiary countries', and
- the 'Proposal for a Decision of the Council amending the basic Decision relating to the Leonardo programme to include Turkey among the beneficiary countries'⁽¹⁾

(97/C 158/10)

On 30 January 1997 the Economic and Social Committee, acting under Rule 23(3) of its Rules of Procedure, decided to draw up an opinion on the above-mentioned proposals.

The Economic and Social Committee, acting under Rule 20 and Rule 50 (urgency procedure), decided to appoint Mrs Cassina as Rapporteur-General.

At its 344th plenary session (meeting of 20 March 1997) the Economic and Social Committee adopted the following opinion by 88 votes to 15, with 22 abstentions.

1. Introduction

1.1. The Commission proposal (COM(96) 199 final of 13 May 1996) calls on the Council to amend the basic Decisions relating to the Leonardo, Socrates and Youth for Europe programmes, so as to include Turkey among the beneficiary countries. The Council Decision relating to the Leonardo programme (6 December 1994) and the Parliament and Council Decisions relating to the Socrates programme and the third phase of the Youth for Europe programme (14 March 1995) pave the way for opening up these programmes to the associated countries of central and eastern Europe and to Cyprus and Malta, but make no mention of Turkey, which has been an associated country since 1963.

1.2. The aim of the proposal is to secure equal treatment for Turkey, which is the only country of those mentioned above to have concluded a customs union with the EU. The customs union, which admittedly does not cover agricultural products, entered into force on 31 December 1995. The proposal also meets the request made by Turkey at the Association Council meeting on 30 October 1995.

1.3. The Commission considers that, against the background of the EU-Turkey customs union, Turkey's participation in these programmes is in the Community's interest. The reasons for this are twofold: it will allow young Europeans to establish closer links with their opposite numbers in Turkey; and it will help strengthen democracy and respect for human rights in that country. These objectives are cited as key elements in the

cost-effectiveness analysis (point 9 of the financial statement).

1.4. The Commission emphasizes that the main beneficiaries will be students, academics and young people, and that the intermediaries will be teaching establishments, mainly universities and other institutions of higher education.

1.5. The Commission states that Turkey's financial contribution will be made via a direct contribution, or by using funds earmarked for financial cooperation (or a mix of the two), whilst reserving the right to make a proposal to the budgetary authority at a later date.

2. Comments

2.1. The ESC regrets to note that although the proposals come under the scope of Articles 126 and 127 (Socrates), 126 (Youth for Europe) and 127 (Leonardo), for which ESC consultation is mandatory, the formal request for an opinion which has been expected since May 1996 has still not been made. The ESC has therefore decided to invoke the provisions of Rule 23(3), following a debate on the matter by the Joint Consultative Committee in Brussels on 12 December 1996.

2.2. The ESC expresses deep concern over the difficulties of the democratization process and the implementation of human rights in Turkey and is also fully aware that the Kurdish question and the situation on Cyprus have made no progress towards a solution in recent

⁽¹⁾ OJ No C 186, 26. 6. 1996, p. 8-9.

months. However, the ESC wishes to remain consistent with the own-initiative opinion adopted in 1993 and with the work carried out within the EU/Turkey joint consultative committee, set up in 1995. The ESC feels, nonetheless, that education and training are areas in which the benefits to be derived from exchanges with third country cultures and peoples clearly outweigh any economic or political considerations. In numerous opinions on EU external relations, the ESC has stated that EU socio-occupational organizations consider third country cooperation on culture and training as a priority.

2.3. Accordingly, the ESC endorses the proposal.

2.4. The ESC notes that, although the European Parliament has entered appropriations for the EU-Turkey Financial Regulation into the budget reserves, in point 5 of its Resolution on the political situation in Turkey (September 1996), the same Parliament calls on the Commission to block funding under the MEDA programme, except where it concerns 'the promotion of democracy, human rights and civil society'.

2.4.1. The ESC believes that the current proposal is amply covered by the exception provided for by the EP, and hopes that the relevant decisions will enter into force very soon.

2.5. The ESC shares the growing concern expressed in many democratic circles — both in the EU and Turkey — at a number of the Turkish government's actions, declarations and shortcomings; it nevertheless remains convinced that cooperation on such basic issues as education, training and youth provides incalculable added value to EU external relations in terms of relations

between civil societies — a goal we should never lose sight of.

2.6. Education, training and youth exchanges provide an excellent seed bed for basic human and democratic values. The benefits reaped from internships or periods of study or training in a foreign country where democracy and pluralism are practised and encouraged can last a lifetime. It should be remembered that this cultural and educational process involves people who in all probability will one day hold positions of considerable responsibility in the economic and political life of their country. We should always look on investment in human resources as an investment for our future — for peace, democracy and co-existence. This is the basic reason for opening up EU cultural and training programmes to young people from outside the EU — it is consistent with the promotion of the European economic and social development model, which is characterized by solidarity and in which diversity is addressed through dialogue.

2.7. It is worth noting that the legal basis for the Decisions relating to Socrates and Leonardo is Article 127 of the Treaty (education, vocational training and youth), which explicitly states that 'the Community and Member States shall foster cooperation with third countries ...'.

2.8. The ESC calls on the Commission to identify in a clear and transparent manner all the budget items which could help to provide Turkish young people, students and academics with concrete access to the Socrates, Leonardo and Youth for Europe (III) programmes, and declares itself willing to contribute — within the confines of its remit — to the implementation of the programmes in question, in order to help ensure that the declared objectives are achieved in a consistent and efficient manner.

Brussels, 20 March 1997.

*The President
of the Economic and Social Committee*

Tom JENKINS

Opinion of the Economic and Social Committee on the 'Proposal for a European Parliament and Council Directive concerning the approximation of the laws, regulations and administrative provisions of the Member States relating to the classification, packaging and labelling of dangerous preparations'

(97/C 158/11)

On 1 October 1996 the Council decided to consult the Economic and Social Committee, under Article 100a of the Treaty establishing the European Community, on the above-mentioned proposal.

The Section for Protection of the Environment, Public Health and Consumer Affairs, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 7 March 1997. The rapporteur was Mr Gardner.

At its 344th plenary session on 19 and 20 March 1997 (meeting of 20 March 1997) the Economic and Social Committee adopted the following opinion by 94 votes in favour, two against and five abstentions.

1. Introduction

1.1. Dangerous preparations are currently regulated by Directive 88/379/EEC⁽¹⁾ which covers their classification, packaging and labelling. This proposal brings that Directive up to date while improving the presentation. The proposal also introduces the following new elements:

1.1.1. Plant-protection products (PPPs) are now included as regards their classification, packaging, labelling and safety data sheets (SDS). Directive 91/414/EEC⁽²⁾ on the placing on the market of PPPs remains into force, however, but has to be amended to take into consideration the fact that Directive 78/631/EEC⁽³⁾, on the classification, packaging and labelling of pesticides, has been repealed.

1.1.2. The requirement for SDS is extended to certain preparations not classified as dangerous.

1.1.3. There is a new classification for environmental hazards. This is in line with the introduction of the corresponding criteria in Directive 67/548/EEC⁽⁴⁾ relating to the classification, packaging and labelling of dangerous substances.

1.1.4. Obligation to label certain sensitizers, even below the general classification limits.

2. General comments

2.1. Most of these changes are timely and necessary. While the presentation is improved the proposal remains

difficult for the ordinary layman, since much of the detail is found in other directives, especially Directive 67/548/EEC on dangerous substances. Nevertheless, the Committee approves it subject to the comments below.

2.1.1. The Committee confirms the importance of emphasizing to consumers any safety and environmental hazards of household and garden products so that they can take precautions and, where a choice exists, purchase alternatives.

2.1.2. Problems arise particularly with the following additions:

2.2. *Introduction of plant-protection products (PPPs)*

2.2.1. PPPs now have to follow the same general rules as the other preparations. This is a harmonization in general, especially as regards classification. The absence of specific labelling rules in the framework of this proposal is a potential source of confusion and misunderstanding for both users and enforcement authorities. Therefore, unambiguous rules have to be established from the start.

2.3. *Inclusion of certain preparations not classified as dangerous*

2.3.1. In addition to existing provisions, the new obligation requires the preparation of SDS. This raises a number of difficulties which are addressed in detail in point 3.11.

2.4. *Environmental dangers*

2.4.1. Environmental dangers are now treated with the same emphasis and detailed procedure as toxicological properties.

⁽¹⁾ OJ No L 187, 16. 7. 1988.

⁽²⁾ OJ No L 230, 19. 8. 1991.

⁽³⁾ OJ No L 206, 29. 7. 1978.

⁽⁴⁾ OJ No L 196, 16. 8. 1967.

2.4.2. The annexes should deal only with the technical parts of the assessments. This highlights the principles (in the Articles) but allows more rapid adaptations of the technical part in line with progress, scientific or otherwise.

2.5. *Alternative names*

2.5.1. The proposal keeps the current limitations regarding the category of substances for which alternative names can be used, but introduces a procedure of approval of these alternative names. This is discussed in more detail in points 3.8 and 3.10.

3. Detailed comments

3.1. *Article 1 — paragraph 4*

3.1.1. This paragraph brings classification, labelling, packaging and SDS of PPPs into the rules of this proposal while continuing those completed under the specific Directive 91/414/EEC. Two different sets of labelling rules are likely to create confusion.

3.1.2. As the best solution, the Committee proposes that Directive 91/414/EEC be amended as necessary and enter into force at the same time as the present proposal. The particular case of labelling is covered in point 3.7 below.

3.2. *Article 1 — paragraph 5*

3.2.1. This directive does not apply to transport and transport packaging. The Commission should work within the relevant international bodies to bring transport provisions (as laid down, for example, in Directive 94/55/EC of 21 November 1994) into line with this directive as regards classification, packaging and labelling.

3.3. *Article 5 — Evaluation of hazards deriving from physico-chemical properties*

3.3.1. The mechanism of evaluation in general is unchanged but there is a new clause which avoids unnecessary re-runs of tests. This seems sensible.

3.4. *Article 6 — Evaluation of health hazards*

3.4.1. The permitted variations have been increased in the light of practical experience. However it needs to be made clear that this rule only applies in the rare cases where properties of the preparation is first assessed by testing rather than by calculation from the constituents.

3.4.2. Here again this revised clause avoids unnecessary re-testing. In this case, this will reduce the number of animal tests required.

3.5. *Article 7*

3.5.1. This is new and covers, in connection with Annex III, the evaluation of environmental hazards. The method very sensibly mirrors that for toxicological evaluation.

3.5.2. See also point 2.4 above.

3.6. *Article 8 — paragraph 4*

3.6.1. This is new and will help both with enforcement and with applying the directive.

3.7. *Article 10 — paragraph 1.2 — Labelling of PPPs*

3.7.1. As indicated under point 3.1, labelling is the special difficulty resulting from the inclusion of PPPs in the general directive. The Committee proposes that an Annex under this directive give clear, unambiguous rules for labelling these products. As stated in paragraph 3.1, this, together with the necessary amendments of Directive 91/414/EEC, needs to be achieved at the latest when the proposal comes into force.

3.8. *Article 10 — paragraph 2.3.5 — Use of alternative names*

3.8.1. This Article allows alternative names only for substances which are harmful owing to acute lethal effects.

3.8.2. The label must show all data necessary for the information of consumers and users. It is also necessary to take into account current regulations protecting industrial know-how as far as this does not endanger safety of users and consumers. This can be done using the Lexicon/Guide in Annex VI Part B.

3.9. Article 10 — paragraphs 2.5 and 2.6

3.9.1. These can now result in up to 6 Risk phrases plus 6 Safety Advice phrases on the same label. While 6 R phrases may only occur occasionally for very dangerous products, 6 S phrases may become quite common.

3.9.2. That many on top of the chemical names requires that the information is really necessary and intelligible. At the workplace, however, more complete and precise information is already given on the SDS.

3.9.3. Without prejudice to the provisions of the proposed directive, the Committee invites the Commission to carry out a study on the need for existing labelling and how this is understood by the general public and users. Based on results of this study, the criteria of Annex VI to Directive 67/548/EEC for labelling dangerous substances and preparations should be reviewed as necessary, and ways and means to educate the general public be examined.

3.9.4. It might be possible to make use of a survey which DG XXIV is about to start in the food field⁽¹⁾ where there are similar problems.

3.10. Article 11 — Procedure for alternative names

3.10.1. A request to use an alternative name may be tabled only on the basis of Article 11.

3.11. Article 16 — paragraph 2 — Extension of safety data sheets (SDS)

3.11.1. This now requires SDS for preparations not classified as dangerous within the meaning of Articles 5, 6 and 7 but containing an individual concentration of $\geq 1\%$ by weight (0,2 % in volume for gases) of at least one substance dangerous to health or for which there are Community exposure limits at the workplace.

3.11.2. There are very many such preparations. Establishing and updating full data sheets is costly and entails a great deal of paperwork, both for the producers and for the enforcement authorities. Among the producers,

SMEs have particular difficulties because often they do not have the necessary technical or human resources.

3.11.3. Full data sheets are justified in those cases where one substance has exposure limits at the workplace (second indent of Article 16, paragraph 2).

3.11.4. In the cases where one component substance poses health hazards (first indent of Article 16, paragraph 2), establishing full data sheets is not normally justified by the benefits. For these preparations, therefore, there should be simplified information sheets giving only those details which are really needed for users or consumers. This is in line with the third paragraph of the introduction to the Annex to Directive 93/112/EC⁽²⁾ on the specific information system for dangerous preparations (properties of no significance).

3.11.5. The details for such information sheets could well be incorporated in this proposal so as to ensure that all Member States work on the same basis.

3.12. Article 23

3.12.1. This proposal is under Article 100A, which is a very lengthy and complicated procedure. Predetermined dates of application therefore are unrealistic.

3.12.2. Application therefore should start from the date of actual publication in the OJ with a five-year transition period thereafter in line with the Explanatory Memorandum.

3.13. Annex V — C.1 — Additional labelling of certain sensitizers

3.13.1. The proposal requires that the name of certain sensitizing substances present below the classification concentration be however put on the label with the inscription: 'Contains name of sensitizing substance. May produce an allergic reaction in persons already sensitized'.

3.13.2. Putting the name on the label is a sensible requirement to alert sensitized persons.

⁽¹⁾ OJ No C 265, 12. 9. 1996.

⁽²⁾ OJ No L 314, 16. 12. 1993.

3.14. *Annex VI — Part A (A) first indent*

relates to toxicity, whilst the latter (harmful when ingested) relates to harmfulness.

3.14.1. Replace in the EN/IT/NL/GR/FI versions 'R23' with 'R22'. The former (toxic when inhaled)

Brussels, 20 March 1997.

The President
of the Economic and Social Committee
Tom JENKINS
