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PANEL 1. INDUSTRIAL RESTRUCTURING: CAUSES, CONTENTS AND MODALITIES

Topic 2. Stages and Modalities of Industrial Restructuring

INDUSTRIAL RESTRUCTURING IN THE EU ACCESSION COUNTRIES*

by Mr. **Antal Szabo**, Regional Adviser, UNECE

COMMUNITY ACQUIS[1]

The fundamental objectives of the **Action Programme of the European Community for strengthening the European industry's competitiveness** (implemented by the Council Decision 96/413/EC)[2] laid the basic principles for industrial restructuring for the candidat countries. Strengthening the competitiveness of the European industry is a prerequisite fro lasting economic growth and the creation of new jobs and should contribute to economic and social cohesion. The programme has the following objectives:

a) to modernizing the industrial role of public authorities in order to eliminate legal and administrative constrains on enterprises, particulatry SMEs;
b) to ensure undiscturberd competititon both internal and external to the Community;
c) to strengthen industrial cooperation;
d) to promote intangible competitiveness factors.

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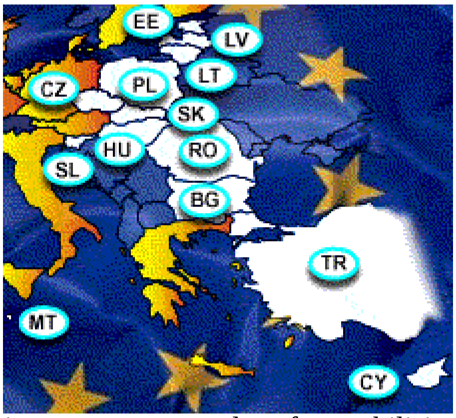
[1] http://europa.eu.int/scadplus/leg/en/lvb/e06103.htm

[2] 96/413/EC: Council Decision of 25 June 1996 on the implementation of a Community action programme to strengthen the competitiveness of European industry.

EC industrial policy seeks to enhance competitiveness, thus achieving rising living standards and high rates of employment. Its aim is to speed up adjustment to structural change, encouraging an environment favourable to initiative, to the development of undertakings throughout the Community and to industrial co-operation, and to foster better exploitation of the industrial potential of innovation, research and technological development policies. EU industrial policy combines instruments from a number of Community policies, and includes both instruments related to the operation of markets (product specification and market access, trade policy, State Aid and competition policy) and measures related to industry's capacity to adapt to change (stable macro-economic environment, technology, training etc.).

Taking into consideration the consequences of the enlargement process facing the industrial sector, it is unlikely that EU Industrial Policy has been changed fundamentally. The EU candidate countries in accordance with the pre-assession strategy industrial system has been gone through a deep restructuring process instead, in order to be competitive in the Single Market. The role of EU enterprises is be vital, through industrial co-operation, FDI, FIE, as well as the EU Institutions' commitment, in preparing the next enlargement[3].

Countries of the Enlargement at the web-site of the European Commission



The role of the EU's support for industrial restructuring through the PHARE Programme is to act as a catalyst for mobilising such investment, by addressing the social and regional aspects of restructuring. Restructuring in heavy industries will be particularly delicate and should be given attention by the EU during the preparations for accession, notably in the area of compliance with state aid rules.

From the positions expressed by the European Institutions, it emerges that relocation will provide an overall positive effect on both the economies of the EU and the CEECs, although it is not yet clear which safeguard measures are expected to be taken by either side in the transition period. The European Parliament points out that this relocation process cannot be the result of any kind of legalised social dumping, and therefore the EU has to make sure that the social principles of the Single Market are respected along with the market principles.

In order to cope with competitive pressure and market forces within the Union, the industry of applicant countries needs to have achieved a certain level of competitiveness by the time of accession. The applicant countries need to be seen as pursuing policies aimed at open and competitive markets along the lines set out in Article 157 (ex-Article 130) of the Treaty.

Co-operation between the EC and the candidate countries in the fields of industrial co-operation, investment, industrial standardisation and conformity assessment as provided for in the Europe Agreement is also an important indicator of development in the right direction.

ACHIEVEMENTS IN EU CANDIDATE COUNTRIES

[3] http://www.europarl.eu.int/enlargement/briefings/35a3_en.htm

The development of industrial policies in EU candidate countries – ten CEECs plus Cyprus, Malta and Turkey - udergone an evolution, having moved away from the classical industrial policy from which it differs by its interpretation of the role of the state and the influence of the state on the economy. Whilst classical industrial policy defines branches, sectors and even companies that should be given preferential treatment, modern industrial policies Strategy define the ways of creating and enabling political and economic environment for entrepreneurship, ways of increasing capabilities of companies and leaves business decisions to the companies themselves. Such a "philosophy of the economy" is compatible with the European orientations.

BULGARIA[4]

The Bulgaria Government 2001 programme[5] is still the basis for the government's industrial policy. The major objective of this programme is to improve framework conditions for industrial development and the competitiveness of enterprises. It also aims at creating an environment conducive to the growth of small and medium-sized undertakings. The industrial policy is a part of the **National Economic Development Plan for 2000-2006**.

The main achievements, that have been made by Bulgaria in the field of industrial policy, relate to the improved competition law and the amendments to the privatisation law. However, significant efforts are still needed to establish a coherent industrial policy strategy. According to latest assessment of the Commission of the European Communities, „the National Economic Development Plan ... needs to be finalised and fully embedded in national decision-making to ensure that it plays an operational role in guiding policy[6]."

Concerning sectoral policy, in February 1999 the government adopted a Strategy for the development of high-tech industry. To encourage investment, the government also adopted a mid-term Investment Programme (1998-2001) concerning projects in the fields of telecommunication networks, road and transport facilities, energy and construction.

Bulgaria has taken steps to accelerate the privatisation process by improving the institutional framework. At the end of 1999, the share of privatised long-term fixed assets reached 49%, compared with 30% a year earlier. Nevertheless, State-owned enterprises have yet to be privatised in the energy, transport and telecommunications sectors.

Some measures have been taken to improve the legislation regulating the sale of assets to ensure efficient and transparent procedures for liquidation and insolvency. International and Community accounting standards must be stringently enforced.

In the steel sector, Bulgaria has made some progress, but the process remains incomplete. Industrial policy is also affected by developments on the legislative front with respect to State aids. Bulgaria has to deploy considerable efforts in this area.

The Ministry of Economic Affairs was formed in December 1999 with the aim of lending new momentum to structural reform and adopting a more coherent industrial policy. To achieve this, it must equip its staff better, collaborate more with other ministries and promote the creation of private-sector business organisations.

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[4] http://europa.eu.int/scadplus/leg/en/lvb/e06101.htm
[5] http://www.mfa.government.bg/eiweb/NPAA/en/NPAA%202000/NPAA%20Chapter%2015.htm
[6] 2001 Regular Report on Bulgaria's Progress Towards Accession, SEC (2001) 1744, Brussels, 13 November 2001.

As far as small and medium-sized enterprises are concerned, well over 90% of Bulgarian companies are SMEs. This sector is continuing to make gradual progress. Despite the progress made in recent years, however, efforts still need to be made to improve the legal, administrative and tax environment, to strengthen the support infrastructure for SMEs and to develop access to finance.

Bulgaria has nevertheless introduced important measures in this area. The Agency for SMEs (ASME), founded at the Ministry for Industry (subsequently transferred to the Council of Ministers), will be strengthened through an SME law adopted in September 1999. This body will in fact become the central government unit to promote and coordinate SME policy in Bulgaria. This agency has started to set up a national SME support network including the Euro Info Centres, the European Innovation Centre, regional development agencies, business centres and NGOs. It now needs to receive proper funding from the national budget, and have its administrative capacity strengthened. More active consultative links should be forged between the public sector and business representatives.

Bulgaria needs to continue the development of SME policies to create a more favourable environment for SMEs. It is also required to address the administrative, financial, fiscal and managerial obstacles to SME creation. A coherent strategy for SME development should be drawn up and implemented. There is an urgent need to harmonize the activities of the two main actors – the Ministry of Economy and the National SME Agency – for national SME policy and particular implementation of the upportign programme.

CZECH REPUBLIC[7]

The Czech economy went through a deepening recession through 1998 and early 1999. The strict monetary, budgetary, and revenue policy, designed for a rapid restoration of economic balance, has markedly reduced affective domestic demand. The year-on-year drop in real incomes of the population had an adverse influence on household consumption, and the restrictive economic measures reduced investments.

The declining demand was reflected in the performance of production branches. Industrial production was rising in 1998 (especially due to high performance in exports), but the fall in the second half of the year reduced the annual increase to 2 per cent. The causes of the slow-down did not only rest in lower domestic demand and worsening external environment, but also in lower competitiveness of domestic products in consequence of the higher CZK exchange rate, higher wage costs per unit, decline in the productivity of labour, and the worsening financial situation of enterprises. With the general reduction of real volumes of credits, even viable firms were experiencing production difficulties, brought about by a shortage of both investment and working capital And thus enterprises are under double pressure – affective demand is reduced, and offer is curbed by a shortage and unavailability of financial resources. Sales difficulties were also evident from the fact that the development of revenues from industrial operations were developing worse than production for most of the year. These tendencies have continued into this year.

The draft conception of the industrial policy and the Programme of Action to boost The competitiveness of Czech industry linked to it were discussed by the Economic Council of the Government in March. In April 1999, the Government took note of the Conception of the Industrial Policy, and approved its objectives and the implementation initiatives. The Government also took note of the Programme of Action to boost the competitiveness of Czech industry, and the intentions of the **Programme of the Achievement of the Industrial Policy Objectives**. The objectives were set in three time levels. *Mr. Robert Sikora*, Deputy Minister of the Ministry of Industry and Trade, summarize the short-, medium- and long-term industrial policies as following:

Short-term objectives of the industrial policy for 1999-2001:

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[7] http://www.mpo.cz/gc/s9909/page0003.htm

- halt the decline in industrial production and GDP creation
- stabilize the business environment
- give a push to long-term growth in the processing industry.

This will be reflected in increased GDP, and especially in the productivity of labour. Linked to this objective is the need for marked progress in the cultivation of the economic environment, and the creation of an environment sufficiently stimulating business development in industry. One of the conditions will be larger investments into the infrastructure to increase affective demand.

The current approximation to EU also requires closer co-ordination of the implementing phase of the Czech industrial policy with the National Development Plan, which is being drafted in connection with the process of integration.

Medium-term objectives of the industrial policy

In the period up to the expected EU accession (referential year of 2003), and the period immediately following it (i.e. approximately up to the year 2006), the main objective will be to confirm the trends of growth achieved from 2001 to 2005, and maintain the rate of growth in labour productivity, or rather growth in value added.

The target rate of growth in value added in the processing industry can be quantified at between 5 and 7 per cent in constant prices, and the average growth in the productivity of labour at a level of 3 to 4 per cent higher than in the EU, i.e. around 7 and 8 per cent. Since the productivity of labour is not to be increased by way of higher unemployment, the medium-term objectives of the industrial policy include the creation of new jobs, especially in small and medium-sized enterprises.

Long-term objectives of the industrial policy

The strategic target for the processing industry is, approximately by the year 2010, i.e. when the Czech Republic and other associated countries will probably be full EU members, to create an industrial potential fully comparable to the average achieved in the EU by that time, by its share in GDP creation, the quality and effectiveness of production, and by the productivity of labour. In view of the present EU economic level, this means that the Czech Republic will exceed 75% of the EU average per capita GDP indicator.

The concurrent emphasis on a greater use of some instruments of the industrial policy is bringing a clearly positive move in the restructuring of industry. This applies primarily to science and research, small and medium-sized businesses, and a system of incentives to the involvement of foreign capital. The results testify to the realistic objectives of the industrial policy.

In November 2000, the Government approved the **Industry Sector Operational Programme** for 2001-2006. The programme defined the impelmentation of the priorities of the industrial policy aiming at enabling the Czech industry to be competitive after accession to the EU including the application of the Structural and Cohesion Funds. For the implementation of the programme a special implementation agency **CzechIndustry** has been set up. UNECE has on the opinion that this agency together with the **CzechInvest** have contunued to work very successful.

In March 2001, the **Programme for the promotion of industrial zones in 2001-2006** was approved.

As regards **SME policy**, in December 2000, the Government approved a **Long and medium-term Policy for SMEs until 2002** and launched 17 support programmes for SMEs.

CYPRUS[8]

Cyprus has promoted structural reforms aimed at removing market rigidities, improving resource allocation and preparing Cypriot industry to compete in the EU Single Market.

The new **Strategic Development Plan** (1999-2003) focuses on globalisation and further trade **liberalisation, technological changes and the information society.** The **New Industrial Policy** adopted in 1990, aims to improve the access of enterprises to finance with short, simplified and advantageous financial conditions. The Creation of business incubators and a Centre for Technology, Research and Development are also envisaged.

In January 2000, Cyprus abolished controls on Foreign Direct Investment (FDI) in companies and also restrictions on the holding of share capital in Cypriot companies by EU citizens. A **Foreign Investors Service Centre** ("One-Stop-Shop") has been set up.

Cypriot companies do, however, present some weaknesses in terms of lack of specialisation, weak links between production and distribution, machinery operating below capacity, a tight labour market, distance from its export markets and late payments in commercial transactions.

A package of support schemes has been introduced to overcome these constraints. Restructuring is particularly necessary in the manufacturing sector.

An important dimension of industrial policy is the control of State aids. The compatibility of State aids with Community legislation must be checked.

Cyprus' SME policy is in line with EC principles and objectives overall. On an island where SMEs predominate, the environment is conducive to private initiative. In the **Strategic Development Plan for Cyprus from 1999-2003** there is a specific chapter on SMEs. SMEs already benefit from Community initiatives such as EICC, BC-NET and BCC, and take part in business cooperation events such as Europartenariat and Interprise. A 'one-stop-shop' for foreign companies and a Euro Info Centre have been set up. The administrative capacity to apply the acquis in the areas of industrial policy and SMEs is already in place.

ESTONIA[9] [10]

Industrial development entered a new phae in 1999. Emphasis is put on training, retraining, innovation, introduction of IT, development of quality infrastructure. The **Main principle of the industrial policy** was adopted in February 1999. Technological innovation and development measures have been promoted since October 1999. The Ministry of Economic Affairs is the main governmental authority responsible for the formulation and co-ordination of the industrial policy.

A national quality policy has also been adopted and programmes relating to quality have been launched. However, the lack of implementation of an EU-compatible conformity assessment system continues to prevent Estonian enterprises from gaining experience in taking full responsibility for the conformity of their products.

As the privatisation process is virtually completed in the industrial sector, upgrading the infrastructure and supporting the implementation of retraining programmes remain the most important challenges to develop

[8] http://europa.eu.int/scadplus/leg/en/lvb/e06111.htm
[9] http://europa.eu.int/scadplus/leg/en/lvb/e06102.htm
[10] 2001 Regular Report on Estonia's Progress Towards Accession. SEC (2001), Brussels, 13.11.2001.

an environment that could attract FDI.

A special restructuring plan has been launched for the Ida-Virumaa region, which is closely linked to the oil sector.

Almost 99% of all enterprises in Estonia are SMEs. According to UNECE, the index of SME development is the highest amongst the emerging market economies. The SME policy is coherent and aiming at improving the business environment.

Access to finance remains one of the most important obstacles to develop SMEs. Some progress has been made in this area due to establishment of a Government-supported schemes for SMEs though the KredEx Foundation.

HUNGARY[11]

Hungarian industrial policy is very similar to the principles and objectives of EU industrial policy. It is based on maintaining a stable, open and competitive economic environment which favours the profitability of private businesses.

To achieve the objectives of its industrial policy, Hungary has set up the Hungarian Development Bank, which is supported by the Hungarian Investment and Trade Promotion Agency. Through the implementation of the **Szécheny Plan** more financial resources have been dedicated to proactice measures aimed at promoting networking and innovation and reducing the imbalances of industrial development by attracting new investors to East-Hungary.

Hungary has continued the restructuring of its industries. The inflow of direct foreign investment (DFI) has resulted in the transfer of technology and management know-how, the modernisation of production facilities and the intensification of other forms of cross-border cooperation. In Hungary there are currently 35 000 foreign investment companies, which account for approximately one third of GDP. They produce 80% of exports and employ one quarter of the workforce in the private sector. Trade statistics are encouraging and indicate a high rate of integration into the EU. The intensity of intra-industry trade with the EC has increased.

The restructuring process is slower for those Hungarian enterprises which do not benefit directly from DFI. It is important for Hungary now to seek to foster the local corporate sector. The large of multinationals in Hungary should encourage the development of a network of local supply businesses, but inter-industry linkages are not yet sufficiently developed.

Restructuring of the steel industry, on the other hand, has not made much progress. The main Hungarian steel producer is still state-owned. The restructuring of this sector requires viability plans to be drawn up for each enterprise. The liquidation procedures of the DAM Kft has been completed and the assets transferred to a new owner, while DUNAFER, under new management since February 2001, has been searching for privatization partner.

Hungarian policy regarding small and medium-sized enterprises is largely in line with EU policy. In December 1998, the government adopted a new four-year strategy and allocated the necessary funds. This strategy aims mainly to reduce the administrative burden and labour costs and to improve access to bank loans and financial facilities. It also promotes access to business information and training for entrepreneurs. The SME Fund, the Economic Development Target Fund, the Tourist Target Fund and the Active Employment Target Fund are helping SMEs with access to the market.

[11] http://europa.eu.int/scadplus/leg/en/lvb/e06103.htm

There are currently 750,000 SMEs in Hungary; in practice, 99% of companies registered in Hungary are classed as SMEs. These account for approximately 50% of GDP and employ two thirds of the local workforce. The large majority of SMEs are family businesses. Most of them operate in the service and construction sectors. One of the main problems facing SMEs is the tax system, which favours large multinationals; the average tax burden on multinationals is approximately 8%, while for SMEs it is 17%. The shortage of capital and micro credits, and the high capital intensity of research and development for SMEs, are further effective barriers to the market access of SMEs.

In November 1999, further progress was made on the definition of micro, small and medium-sized enterprises with the adoption of the Law on small and medium-sized enterprises. The Law also created the Enterprise Development Council.

LATVIA[12] [13]

Overall, Latvia's policy towards industry is in line with the principles of EU industrial policy. Latvia has gradually developed a horizontal industrial competitiveness policy on the basis of several Government programmes, for example on SMEs, quality assurance, market surveillance, foreign trade, regional development and improvement of competitiveness in the agri-food sector.

The Russian crisis revealed the difficulties many enterprises face in re-orienting their trade in order to compete on the global market. As a result of the crisis, Latvia has developed a new approach to industrial policy which places greater emphasis on analysis of industry. The policy acknowledges that there is a competitiveness gap between Latvia and the EU Member States.

In March 2001, a Government document entitled **Guideline for Industry Development in Latvia** was approved.

Privatisation and restructuring of businesses have made further. The privatization process is virtually completed in the industrial sector (the private sector accounted for 90% of industrial output in 2000 against 81.5% in 1999). The privatisation process is close to completion in the industrial sector and is continuing in the large enterprises in utilities and infrastructure. The rate of progress in restructuring the manufacturing sector varies according to the branches. Sectors such as wood and metal processing continue their development, while food processing and chemicals are lagging behind.

Strategies in the fields of employment, education, science and research still have to be implemented. Further development of public-private partnerships, the re-establishment of a balance between Riga and the regions in the area of public investment, as well as steps to promote innovation, are very much needed.

SMEs make up 99% of all Latvian enterprises and employ a total of 60% of the working population. Latvia has started to review its **National Programme for the SME Development for 1997-2001**, to reform the state support system for business promotion and to improve and simplify the business environment. At the beginning of 2001, the Ministry of Economy was reorganized. Two separate Departments on Entrepreneurship and Industry have been established under the responsibility of two different Deputy State Secretaries.

A network of Business Advisory Service centres and Business Innovation Centres has been set up. The Latvian Development Agency monitors the progress in implementing the Government Action Plan to Improve

[12] http://europa.eu.int/scadplus/leg/en/lvb/e06104.htm
[13] 2001 Regular Report on Latvia's Progress Towards Accession. SEC(2001) 1749, Brussels, 13 November 2001.

the Business Environment.

LITHUANIA[14]

The main aim of the Lithuanian Government's new approach is to ensure that in the medium term, Lithuanian industry can cope with the competitive pressure of the EU market and that industry will reach a weight in the economy similar to that of other industrialised countries. On 5 July 2000, by the Government Resoultion No. 789 the **Medium-term Industrial Development Policy and Strategy for its Implementation** was approved[15].

With regard to economic viability, some non-viable enterprises have been closed down. However the Government's efforts need to be stepped up.

The Ministry of Economic Affairs put emphasis on quality and export promotion.

Progress has been made in adopting the legislative framework and improving the business environment. There has been further sustained effort in restructuring and in compliance with the acquis. The **new Business Innovation Programme** and the amendment of the **Export Development Strategy** are a major step forward. In May 2000, a State aid law was approved. It will help to ensure that undue subsidies to enterprises stop definitively. The law on Free Economic Zones has been brought into line with Community legislation. The privatisation process is close to completion in the industrial sector, although the State still has minority shares in many companies. An acceleration has been taking place since the beginning of 2000 in privatising large-scale enterprises in utilities, infrastructure and the banking sector.

Investment in the manufacturing sector has continued to increase, and sectors that have comparative advantages, such as the forest-based industry and the oil refining industry, have successfully managed to stand up to external shocks. On the other hand, the food processing sector, which is the largest industrial sector in Lithuania, has been particularly hard hit by the Russian crisis and needs further restructuring.

Foreign direct investment outside the privatisation process remains disappointing.

The necessary administrative structure is virtually in place, but the Administrative Courts are understaffed and the Lithuanian Development Agency should be strengthened.

Small and medium-sized enterprises account for 70% of GDP. Legislation setting out a support framework for SME development entered into force in January 1999. Further steps need to be taken to make SME policy more coherent, simplify legislation and the administrative environment, strengthen support infrastructures and further develop SMEs' access to finance. A new SME strategy entitled **SME Business Development Strategy until 2003** was approved in September 2000. A new inter-ministerial structure to improve the business environment has been set up.

A **New Commercial Code** entered into force in January 2001. The Government made easier access to information about regulations and administrative procedures through Internet, which is a positive step towards the improvement of the business environment.

MALTA[16]

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[14] http://europa.eu.int/scadplus/leg/en/lvb/e06105.htm
[15] http://users.skynet.be/lt-mission-eu/accession/Positions/15A_I.html
[16] http://europa.eu.int/scadplus/leg/en/lvb/e06112.htm

The Maltese Government has adopted an industrial restructuring programme designed to improve the competitiveness of certain sectors that are geared mainly to the domestic market. In December 1999, the Government published the White Paper **Prosperity in Change - Challenges and Opportunities for Industry.** This sets out an overall strategy for industrial development and looks at the principal challenges involved, namely attracting foreign investment, expanding export activity, developing high value-added sectors, generating new employment opportunities and promoting joint ventures.

In November 1999, the White Paper **Privatisation - a Strategy for the Future** was published. This paper provides an outline of the Government's five-year privatisation programme. Its aim is to modernise and rationalise State-owned enterprises, at the same time improving the competitiveness of the Maltese economy.

The programme for the dismantling of the system of import levies has been implemented and certain levies have been abolished.

Direct State intervention is now mainly restricted to the shipbuilding and ship repair sector, and the sizeable subsidies provided are a cause for concern.

The Ministry of Economic Services, which is currently stepping up its capacities, is responsible for the formulation and administration of the national industrial strategy. The Ministry of Finance has established a Privatisation Unit. The administrative capacity therefore seems adequate.

Maltese SME policy is in line with the principles and objectives of EU enterprise policy. The Government has defined a strategy aimed at increasing SMEs' competitiveness. **The Business Promotion Act** entered into force in June 2001, including small business legislation.

The Institute for the Promotion of Small Enterprises (IPSE) has launched the **"Partners in Business"** initiative to promote networking between businesses. A Small Business Unit has been set up within the Ministry of Economic Services. It acts as a one-stop shop for all administrative procedures and analyses the existing legal and administrative framework with a view to proposing measures to simplify formalities.

POLAND[17]

Poland's industrial policy is based on the same broad principles which guide the EU's own policy. Poland's latest industrial policy guidelines for 1999-2002 adopted in February 1999 remain consistent with the same overall systemic approach followed by Poland through the transformation process. The policy thus endorses market-based rules of competition and free enterprise.

The central objectives of Polish industrial policy are thus to create a proper environment for industrial operators, to improve the international competitiveness of Polish industry and to adapt it to the business environment and industrial structures of the EU. The industrial policy adopted by Poland takes account of the wide competitiveness gap between Poland and EU Member States and the importance of meeting the target date of 2001 for the completion of the privatisation process.

Poland has been successful in creating a satisfactory commercial environment which has helped to establish new dynamic businesses, attracting high levels of direct foreign investment. It has achieved good results thanks also to its ability to respond to external shocks and to maintain its economic growth rate.

However, there are areas where policy and practice have been divergent. The industrial policy

[17] http://europa.eu.int/scadplus/leg/en/lvb/e06106.htm

guidelines highlight the need for early adjustment of industrial sectors and individual firms to the regulatory environment of the EU, in particular technical standards, product safety requirements, and the rules of competition. In practice little has been done to adopt this type of legislation. As a result, Polish producers continue to produce according to two different systems. In addition, there are still delays in the adoption of legislation on the control of State aid, this being an important element of any industrial policy.

As far as industrial restructuring is concerned, achievements have been disappointing despite the fact that Poland continues to reaffirm its good intentions. A particular example of this has been the steel sector, for which a restructuring plan was adopted in June 1998. The plan contained a number of weaknesses which were addressed at the Association Council of November 1998, which set out a list of changes to be made. These changes included a more realistic view of the market and the development of a coherent restructuring and privatisation strategy, identifying in particular those assets which would remain in State hands. In addition, Poland should also quantify its State aid and provide an indication of the volume of aid which it granted to production. Finally, it should develop viability plans for the steel plants in accordance with internal EU practice.

In June 2001, the Council of Ministers adopted a revised steel restructuring plan for the sector. The European Community has helped alleviate the social impact of the restructuring process. The problem of the industry's indebtedness has not yet been resolved.

Restructuring the coal sector is an other difficult problem of the Government. In Februry 2001 a new Law on the adjustment of the hard coal industry came into force.

In the automobile sector, Poland has stated in its industrial policy guidelines that it intends to modify its system for car assembly from semi-knockdown kits. However, there is no clear information about the system which will have to be adopted in 2000.

The current trend is towards complete production lines rather than assembly operations. The licensing system for imports of car bodies and chassis has been replaced by a tariff-based system. Imports from the EC and other preferential sources benefit from a zero tariff.

Privatisation has continued to play a key role in industrial policy and has brought in large foreign investors. It is important for Poland to continue with the steps taken to complete privatisation in the banking and energy sectors.

Through privatisation of strategic sectors, the Government's intention has been to stimulate economic activity in Poland. This has occurred in the banking sector, financial services, telecommunications and the energy sector.

Adjustment to the regulatory environment of the EC has begun with the adoption of the Law on conformity assessment. Polish producers have not had time to familiarise themselves with the Community rules, and have continued to produce according to different rules for the national and European markets.

As far as small and medium-sized enterprises (SMEs) are concerned, Polish legislation has achieved a satisfactory level of conformity with the acquis. SMEs continue to play a significant role in Poland's economic development, representing 99% of all Polish businesses. SMEs generate a total of 61% of employment and 45% of GDP in Poland. However, access to credit guarantees for SMEs is still not very well advanced and the cost is relatively high, in particular for small businesses, despite the fact that a national credit guarantee fund has been created for SMEs.

The government has adopted a series of measures to support SMEs. A programme for the development of small businesses was drawn up early in 1999 and the "national programme 1999-2002 for SMEs" has also been adopted.

ROMANIA[18]

In July 2001, the Government approved the industry strategy document Industrial Policy of Romania **together with an Action Plan covering the measures needed to implement this policy.**

There has been no particular change in the foreign direct investment trends in Romania, although the country has been aiming to attract strategic foreign investors for many key sectors. FDI is being discouraged by a constantly changing legal environment. Reform of the industrial financing system has nevertheless been addressed. In July 2001, a Law on the promotion of investment was adopted. Several tax incentives have been introduces aiming at the promotion of investment.

The competitiveness of Romania's industries remains hampered by the low level of quality of the capital stock and shortcomings in human skills. Only a few industrial sectors were able to increase their output and exports, notably the textiles and footwear industries, which together made up 48% of Romania's export to the EU in the first five months of 1999. Traditional industry sectors such as steel, oil and chemicals, however, lost further ground.

A study on restructuring the iron and steel industry was approved by the government in July 2000. In September 2001, the Government approved a Steel Industry Restructuring Programme

The legal framework was completed by an order regarding the privatisation of the agri-foodstuffs industry.

As regards the defence and aeronautical sectors, RATMIL was restructured and converted into the national undertaking ROMARM SA.

Half of the large shipbuilding companies have been privatised and the remainder are in the process of being privatised. In the automobile sector, Dacia has been privatised. However, there has been some concern that provided incentives and continuing state aid for enterprises not related to an effective restructuring process might distort competition. A rationalisation of the Department of Industry and Trade was carried out.

Romanian policy regarding SMEs does not fully comply with European Union principles and objectives and the lack of a predictable environment remains a problem for developing them. Nevertheless, the registration procedures have been simplified with one-stop shopping. Several programmes providing financial assistance to SME's have been implemented, but the level of financing available is still insufficient.

In May 2001, ab **Action Plan for the Abolition of Cetrain Barrier to SMEs** was adopted. The new Ministry for SMEs and Co/operatives is responsible for elaborating policies to support entrepreneurship and SMEs.

SLOVAKIA[19]

The Slovak industrial policy principles are laid in the documents entitled **Elaboration of the European Union's Industrial Policy Principles in the Conditions of the Slovak Republic** and the **Medium-term**

[18] http://europa.eu.int/scadplus/leg/en/lvb/e06108.htm
[19] http:// www.economy.gov.sk/angl/15.doc

Priorities of the Slovak Republic's Economic Policy. Increase of the competitiveness of the Slovak industry, a necessary precondition for accession, is secured mainly through the implementation of the **Strategy for Encouraging of the Inflow of Foreign Direct Investment into the Slovak Economy**, **the Financial Restructuring of Banks and the Corporate Sector,** the **Concept for the privatisation of state property** and the Application of the Slovak Republic's economic policy in the selected processing industries, which analysis the parameters of the selected industries along with assumed prospective up to the year 2004.

In September 2000, the Government adopted paper entitled **Improvements to the legal, regulatory and fiscal frameworks encouraging investment**, which was prepared on the basis of a study drew up in co-operation with the World Bank. This study identified possible improvements to the legal, regulatory and fiscal frameworks that would increase and improve investments. To achieve this objective, it contains a set of recommendations in the areas of fiscal policy, the registration of companies, certification, the judiciary, labour law, the environment and intellectual property.

The estimates of foreign direct investment indicate that the Slovak Republic should receive SKK 120 – 122 million in the year 2001 if the transformation and the sale of a stake in SPP Company are successfully completed.

On 17 January 2001, the Government adopted a resolution on the **principles, achievements and future direction of economic policy**.

In respect of **privatisation**, the Government adopted the following papers:

- Outline of the plan for the privatisation of Transpetrol Company (Resolution No 730/2000 of 13 September 2000);

- The outline of the plan for the privatisation of SPP Company (Resolution No 577/2000 of 12 July 2000). Credit Suisse First Boston has been selected as the privatisation advisor for the Company.

- Draft model for the transformation of the Slovak electricity sector and the privatisation of stakes in electricity companies (Resolution No 758/2000 of 27 September 2000)

- Timetable of accelerated privatisation (Resolution No 87 of 31 January 2001), which specifies schedules and relevant dates in respect of the privatisation of certain state-owned companies and facilities.

The competitiveness of the Slovak economy is also enhanced due to the application of legislation, notably the **State Aid Act, the Act on Technical Requirements for Products and Conformity Assessment, the Public Procurement Act** and the amendment to the **Act on the Transfer of State Property to Other Persons**, which enabled the privatisation of natural monopolies. Another important legislation facilitating the restructuring of banks and the corporate sector (along with the adopted amendment to the Banking Act) is the **amendment to the Bankruptcy and Composition Act**, which entered into force on 1 September 2000.

The main co-ordinator of the creation and formulation of Slovakia's industrial policy is the **Ministry of Economy**. The following are the key responsibilities of the Ministry:

1. The formulation of industrial policy;
2. The monitoring of the Slovak industry's internal and external environment;
3. The regular updating of industrial policy taking into consideration the latest information acquired from permanent monitoring and updating activities;
4. Co-operation with the relevant ministries in the process of drafting modifications to legislation.

In addition to the Ministry of Economy, the institutional framework relating to the chapter of industrial policy is composed of:

Slovak Benchmarking Information Centre – The Centre was included into the organisational structure of the Ministry of Economy on 1 January 2000. During the first year of the Centre's operations, discussions were held with several foreign counterparts. Co-operation with the German benchmarking centre of Frauenhofer Institute, Berlin, has yielded the most positive results in the form of a project for the operation of the Centre. The Slovak project partners are Ekonomservis and the Slovak Productivity Centre. Like in the previous period, efforts seeking to obtain funds from state budget failed in 2001. Such funds would help the Centre carry out intensified work and train its staff. And thus the Centre is not able to operate as a full-fledged benchmarking information centre. However, The Centre is designed to carry out the following activities:

- networking with international benchmarking centres on a global basis;
- the preparation of analysis, studies and outlines necessary to improve the competitiveness of Slovakia's industry and economy and the provision of guidelines in respect of the above mentioned to the relevant units of the Ministry of Economy;
- the provision of technical consultancy for the implementation of benchmarking projects;
- the provision of access to companies and other persons to the SICB databases, literature and the implemented benchmarking studies and the provision of updated information on benchmarking projects in Slovakia;
- the provision of assistance designed to find and select appropriate benchmarking partners;
- the provision of technical assistance to the organisation of benchmarking events (seminars, workshops, etc.).

Slovak Consolidation Agency, JSC – The Agency was set up in 1999 as a specialised financial agency administering the portfolio of non-performing loans.

The key role of the Agency is to accelerate the settlement of claims transferred from other banks to the Agency and to achieve the highest possible rate of debt recovery. The pursuit of these objectives will help to reduce the number of insolvent companies, to unfreeze cash flows, to give chances to companies capable of restructuring as well as to reduce the fiscal costs of the restructuring of the bank and corporate sectors.

Minding the need of administration and management of debts in an efficient way, the Agency will also use services rendered by specialised agencies. The Agency will stick to the format of public tenders when selling assets and administering debts on a contractual basis. The Agency considers as extremely important the principle of transparency in its internal as well as external operations. In addition to the standard control mechanisms of a joint-stock company, the Agency is also equipped with special control bodies such as the Investment Committee, the Internal Supervision Unit, the Specialist for contract review, the Specialist for ethics, etc.

The proceeds of sale of assets to third parties are to be used to reduce the fiscal costs of the restructuring of the bank and corporate sectors.

In January 2001, the Government approved a proposal to issue government bonds in 2001 to restructure banks (Resolution No 46 of 17 January 2001).

The **National Agency for the Development of Small and Medium-Sized Enterprises** was established along with a network of Regional and Advisory Information Centres and Business and Innovation Centres. The key role of the Agency is to co-ordinate all activities seeking to support small and medium-sized enterprises at the international, national and local levels. It co-ordinates activities designed to support SMEs and serves as a comprehensive information centre for companies. Furthermore, it organises training and advisory programmes and implements a wide range of financial support programmes for SMEs.

The **Agency for Industrial Development and Revitalisation** (launched its operations in the field of restructuring in 1996 aimed at debt reconciliation between debtors and creditors, debt service and company restructuring. The Agency is also in charge of the implementation of the SPEED Programme (Slovak Programme for Overindebted Companies), which was launched in 1997 and ended in 2000.

The Agency for Industrial Development and Revitalisation is co-funded by the Phare Programme (50 per cent) and Slovak sources (50 per cent; state budget and the National Property Fund). The Agency has 20 – 30 staff members. Currently, the last funds are being advanced and the decision as to the future of the Agency has not yet been made.

With regard to competition, the EC[20] is on the opinion that the current anti-monopoly legislation is already largely aligned with the acquis, though some improvements and further adaptation are still needed for block exemptions, agreements restricting competition, the exemption of the agricultural sector and negative clearance.

Company tax was reduced from 40% to 29% in January 2000. A five-year tax exemption period was granted to companies with foreign capital involvement. The lack of ceilings for this exemption does not comply with Community state-aid rules.

Two reports on improving the legal, regulatory, tax and customs framework to benefit undertakings and investment were adopted in July 2000. They simplified the registration of new companies, operation of the land register, real estate, legal procedures and collateral rights. A new company tax scheme came into force in January 2000.

Difficulties of access to funding continue to hamper the development of SMEs. Government support programmes for undertakings were merged into a single programme, called Start 2000.

SLOVENIA[21]

The **„Strategy for Increasing the Competitiveness of Slovene Industry**"[22], first adopted in 1996 and updated in 1998 and 2000, aims to improve the general business environment and the competitive position of Slovenian industry. Its principles are in line with the acquis.

At the beginning of 2000, Slovenia used innovative methods in the benchmarking of different industrial sectors, and was thus able to compare the competitiveness of its industries with that of the European Union and identify strengths in certain Slovenian sectors.

Following the formal ending of the privatisation process in 1998, the role of the Slovenian Development Corporation, which manages a number of companies due to be restructured, privatised or liquidated, is becoming increasingly unclear. The Commission feels that the public sector is still playing too big a role in industry and that further privatisation is therefore necessary.

There is increasing dynamism in the industrial sector, despite there being further scope for the process of company-led restructuring in privatised enterprises to gather pace. The best-performing industries are those successfully exporting to foreign markets; they include the chemical, rubber and pharmaceutical industries, the industries manufacturing electrical and optical equipment, and the household appliances industry. Measures should be taken in order to promote Foreign Direct Investment inflows, which have decreased.

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[20] http://europa.eu.int/scadplus/leg/en/lvb/e06109.htm
[21] http://europa.eu.int/scadplus/leg/en/lvb/e06110.htm
[22] http://www.tradepoint.si/industrystrategy/contents.htm

Assistance is still provided to companies, although there has been progress in making the measures involved more transparent and in limiting their duration.

The most serious structural problems are in the steel sector and in a number of labour-intensive industries. A steel restructuring programme was approved in September 2000. Two programmes have been adopted to ensure sustainable development and enhanced competitiveness in the textile and footwear sectors.

Almost 98% of all enterprises in Slovenia are SMEs. They represent 40% of total employment and contribute 38% of GDP. Development of SMEs is one of the priorities of the Accession Partnership. An anti-bureaucracy programme has been developed to address issues such as the costs and the time required for setting up new SMEs. The administrative capacity in the field of SMEs is satisfactory, but good coordination between all the competent bodies is required.

TURKEY[23]

Turkey's industrial policy is based around the 8th Five Year Plan and was further developed in the programme **Transition to a Stronger Economy** adopted in May 2001. The Turkish approach aims at improving the business environment by means of structural reforms, stabilisation measures, control of State aids and efforts to attract foreign investment. In order to facilitate foreign direct investment, the need for authorisation has been replaced by registration with the General Directorate of Foreign Investment.

In January 2000, the Turkish Parliament adopted a law on cases of disputes between the State and private companies, particularly with reference to concession agreements in the provision of services by private companies. This law will help Turkey to find companies willing to engage in Turkish infrastructure projects.

As far as the steel sector is concerned, the privatisation of the steelworks at Eregli has not yet taken place. Also in the steel sector, the Government will transfer Isdemir to Erdemir. This will result in an increase in production, which will add to the excess capacity in the sector, and thereby run counter to EC policy objectives.

The competitiveness of the Turkish manufacturing sector, and in particular of a number of sub-sectors, is sufficient in an international context. Privatisation in the telecommunications and energy sectors is expected to improve the business environment for Turkish industry.

The TSE - Turkish Standards Institute - lacks capacity, in particular in the field of testing. This may have a very negative effect on the competitiveness of Turkish companies. The necessary technical regulations should therefore be adopted.

SMEs play an important role in the economic and social fabric of the country. However they face a series of difficulties that stem from the traditional modes of production still used in certain sectors. They also find it difficult to gain access to the capital markets and to cope with high interest rates. The main specific difficulty is access to finance. Other problems lie in the low level of management skills and in access to technology.

Turkey participates in various Community initiatives, which allows cooperation between Turkish and EU businesses.

Turkey has not yet started aligning its SME policy with that of the Community. The definition of SMEs used by Turkey differs from that used by the Commission. The UNECE Regional Adviser has his opinion that

[23] http://europa.eu.int/scadplus/leg/en/lvb/e06113.htm

it isn't a problem, because Turkey has a clear SME support policy.

Macroeconomic stabilisation, fiscal reform, the pursuit of deflation objectives, a firm foreign exchange policy, a reduction of the hidden economy and reform of the financial sector are major factors in SME development.

As far as administrative capacity is concerned, Turkey has the necessary institutions. The aim of the Turkish Small and Medium Industry Development Organisation (KOSGEB) is to improve the efficiency and competitiveness of SMEs through technical assistance and training. KOBI Investment Inc. was established to facilitate the access to finance by SMEs. The Turkish Halk Bank provides credit guarantee fund to startups and existing SMEs.