

**Opinion of the Committee of the Regions on 'The competitiveness of European enterprises in the face of globalisation — How it can be encouraged'**

(2000/C 57/05)

THE COMMITTEE OF THE REGIONS,

the Communication from the Commission entitled 'The competitiveness of European enterprises in the face of globalisation — How it can be encouraged' (COM(1998) 718 final);

having regard to the decision taken by the Commission on 25 January 1999, under the first paragraph of Article 198c of the Treaty establishing the European Community, to consult the Committee of the Regions on the matter;

having regard to the decision taken by its Bureau on 10 March 1999, under the fourth paragraph of Article 198c of the Treaty establishing the European Community, to draw up an opinion on this matter and to instruct Commission 6 for Employment, Economic Policy, Single Market, Industry and SMEs to undertake the preparatory work;

having regard to the draft opinion (CdR 134/99 rev. 1) adopted by Commission 6 on 27 September 1999 (rapporteur: Mr Joseph, F-PSE),

adopted the following opinion, by a unanimous vote, at its 31st plenary session, held on 17 and 18 November 1999 (meeting of 18 November).

## 1. Introduction

1.1. The Committee of the Regions welcomes the Commission's communication, which seeks to flesh out courses of action to tackle EU competitiveness at a time of more rapid movement towards the establishment of a global economy. It is important to initiate discussion of the instruments which need to be introduced if we are to move from words to action. The Committee of the Regions fully intends to contribute to this discussion.

1.2. There is no doubt that the most appropriate level for introducing policies and tools is the EU level, provided that the subsidiarity principle is applied wherever necessary at national and local levels. 'Competitiveness of firms' is a clear-cut concept. The term 'competitiveness of geographical areas' is, however, somewhat nebulous.

1.3. Globalisation is undoubtedly an unavoidable process. In this opinion we should clearly not concern ourselves with assessing whether globalisation is the best way to achieve economic and social development. Instead, we must consider how to place the EU in an optimal position for confronting tomorrow's world. Not just the optimal economic position in terms of market share. The goal is to meet public aspirations in the EU with respect to level and quality of life, to set the EU on course for sustainable development and to prepare a framework of prosperity, respect for human rights and the environment, and peace and interchange with all the peoples of our planet.

1.4. The Committee of the Regions is however surprised at the very negative assessment in the Commission's communication of the situation of the EU and of EU enterprises in the face of globalisation. There is no doubting the need to draw up a hard-hitting assessment of EU strengths and weaknesses in order to enable a debate to be held on the approach to be pursued and the measures to be implemented. Although the Commission's Communication provides an accurate analysis of a number of shortcomings in the EU situation, it makes only passing references to the positive aspects of the EU's potential and the success of the 'European model' which has made it possible to build a united Europe based on solidarity. The constant references, on the other hand, to the success of the 'US model' disguises the fact that this model also has its own downsides (growing inequality and poverty, violence, etc.) and the fact that, by definition, a development model has elements of an ideological, historical, cultural, etc. nature and cannot be regarded as entirely transferable. It is, of course, perfectly possible to find in the 'US model', as in other models, concepts which will enable us to pinpoint effective courses of action. The Japanese model, for example, is one of the factors behind the establishment of the major EU cooperative research programmes. Irrespective of these arguments, our task is to set out a blueprint for the construction of a Europe based on fairness and strength and promoting the success of EU enterprises in the global market place.

1.5. Although it is not fully complete (with regard to aspects such as services and intellectual property) the construction of the European single market is an initial success. It is currently the largest internal market in the world at a time when it is unanimously agreed that the size of the US market remains a decisive factor in US competitiveness. EU cooperative research has been marred by a number of shortcomings, but the overall

performance is positive. This model, based on the Framework Programmes and the Structural Funds, has succeeded in strengthening both EU competitiveness and economic and social cohesion in the EU<sup>(1)</sup>.

1.6. Any analysis should take account of the historic process of European integration and globalisation. In neither of these cases can the process be regarded as complete. This implies, in particular, that the ways in which the world economy operate are not immutable. The rules of the game have not been finally established. It is up to the EU to find ways of ensuring that it is involved in the formulation of these rules and is able to turn them to its advantage<sup>(2)</sup>. In its communication the Commission highlights the importance of the current and future negotiations on international trade and direct international investment. Although it is a matter of the utmost concern, the construction of a global economic system cannot be defined in terms only of international trade carried out on the basis of the doctrine of free trade. We must adopt a broader perspective and consider how to put Europe in a position of strength, whilst at the same time maintaining both its specific characteristics and its diversity. It is for this reason that the Europe of regions, towns and villages is a factor which has to be taken into consideration when defining a European approach to competitiveness.

## 2. Competitiveness, the construction of Europe and economic and social cohesion

2.1. The Committee of the Regions notes that 'competitiveness' of enterprises differs from the 'competitiveness' of geographical areas (the EU, Member States, regions). In the case of enterprises, the term 'competitiveness' means the ability of the enterprise to compete in a given market (local, national, EU or world markets); the meaning of the term becomes clouded however, when we are dealing with the competitiveness of a geographical area. Furthermore, in the context of globalisation, issues relating to size become particularly delicate, as the Commission is very careful to note. It would appear that the issue of 'competitiveness' should be tackled at the following three levels in particular:

2.2. First of all, the link between the competitiveness of enterprises and that of geographical areas is tricky. It is vital to understand the relevance of this link in order to grasp the extent to which the competitiveness of EU enterprises has a bearing on the political construction of the EU and in order to devise a policy for stimulating the competitiveness of EU enterprises. This link is all the more complex in view of the

fact that many enterprises have more than one place of business and therefore operate in an economic area which does not generally match the borders of the relevant geographical area.

2.3. Secondly, depending upon the level of the geographical entity concerned (Europe, the EU Member States, local or regional levels), the content and meaning of the concept of 'competitiveness' do not always exactly correspond and they may even be out of kilter with geographical and political entities. A region could, for the purpose of job creation, seek to attract foreign investment, which may be at variance with the cohesion of national or even European industrial potential in a given sector. Globalisation does not respect boundaries and industrial networks no longer match political boundaries.

2.4. Thirdly, there is the issue of the nationality or rather the European character of enterprises. Which criteria should be used for determining whether an enterprise is a 'European enterprise': the nationality of the enterprise's capital, the location of its head office, the nationality of the members of the management team, or the geographical location of the places of business? It is clear that none of these criteria provides an adequate basis for identifying the nationality or European character of enterprises. To what extent should an enterprise of foreign origin which, through its branches in the EU, provides employment and tax revenue in Europe and has a bearing on the European economy, be regarded as less 'European' than an enterprise of European origin whose competitiveness is based on the operation of branches situated in the US or Asia?

2.5. It should also be noted that the issues of competition and the competitiveness of enterprises at inter-EU level play a role in the EU's external competitiveness. EU enterprises which compete with each other on the EU market may also be rivals on markets outside the EU.

2.6. The Committee of the Regions acknowledges the soundness of a large number of definitions of the term 'competitiveness' which highlight the goal of maintaining and improving the standard of living and public welfare. The OECD, for example, defines competitiveness as the ability of enterprises, economic sectors, regions, states and supra-national regions to generate a relatively high income and to achieve a high level of employment, whilst being exposed to international competition. The Committee of the Regions would, however, stress that the fundamental aim of regional competitiveness must be to help to create jobs in the long term and to promote sustainable economic development. The Committee shares the views of the experts on the Consultative Group on Competitiveness who have pointed out that 'a number of more specific goals, such as increasing profitability or share of world markets, must be regarded as subordinate to the fundamental goal of creating an economy based on high added value and providing a high level of employment. One cannot therefore talk of a choice between competitiveness and

(1) Cf, example, M. Sharp 'Competitiveness and cohesion — are the two compatible?', Research policy 27 (1998) 569-588.

(2) The major strategic industrial alliances have a role to play here; see, for example, M. Delapierre and L.K. Mytelka 'The alliance strategies of European firms in the information technology industry and the role of ESPRIT', Journal of Common Market Studies, Volume XXVI, No 2, December 1987.

social cohesion. The tensions which occur are bound up with deciding how to carry out the necessary adjustments and the timetable for making these adjustments' (1).

2.7. Consequently it is essential to remember that achievement of these goals of competitiveness depends on establishment, development and consolidation at the various geographical levels of production systems which are (a) sustainable and (b) able to generate wealth and channel a considerable part of such wealth to good effect.

2.8. In accordance with the principles underlying the construction of Europe, these goals should be pursued in a manner compatible with the strengthening of economic and social cohesion in the EU. To put it another way, the success of the 'winner regions' must not be achieved at the expense of the 'loser regions' (2). Attention should also be drawn to the fact that internal disparities in the EU do not simply reflect different standards of living and lifestyles; they also risk creating an undesirable level of intra-EU competition, i.e. economic and social dumping.

2.9. On a broader level, the 'European model', and in particular the social dimension of this model, must not be regarded as a handicap, as a constraint which has to be tolerated. The European model reflects the values of European society and, for this reason, it should be defended; there should be no conflict between economy and society. The Commission communication rightly considers that the European model is a source of competitiveness in the long term: being able to call upon skilled, motivated, fit workers will increasingly provide the key to long-term competitiveness based on innovation and quality.

2.10. Against the background of an unstoppable move towards globalisation, it is vital for the EU to be competitive in order to maintain, perpetuate and strengthen the European model. It is essential to be competitive if we are to build a lasting, sustainable Europe, able to hold its own in the world of the future and to provide good living conditions, prosperity and social cohesion, rather than unemployment, social exclusion, disparities, poverty and insecurity. Competitiveness must be regarded as a means, rather than an end.

### 3. Internationalisation, free trade, growth and sustainable development

3.1. Should the expansion of international trade be regarded as a vital source for growth and prosperity in Europe? It is difficult to go along with such an equation. Although there is an undeniable correlation between the two factors, growth is generated by a whole series of factors: macro-economic policies and monetary stability; the single market; scientific and technical progress; education and cultural development; protection of the environment; improvements in economic, social and industrial infrastructure and organisations, etc. This being the case, globalisation should be regarded not as a source of growth but as a specific type of growth based on the expansion of markets. Three key points should be made in this context.

3.2. Firstly, it is clear that there has been a stronger increase in intra-branch trade than in inter-branch trade. This means that international specialisation based on comparative advantage has not been intensified; it is the geographical area involved which has increased. Industry is now organised in such a way that industrial 'regions' develop at international level as a result of the effects of competition and complementarity between firms of different nationalities. The extent and form of this transnational organisation of industry vary very considerably from sector to sector. The international division of labour is therefore primarily brought about by advantages deriving from the combined effect of enterprises' operating and development strategies and from the establishment of resources at different geographical levels (local/regional, national and European).

3.3. Secondly, a sizeable proportion of international trade is intra-company. This fact underscores the role played by multinational companies in the establishment of a global economic system, even though political decisions are also of decisive importance in the fields of deregulation, privatisation, reduction of customs tariffs and international competition rules. This once again raises the question of the link between the competitiveness of enterprises and of geographical areas and the definition of the 'European enterprise'.

3.4. Although a number of products and standards are undoubtedly becoming global in nature, the global economic system is still being established in piecemeal fashion, with distinctions being made in the light of consumer tastes and standards and innovation systems geared to differing specific territorial potentials. Globalisation does not mean moving towards a homogenous world; the EU, too, should bring its own specific characteristics to the global economy and maintain its differences.

(1) A. Jacquemin and L.R. Pench (Eds.): 'Pour une compétitivité européenne' — Rapports du Groupe Consultatif sur la Compétitivité, De Boeck Université, 1997, p. 9.

(2) G. Benko and A. Lipietz, 'Les régions qui gagnent' (the winner regions), Presses Universitaires de France, 1992.

3.5. The Committee of the Regions points out that although globalisation is generally recognised as having an overall beneficial effect, the way in which these benefits are allocated is frequently inequitable and may well vary. 'Recent economic theories point to the fact that both sustainable long-term economic growth and a deepening of the income disparities between countries derive from the accumulation of capital — both physical and human. This accumulation, in turn, is influenced by international trade'<sup>(1)</sup>. To put it another way, since competitiveness is based on the existence and development of favourable terms of trade — i.e. unequal terms of trade — it is, by its very nature, a source of imbalance. It is significant that whilst the EU's terms of trade with the USA and Japan are, taken overall, unfavourable, they are globally favourable in respect of third countries. This means that a major proportion of favourable terms of trade enjoyed by the EU are with less-developed countries.

3.6. According to the 1998 report on the competitiveness of European industry, the standard of living in Europe, measured in terms of GDP per capita and expressed in purchasing power standard (PPS), is 33 % below that of the US and 13 % below that of Japan. Furthermore, there is a wide range in the distribution of purchasing power within the EU; the level of purchasing power in the various Member States varies by a factor of up to 2.6. The difference in purchasing power in the poorest and the richest regions of the EU varies by a factor of up to 4.5. The regional contrast is undoubtedly more marked in countries where the level is above that of the EU average than in countries where the level is below that of the average for the EU<sup>(2)</sup>.

3.7. The overall growth indicators at EU level mask considerable imbalances. The establishment of the single market promoted a growth in intra-branch trade; trade in products of different price and quality has increased more sharply, whereas trade in similar products has remained stable. This trend is the result of different forms of specialisation: firstly in top-of-the-range products (based on design, R&D and advertising); secondly, in bottom-of-the-range products (based on cost cutting). Clearly one and the same country can pursue the two strategies in different sectors. If we take the case of the four leading industrialised countries in the EU, however, there is a clear tendency to specialise in top-of-the-range products in the case of Germany, in middle and top-of-the-range products in the case of France, and in middle-of-the-range products in the case of the UK, whereas Italy specialises more than the other three countries in bottom-of-the-range products and less in top-of-the-range products. A similar variation may also be observed in respect of foreign investment, which varies by a factor of 4.5 — in Italy it represents 0,4 % of GDP, whereas in the UK it represents 1,8 % of GDP and includes substantial non-EU investment. There is also a considerable variation at both national and sectoral level in the concentration of foreign investment. The level of divergence was higher for the period 1985 to 1995 and was also more marked in respect of those

countries benefiting from average levels of foreign investment. This also implies that 'European integration appears to be taking place against the background of the co-existence of different models'<sup>(3)</sup>.

3.8. The issue of the convergence of industrial structures has been at the heart of the process of monetary unification. On a more general note, social cohesion and regional imbalances continue to be central to European integration. One of the roles of regional policy and the Structural Funds is to help break down imbalances in these areas. The most widely used macro-economic indicators point to a steady convergence; a recent study<sup>(4)</sup> has, however, revealed other less visible imbalances which may have serious consequences in the long term, thereby making them a matter of concern. An analysis of Member State trade in high technology products reveals sharp differences which, whilst they have little macro-economic impact in the short term, need to be taken very seriously in the light of the long-term prospects for the integration of the Member States into the global economy.

3.9. Spain, for example, which has provided a model example of the pursuit of convergence, is in a vulnerable position in respect of high-technology products; it is one of the countries with the highest trade deficit in hi-tech products, a group which also includes Greece and Portugal. This example serves to explain why, with its share of 10 % of international trade in high-technology products, the EU enjoys an overall advantageous position (a trade surplus of 1,7 ‰) which conceals a trade deficit in bottom-of-the-range products (- 2,7 ‰), offset by trade surpluses in medium-range products (+ 1,2 ‰) and top-of-the-range products (+ 3,1 ‰).

3.10. The Committee of the Regions draws the Commission's attention to the danger of promoting the competitiveness of European enterprises without taking account of this type of imbalance which, whilst being evident at national level, would undoubtedly be shown to be even more sharp at regional level if a similar study could be carried out. Competition policy may have the contrary effect of helping to enhance these disparities. Although high-technology products strictly represent only a small part of international trade, the cumulated

(1) A. Jacquemin and L.R. Pench, op. cit. p. 8.

(2) M. Hannoun and C. Lelong 'Une comparaison des PIB régionaux de l'Union Européenne', INSEE Première, No 602, August 1998, article reproduced in *Problèmes Economiques*, No 2585, 7 October 1998.

(3) P.A. Buigues and A. Sapir 'L'impact du marché unique sur les grands pays européens — The impact of the Single Market on Large European Countries', *Revue d'Economie Politique* 109 (2), March-April 1999. This study is based on the economic assessment of the impact of the implementation of the single market legislative programme carried out by the European Commission from 1993 and published in 1996 in a special edition of *European Economy*, under the title 'Economic Evaluation of the Internal Market'.

(4) L. Fontagné, M. Freudenberg and D. Ünal-Kesenci, 'Haute technologie et échelles de qualité: de fortes asymétries en Europe', Document de Travail CEPII, 1999 — 8 June, Paris.

ve and localised nature of hi-tech industry — a typical feature of a knowledge-based economy — means that it has much more profound effects on long-term growth. These statistics should be taken into account in a more effective way than the Structural Funds have so far managed to do if we are to avoid a progressive intra-EU split and excessive polarisation based on specialisation in high-technology products.

#### 4. Globalisation, competitiveness and spatial development

4.1. As has already been pointed out above, globalisation does not mean a uniform world. Multinational companies have fully understood this; they have organised their operations at world level in such a way as to benefit from differences in factor costs and specific resources. There is no one standard template at world level or EU level. One of the EU's key assets is its diversity.

4.2. Globalisation is a term for the increasing complexity and opening-up of the world for the interpenetration of geographical areas and sectors. It is the combination of these factors which makes globalisation and the acceleration of international trade such major forces for growth.

4.3. This two-fold dimension of globalisation is spectacularly illustrated by the following strategies adopted by enterprises:

- a speeding-up of the process of operating at international level; this process has not been triggered simply by the interpenetration of markets; it has also been prompted by a desire to gain access to specific local resources, such as skills, proximity to other companies and the 'cluster' effect;
- a speeding-up of the process of 'technological hybridisation': movement into new activities, purchase of enterprises in new niche markets, industrial alliances and cooperation, etc.

4.4. Geographical areas (regions and sub-regional areas) promote industrial growth in one of two ways:

- cost (offering the opportunity to produce goods more cheaply than they can be produced elsewhere);
- access to specific resources (offering an opportunity to engage in economic activities which could not be carried out elsewhere).

4.5. These two above aspects involve two dimensions of the competitiveness of enterprises, linked to the widely accepted distinction between competitiveness based on cost and competitiveness on non-cost grounds. This distinction mirrors two aspects of business strategy: a short-term perspective based on the production of standardised goods and a

long-term perspective based on differentiation and innovation. These two approaches do not conflict and may well complement each other.

4.6. With respect to geographical areas, the abovementioned distinction involves two alternative approaches and concerns. The first approach takes the form of an overriding focus on factor prices at a given site. In this context, state grants to attract industries to a particular area are designed to offset the cost advantages of other sites. Competition between different sites based solely on factor cost frequently leads to individual areas bidding up public aid to a level which can far exceed what is reasonable. Worse still, this serves as a pretext for employing tax and social dumping strategies, an approach by territorial authorities which is, all things considered, dangerously negative. Such a trend, which is regrettably still very prevalent, promotes volatile behaviour and 'bounty-hunting' on the part of enterprises.

4.7. The second approach places the accent on building up resources in a given area. This self-reinforcing process is driven by strong interactions between enterprises situated in a given area and all the other players operating nearby: public institutions and related bodies, research and training providers, etc. It is, however, rare for such a process to get underway of its own accord. Sometimes it is part of a long historical process; on other occasions it is triggered by the presence of a centre of scientific and technological excellence (Stanford in the case of Silicon Valley, the MIT in the case of Boston and Route 128, or Orsay and the CEA in the case of Paris-Sud, etc.); on other occasions it is set in train by deliberate action on the part of a powerful public or private industrial player (such as CNES at Toulouse or IBM at Montpellier); and it may also be brought about as a result of deliberate public policy (Sophia Antipolis, Silicon Glen, etc.).

4.8. Local growth and development thus no longer depend solely on attracting productive investment; they are generated by mutual support between investment from outside (externally-generated development) and regional forces promoting growth and innovation (internally-generated development). Whilst enterprises are having to become increasingly nomadic as a result of the need to be global players, they also have to become more involved in the areas in which they operate and to engage in 'territorial anchoring'.

4.9. Defining the competitiveness of an area solely in terms of its ability to attract productive investment — a practice which is frequently followed — would thus appear to be extremely simplistic. There is also a need to maintain local enterprises and newly-established enterprises and therefore to provide them with the requisite conditions for their development. Competitiveness should thus be based on exploi-

ting differences, against the background of world trade and global interactions, rather than seeking to align on a single model. The problem of the distinction between the competitiveness of enterprises and the competitiveness of areas is resolved by convergence between the interests of enterprises and areas. This also renders the issue of the 'nationality' of an enterprise meaningless, the important point being the 'territorial attachment' of the enterprise.

4.10. Against a background of growth strongly driven by innovation, there is a need to highlight the role played by geographical areas (innovation clusters)<sup>(1)</sup>. Innovation is affected by a large number of factors which are sometimes intermeshed at international level. The US economist Michael Porter highlighted one of the paradoxes of the modern economy by pointing out that 'the enduring competitive advantages in a global economy lie increasingly in local things — knowledge, relationships, motivation — that distant rivals cannot match'<sup>(2)</sup>.

4.11. The Committee of the Regions has therefore already underlined the need to establish and consolidate regional potential for research and technological development (R & TD) and innovation<sup>(3)</sup>. To be effective such potential needs to attain a critical mass and mesh together the main players in a network characterised by a 'culture of innovation' and a 'culture of excellence'. Local and regional authorities should endeavour to identify innovation potential and develop this potential with a view to creating new jobs. It is also desirable for EU regional policy expressly to provide support for steps to develop a culture of cooperation in regions and localities. In particular, the European Union should give effective backing to area-based networking and R&D schemes which tap the skills and potential synergies of industrial and technological players.<sup>(4)</sup> Moreover, it is to be hoped that public procurement will play an active part in such schemes (framing of specifications, testing etc.) and underwriting seed capital.

4.12. The launch and success of Gemplus and the smart card 'hub' in the Provence-Alpes-Côte d'Azur region of France for instance was made possible largely thanks to the

'confidence' of a number of public operators. First of all, France Télécom ordered more than a million telephone cards from Gemplus shortly after its launch in 1988. (It had been hived off from SGS-Thomson.) Then, local authorities such as the Bouches-du-Rhône Conseil Général also became clients, piloting the development of new applications in canteens, healthcare, etc. In the space of eight years, Gemplus, the world leader with a 43 % market share, was a flourishing enterprise with turnover in excess of 3 billion francs and the creation of more than 3 000 jobs to its credit, half of them in its Provence hub.

4.13. In terms of boosting competitiveness, the Committee of the Regions has stressed the importance of centres of excellence which zero in on a particular area and industry to focus 'high-level knowledge, skills and technical and administrative infrastructure in one viable, sustainable economic sector.'<sup>(5)</sup> We must, however, guard against concentrating too much on one particular area, since this tends to generate 'enclaves of the global economy' cut off from their economic and social background, whose sole determining factor is their global linkage. Excessive polarisation may also unduly sharpen imbalances<sup>(6)</sup> in production and wealth distribution between 'pockets of modernity' which harness any 'added value' generated, and exclusively residential and consumption-based surrounding areas.

4.14. Centres of excellence of this kind are not restricted or narrow in scope, but may take a wide variety of forms depending on specific circumstances and the geographical background on which they rely. Such flexibility helps reinforce these centres' links with the economic and social fabric and puts them on a more solid and durable footing. Lastly, it should be noted that centres of excellence are not confined to high-tech operations. Michael Porter cites examples of 'clusters' in wine growing, the leather industry and catering; examples from Europe could include areas of Italy famed for clothing or furniture and the shoemaking district of Elche in Valencia, Spain<sup>(7)</sup>.

(1) See, inter alia, the recent study entitled 'Boosting innovation — the cluster approach', OECD Proceedings, Paris 1999.

(2) M.E Porter, 'Clusters and the new economies of competition', Harvard Business Review, November-December 1998.

(3) Draft opinion of Commission 1 — Regional Policy, Structural Funds, Economic and Social Cohesion and Cross-border and Inter-regional Cooperation — on independent local and regional authority initiatives as instruments of regional policy in a competitive Europe, CdR 108/99 rev. of 21 May 1999.

(4) The establishment of such cooperative innovation schemes should obviously not rule out non-local, outside cooperation. Local resources also include the option of drawing on effective outside cooperation, since, in essence, this brings operators' 'social capital' into play in their dealings with others.

(5) CdR 108/99 op. cit.

(6) The French economist François Perroux used his concept of 'centre of growth' to show that these imbalances had a knock-on impact on the economy and a multiplier effect on growth. Once polarisation has reached a certain point, however, the centre of growth swallows up any knock-on effects, thereby preventing their impact at local level.

(7) The organisational dimension in both rural areas (Prato) and urban districts (Elche) plays a key role in an area's competitiveness.

## 5. SMEs, infrastructure and financing

### 5.1. *SMEs' role in the European economy and the importance of boosting their competitiveness*

5.1.1. In its Opinion of 3 June 1999 (CdR 387/98 fin) on the BEST report and the Commission's response,<sup>(1)</sup> the Committee of the Regions stressed the important role played by SMEs within the European Union. They account for 60 % of overall production by value and 66 % of jobs. The COR reiterated its commitment to strengthening the competitiveness of SMEs, which are operating in an ever wider economic area as economies become more global in scope. SMEs are, moreover, often the key to local development, most often working in conjunction — above all — with local and regional authorities. What is more, they often play a decisive role in anchoring large companies to a particular area since they provide services and skills on which these companies can draw.

5.1.2. The Committee of Regions admires the remarkable track records of high-tech SMEs which, in the space of just a few years, have become global leaders in their field. The Committee would point out however that while SMEs of this kind merit special consideration, given their impact on the strong long-term performance of European industry, they currently make up only a very small proportion of companies and jobs. Although action must clearly be taken to assist these enterprises in building up their competitive position, such measures must under no circumstances have a deleterious effect on the drive needed to boost the competitiveness of the majority of SMEs which are less technologically advanced and, in geographical terms, serve a more limited range of markets.

5.1.3. At the level of public policy, moves to boost SME competitiveness must hinge on genuine improvements in their working environment, not only in terms of bureaucracy and red tape,<sup>(2)</sup> but also with regard to their access to sources of finance and information, and with regard to international development facilities (exports, cross-border cooperation, international joint operations etc.) The COR firmly supports the proposals set out in the BEST and Commission reports. There would also appear to be a need to make available to SMEs information tools and tools for providing legal and management assistance, with a view to establishing a level

playing field in competition between SMEs and large enterprises. It is also important for public authorities — particularly regional and local authorities — to give careful consideration, when awarding public contracts, to bids submitted by local SMEs and to bear in mind the impact which the award of the contracts to these enterprises would have on local development.

5.1.4. The position which SMEs occupy in the European economic and cultural model and their crucial role in providing employment, justify special attention being paid to them and provision being made for them to have access, under certain circumstances, to specific funding and to benefit from tax breaks. On a more general level, consideration could be given to how a specific system of exceptional arrangements could be introduced with regard to public aid (rules and procedures).

5.1.5. The Committee of the Regions would particularly highlight the importance of encouraging and facilitating SME access to modern information channels, in particular through the development of new information and communication technologies and the associated infrastructure. The competitiveness of SMEs is strengthened by access to a high standard of information on the latest technological developments in their fields, on market conditions and on any technological partnerships they may be able to join (complementary skills). The effectiveness of such measures, however, hinges on two factors. Firstly, access to information facilities must be backed up by attractive and relatively inexpensive training opportunities for potential users. Secondly, there should be pan-European input into building up — or rather refining — the information on offer. This should include an ongoing inventory of databases, the compilation of a directory, the development of specialised search engines to surf the Internet and the establishment of European technological, legal and tax-related databases. It should also include regional technological and industrial skills registers — to be drawn up in cooperation with the regions — together with databases relating to public procurement. The Committee of the Regions would propose that, prior to such steps being taken, an inventory be made of studies on this issue (role of data infrastructure in SME development) and on what data resources are already available.

5.1.6. In the light of this situation, the Committee of the Regions has noted that the need to encourage SME competitiveness by every available means should under no circumstances work to the detriment of social dialogue, compliance with working conditions and collective agreements, respect for the environment or consumer interests and rights. Easing these rules to promote jobs at any cost would embroil Europe's regions in unbridled competition involving environmental and social dumping, with disastrous long-term effects. Since, however, European competitiveness can only be built up in the long term, it must be underpinned by constant improvements in product quality and the skills base and a

(1) Opinion on the report of the Business Environment Simplification Task Force (BEST) and the Commission Communication 'Promoting Entrepreneurship and Competitiveness' — the Commission's response to the BEST Task Force report.

(2) It is worth remembering, for instance, that, in Europe, it takes an average of twelve separate procedures to set up a company against six in the US (Report from the Commission — Economic and structural reform in the EU (Cardiff II), COM(1999) 61 final, 17.2.1999).

dynamic blend of high standards and innovation. We cannot claim to have achieved these targets unless we can be confident of worker motivation and satisfaction; workers need to be a part of the collective effort, both as players and beneficiaries. In this way, the European social model can serve to bolster long-term competitiveness.

## 5.2. *The need to enhance trans-European infrastructure*

5.2.1. The Committee of the Regions shares the view that building a competitive Europe entails substantial enhancement of trans-European infrastructure networks (information technologies, transport, communications etc.) The first thing to note is that these infrastructure networks are still generally the product of policies and development programmes implemented nationally by the Member States. As such, they remain overly circumscribed by the constraints of national geography. In many cases, they are also in need of modernisation and expansion, not least, of course, since infrastructure density varies considerably from one EU country and region to the next. Cooperation between the Member States represents an important first step towards establishing trans-European infrastructure.

5.2.2. The Committee stresses the vital need to enhance trans-European infrastructure in this way, not only for large companies but also for SMEs, whose integration into the fabric of a competitive Europe such moves are calculated to reinforce and accelerate. For instance, a small sub-contracting firm specialising in micro-electronics sometimes has to reach scales of production in a specific market niche which involve supplying a wide range of clients spread across a large number of different locations (Munich, Newcastle, Corbeil, Catania etc.) Such a company's competitiveness will thus largely depend on how long it takes a package to be delivered to its clients.

5.2.3. European high-speed rail links must be fostered and expanded. Air traffic must be reviewed from a pan-European angle by increasing the number of key air junctions — the current junctions are at saturation point — at additional locations, flying to more destinations. There must be more intermodal platforms (hubs), not least for air-land connections and for both freight and passenger transport. Cross-sectoral and trans-European links must be radically reviewed with an overall vision for the future in mind, since, in the long term, they impact on Europe's continued progress and the competitiveness of its companies. In the road-rail debate, Member States should give serious consideration to issues raised and conduct genuine negotiations so that, wherever it is not possible to agree on a common line of approach, the decisions taken and policies implemented can be coordinated closely and effectively.

5.2.4. As far as new information and communication technologies are concerned, the European Union should make a genuine effort to improve quantity, density and quality. The Committee of the Regions feels that it is particularly important that carrier and content should not be treated as two separate issues. High-performance, easily accessible networks must be set up. One notable target for Europe is the faster establishment of a high-speed second generation Internet, sometimes referred to as Internet 2 — a project likely to become a reality very soon in the United States — with a view to giving across-the-board access to all economic operators. Responsibility for content is clearly shared between public and private players and consideration must be given to laying down a public policy on this issue which provides for a balanced allocation of responsibilities between the European Union, the Member States and the regions.

5.2.5. The Committee stresses the need for strong European-level coordination, while preserving genuine sovereignty and ensuring continued local and regional authority involvement at the various geographical levels. Establishing a high-speed rail link or reorganising air traffic involves restrictions and disruption for the areas concerned; as a result, such projects cannot be approved without the involvement of the authorities concerned and a bona fide attempt at social dialogue. Much can be learnt in this regard from the experience of France in building up its high-speed network, for instance the south-eastern line.

## 5.3. *Access to sources of finance*

5.3.1. Access to sources of finance is of key importance for the competitiveness of European SMEs, and innovative SMEs in particular. Clearly, the access afforded by the European financial system is inadequate and risk culture is too often absent from banking practices which, instead, seek an abundance of all-round high guarantees. The Committee of the Regions backs initiatives aimed at facilitating company access to sources of finance and seed capital via 'business angels,' venture capital, European grants and the like.

5.3.2. It is vital for the competitiveness of European companies to establish an effective system of venture capital, provided, however, that access to it is not restricted to major money markets but is also practicable at regional level. The Committee of the Regions would point out, however, that venture capital alone is not a catch-all remedy for problems of corporate financing. A study conducted recently in the United States<sup>(1)</sup> clearly shows that venture capital is little used in financing the initial stages of innovation. Of the \$10 billion

(1) B. Zider, How venture capital works, Harvard Business Review, 11-12/1998.

invested in the USA in 1997, barely 6 % was earmarked to finance start-ups. Instead, start-up finance came mainly from the public purse (\$63 billion) and large companies (\$133 billion). Most venture capital investments were directed at the next stage in the cycle of innovation in which companies have to work very hard at growth, and thus at investments, at a time when their material assets and acquired trading position are insufficient to provide the guarantees required by the banking market. Venture capital comes into play in this acceleration phase of the famous S-curve of industrial development by giving backing to sectors or market niches with a high growth potential, rather than to people or ideas. It should also be noted that, at this stage, it is very difficult to distinguish winners from losers. The overall yardstick remains quality of management.

5.3.3. On this last point, the Committee of the Regions notes that, while SMEs may be at the forefront of job creation, they are also the cause of a high proportion of job losses (only half of SMEs survive beyond five years). The Committee stresses the importance of SME management aid, particularly for newly established enterprises and those in the growth phase. Management generally requires a different set of skills than those needed to set up a company. Many schemes have been launched in various different places, in particular as part of enterprise 'nurseries' or business incubators. The Committee recommends that an assessment be made of the work done in this field and that a list be drawn up of the most effective measures in the management aid field.

5.3.4. The Committee has endorsed the Commission's proposal to set up three new financial instruments to back innovative SMEs and support them in the growth phase (risk capital facility, scheme supporting the establishment of transnational joint-ventures, guarantee facility)<sup>(1)</sup>. It did however stress how important it was 'to draw on the expertise of regional/local intermediaries in the implementation of all three schemes (and) ... to make sure that the authorities responsible for regional development are kept fully informed and are notified as to which funds and financial institutions are operating as intermediaries for the schemes in each region.' The establishment of an ETF start-up facility is a welcome response to the need for seed capital, provided, however, that the necessary action is taken to ensure that entrepreneurs from peripheral regions have the same access to potential European investors as other operators.

5.3.5. The Committee has also endorsed (CdR 387/98 fin of 3 June 1999) the establishment of enterprise boards 'to act as clearing points between public funding agencies, banks and entrepreneurs with the capacity to grant or refuse finance quickly'.

5.3.6. Lastly, the Committee reiterates its reservations about pension fund investments in venture capital. These should be permitted only if appropriate guidelines are set in place.

5.4. The promotion by local and regional authorities in less-developed regions of policies to boost employment in SMEs should be wholeheartedly supported by the EU, which should also offer support with regard to funding. The Committee of the Regions would also highlight the need for the level of financial aid and fiscal support to SMEs to be geared to the number of jobs to be created or safeguarded.

## 6. Employment

6.1. Employment remains one of the main reasons for promoting the competitiveness of European companies. Between 1987 and 1997 European GDP grew by 2,5 % annually, matching the US rate over that period. However, as the 1998 European Commission report on the competitiveness of European industry points out, in Europe this rise is due to strong growth in labour productivity, coupled with a marginal increase in employment. This contrasts with the USA, where the rise in GDP is the result of weak productivity gains and an appreciable increase in employment. Be that as it may, despite some gradual catching-up, labour productivity (calculated as GDP per job) is still 20 % lower in Europe than in the United States. On the jobs front, Europe is suffering as a result.

### 6.2. Regional disparities

6.2.1. In Europe, half of productivity gains are due to the impact of capital-labour substitution; the corresponding figure for the USA is barely 25 %. At the same time, the relative labour costs have risen more quickly in Europe than in the United States. This chronic shortfall in job creation in Europe is reflected by major differences in increases in the labour-force participation rate growth as between Europe and the USA on the one hand and Japan on the other. This is doubtless the main reason for the differences in overall standards of living

<sup>(1)</sup> CdR 46/98, Opinion of the Committee of the Regions of 14 May 1998 on the proposal for a Council Decision on measures of financial assistance for innovative and job-creating small and medium-sized enterprises (SMEs) — the growth and employment initiative (COM(1998) 26 final).

between Europe and United States. The report notes, however, that while this holds true in particular for high-tech sectors where American companies have created many new jobs, European companies still performed less well across all sectors during the period 1985-1995.

6.2.2. The average EU participation rate remains below 61 % and intra-European disparities are very pronounced. These disparities between the Member States relate mainly to three key groups: women, young people of both sexes and older male workers. Unemployment within the European Union varies from less than 3 % to more than 30 %, and participation rates range from 80 % of the population of working age in certain parts of Denmark and south-east England, to 40 % in some southern regions of Italy or Spain<sup>(1)</sup>. The Commission has proposed a long-term target of pushing the participation rate up towards 70 % to match similar levels in the United States and Japan. Since job creation is accompanied by the loss of existing jobs and skills, the Commission has clearly stated the need to set up and expand new companies as an engine of renewal in the European economy. In broader terms, improving company competitiveness is an essential element in this process.

6.2.3. However, any opportunity also constitutes a threat. The Committee of the Regions would therefore underline the fact that this 'creative destruction' (i.e. loss of existing jobs and skills on the one hand, creation of new jobs and skills on the other) does not necessarily follow any balanced or uniform geographical pattern. As a result, this doubtless unavoidable process is highly likely to widen internal disparities within the European Union. Such a scenario, which would run counter to the principles underlying the construction of Europe, could, in the long term, give rise to clear divergences in patterns of regional development. One of the roles of the Structural Funds is to seek to combat disparities and to establish a new internal balance — a vital prerequisite for achieving a more effective competitiveness, both on the internal market and on the world market. It is thus particularly important to make local development a fully-fledged component of the European Union's employment strategy. On this point, the COR fully endorses the Commission's view on the 'leading role of the local actors in the process of job creation'<sup>(1)</sup>. In this context, close attention should be paid to preserving the existing vocational heritage, taking full advantage of reusable technical advances and redeveloping out-dated skills. This also highlights the urgent need to link any employment strategy to all aspects of human capital development and infrastructure policy, including education, training and the Structural Funds.

### 6.3. *The need to involve regional and local operators*

6.3.1. Redistribution and solidarity are clearly needed within the European Union to consolidate long-term convergence and economic and social cohesion. However, action of this kind cannot be contemplated without close cooperation with local operators in the field of economic development. The Committee underscores the importance here of taking effective account of endogenous input into economic growth, as opposed to focusing exclusively on attracting outside investment. In this regard, the Committee has proposed that the regions analyse their strengths and weaknesses and then consciously build on their strengths<sup>(2)</sup> so as to move as far as possible towards developing 'centres of excellence' which can become the mainstay of sustainable local growth.

6.3.2. Although the opening or closure of a plant of a major company can radically alter a region's employment situation, two things are nonetheless clear:

1. in every respect, a company's long-term operations are very much contingent on local territorial dynamics;
2. job creation is above all still a product of local schemes and cannot always rely on outside decisions.

6.3.3. The Committee of the Regions and the Council of European Municipalities and Regions (CEMR) have developed a Local Action for Employment initiative for 1999-2000 to encourage mayors and local authorities to help implement the employment guidelines. The Commission has given its full backing to the scheme. For its part, the Committee of the Regions endorses the Commission proposal to conduct a systematic appraisal of experience acquired in the implementation of the territorial employment pacts so as to catalogue examples of good practice which could be extended to other regions. The COR proposes that the Commission develop an ongoing progress report, together with a list of measures available for consultation on the Internet. Those involved in local development would thereby be encouraged to bring in their own assessments and local experience. Such an initiative should obviously be undertaken with the agreement and assistance of the regions. It could be considered an extension of the electronic forum already in place on the European institutions' website on <http://europa.eu.int/comm/pacts/>.

<sup>(1)</sup> Commission communication on Community policies in support of employment, COM(1999) 167 final, 21.1.1999.

<sup>(2)</sup> Appendix to the Draft Opinion of Commission 1 (Regional Policy, Structural Funds, Economic and Social Cohesion, Cross-Border and Inter-Regional Cooperation) on independent local and regional authority initiatives as instruments of regional policy in a competitive Europe, conclusions of the Commission 1 seminar held in Augsburg on 8 June 1999, CdR 108/99 rev. 1 Appendix, June 1999.

#### 6.4. *Competition between geographical areas and subsidy hunters*

6.4.1. The Committee of Regions has warned against a trend that has come to light in some multinational groups to routinely compare all the incentives available at a possible operating location (subsidies, direct and indirect aid, social dumping, tax dumping etc.) in order to identify the most attractive 'territorial dumping'. 'The competition — given persistently high levels of unemployment — to attract companies is increasingly fierce. The danger is that sustainable employment will be undermined by short-term measures to entice companies.'<sup>(1)</sup> Companies often relocate to take advantage of ruinous competition between geographical areas. In this regard, the Committee again calls for more stringent monitoring of state aid and effective measures to combat social and environmental dumping.

6.4.2. In broader terms, aid is designed to offset a cost disadvantage compared with supposedly less expensive locations; this enhances the volatility of cost-driven corporate behaviour. By making this the sole yardstick, such a rationale runs counter to injection into industrial and technological operations of a territorial dimension which is the bedrock of sustainable job creation.

#### 6.5. *Company performance and social cohesion: the pillars of new competitiveness*

6.5.1. The final report of the high level group on the economic and social implications of industrial change categorically rejects the drift towards inter-area competition<sup>(2)</sup>. The Committee welcomes the findings and broadly endorses the analysis and proposed guidelines. The group's work rests on the premise that 'Europe must face these changes by combining innovation with social cohesion and by improving its capacity to manage change.'

6.5.2. Industrial dynamics must take the lead from best-performing companies and seamlessly combine benchmarking, innovation and social dialogue. This reflects the fact that (i) social dialogue is a key element in worker motivation, which in turn is indispensable to a company's success; (ii) companies and workers are on course for change; and (iii) workers' employability (i.e. their continued capacity for integration into labour market) is the responsibility not only of the individual workers themselves, but also of the companies that employ them and the public authorities. The ultimate result is reinforcement of company performance and competitiveness on the one hand, and prosperity and social cohesion on the other.

6.5.3. Effective social dialogue is essential if such a virtuous circle is to be re-established. Europe must do well in this area, if it is to hold its own and play a part in the world of tomorrow. With this in mind, an industrial policy must be pursued which incorporates long-term prosperity, social cohesion and corporate competitiveness. In the same vein, we agree with the working group experts that 'the guiding principle for companies is to be competitive and profitable while living up to their social responsibilities.' In this way, these companies help establish an ongoing, beneficial environment on which to base their long-term competitiveness. Future employment prospects in the information society thus look very promising, not least because the spread of potential jobs in this field and the availability of skilled workers already constitute a key element in corporate competitiveness and are set to play an even greater role in the future.

6.5.4. The Committee stresses that local links of this kind are essential to companies which adopt area-based ground rules and make this aspect a key element in their competitiveness. The COR proposes that this territorial yardstick<sup>(3)</sup> be applied — rather than yardstick of nationality of capital — when deciding whether a company can be considered European or not, and can, by that token, be given public support to maintain and boost its competitiveness.

6.5.5. In a very similar vein, the above-mentioned experts recommend that 'any company proceeding with dismissal without having taken the necessary steps to safeguard the employability of those dismissed should be barred from access to public aids.' (op. cit.)

<sup>(1)</sup> Draft Opinion of Commission 1 (Regional Policy, Structural Funds, Economic and Social Cohesion and Cross-border and Inter-regional Cooperation) on the impact of regional policy on incentive packages for investment: a different approach in the use of Structural Funds, CdR 127/99 rev. 1, 21 June 1999.

<sup>(2)</sup> Managing change — final report of the high level group on the economic and social implications of industrial change, 1998.

<sup>(3)</sup> This in no way rules out 'multi-territoriality' in a multi-plant company tied to a number of different locations.

## 6.6. Tourism and employment

6.6.1. The European Union possesses a remarkably diverse range of places of tourist interest. The European tourist industry's function as a major source of employment must be enhanced by boosting the industry's competitiveness. The COR would stress that, apart from its capacity for job creation, this sector also helps promote social convergence, not only among EU Member States, but with people from all over the world, as the free movement of tourists gives scope for direct contacts and exchanges.

6.6.2. Europe must undoubtedly make the most of everything it has to offer. Its diversity means that it can meet a very broad range of requirements, in terms of budget, age group, type of area etc. These strengths are also reflected in the wide variety of options produced by combining different resources (tourist trails). Thus, the Committee of the Regions feels it is important to adopt an integrated strategy for the promotion of Europe's tourism resources which does not focus attention on a limited number of key sites (top seaside resorts or mountain areas, prestigious urban sites etc.), but also highlights regional and local attractions which might be able to accommodate a more modest influx of tourists without disturbing the quality or integrity of the sites and areas concerned. This means, in other words, working on the basis of sustainable development. Moreover such an approach, which is aimed both at individuals and at organised groups (tour operators), is best placed to ensure that, in geographical terms, jobs are spread out more evenly.

6.6.3. The fact that the EU has no official tourism policy means that the needs of the tourism sector are rarely given sufficient consideration when EU policies are formulated in areas which affect tourism, such as consumer protection, environmental protection and transport. Efforts must be made to ensure that the legitimate interests of Europe's tourist industry are given due consideration by making tourism an integral part of other Community policies so as to maintain the industry's competitiveness in the international tourism market.

6.6.4. The Committee notes that action in the fields of trans-European transport and communications infrastructure will have a direct impact on the competitiveness of the European tourism industry. The Committee would particularly recommend that this aspect be taken into account when key decisions come to be taken on the provision of services.

6.6.5. The Committee endorses the Commission's proposal in the light of the work done by the high level group on

tourism and employment<sup>(1)</sup> to establish 'an on-line European Observatory Network on Tourism ("EurONnet") (which) could contribute to fulfilling the existing gap in knowledge on tourism at European level by linking together proven sources of information through exploiting facilities provided by new technologies'. The COR recommends extending this one-stop shop principle via the Internet to give as broad-based area coverage as possible. The aim is to encourage the kind of balanced and sustainable growth set out above and to give those areas which desire it the opportunity to become less isolated. Such action should clearly involve the regions as go-betweens and local co-ordinators and should be based on a voluntary request from the local authorities concerned. Such a network could also back up exchanges of experience among tourism professionals and among the relevant local authorities.

## 7. Culture, Education, intellectual property

### 7.1. Clear, definitive stance in the discussion on cultural identity

7.1.1. The COR is pleased that the Commission communication takes account of the need to preserve Europe's identity, especially as regards culture and heritage. Unlike the USA or the 'New World' in general, the cultural identity of the 'Old Continent' lies above all in its diversity. This diversity, which can be found on both a national and regional scale, is anchored in history. It helps make Europe richer culturally (obviously), economically, socially and in all forms of creativity (literature, the arts, intellectually and technically).

7.1.2. This largely explains why, in sectors like the cinema, industrialisation has only been partial and covered a limited period (Studios de Boulogne, Cinecittà) because it has been impossible to reach the critical mass necessary to compete with the power of the Hollywood studios<sup>(2)</sup>. If creativity — and therefore cultural diversity — is to be preserved as one of the fundamental values of Europe, then the cultural sector,

<sup>(1)</sup> Communication from the Commission to the Council, the European Parliament, the Economic and Social Committee (for information) and the Committee of the Regions (for information) on enhancing tourism's potential for employment — follow-up to the conclusions and recommendations of the high level group on tourism and employment (OJ C 178, 23.6.1999). European tourism — new partnerships for jobs — conclusions and recommendations of the high level group on tourism and employment, European Commission — DG XXIII, October 1998.

<sup>(2)</sup> See 'Le drôle de drame du cinéma mondial', C.A. Michalet, La Découverte, Paris, 1987 and 'Une histoire économique du cinéma français, regards croisés franco-américains', P.J. Benghozi and C. Delage (Eds.), L'Harmattan, Paris, 1997.

particularly the audio-visual sector, cannot be brutally exposed to the winds of international competition but must be kept out of the competition equation altogether. However, while the creative side must be saved and preserved, technical support sectors, such as multimedia and digital technologies, cannot claim they should be shielded from competition.

7.1.3. The EU ought to define and adopt a clear common position here, so it can defend the sector properly at the next round of WTO talks.

## 7.2. *Competitiveness, culture and education*

7.2.1. The COR agrees with the EU Commission that there is a need to mobilise the educational system in order to build a dynamic and united Europe. Obviously, such modernisation involves bringing education more into line with the business world and with all processes in the economy and in society. But this does not mean compromising the independence of the educational system, which obviously has much more to do than play a purely economic role. However, its job of transmitting skills does have to be brought more into line with companies' current and future needs. And it is essential that the educational system help close the gap between ordinary people and the business world and spread a culture of enterprise and innovation.

7.2.2. Local and regional operators should, in accordance with the principle of mainstreaming, incorporate the development of entrepreneurship in all aspects of education policy. Schools and universities should familiarise students with enterprises and the way in which they operate. Furthermore, promoting entrepreneurship should involve both developing the spirit of entrepreneurship within organisations and fostering a pro-entrepreneurial mentality.

7.2.3. The spirit of enterprise must be made more popular on a local scale, since new jobs are created primarily by smaller firms that have either just been set up or have a strong growth potential. At this level too, geographical closeness must help dispel the myth that business is a closed world which is only accessible to those who work in it. The COR would stress the importance of encouraging firms to make themselves more accessible to society as a whole and of making it easier to organise visits to companies for schools, colleges, universities or for ordinary people who just want to get acquainted with their region's industrial and technological heritage. Use should also be made of existing national, regional or local bodies which help make the educational system and the general public aware of science and technology. In France one can mention, at national level, the City of Science and Industry at La Villette in Paris and, at regional level, the Centres for Scientific, Technical and Industrial Culture (CCSTI). The COR suggests that a census be carried out of such bodies throughout

the EU, that a study be undertaken into the most appropriate ways of publicising practices and experiences, and that funds be provided for helping such bodies do their bit towards achieving the objectives that have been set.

7.2.4. The COR also approves the idea put forward by the Commission that promoting risk-taking goes hand in hand with making failure acceptable. There is a real cultural problem here that varies from country to country or region to region in the EU. The right to fail, which is recognised in American culture, is vital to popularising the right to individual initiative and the freedom to undertake projects. But first there must be certain developments in the field of regulations (bankruptcy law), finance (risk capital) and, of course, education.

7.2.5. Finally, there is the question of mutual recognition of qualifications within the EU. It is vital to encourage communication gateways and the recognition of qualifications between member states. But the COR would stress the importance of not trying to develop a unified European model for education. Once again, Europe's diversity is a source of richness. It is important to leave room for decentralised initiatives so as to get full benefit from this economic, social, cultural and historical diversity of the regions of Europe when forming human capital. Here, as elsewhere, cohesion does not mean unification. In particular, an accreditation system which is too powerful would lead to local qualifications being replaced, and would mean a new form of centralisation in the education system, which is just what we want to avoid. The strength of the American universities lies in just the opposite: the affirmation of their differences, their variety and their individual identities.

## 7.3. *Protection of intellectual property*

7.3.1. The present system for protecting intellectual property in Europe is complex, and the patents system is incomplete. In addition, there is an obvious culture gap as regards reflexes for protecting innovation. These two things help explain the shortcomings noted by the Commission communication and their impact on the competitiveness of European firms.

7.3.2. There are two, or even three sides to the problem. First, there is the question of moving towards a proper single EU patent that can guarantee protection throughout the EU market on the basis of one single application. Finalising such an instrument must be considered one of the necessary conditions for completing the single market. Apart from unifying administrative and legal procedures, it would also involve setting up a unified base of precedent, a true state of the art in Europe, and a formidable tool for providing technical information on Europe's technological and industrial potential.

7.3.3. The second question is how to maximise Europe's scientific potential, which has a worldwide reputation for excellence. Of course, every research body should try and showcase itself effectively. But such attempts often fall well short of what is needed, given the dynamism of the research work behind them. Without any doubt, this is due to the lack of reflexes and motivation among researchers to protect intellectual property and get due recognition for their scientific work, and to the regulations that hamper linkage between research and industry. So, in France there is a bill being drafted that is designed to help researchers to set up businesses and remove the obstacles that currently prevent active researchers from sitting on the boards of private companies. Of course, situations vary in the EU member states and it would be useful to have an overall picture of the exact details, the relevant regulations and recent trends. Any move towards greater financial and operational autonomy in universities should also help European universities, like their American counterparts, to set up proper systems for deriving an economic benefit from research. Some, like the University of Cambridge, have already developed some exemplary practices that could usefully be studied.

7.3.4. A third side to the problem is that smaller firms do not make much use of patents and intellectual property protection because there is too much red tape involved and the costs are high (2 to 3 times higher in Europe than in the USA). Such firms have a remarkable potential for innovation, but by staying outside any system of protection they very often fall far short of realising their real economic capabilities and are threatened by better armed potential competitors. Also, they are very often at a loss when it comes to seeking legal redress or defending their rights in the courts.

7.3.5. To try and make headway in this disturbing area, the COR proposes to help push minds and practices forward by playing the proximity card with many of the actors concerned. It recommends setting up Intellectual Property Regional Bureaus in the European regions, which would be regional representatives of both the European Patents Office and national intellectual property bodies<sup>(1)</sup>. Such bureaus could take on several tasks. First, they could be offices for providing information and submitting requests for standard European patents, as soon as these are introduced. They could offer a package of information and advisory services for the actors concerned, especially smaller firms and research laboratories. Then they should help develop the reflex of getting the

most out of scientific production. In particular, they would encourage partnerships between research and business, especially if these formed part of regional innovation programmes. Hopefully, this could lead to better anchoring and greater regional fall-out from research projects. Finally, these regional bureaus should help develop an intellectual property culture at regional level through campaigns to inform and heighten the awareness of people in industry, research, education and of the general public.

7.3.6. Creating such regional intellectual property bodies would make it possible to set up interlinked regional centres that would provide information on the contents of registered patents. The patents system has two objectives: to protect the inventor and to spread relevant technical information, revealed by patents, through the production system. So, it would be possible to build a base for knowledge about patents registered in the regions and held by regional businesses. Such a base could be a big help in regionalising technological potential by facilitating the search for partners and complementary technologies at a regional level.

#### 7.4. *The non-universality of patents systems: the case of software*

7.4.1. The COR would draw the Commission's attention to the dangers that might arise from systematically relying on patents in the field of intellectual property, since patent protection is not universal. This applies mainly to the new technologies, and especially to information technologies and the life sciences, which are the subject of a detailed and heated debate.

7.4.2. In the case of software, the debates that have taken place since the 1970s in the main countries concerned have all led to a copyright system, although such a legal framework is not entirely suited to the sector's specific requirements. The European Directive of 1 January 1993 has shown some wisdom in encouraging interoperability among programmes so as to counteract the anti-competitive strategies of seeking a dominant position. But for several years now, US case law has been led into allowing the issuing of patents for software 'components', a practice to which it had previously been hostile. And the US is putting increasing pressure on Europe to allow software patenting.

<sup>(1)</sup> Representations of national bodies already exist in some Member States, such as the INPI in France.

7.4.3. The stakes here are extremely high. Such a practice would threaten the progress of innovation in this industry, since it would lead to a compartmentalisation of knowledge and procedures, thereby preventing any interaction<sup>(1)</sup>. The multitude of patents registered and granted in the USA include a very large number of procedures, or even algorithms. Many of them seem a long way from satisfying the criteria of novelty and originality which, theoretically, are the basis for issuing a patent<sup>(2)</sup>. If the issuing of patents for software became institutionalised, it would strengthen the dominant position of the biggest US market leaders in the sector. It would be a direct threat to the huge number of innovating smaller firms in Europe, the USA and in other countries. Finally, it would be a very severe handicap for the European software industry, which has a hard time remaining commercially competitive despite its high level of competence.

## 8. Conclusions and recommendations

8.1. In concluding this analysis, the COR would point out that the competitiveness of European firms must be a concern for the EU, since it has a bearing on the successful construction of Europe, jobs, well-being and prosperity, growth and sustainable development in all European regions. The objective of competitiveness must not be sought at the expense of social cohesion, justice, respect for human rights and the environment. Social dialogue must be considered not as a constraint of the European model but as a constructive factor with a view to Europe's competitiveness in the long term.

8.2. With economic and technological globalisation, local and regional territories are, paradoxically, taking on a new key importance in promoting a dynamic industry and innovation. It is essential that the consequences of this situation be recognised simultaneously at the various levels involved. The results of this development — in terms of local development and increased employment — will sow the seed for the success of the European venture as a whole. Consequently, it would appear to be the responsibility of all public institutions — from local level to EU level — to strive to achieve these results. This is why local development, which lies at the root of job creation, must be one of the priorities in building a competitive Europe. The COR has already stressed the importance of setting up regional RTD potential and 'centres of excellence' that will help give territories an identity and make them an active and integral part of the whole industrial and production fabric.

8.3. All this shows how wrong it would be to judge whether territories were competitive solely by their capacity to attract productive investment, without taking into account whether they are able to hold on to such investment and to provide it with favourable conditions linked to local development — in a word, whether they are able to promote 'territorial anchoring'. The COR warns against competitive bidding to attract firms and the competitive tax and wage-cutting that may result. It suggests stricter controls on public-sector location aid in collaboration with national and local authorities. Local development projects must try as far as possible to reconcile the need to attract external investment with the needs of endogenous development. To enhance the permanence of regional production infrastructure, firms must be encouraged to put down roots at a time when globalisation seems inevitably to be turning them into nomads.

8.4. The COR trusts that the EU can provide effective support for networking and research and innovation initiatives based on deriving maximum benefit from the expertise and synergies of industrial and technological actors within a given area. It is also to be hoped that public works contracts can actively help such projects as pilot users (definition of specifications, testing) and as a surety for acquiring start-up capital.

8.5. The COR stresses the importance of helping smaller firms gain access to modern means of information by, for instance, developing new information and communication technologies and the infrastructures associated with them. But this course of action assumes that training for such potential users will be attractive and cheap and that the supply of information will be improved on a pan-European scale, technologically, legally, taxation-wise, etc. The COR suggests that, before taking such action, there should be a survey of what studies exist on this subject (role of IT infrastructures in the development of smaller firms) and of the IT resources currently available.

8.6. The COR supports the idea that Europe cannot possibly be competitive unless there is a big improvement in trans-European infrastructures. The COR stresses that this may be vital not only to large firms but also to smaller firms, which must be integrated more quickly and thoroughly into a competitive European set-up. In transport, this would mean developing European high-speed train links, reorganising air traffic on a European scale, developing the European waterway transport network and creating intermodal platforms. As for the rail-road trade-off, it is urgent to co-ordinate national policies and decisions closely, in the absence of convergence on a common doctrine.

(1) See for example: 'Un régime de droit d'auteur: la propriété intellectuelle du logiciel' J.B. Zimmermann, Réseaux, Numéro Spécial sur la Propriété Intellectuelle, No 88/89, March-June 1998.

(2) There is no state of the art here and previous research has been very approximate and of little credibility.

8.7. As far as new information and communication technologies are concerned, the EU must make a real effort to improve quantity, density and quality. The COR particularly stresses that an effort on content must not be separated from one on containers. High-performance networks must be set up that are easy to access and work must be accelerated on the introduction of a high speed Internet. As for the contents, thought must be given to drafting a public policy that shares out harmoniously the responsibilities for providing information between the EU, the Member States and the regions.

8.8. Regarding access to funding, if European firms are to be competitive it is vital to set up a high-performance venture capital scheme, though access must not be restricted to the big financial centres but should also be available in the regions. The COR has already come out in favour of setting up 'business agencies' in the regions, which would act as clearing houses between aid-granting authorities, banks and businessmen and would be able to give a quick decision on whether or not to provide funding. The COR also repeats its reluctance to see pension funds being invested in venture capital; this should only be authorised if appropriate guidelines are laid down.

8.9. As a complement to funding issues, the COR would stress the importance of helping management in smaller firms, especially those which have just been set up or are in their growth phase. Management generally requires different skills from setting up a business. A lot of initiatives have been taken here and there, especially in connection with business nurseries or incubators. There should be an assessment of such initiatives and a list of those measures that are of most help to management.

8.10. On the employment front, the Council of European Municipalities and Regions (CEMR) have drafted a programme 'Local action to promote employment' for 1999-2000, for which they have received the Commission's full support. The COR approves the Commission's proposal to systematically examine experiences acquired in implementing the Territorial Employment Pacts with a view to compiling benchmarking examples for other regions, and suggests that this assessment should be accessible on the Internet as part of the extension of the electronic forum already in place on the European institutions' website.

8.11. As any opportunity is also a threat, the COR wishes to stress that there is no reason why the twofold movement of destroying old jobs and creating new ones has to be geographically balanced or homogenous, and it may lead to gaps widening within the EU. This explains why it is so important to consider local development as a fully integral

part of the EU employment strategy. This also explains why it is equally important that Community action focus on countering those processes which tend to widen internal disparities in the Union and take the most appropriate steps to prevent these destructive processes from having an irreversible effect and, in any case, preserving the existing vocational heritage, reusable technical know-how and human resources which can be redeployed.

8.12. The COR would stress the importance of local roots to firms that have adopted them as a principle and have made them a key factor in being competitive. The COR suggests keeping this rule for firms, rather than the nationality of capital, when deciding whether or not a firm should be considered European and thus worthy of public support for making itself more competitive.

8.13. The COR feels that, when formulating EU policies in areas which affect tourism, efforts must be made to ensure that the needs of the tourism sector are given due consideration. This is especially urgent because tourism is highly labour-intensive and a competitive industry has a big job creation potential, especially for some of those sections of the labour force that are hardest hit by unemployment (young people and women).

8.14. The COR would point out that any effort in the field of trans-European transport and communication infrastructure will have a direct impact on the competitiveness of the European tourism industry and recommends that particular account be taken of this aspect when taking big equipment decisions.

8.15. The COR approves the principle put forward by the Commission of creating an on-line European Observatory Network on Tourism ('EurONet') and recommends that this one-stop shop be extended, using the Internet, to cover as much territory as possible so as to encourage harmonious and sustainable growth and enable those sites that wish it to be opened up. Such a network could also act as a means for exchanging experiences between tourism professionals and concerned local authorities.

8.16. The COR wants the EU to take a clear and final position in the cultural exception debate. If creativity — and therefore cultural diversity — is to be preserved as one of the fundamental values of Europe, then the cultural sector, particularly the audio-visual sector, cannot be brutally exposed to the winds of international competition but must be kept

out of the competition equation altogether. However, while the creative side must be saved and preserved, technical support sectors, such as multimedia and digital technologies, cannot claim they should be shielded from competition. The EU ought to define and adopt a clear common position here, so it can defend the sector properly at the next round of WTO talks.

8.17. The COR would stress the importance of the world of business and the world of education and training opening themselves up to each other. It suggests making it easier to organise visits to companies for schools, colleges, universities or for ordinary people who just want to get acquainted with their region's industrial and technological heritage. It suggests actively supporting national, regional or local bodies which help make the educational system and the general public aware of science and technology. It suggests that a census be carried out of such bodies throughout the EU, that a study be undertaken into the most appropriate ways of publicising practices and experiences, and that funds be provided for helping such bodies do their bit towards achieving the objectives that have been set.

8.18. As far as the question of mutual recognition of qualifications within the EU is concerned, it is vital to encourage communication gateways and the recognition of qualifications between member states. But the COR would stress the importance of not trying to develop a unified European model for education because, once again, Europe's diversity is a source of richness and here, as elsewhere, cohesion does not mean unification. In particular, an accreditation system which is too powerful would lead to local qualifications being replaced, and would mean a new form of

centralisation in the education system, which is just what we want to avoid.

8.19. Finally, as regards intellectual property, the COR recommends setting up Intellectual Property Regional Bureaus in the European regions, which would be regional representatives of both the European Patents Office and national intellectual property bodies. Such bureaus could take on several tasks. First, they could be offices for providing information, advice and for submitting requests for standard European patents, as soon as these are introduced. They could offer a package of information and advisory services for the actors concerned, especially smaller firms and research laboratories. They should also help develop the reflex of getting the most out of scientific production, encourage partnerships between research and business and develop an intellectual property culture at regional level. They could also be the building bricks in a system for providing information about patents registered in the regions and held by regional businesses, which would be a big help in regionalising technological potential by facilitating the search for partners and complementary technologies at a regional level.

8.20. Finally, the COR would draw the Commission's attention to the dangers that might arise from systematically relying on patents in the field of intellectual property, since patent protection is not universal. This applies mainly to the new technologies, and especially to information technologies and the life sciences, which are the subject of a detailed and heated debate. The present current in the software sector is symptomatic of a trend that must be resisted, while maintaining the spirit of wisdom and competition behind the European Directive of 1993.

Brussels, 18 November 1999.

*The President*  
*of the Committee of the Regions*  
Manfred DAMMEYER

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