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MR POWELL

EUROPEAN COUNCIL, 28-29 JUNE

I attach

- (1) a revised and shortened version of the speaking note for the Prime Minister on technology and EUREKA;
- (2) a speaking note on the economic and social situation (including deregulation and trade (Japan)). This puts into a continuous form the various arguments and points to make.

I would recall that I submitted to you yesterday a revised speaking note on the European Parliament and that Mr Budd (FCO) has submitted a revised and continuous version of the main opening speaking note on the development of the Community.

I am sending copies to Mr Budd (FCO) and to Sir Robert Armstrong.

D F WILLIAMSON

JUNE  
27 July 1985

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TECHNOLOGY IN EUROPE

Speaking note for the Prime Minister

We all recognise the problem of the technological gap between Europe and the United States/Japan. Mr Lubbers has raised it at our meeting in Dublin. President Mitterrand has dramatised it with EUREKA. President Delors has given us a full paper. We must move from discussion to action.

But the action must be right. There is no gap between Europe and others in scientific achievement. Rather the contrary. Our expenditure on research and development is comparable to that of the United States and ahead of that of Japan. But who exploits the technology? Clearly it is the United States and Japan, often on the basis of European ideas. For example, of the 12 largest semi-conductor manufacturers, 6 are American, 5 Japanese and 1 - Phillips - European.

We are not failing in ability or in funds for research. We are failing to get competitive products from research into the market place. The European market is fragmented. Public procurement and other national fiscal and regional incentives favour national companies or even their American and Japanese competitors. We produce 9 digital switching systems for a market that can support 2 or 3.

Dr Dekker of Phillips has said - and he should know - that access to a real common market would be of far more

/value than any

value than any amount of Government money. When we begin to make this a reality the technological gap will close. That is why we need completion of the common market in the Community. We also need specific measures in relation to high technology. I have three proposals to make.

First, we should identify European high technology projects to be grouped under the EUREKA scheme. They should not be projects invented by Governments. They should be projects which make the customers, in particular the public authorities, agree on common specifications and requirements. They should be sufficiently challenging to pull-through into the market place other advanced technologies. They should have an export potential. They should also have practical importance and attraction for the people of Europe. But above all they must be projects in which our own firms have a real interest and to which they would be prepared to commit their own resources, with a view to producing and selling profitably in cooperation with qualified European partners. Colleagues may have seen the announcement this week of just such a collaborative venture between GEC of Britain, Thomson of France, Siemens of the Federal Republic of Germany and Phillips of the Netherlands.

We have consulted our own companies. In particular, they have identified two main areas for which there is a real commercial interest for Community companies and which match the criteria I have set out. These are:

- transportation. This means projects in high speed ground transport; air traffic control, rapid intercity communication; mobile digital radio systems; and post

/office automation. We

We believe that these can be real projects of commercial value and can carry through some critical advanced technologies.

- home technologies. We must think one stage ahead to information and control systems in the home which will unleash a new generation of consumer products to meet consumer demand. Our competitors outside the Community are already moving in this direction. We need to establish standards and collaborative projects within the Community itself, in order to get a step ahead in the market place.

Secondly, we must find new ways to encourage the commercial exploitation of high technology products. The first customers for such products are often public authorities - and this is true also in the huge United States market where the Buy America Acts are still an important factor. In Europe too our national authorities naturally favour national firms but without providing a comparable market. For this and other reasons, European firms are often too weak to compete effectively in world markets. The Commission's proposals for developing the internal market will be central. But, in order to give the companies a practical incentive to increase collaboration, we should also examine the possibility of giving a specific guarantee that high technology products and services resulting from collaboration between European companies should enjoy the full benefits of the common market, in particular access to public procurement in all the participating countries. We might call this the EUROTYPE guarantee.

This is just one idea which might help to get our companies to work together to get new products to market. Finance and internal market Ministers should urgently examine this and any other ideas which come forward for creating an economic environment in which it will be profitable for European firms to cooperate as well as compete with each other in meeting the American and Japanese challenge.

Thirdly, we must decide how to carry EUREKA forward. We must find ways of involving our leading firms in identifying and carrying forward EUREKA projects. We may also need to bring in advanced companies from European countries outside the Community. If these projects are to succeed, manufacturers of high technology goods will need also to get together with their customers and those who will finance them.

The last thing we need for all this is a new bureaucracy and new injections of public money. I believe that the Commission and the Community institutions have an important responsibility for carrying forward the work on standards and public procurement and for managing existing schemes in information technology, micro electronics and biotechnology. But we should not attempt to impose rigid patterns of organisation on the collaboration under the EUREKA banner which will emerge from practical discussion between firms and groups of firms. It is not the

/Governments job to

Governments job to do the work for the companies nor to finance projects which can perfectly well be financed in the market place. It is our job to provide the framework for collaboration and break down market barriers to it.

This area is complex. That is why we have proposed that senior officials of interested European countries inside and outside the Community should meet very soon. They should draw on the advice of our high technology companies. They should examine the areas for collaboration must likely to meet the criteria I have outlined and they should let us have an early report.