

# THE PRIVATE SECTOR IN EUROPE: AN OVERVIEW

**Giorgio Boggio**

*Ambassador, Delegation of the Commission of the European Communities*

**T**his paper will deal with the possible impact of E.U. membership on the private sector in Gozo, and will briefly touch upon some of the E.U. policies which will have a bearing on Gozo's economic activities.

The presentation will focus on the following topics:

- Industrial policy;
- Support to SMEs and regional policy; and
- Competition policy and consumer protection.

In the concluding section, I will also refer to the enlargement process which, in view of the official start of negotiations with Malta, is of direct relevance to the theme of the paper.

## **Industrial Policy**

The E.U. Industrial Policy can be more accurately called the E.U. Industrial Competitiveness Policy.

To explain the need for an industrial competitiveness policy for the E.U., I will discuss the following issues:

- the importance of industry in the E.U. economy;
- the economic basis upon which the E.U. industrial competitiveness rests;
- its political and legal basis, and its priorities and implementation.

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### *The Importance of Industry in the E.U. Economy*

The relevance of the role of industry in the E.U. economy is evident if one considers that the manufacturing industry accounts for more than one third of the value added generated in the E.U. and one out of every three jobs.

It is therefore fundamental to ensure an efficient and innovative industry, creating the conditions for sustained economic growth.

Open competition is recognised as essential to ensure the efficiency of economic systems – failure of the centrally planned economies has taught us this lesson. However, there is a role that the public authorities can usefully play.

Economic theory indicates three main justifications for public intervention within market economies: market imperfections, market failures and public strategies.

*Market Imperfections.* These can take various forms, and occur, for example, when very significant entry costs (e.g. those associated with Research & Development) are involved. This happens for instance in high technology sectors. Business tends to be concentrated in the hands of few operators who would be able to raise prices without significantly affecting demand. In this case, public intervention may be beneficial to offset the costs of entry into the market.

*Market Failure.* This may occur, for example, in the case of R&D, when it takes the character of a public good. Public authorities intervention (in this case through the E.U. research and development framework programmes) could promote transnational R & D cooperation, promotion of partnership and access to information, introducing at the same time Intellectual Property Rights protection. It should be noted that a primary objective of the E.U. R&D strategy is to enhance E.U. industrial competitiveness.

*Public Strategies.* Public authorities have a catalytic role to play in ensuring the right conditions for industrial development, through, for example a suitable legislative environment (internal market, competition, etc), mobilisation of large resources for major projects (Airbus, TENS,

structural funds), and political consensus to support development strategies (Information Society, training programmes, etc.).

### *Political and Legal Basis of the Industrial Policy*

We had to wait till 1992 for the Treaty of the European Union (Article 130) to establish industrial competitiveness as one of the objectives of the E.U. The legitimacy and the main instruments for implementation (R&D, training, economic and social cohesion policy and TENS) of an industrial competitiveness policy are now in place.

The priorities of the E.U. industrial competitiveness policy Priorities can be summarised as:

- promotion of investment in tangible assets (know-how, human resources, quality of goods and services, etc);
- development of industrial co-operation (by ensuring legal framework and providing fora to bring together interested parties);
- strengthening of the competitive environment (opening the market, ensuring fair competition); and
- modernisation of the industrial role of the public administrations (avoiding excessive bureaucracy).

### **European Union Activities to Support SMEs**

The E.U. has recognised the dynamic role played by SMEs in economic development and creation of jobs. It therefore supports SMEs by different policies and programmes, summarised below.

The improvement of the environment of enterprises deals mainly with the simplification of administration and regulations, the work on payment delays, transfer of enterprises, the change to the euro and the improvement of access to financing and credit. The Commission also attaches great importance the specific needs of SMEs in the development of all Community policies such as the internal market programme, competition, taxation, environment and social policy.

The programmes and measures of support for enterprises aim primarily at access to financing and credit, support for the development of SMEs in the

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less-favoured regions, Europeanisation and internationalisation of SMEs, strengthening of competitiveness, better access to research, innovation and training, promotion of the spirit of enterprise and greater incorporation of the environmental dimension.

The programmes and measures of support for SMEs deal first of all with the measures taken in the framework of the enterprise policy. Principally these measures relate to:

- information (Euro Info-Centres);
- Europeanisation and internationalisation of enterprise (BC-NET, BRE, EUROPARTENARIAT and INTERPRISE);
- transnational sub-contracting activities, as well as activities on behalf of the craft sector, trade and the social economy.

The measures taken on the basis of Regional Policy and other policies are mainly concerned with:

- structural funds;
- technological research and development programmes;
- activities of the European Investment Bank and the European Investment Fund;
- cooperation programmes with third countries; and vocational training programmes.

Other activities concern SMEs in the fields of quality and standardisation, innovation, environment (ECO-AUDIT), transport, energy and the audio-visual industry.

A recent Commission report shows that the participation of SMEs in the programmes has increased progressively. In the structural funds, SMEs constitute a public target for aid. Between the periods 1989-1993 and 1994 – 1999 there was almost a doubling of the Community allocations to SMEs. The European Investment Bank doubled the volume of its global loans to improve the competitiveness of SMEs between 1993 and 1996.

In the Technological Research and Development Programmes (RDT), the introduction of specific measures for SMEs enabled a doubling of the participation of SMEs in the Fourth Programme compared to the participation in the Third Programme.

Regarding vocational training, SMEs are targeted as a priority in the programmes arising from Objective 4 of the European Social Fund, of the ADAPT initiative and within that part of the Leonardo da Vinci programme concerned with enterprises.

The progress achieved is demonstrated by:

- the emergence of a political priority for SMEs within the Union; greater consideration for the special situation of SMEs in policies having an impact on their environment;
- the introduction of measures to support SMEs in most of the Community programmes; and
- increased participation by SMEs in the programmes.

Finally, the European Council on Employment (Luxembourg 20 and 21 November 1997) sent a strong political signal in the direction of SMEs. It invited the Commission to propose concrete measures for SMEs, to create long term employment, and accompanied these measures by a new budget line of 420 MECU for three-years, to support the opening of a "risk capital kiosk". In addition, it supported the creation of joint transnational enterprises (JEV initiative) and set up a special guarantee fund for the institutions financing SMEs.

The Commission's policy co-ordination role takes into account the principle of subsidiarity and respects the fact that SME policy is primarily the responsibility of the national and regional authorities. For this reason, it is limited to stimulating or organising mutual consultation and co-operation, ensuring that actions have maximum effectiveness and helping to give them a higher profile.

#### *MEDA: Co-operation with the Mediterranean Region*

The economic and financial basket of the Euro-Mediterranean Partnership established by the Barcelona Conference of November 1995 envisages the creation of an "area of shared prosperity". This will be achieved through the progressive establishment of a free trade area by the year 2010, and appropriate economic co-operation measures.

The Barcelona Declaration emphasises the importance of the private sector development and the role of SMEs in the process of economic transition.

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Small and Medium-sized Enterprises (SMEs) and business co-operation also plays a central role in the Euro-Mediterranean policy. In order to strengthen the private sector in the southern Mediterranean area, the instruments and programmes already in force in the E.U. to encourage links among SMEs, have been extended to the Mediterranean Partners since 1992.

There are several kinds of initiatives: the organisation of business-to-business meetings, BC-Net centres, BRE centres and Euro-Info-Correspondence Centres. Business Centres were added in 1995. Business-to-business meetings are of three kinds: Med-Interprise, Med-Partenariat and the participation of Mediterranean companies in Euro-Partenariats.

### *Regional Policy*

Regional policy is, in financial terms, the second most important policy of the Union.

The structural funds have three objectives:

*Objective 1.* This promotes the development and structural adjustment of regions whose development is lagging behind. These regions have an average GDP per capita inferior to 75% of E.U. average.

*Objective 2.* This promotes the economic and social conversion of areas facing structural difficulties. These shall include areas undergoing economic and social change in the industrial and service sectors, declining rural areas, urban areas in difficulty and depressed areas dependent on fisheries, defined on the basis of objective criteria laid down in the legislative texts.

*Objective 3.* This lends support to the adaptation and modernisation of policies and systems of education, training and employment. It shall apply outside Objective 1.

Objectives 1 and 2 are applied on a territorial base, and are obviously, mutually excluding.

### *Advantage to Businesses from Structural Funds*

*Direct advantage.* A large part of the interventions of Structural funds

benefit directly to industrial businesses. Under the new Regulation, ERDF will cover up to 35% of the costs for investments in areas Objective 1 and up to 15% in areas Objective 2, plus 10% in case of SMEs. It will cover up to 50% of public costs of measures (this means that ERDF and national public funds will jointly co-finance investments projects of private companies). EFS would finance training projects within or outside companies.

*Indirect advantage.* ERDF also finances infrastructural projects (limited to 40% or 50% of total cost). The indirect advantage comes to businesses from subcontracting large part of the work and improves their competitiveness thanks to the improved infrastructures.

### *The Cohesion Fund*

The Cohesion Fund is intended for large investments projects in the fields of infrastructures and environment, for member States whose GDP per capita is below 90% of E.U. average (for the moment Greece, Ireland, Spain and Portugal qualify), provided that they respect the macroeconomic conditionality (respect for the Pact for Growth and Stability). Therefore although SMEs do not receive direct funding, they benefit, as in the case of ERDF, from subcontracting large part of the work and improve their competitiveness thanks to the improved infrastructures.

## **Competition Policy and Consumer Protection**

In the context of the European Union, Competition Policy has two main aims:

- achieving and maintaining single market integration; and
- ensuring that competition is the driving force of the European economy in such a way that companies strive for competitiveness in domestic and world markets.

Maintaining effective competition on the market is crucial for:

- the protection of the consumer;
- fair rules for companies and individual traders; and
- the overall objective of achieving economic integration.

Unless there is free and fair competition in a market where all barriers to

trade between the Member States have been removed, the consumer will not be able to reap the full benefits of the single market, namely, lower prices, better choice and better quality. For companies and traders operating in this market, an effective competition policy is crucial to ensure that all companies participate fairly on a level playing field and that the smaller companies are not pushed out of the market by the strength of the larger companies.

Competition law should act as a deterrent to companies or traders who attempt to make arrangements which restrict or distort competition on the market.

The European Union actively seeks to protect consumer rights through various initiatives. The Consumer Policy Action Plan for 1999-2001 sets out target objectives essential for the promotion of confidence in consumer participation, ensuring full respect for the consumer's economic interests.

### **The Enlargement Process**

We are on the eve of an unprecedented enlargement which will see the population of the European Union expand from about 370 million to about 500 million. Twelve countries (including Malta) officially started negotiations. Six of these negotiating countries have already provisionally closed negotiations for a minimum of 7 chapters (Hungary) to a maximum of 11 chapters (Cyprus). By the end of the Portuguese Presidency all chapters will have been opened for negotiation for all six candidates.

The other six new candidates, one of which is Malta, have officially opened negotiations with a ministerial ceremony on 15th February 2000 in Brussels. Substantial talks were planned and, started with a meeting on 28th March when the opening of the chapters for negotiation were decided upon.

The differentiation principle is applied to the opening of the chapters for negotiation, i.e., according to the state of preparedness of the individual countries. Such a principle allows for those better prepared countries to proceed faster than others, thus offering the possibility to the six countries to catch up with the first wave of negotiating partners.



Malta terminated the screening exercise early in the year 2000. The screening is the analytical examination of Maltese legislation as compared to that of the E.U. in order to identify possible legislative gaps and discuss ways of rectifying them. The screening is part of the preparatory stage in the definition of candidate country's negotiating position.

At the same time, the E.U. itself will have to work out its own reforms to ensure that its institutions will function effectively with a membership of 27 or more countries. The preparation of the reforms is the work of the Intergovernmental Conference whose work maybe completed by the end of the year with ratification by 2002. That will mean that after 2002, the E.U. will be ready to admit new members, depending on the extent to which the countries themselves are ready to enter.

The reforms of the E.U. and that of E.U. enlargement are the top political priorities of President Prodi's Commission.