

Opinion of the European Committee of the Regions — Entrepreneurship on Islands: contributing towards territorial cohesion

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POLICY RECOMMENDATIONS

THE EUROPEAN COMMITTEE OF THE REGIONS (CoR)

Introduction: specific challenges faced by island regions

1. welcomes the Maltese Presidency's request for our institution to be involved in identifying potential solutions to promote entrepreneurship and to boost islands' economic, social and territorial development;
2. recalls the European Union's undertaking to promote economic, social and territorial cohesion as set out in Article 174 of the Treaty on the Functioning of the European Union (TFEU);
3. recalls that Article 174 TFEU states that island regions are in need of particular attention from the EU, which shall aim to reduce disparities between the levels of development of the various regions within and between Member States;
4. recalls that there are 362 islands with over 50 inhabitants in the EU, accounting for a total of 17,7 million people (of whom 3,7 million live in the outermost regions); these islands' GDP per capita (in 2010) amounts to approximately 79,2 % of the EU average, and a significant proportion of them are still categorised as less developed regions;
5. notes that the great majority of these island regions did not experience economic convergence in the 2000s, according to the EUROISLANDS study (ESPON 2013), and that the situation has actually deteriorated for many of them since then due to the financial crisis, the migration crisis, changes in tourism habits and a lack of innovation;
6. stresses that these island regions have geographic, economic, demographic and social features that are unique to them (in comparison with mainland regions) and are shared across the various islands. These features throw up unique challenges when implementing European policies that affect them:
 - small size (in terms of area, population, economy);
 - distance and/or remoteness (physical distance and time needed to reach markets, particularly in relation to the single market and to large industrial, financial, political and population centres);
 - vulnerability (to economic, environmental and social threats);
7. emphasises that these three parameters create territorial, economic and social handicaps, as recognised in Article 174 TFEU, which hinder both the fair integration of islands in the single market, as well as the complete territorial integration of island populations; in particular, these conditions can lead to the following scenarios:
 - a local market that is limited and, in the case of archipelagos, fragmented and remote;
 - high transport costs for logistics, freight and insurance, on account of distance as well as instances of imperfect competition (oligopolies or even monopolies);
 - the inability to achieve economies of scale due to the small size of the market, which results in high unit costs for both businesses and public services;

- poorly developed inter-industrial relations due to a strong tendency to specialise in exploiting one resource, to produce one type of good or to provide one type of service;
 - a lack of qualified workers; or a tendency for qualified workers to leave islands in order to find adequate employment elsewhere;
 - a lack of entrepreneurial expertise, as entrepreneurs tend to leave islands to invest in more profitable markets;
 - a lack of infrastructure and services for businesses at a comparable level to mainland regions, e.g. in the field of telecommunications, training or risk capital;
8. welcomes the work done by the European Parliament intergroup on seas, rivers, islands and coastal areas, as well as by the commission of the Conference of Peripheral Maritime Regions of Europe (CPMR);

Inclusive growth — the contribution of island entrepreneurs

9. notes that entrepreneurs and entrepreneurship play an essential role in job creation and economic vitality in the European Union; island entrepreneurship, however, faces specific structural difficulties;
10. recalls that many island economies have implemented growth strategies based on harnessing economic, social, cultural and natural assets, such as:
- a subsistence economy, enabling people to be assured of a measure of wellbeing, especially in times of crisis;
 - the export of niche products guaranteeing the island's place in markets with high added value;
 - various forms of tourism, beyond solely mass tourism;
 - green energy initiatives, demonstrating the ability of small island communities to bring about an energy transition;
 - harnessing 'geostrategic' rents that are not affected by the constraints of small size or remoteness (scientific observatory, etc.);
 - the development of the new 'green' and 'blue' sectors of the economy, along with the development of new curricular content that provides the training required in these sectors;
11. stresses that these strategies to identify and harness unique economic assets are often the result of island entrepreneurs' creativity, risk-taking and resilience, and suggests keeping in mind the flexibility that is needed when developing public policy to boost island entrepreneurship;
12. notes that island economies are characterised by poorly diversified economies with a high proportion of SMEs or even VSEs, and a significant number of entrepreneurs who have several occupations; and that this ecosystem exists alongside a few large firms with a monopoly in specialised sectors (tourism, transport, mining, fisheries, etc.);
13. encourages the EU institutions and Member States to pay closer attention to maintaining a free market in individual sectors in island regions while ensuring that market failures are addressed;
14. recalls that island products — including raw materials — can be sold on niche markets to targeted customers and at a high price; the products' distinctiveness allows for sufficient profit margins to ensure that economic activity on the island is viable. Specifically, products' value is enhanced thanks to the recognition of quality symbols and cultural references in the global arena of goods and services;

15. underlines, however, the different types of additional cost borne by island entrepreneurs, precisely because of their island location (raw materials, provision of services, logistics, etc.) which ultimately constrain the competitiveness of products and services;

16. emphasises that even when the products are competitive and of good quality, entrepreneurs are faced with a lack of R&D capacities, technology tailored to islands, appropriate arrangements for financing their activities, and qualified workers due to high emigration, especially where the resident population is small;

17. welcomes, therefore, the steps taken at European Union level in these areas, but urges tailored measures to be put in place in order to improve basic conditions, enabling islands to contribute to inclusive growth within the EU. This means that any EU policy that aims to promote entrepreneurship must take into account islands' specific characteristics and challenges if it is to be fair and effective;

Policy recommendations to strengthen territorial cohesion in the European Union

18. recognises the essential importance of cohesion policy in terms of achieving balanced regional development within the European Union: it is the most appropriate policy for tackling development gaps between islands and other European regions; stresses, however, the fact that island regions do not enjoy special status in cohesion policy in its current form;

19. draws attention, furthermore, to the characteristics of the outermost regions (of which eight are islands) which face serious problems that are aggravated by their specific constraints as recognised in primary law and that impact on their economic and social development. These should be taken into account;

20. recommends, therefore, that islands should be a particular focus of post-2020 cohesion policy, pursuant to Articles 174 and 175 TFEU. A first step towards achieving this goal would be to add islands as an additional category in the proposal for a Regulation of the European Parliament and of the Council amending Regulation (EC) No 1059/2003 as regards the territorial typologies (Tercet);

21. recommends setting up a one-stop shop for the islands ('Island Desk') within the Directorate-General for Regional and Urban Policy at the European Commission, as suggested by the European Parliament in its resolution of 4 February 2016, as island stakeholders (businesses and communities) are currently unable to discern all EU instruments and funding opportunities, which are widely scattered across DGs and are subject to multiple regulations;

22. welcomes the Urban Innovative Actions initiative and, with this example in mind, suggests setting up a website and European initiatives dedicated to networking EU islands so as to enable experiences to be shared and administrative engineering and innovation to be pooled;

23. underlines that the maximum possible use should be made of synergies between the European Fund for Strategic Investments (EFSI) and other EU instruments (particularly the ESI Funds) in order to offset the economic impact of the natural handicaps that affect islands;

24. notes, however, that the small size of many island projects means that VSEs and local island communities seem in practice to be unable to access EFSI financing and EIB loans; therefore recommends developing technical assistance programmes specifically tailored to islands so as to raise awareness about EU funding instruments and to make them easier to access;

25. calls on the European Commission and the EIB to consider whether the technical assistance provided by JASPERS could be expanded to benefit islands and adapted to smaller scale projects;

26. stresses the usefulness and advantages of the EGTC regulation (1302/2013) for local and regional authorities and for the islands of Europe, given that this regulation allows the islands of various Member States and non-Member States to create a joint legal entity enabling them to pursue a common goal and to give them access to EU funding, while lightening the administrative burden that such cooperation would normally entail;

27. proposes the establishment of a system of operating assistance for island businesses to offset higher transport costs; given the guidelines on regional aid and the GBER, approval and exemption for such aid should be the same as for the outermost regions and sparsely populated areas;
28. proposes that more should be done to make use of the potential offered by the sharing economy, including in order to solve problems that are linked to island regions' geographic remoteness;
29. emphasises the importance of increasing the share of public intervention in projects that are part of EU programmes and making private intervention more attractive, where these projects create jobs and wealth on the island while also being environmentally sustainable;
30. stresses that many obstacles that are specific to island development are not captured by using per capita GDP as an indicator; therefore suggests broadening the range of complementary indicators used in the context of cohesion policy in order to more accurately determine islands' socio-economic circumstances and attractiveness;
31. suggests the Regional Competitiveness Index (RCI) and the accessibility index as indicators that could be used, but recommends further research to find other indicators enabling the additional costs faced by islands to be fully documented; calls for the Commission to carry out comparative studies on the performance of island businesses in relation to their counterparts on the mainland, even when the mainland consists solely of an island Member State;
32. calls for attention to be paid to non-financial and hard-to-measure aspects, including the natural environment (its quality and accessibility) when evaluating the socio-economic situation of island residents and determining the economic attractiveness of these areas;
33. acknowledges the usefulness of the annual report on European SMEs produced by the Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs; however, calls for future reports to include regional data in order to better understand the challenges faced by island SMEs, as well as their success/failure rate in relation to their counterparts on the mainland;
34. acknowledges the usefulness of tools such as territorial impact analysis (TIA) when assessing the impact of European policies on island regions, and suggests applying an 'island' clause as part of the European Commission's impact assessment procedure in order to forecast the potentially burdensome effect such policies can have on islands;
35. notes, that whilst the use of smart specialisation strategies (SSS) as an ex ante condition when allocating European structural funds (ESI Funds) can contribute towards the development of strategies at a national and regional level, the specific nature of island economies require tailor made solutions; in this regard the over-reliance on one particular sector or one single activity may result in a high risk of economic monoculture and the perverse economic impact that it entails ('Dutch disease');
36. considers that the Commission should give particular consideration to smart diversification or conversion initiatives, such as mass tourism to sustainable tourism, the development of creative industries, the integration of information and communication technologies into traditional activities, and targeted marketing that raises the profile of island resources;
37. calls for efforts to boost policies aimed at raising the awareness of the citizens of EU Member States of opportunities for tourism within the Community, and encourages the establishment of a stronger network of links between areas of the EU, enabling residents of the EU's metropolitan areas to holiday in island regions with natural attractions;
38. stresses the importance of the partnership principle, as set out in Article 5 of the Common Provisions Regulation, in order to define territories' needs with regard to the strategic planning of cohesion policy ('bottom-up approach'). To this end, the European Committee of the Regions calls on the European Commission to include the effective implementation of the European Code of Conduct on Partnership as an ex-ante condition in its legislative proposal for post-2020 cohesion policy;

39. urges Member States to ensure that the partnership principle is fully implemented in order to ensure that the specific needs of island regions are taken into account in partnership agreements and operational programmes;

40. stresses the need to involve local and regional authorities in defining national and European policies that affect them so as to bring regulatory frameworks governing intervention into line with islands' specific needs, in accordance with the principle of subsidiarity;

41. welcomes the funding possibilities offered by the Connecting Europe Facility (CEF), to the extent that they apply to islands; notes, however, that motorways of the sea (MoS) financing is focused on core and large-scale networks, and can neglect connections between islands and regional centres or between islands and other islands; proposes, therefore, that specific financing for islands should be earmarked within the overall MoS financial envelope;

42. acknowledges the efforts made by the Commission to support entrepreneurs via programmes such as COSME and InnovFin, within the framework of the Entrepreneurship 2020 Action Plan and Horizon 2020 in the field of innovation and the work on the Capital Markets Union. However, the Committee believes that the territorial dimension (and islands in particular) needs to be incorporated into these programmes and plans in order to:

- successfully involve island entrepreneurs;
- boost vocational training and upskilling within businesses located on islands;
- allow entrepreneurs greater access to capital, including risk capital;
- enable islands to be part of European and global networks for the creation and dissemination of scientific and technological knowledge, and to reap the rewards of this involvement in terms of market output and social well-being;

43. calls on the Commission to set up a programme to stimulate innovation processes in island economies, make use of local resources, provide support for the use of renewable energies, handle waste, manage water, promote cultural and natural heritage, and establish a circular economy; the term 'innovation' here covers technological, organisational, social and environmental innovation;

44. highlights the importance of state aid in addressing the challenges created by the small size, remoteness and isolation of the European Union's island regions. These natural and permanent characteristics constrain the effectiveness and organisation of various sectors that are strategically important for islands, such as transport, energy and digital connectivity;

45. recalls that reliable internal and external transport infrastructure and organisation — at a comparable cost to on the mainland — are necessary if an island is to develop and be economically competitive;

46. suggests that the eligibility criteria governing aid for infrastructure and transport networks (construction, modernisation, equipment) should be less stringent for islands, in order to enable the most effective possible interface with the mainland transport system and the best possible integration with the European area and market;

47. calls for this aid to facilitate inter-island connections in the case of archipelagos, or intra-island connections in the case of mountainous islands, and for it to promote investment in low-carbon modes of transport (LNG ships, stations for electric cars, etc.);

48. stresses that as island markets are often small and remote, mainland businesses are rather reluctant to supply goods or services there, which constitutes a real obstacle to island consumers' and businesses' access to the competitive benefits of the single market. This is particularly true for transport connections and energy supply, key sectors for island businesses to be competitive; recommends, therefore, that these sectors be able to benefit from exemptions regarding state aid in the case of islands;

49. in the same vein, also proposes that the de minimis Regulation could be more flexible in the case of islands, and that the public procurement stipulations could be relaxed as, in many cases, it is not possible to receive more than one tender when the consultation procedures are applied;
50. supports the flexibility that is currently used with regard to schemes enabling islands to benefit from specific tax incentives or a reduced corporate tax rate in order to offset the additional costs caused by being an island, and hopes that this flexibility will continue; advocates using a system of incentives for innovation and investment to boost production and — going beyond local consumption — to promote exports;
51. welcomes the fact that the European Commission intends to include a chapter on islands in the next report on cohesion. The European Committee of the Regions urges the Commission to use this chapter to show how the recommendations set out in this opinion will be implemented;
52. calls on the Maltese Presidency to follow up on these policy recommendations and to work closely with the Committee of the Regions to implement them.

Brussels, 12 May 2017.

The President
of the European Committee of the Regions
Markku MARKKULA
