



Economic and Social Committee
of the European Communities



***SMEs and craft industries
in the European Union***

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FOREWORD

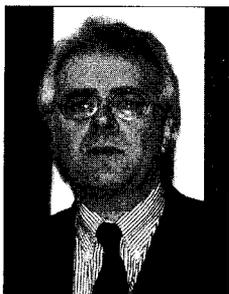
In 1995, the European Commission submitted a communication to the Council on *The craft industry and small enterprises*, keys to growth and employment in Europe. This communication sparked off an extensive debate in business circles and in various sections of society, to which the Economic and Social Committee, in issuing these opinions, also added its voice.

High unemployment is a dominant feature in the economic life of Europe. From now on, jobs are the top priority. The craft industry and small enterprises already do a great deal to create jobs, but they could do much more if they were given the chance to operate in an environment more favourable and better adapted to their own specific needs.

Most craft-based businesses and small enterprises are essentially local-market operations. Thus, their role is crucial to protect jobs and support local development. They also reflect people's wish for higher quality and give emphasis on local traditions. As economic integration continues apace, however, the craft industry and small enterprises also have to hold their own against international competition - hence the importance of giving them the means to succeed in the desired economic environment.

The opinions given here were adopted by substantial majorities. They contain a wealth of very useful information which will be of tremendous assistance in preparing the ground for the Third European Conference on the Craft Industry and Small Enterprises. This conference will give economic and social operators an invaluable opportunity to debate, in a European context, how best to enhance business development in this sector.

Christos PAPOUTSIS
Member of the European Commission
with special responsibility for small and medium-sized enterprises



FOREWORD

This brochure is the latest in a long line of contributions by the Economic and Social Committee to a constructive European Community policy for Small Business in general and the Crafts Sector in particular. The papers presented in it are both descriptive and prescriptive because we know from experience that explanation is needed to bring understanding on which consensus can be built.

The Economic and Social Committee has always been attentive to the problems of Small Business and Crafts. Its membership has had some of the best and strongest advocates for the Crafts sector, and those members with less knowledge of Crafts have always been very sensitive and appreciative of the special situation of Small Craft Enterprises.

Producing consensus on a common European policy for Crafts and Small Business is not easy. The traditions and customs of our countries in this respect are very different. This brochure contains first and foremost a detailed description of these differences – the PEZZINI Report – and beyond that a set of solutions on how best to use our varied backgrounds in developing this sector as a source of jobs and out of respect for our creative talents.

Europe is very concerned at unemployment. It knows that most new jobs are created in the Small Business sector, and believes that Crafts are a sector in which this creative potential can best contribute to job creation and to consolidation of all that is best in our culture.

It is therefore quite natural for us, as representatives of the people who work, invent and create, to call for simplification and support at European level, to sustain and promote the efforts of those amongst you who strive to develop this sector.

As a set of explanations and recommendations for European action in this field, I recommend both consideration of the texts published in these pages and active support for our proposals, by the persuasive means at your disposal.

A handwritten signature in dark ink, appearing to read 'Tom Jenkins', with a horizontal line underneath.

Tom JENKINS
President of the
Economic and Social Committee

OPINION
of the
Economic and Social Committee
on
Craft industries and small- and medium-sized enterprises

Rapporteur: Mr. Pezzini (Italy - Various Interests Group)

Introduction

The 1957 Treaty of Rome did not provide for a Community enterprise policy. It was first developed in the 1980s, when the White Paper on the single market¹ was implemented and new Community policies were drawn up in order to create a favourable business environment for SMEs entering the single market in 1992.

The significance of small- and medium-sized enterprises and craft industries in Europe was definitively recognized at the Edinburgh Council in December 1992, the Copenhagen Council in June 1993 and the Corfu Council in June 1994. A range of initiatives was approved at these Councils, including the multi-annual action programme in favour of SMEs 1993-1996, and the resolution, following on the memorandum from the Belgian presidency of the Council, calling for an increase in corporate competitiveness - particularly for SMEs and craft industries - and a boost to employment. This was subsequently transformed into the action plan for SMEs.

The following figures² show the importance of SMEs and the craft industry in European production: 99% of European firms employ fewer than 250 people; moreover, most of them are small, craft-based firms, since some 93% of EU firms have fewer than 10 employees.

Within the European economy, SMEs account for more than two-thirds of Community employment, and Community micro-businesses (0-9 employees) provide almost as much employment as large companies (29%). In the last three years, 75% of European jobs have been created by the SME and crafts sector. Moreover, if we consider that SMEs account for over 70% of total EU business volume, it can be concluded that SMEs and crafts are the economic and social backbone of the European Union.

Some years ago, the EU, acknowledging the importance of the craft sector for economic growth and job creation, and wishing to provide a tangible response to its needs, launched a policy of support for small-to-medium and craft firms.

1 EU Commission, White Paper on the Single Market, Brussels, 1985

2 Source: Eurostat

From the Avignon Conference to the Berlin Conference

Since the first Avignon Conference in October 1990, the Commission has been working in close cooperation with the trade organizations to meet the requirements of craft industries. The Conference prompted several actions: the Guide to craft industry and SME organizations; pilot actions for training couples who work together; cross-border training and training for standardization and quality certification. There is no doubt that the outcome of these years is positive. On the one hand, although the European Commission has begun to address the concerns of the craft industry and small enterprises, the changes brought about since the first European Craft Industry Conference in Avignon underline the need to pursue the process of dialogue and exchanges between enterprises, between their national and European representatives and with the EU Member States. Moreover, the structural challenges facing micro-businesses over the next few years will cause several problems.

These could be divided into external and internal problems. On the external side, craft industries will have to face increased competition due to:

- ➔ the creation of the single market;
- ➔ large firms taking over market outlets traditionally dominated by small and very small enterprises;
- ➔ creation of large-scale commercial projects (supermarkets and hypermarkets), where each job has taken three or four away from the craft and trade sector;
- ➔ the rise in semi-professional do-it-yourself activities;
- ➔ the increase in moonlighting.

Moreover, craft workers and the owners of small businesses are feeling the effects of competition distortions caused by the lack of adequate economic information, and the delays in getting hold of it. This includes information on standards and quality certification, legislation on environmental protection, safety at work etc. On the internal side, craft workers and those who operate small businesses have to deal with:

- ➔ shortage of capital;
- ➔ a heavy tax and administrative burden;
- ➔ little familiarity with strategic management and corporate organization;
- ➔ problems with staff training.

The second Berlin Conference in September 1994 identified the main sources of concern for companies facing up to social and economic changes in the European Union. The Conference made an important contribution towards raising the profile of the craft industry at European level³ and represented a new approach in terms of the quality of preparation for the discussions (preparatory conferences). At the Berlin Conference, 144

³ EU Commission, *L'artisanat et les petites entreprises face à l'intégration européenne*, Résultats de la deuxième Conférence européenne de l'Artisanat et des Petites entreprises à Berlin, 4.09.1995

proposals were addressed to the European Commission and other Community and national institutions. These can be summarized as follows:

- ➔ more participation for the representatives of small firms and craft industries in drafting Community regulations;
- ➔ internationalization of small firms and craft industries;
- ➔ cooperation with the countries of central and eastern Europe;
- ➔ raising the profile of the crafts industry;
- ➔ awareness of the sector's economic role;
- ➔ incorporation of small firms and craft industries into the single market;
- ➔ vocational training;
- ➔ streamlining of red tape;
- ➔ cross-border areas;
- ➔ funding and access to credit;
- ➔ greater transparency of Commission services.

After considering the proposals, the Commission concluded that some 50% of them were already covered either by Community policies or by actions undertaken shortly before the Conference. The Committee requests the Commission to carry out an appraisal of those proposals which have already been put into practice and to specify what action it intends to take on the others to be undertaken.

In conclusion, the second European Conference on Craft Industries and Small Enterprises, held in Berlin, was an important stage in the quest to enhance the craft industry's role in the economic, social and political life of the European Union. Progress was also made on awareness of the problems facing the sector and how to solve them. The Third European Conference on the Craft Industry will be held in Milan.

Community policy on SMEs and the craft industry

The term "craft industry" covers different activities in the various Member States, and there is no consistency between the legal definitions - where they exist. In its October 1992 Opinion on SMEs and Craft Industries⁴, the Committee pinpointed some of the typical features of craft industries and small firms in the Member States:

- ➔ generally small in size, except for some regions and countries;
- ➔ backbone of the local economy and/or use of advanced technology;
- ➔ customized production or working-to-order;
- ➔ legal and financial independence of the firm;
- ➔ close links between family and firm, with relatives playing an important part;

4 Opinion of the Economic and Social Committee on SMEs and Craft Industries, OJ C 322 of 16.12.1992

➔ skills of the head of the firm, who works in close contact with employees.

Moreover, the importance of micro-businesses and the craft industry in particular is not due merely to the part they play in economic activity, or to the number of firms and jobs involved, and their contribution in terms of added value. The dynamic role they play in the Community economy should also be considered. Owing to their internal organization, and their presence in expanding markets, micro-businesses and craft industries are of vital importance for productivity, innovation and flexibility, all of which are essential for the structural development of the economy as a whole, and for ailing regions in particular.

The craft industry, however, has to solve quite different kinds of problem than those facing medium-sized and larger companies. Some of these problems stem from the increasing need for companies to go beyond their traditional, local markets, and to operate on the European market.

Compared to medium-sized and large companies, it is more difficult for them to cope with legal and administrative red tape, particularly red tape relating to protection of the environment and conformity with the standards applicable in the European Single Market.

Craft industries have greater problems with funding and access to credit and to Community information and international cooperation. Their managers find it more difficult to develop strategic objectives at European level. In order to alleviate these problems and give these firms greater access to the Single Market, the Commission devised the Community policy in favour of SMEs and craft industries. At any rate, a study should be commissioned to ascertain the extent to which the craft industry and business women have access to funding and credit.

In the field of research and technological development too, support measures for SMEs have been adopted under the 4th Framework Programme 1994-1998, following on the positive experience of the CRAFT programme (cf. feasibility awards, for example). These measures are designed both for SMEs from traditional sectors, and for those in high tech sectors. The aim is to encourage them to take part in all the new Community R & D programmes.

If the policies are to have a greater impact on production, then the Community authorities will have to distinguish between policies on micro- and small enterprises, and those on medium-sized enterprises, given the obvious production, commercial, organization and management differences of these two categories of firms.

In this area, the Commission's selective approach does not offer firms direct support, but it does provide help for their intermediaries and representative bodies, such as professional bodies and associations.

Various types of initiative have been undertaken, from Euro Info Centres (information networks) and BC-NET (Business network cooperation), to the BCC, Europartenariat and Interprise (Cooperation between enterprises), and actions relating to subcontracting and pilot schemes (EUROMANAGEMENT, Commerce 2000, and Start-up Capital). Furthermore, the European Union has created 24 "Start-up Capital Funds" which have pledged themselves to investing in companies which are starting up or have recently done so, and which need managerial and financial support to carry out projects which can lead to development and innovation.

The craft industry is also supported, albeit insufficiently, considering its importance for the Community's economy, within the framework of the Community regional develop-

ment policy, under the Community Support Frameworks (CSF), the Community initiatives and the EIB (European Investment Bank), particularly via global loans.

The Structural Funds have budget allocations of more than ECU 141,000 million for the period 1994-1999. Most of this considerable sum (the Structural Funds account for some 35% of the Community's annual budget) will be used to fund national CSFs, particularly infrastructure projects. However, only a small proportion of these resources are harnessed to boost SMEs and the craft industry. Moreover, 9% of the total allocation, i.e. ECU 13,450 million, has been set aside for Community initiatives.

Of these programmes, the significance of the SME Community initiative should be stressed. It has a budget allocation of ECU 1,000 million for joint funding of a range of support activities for SMEs and craft industries.

A further problem undoubtedly arises from the need to ensure that craft industries make good use of the numerous opportunities available to them, so that they can benefit fully from existing actions and programmes, as requested by the Commission (Communication (95) 502) and the European Parliament (Thyssen Report). Only a reduction in red tape and in waiting time for disbursement of funding, improved backup and a broader, deeper partnership with the Community, national and regional authorities and the representatives of trade organizations, will generate a mass effect - greater convergence between local, national and EU action, and improved transparency, which is essential if the enterprises concerned are to participate more profitably.

The Integrated Programme for SMEs and Craft Industries⁵ is a step in this direction. It puts forward a new framework for the improved identification and integration of the different contributions the EU can make towards the creation and development of enterprises. In this programme, the Commission has made a particular effort towards setting up a legal and administrative framework conducive to craft industries. Although there are no new budget headings, the programme does incorporate all other policy areas which can contribute towards the development of SMEs and craft industries, such as the Structural Funds, research and technological development and vocational training. New proposed action will be funded by instruments already in place. In order to tailor these programmes still more effectively to the specific circumstances of craft industries and SMEs, the Committee requests the Commission, in a communication, to study the involvement of craft industries in Community programmes.

In recent years, the European organizations representing the craft industry and SMEs have played an important part in implementing these policies, and are increasingly involved in Community activities. The craft industry's representative organizations are members of several committees of the EU Institutions. Here, the European Commission's aim is clear: to support all forms of cooperation between Member State organizations and encourage them to pool their skills.

⁵ see also: COM(94) 207 final, 3 June 1994; Council Resolution of 10 October 1994, OJ C 294, 22 October 1994; COM(95) 362 final of 8 September 1995

The impact of Community action on the craft industry

It transpires from the above evaluation of recent EU action to help SMEs and the craft industry, and of its impact on craft industry productivity, that although this action has generated undoubted benefits there are a number of problems:

- ➔ measures to help the craft industry are always of a somewhat general nature; this makes it more difficult to identify the beneficiaries and reduces the impact on the sector; moreover, the measures are often implemented without consulting craft sector organizations;
- ➔ action is not very specific, in spite of the distinct nature of the craft industry and micro-businesses in general;
- ➔ there is a myriad of uncoordinated measures; this confuses craft-industry managers, thus reducing the impact on the activity of the sector. In this respect, coordination of initiatives planned at European level would be desirable. To this end, the establishment of a craft industry-SME joint group at the EP and at the ESC and the setting up of a European Commission interdepartmental working party which, under the responsibility of DG XXIII, would coordinate Commission operations to assist craft industries and SMEs would help to enhance the impact of actions undertaken at local, national and Community level.

All this raises two fundamental problems: firstly, it is impossible to continue to use a general definition for small- and medium-sized enterprises which includes micro-businesses, whether they be craft industries or commercial enterprises; secondly, initiatives need to be fine-tuned, so that they target the special needs of the craft industry.

With regard to the first problem, the Commission recommendation concerning the definition of small and medium-sized enterprises is of some assistance. It emphasizes that "a distinction must be drawn, within SMEs, between medium-sized enterprises, small enterprises and micro-enterprises; whereas the latter should not be confused with craft enterprises, which will continue to be defined at national level due to their specific characteristics." The recommendation classes all firms with less than 10 employees as micro-businesses (turnover is disregarded); those with between 10 and 49 employees and a turnover of not more than ECU 7 million as small businesses; and those with between 50 and 249 employees and a turnover of no more than ECU 40 million as medium-sized businesses. All firms with a workforce of over 250 are classed as large firms.

As regards the second problem, the Commission's across-the-board approach to support for SMEs and craft industries is a source of confusion, both for those responsible for managing the funds locally, and for the beneficiaries. This confusion impairs programme planning and the ability to meet the actual needs of the craft industry could undermine the new multi-annual action programme for SMEs (1997-2000) before it even gets off the ground.

The legal definition of the craft industry

Not all countries have a legal definition of the craft industry, and when they do, they differ considerably. Based on an analysis of the relevant national legislation, the definitions of the craft industry could be divided up into three approaches: sector/size; professional; and artistic.

Rather than being seen as a problem, the differences should be considered as part of our cultural and economic heritage, and as a starting point for a common strategy to foster the European craft industry and raise its profile.

The sector/size approach is defined as such according to restrictions on size (number of workers). It differs from the professional approach, which disregards size when distinguishing between craft industries and micro- and small enterprises, and is based on affiliation to certain sectors. The artistic approach is more restrictive, in that it applies to artistic activity only⁶.

The sector/size approach

The criterion for the definition of a craft industry is mainly based on the size of the firm in terms of the number of employees. This may vary according to the sector (in Italy) or remain unchanged (France and the Netherlands). In practice, the countries which adopt this approach are **Italy, France and the Netherlands**.

In **Italy**, the first step towards regulating the craft industry came with the entry into force of law No. 860 of 25 July 1956, establishing the Provisions for the legal regulation of the craft industry. The sector is currently governed by law No. 443 of 8 August 1985. According to law No. 443, craft industry activities may be carried out by employees working directly under a sole owner or partners, as long as the following restrictions are respected:

- ➔ businesses not involved in mass production: a maximum of 18 employees including no more than 9 apprentices; the total number of employees may be increased to 22 provided that the increase is made up of apprentices;
- ➔ businesses involved in mass production, but without complete automation: a maximum of 9 employees, including no more than 5 apprentices; the total number of employees may be increased to 12 provided that the increase is made up of apprentices;
- ➔ businesses involved in artistic activity, traditional crafts and off-the-peg clothing: a maximum of 32 employees including no more than 16 apprentices; the total number of employees may be increased to 40 provided that the increase is made up of apprentices. The sectors covering artistic activity, traditional crafts and off-the-peg clothing will be defined by Presidential Decree, after consultation with the regional authorities and the Consiglio nazionale dell'artigianato (National Crafts Council);
- ➔ transportation business: a maximum of 8 employees;
- ➔ construction business: a maximum of 10 employees, including no more than 5 apprentices; the total number of employees may be increased to 14 provided that the increase is made up of apprentices.

⁶ For a more detailed discussion of craft industry legislation in Italy, France and Germany, see Giacomelli G., Scudier G., Giacomelli Giovanna, Casella L.: *L'impresa artigiana in Europa*, Padova, 1995.

In **France** the crafts sector is largely regulated by the Code de l'artisanat (Decrees No. 55-656 and No. 55-657 of 20 May 1955 - which were given legal status by law No. 58-346 of 3 April 1958 - and later amendments) and by Decree No. 83-487 of 10 June 1983 (as amended by Decree No. 88-109 of 2 February 1988). Decree No. 62-235 of 1 March 1962 set the size of French craft industries at 5 employees, subsequently increased to 10 by Decree No. 76-879 of 21 September 1976. A Decree has just been approved to increase this from 10 to 15 employees (Droit de suite - Decree of December 1995 and Law of 5 July 1996). Moreover, Law 96/603 of 5 July 1996, on the development and promotion of commerce and the craft industry, was passed recently. This retains the provisions of the "Droit de suite" unamended.

The Netherlands (non-legal definition) uses a method which is halfway between the two previous approaches: in practice, all firms with no more than 10 employees and which operate in certain sectors are considered craft industries.

The professional approach

This approach is particularly dynamic and follows the dictates of national legislation (in Germany, the "Handwerksordnung 127" of 28 December 1965; in Austria, the "Gewerbeordnung 1994"; and in Luxembourg, a law passed in 1990). These laws define which sectors can be considered "craft industries", regardless of the size of the firm. The definition is based on a classification of "craft occupations" (127 in Germany and 151 in Luxembourg) for which a vocational qualification is required. The countries which adopt this approach are **Germany, Austria and Luxembourg**.

In **Germany**, the integral legislation currently in force was introduced by the Law governing the crafts industry of 28 December 1965. It has been subjected to repeated amendments over the years, with the most recent ones following on the laws of 20 December 1993 and 5 October 1994.

Paragraph 1(1) of the law's first title, relating to the authorization of independent craft activity, contains the main features of the traditional German concept of the craft industry, and states as follows: Independent craft activity as a fixed occupation is permitted only for natural and legal persons and for partnerships enrolled on the official register of craftsmen (first paragraph). A professional activity is deemed to be a crafts activity for the purposes of this law, when it is carried out in a craftsman-like way, and is wholly or fundamentally connected with one of the crafts listed in Appendix A of the said law (second paragraph).

In **Austria** the definition of handicrafts is contained in paragraph 1 of the Order of handicrafts: in order to pursue a crafts activity certain skills have to have been acquired through professional training courses, and extensive experience is required.

In order to pursue a crafts activity in **Luxembourg**, written authorization is required from the Ministère de l'Economie Nationale des Classes Moyennes; this is compulsory for natural and legal persons. To be admitted to the crafts sector, the craftsman must hold the relevant professional qualifications and be respected by his peers.

The artistic approach

This is a very restrictive approach, since only firms exclusively involved in artistic activities are classed as craft industries. The usual Spanish concept of handicrafts means

applied art and art studies, carried out independently (Royal Decree of 1982). With due deference to regional autonomy, since 1985 (previous law of 1968) laws have been passed to regulate the crafts industry whilst taking account of the special, local features of the sector. Since 1995, Spain has been trying to shed the restrictions of the previous definition, using broader, more flexible criteria. These, starting with those set out in the Schleyer Report⁷, are as follows⁸:

- ➔ close owner/manager links within the firm;
- ➔ great reliance on human resources which can be used in conjunction with up-to-date manufacturing and management techniques;
- ➔ management and manufacturing skills of the head of the firm;
- ➔ fundamental role of the head of the firm who is directly involved in organizing the manufacturing process.

The British, and, in part, the Irish craft industries could also be included under this approach, even though Britain and Ireland have no legal definition of the craft industry. In the **United Kingdom** and **Ireland**, only an independent worker producing traditional or artistic handmade objects is considered to be a craft worker. There is, of course, a “small business” sector, with marked industrial features, whereas the crafts element is generally to be found in traditional and artistic production.

7 ESC Opinion on SMEs and craft industries, OJ C 322 of 16.12.1992.

8 The four criteria identified in Spanish legislation were discussed at the First symposium on European craft industry statistics, organized by the Istituto G. Tagliacarne, under the aegis of Commission DG XXIII, in Rome, September 1994.

Table 1 - Spanish craft industry legislation

Spain	Royal Decree 1520/1982; 390/1992; Resolution of 15 March 1993.
Autonomous Community of Catalonia	Regulation of 25 May 1992; Regulation of 14 January 1993.
Autonomous Community of Galicia	Law 4/1992; Decree 94/1992; Decree 141/1993, 145/1993; Regulation of 9 July 1993; Regulation of 12 July 1993; 68/1994.
Autonomous Community of Madrid	Regulation of 16 June 1992.
Autonomous Community of Navarra	Regulation of 12 May 1992.
Autonomous Community of Extremadura	Regulation of 4 February 1993; Regulation of 5 February 1993; Law 3/1994.
Autonomous Community of Rioja	Law 2/1994.
Autonomous Community of the Basque Country	Decree 22/94.

Source: Spanish Foundation for the Craft Industry

Moreover, other countries, for various reasons, are not covered by any of these three approaches.

In **Belgium**, craft industry legislation is very restrictive, and the economic and social importance of the sector is thus rather modest. The Belgian concept of handicrafts is closely bound up with the concept of small and medium sized enterprises, which in turn is included under the more general heading of the "classes moyennes".

In **Greece** there is an official non-legal definition, whilst in **Portugal and Finland** there is no legal or official definition of a craft industry. In **Sweden**, the Royal Decree No. 596 of 26 June 1976 established the procedure for granting a craft worker diploma. This provides formal recognition of crafts activity in certain occupations.

Although there is no general definition for the craft industry in **Denmark**, a range of criteria is used as a basis for applying specific provisions. The most widely-used criterion is that of size, and is to be found in the study on "Handvaerket og den Mindre Industri": this category covers all manufacturing firms with 1 to 5 employees, and repairs, service and building firms, regardless of the number of employees.

Table 2 - Definition of the craft industry - national legislation

Country	Legislation
Austria	Gewerbeordnung of 1994
Belgium	Law of 1965
France	Law of 1963 and 1983
Germany	Handwerksordnung of 1953 and 1965
Italy	Framework Act 443 of 1985
Luxembourg	Law of 1990

Source: National legislation

Given the enormous differences in individual national legislation, it is to be hoped that this sector will also benefit from procedures leading to a *common legal basis* in all EU countries. This is particularly needed for an assessment of the sector's role in the European economy, and to enhance the economic and social impact of Community and national aid policies to promote the sector.

The EU craft industry - statistics

Number of firms and workers

While much is known of the productive network of SMEs in Europe, there is a shortage of craft industry statistics (with the exception of some European countries). It is often impossible to provide a thorough, standard assessment of the important role which the craft sector plays in the European economy. This is due to the lack of adequate Member State coordination on craft sector statistics and the use of widely varying collating methods which do not allow a satisfactory comparison of data; in any case, such data are not always available, and this is also true with a view to the future accession of CEEC.

In the EU there are some 16 million productive firms (16,030,000 firms in 1995) excluding the farming sector⁹.

Around 50% of these are individual, craft, professional enterprises and small businesses with no employees. The other 50% is made up of micro-businesses, of which 7 million have between 1 and 9 employees, and a million have between 10 and 49 employees. There are not many medium-sized (between 50 and 249 employees) and large firms (more than 250 employees) - 155,000 and 35,000 respectively - although they are of considerable significance to the economy, since they account for around 45-50% of employment and turnover figures for the non-agricultural productive sector. **Generally speaking, the average European firm has a workforce of around 6.**

⁹ The data refers to firms in the 15 Member States, and includes those with more than 250 employees. However, these firms only make up 0.22% (35,000 firms) of the total.

Table 3 - Enterprises in the European Union (1992 - latest data)

Country	Firms* (1995, thousands)	Workforce** (1992, million)
A	145	2,480
B	410	2,410
DK	150	1,483
D	2.670	19,152
GR	690	1,908
ESP	2.200	8,634
F	1.965	12,959
IRL	130	0,824
I	3.375	12,833
L	15	0,143
NL	390	3,691
P	580	2,710
FIN	340	1,211
SV	415	1,860
UK	2.565	16,358
EUR	16.030	88,656

Source: * EIM Small Business Research and Consultancy - European Observatory for SMEs, 1996

**Eurostat - Panorama of EC industry, Brussels, 1995

Table 4 - European SMEs according to size

Size	% of total no. of firms* 1995	% of total workforce** 1992
Firms with no employees	49,72	9,32
1-9 employees	42,76	23,13
10-49 employees	6,33	18,80
50-249 employees	0,97	14,92
250 or more	0,22	33,83
Total	100,00	100,00

Source: * EIM Small Business Research and Consultancy - European Observatory for SMEs, 1996

**Eurostat

The three new Member States (Austria, Sweden and Finland) have 900,000 firms (5.6% of the total) with around 5.55 million employees (6.3% of the total).

Whilst these statistics enable us to quantify the number of firms in Europe, there is no adequate information for the craft industry. In some countries the number of firms and the size of the workforce are underestimated because definitions and criteria are applied systematically. In Spain, for example, there are 14,920 official craft firms, which is probably an underestimate¹⁰. On the other hand, in countries where estimates of the extent of the craft industry are based on firms with a workforce of less than nine, it is possible to err in the opposite direction.

The type of legal definition also affects the size of the firm, e.g. in countries where there are no size restrictions on the craft industry, firms are much bigger than in countries where a ceiling exists.

The above comments show how the absence of any European regulation for craft-related firms affects an assessment of the size of the sector, and highlights three main problem areas:

- ➔ it is not currently possible to assess the size of the European crafts sector, due to diversity in calculating the reference period and in collating methods;
- ➔ no method of compiling statistics based on minimum common denominators;
- ➔ changes in the growth of the sector.

The final Resolution which was adopted by 15 European craft sector experts (one for each Member State) at the Second symposium on European craft industry statistics¹¹ is a step towards initiating a common inquiry whose main objective is to help solve the statistical side of these problems.

The following table represents an attempt to group together available statistics referring to the approaches outlined above. The following features emerge:

- ➔ an economic comparison of the data is not possible;
- ➔ the available data underestimate the phenomenon;
- ➔ where national legislation exists, the economic significance of the craft industry for the national economy emerges.

One of the most interesting indicators is the significance of the sector in terms of the number of firms and the size of the workforce compared to the figures for firms as a whole.

¹⁰ IKEI in San Sebastian provided the estimates for Spain.

¹¹ The second symposium on European craft industry statistics was organized by the Istituto Guglielmo Tagliacarne, under the aegis of Commission DG XXIII in Rome on 20-21 March 1996..

Table 5 - The EU craft industry according to national approaches*

Country	Number of firms	Workforce	Average size
Professional approach			
Germany (1994)	623.000	5.138.000	8,2
Austria (1994)	41.829	294.322	7,0
Luxembourg (1995)	4.065	43.335	10,7
Sector/size approach			
Italy (1995)**	1.325.584	3.108.470	2,3
France (1995)	820.000	2.063.000	2,5
Netherlands (1994)	127.000	317.000	2,6
Artistic approach			
Spain (1995)	14.920	46.345	3,1
Ireland (1992)	n.a.	78.200	n.a.
UK (1993)	16.892	n.a.	n.a.
Others			
Belgium (1992)	5.011	n.a.	n.a.
Denmark (1993)	39.067	197.127	5,0
Greece (1988)***	133.000	287.000	2,1
Portugal (1992)	32.734	n.a.	n.a.
Finland (1992)	n.a.	116.000	n.a.
Sweden (1992)	n.a.	550.000	n.a.

* The data cannot be compared since they refer to the national definitions of the craft industry (where applicable) or to assessments taken from national sources (where there is no legal and/or official definition).

** 1995 figures for firms, and 1994 for the workforce.

*** Only the craft industry involved in manufacturing.

Sources:
 Germany - ZDH
 Austria - Institute for small business research
 Luxembourg - Chambre des Métiers du Grand-Duché de Luxembourg
 Ireland - CSO, Labour Force Survey
 Italy - Istat, Infocamere, Ist. G. Tagliacarne
 France - Fichier SIREDI/INSEE
 Netherlands - EIM
 Spain - Fundación Española de Artesanía
 Great Britain - Crafts Council
 Belgium - Enst, The European Observatory for SMEs, Second Annual Report, 1994
 Greece - Census of Establishments in Manufacturing, Trade and Other Services, NSSG
 Finland - Ministry of Trade and Industry
 Sweden - National Statistics

In spite of the obvious limitations (particularly the fact that these comments are valid for countries where the craft industry is not regulated), this is extremely useful in providing an albeit rough idea (overestimated in some cases and underestimated in others) of the size of the crafts-related sector in Europe.

Three important features emerge from the analysis of the main results:

- ➔ in general, there are more craft firms in countries which have a legal definition of the craft industry;
- ➔ the significance of the craft industry is probably underestimated in countries such as Spain and Great Britain. It is no coincidence that both countries tend to use the term "artistic" when defining crafts-related firms;
- ➔ in countries where the *professional approach* prevails, the size of the craft workforce compared to the total number of people employed by SMEs is greater, with the exception of Italy. This means that, quite apart from the legal definition, in terms of employment the sector is an integral part of the Italian production system.

Table 6 - SMEs and crafts-related firms in the European Union*

Country	craft industries as a % of SMEs**	craft industry workforce as a % of SMEs
A	28,8	11,7
B	1,2	n.a.
DK	26,0	13,3
D	23,3	25,4
GR	n.a.	15,0
ESP	0,7	0,6
F	42,0	17,0
IRL	n.a.	10,4
I	39,3	24,1
L	27,1	28,0
NL	32,6	9,6
P	n.a.	n.a.
FIN	n.a.	10,1
S	n.a.	26,8
UK	0,7	n.a.

* The above percentages have been calculated on the basis of tables 5 and 3, and are merely an indication of the current trend, and do not include agriculture.

** For countries where no legal definition for the craft industry exists, the information refers only to craft industries involved in manufacturing.

Source: EIM and European Observatory for SMEs, statistics processed by Istituto G. Tagliacarne.

The craft industry's contribution to GDP and exports

The craft industry's contribution to GDP is also of some interest. The available data only regard certain Member States. The sector plays an important role in Italy, accounting for 12% of GDP, compared to 9.6% in Germany and 5.6% in Austria. The middle ground is occupied by the Netherlands (3.5%), France (5.1%) and Greece (3%). The role of the craft industry is underestimated in Spain (0.33%). In many of these countries, the craft industry's contribution to GDP is greater than that of agriculture (e.g. Italy).

Table 7 - The craft industry's contribution to GDP in some European countries

Country	% of GDP
France (1993)	5,1
Germany (1992)	9,6
Greece (1988)	3,0
Italy (1993)	12,0
Luxembourg (1994)	15,0
Netherlands (1994)	3,5
Spain (1993)	0,3

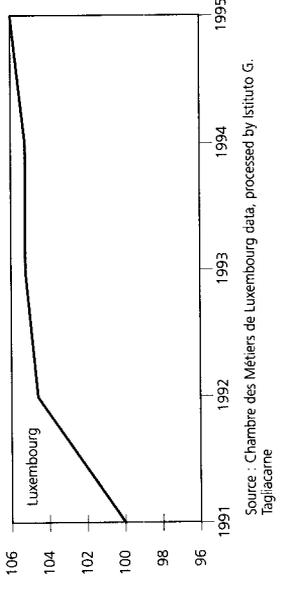
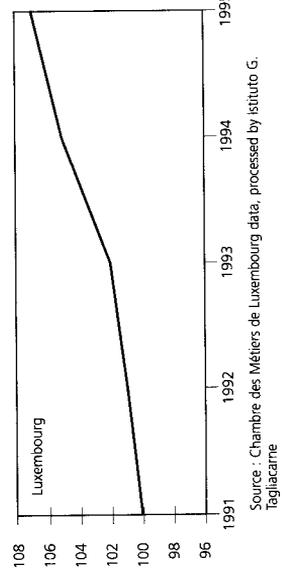
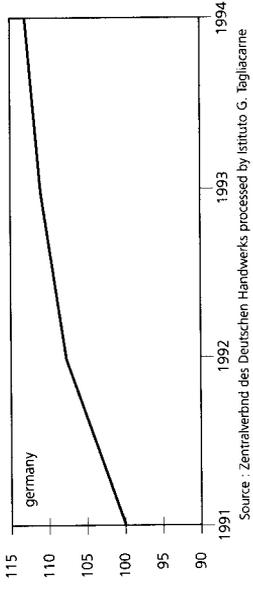
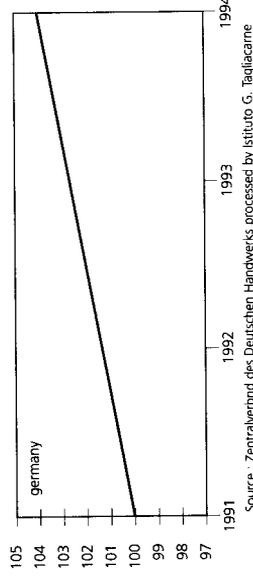
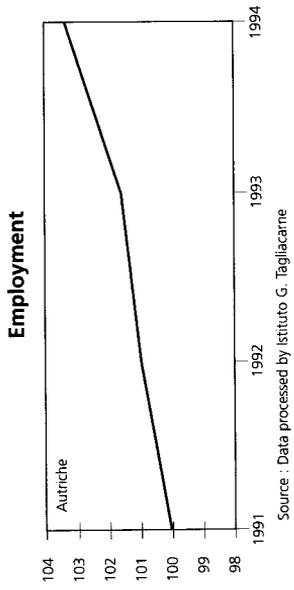
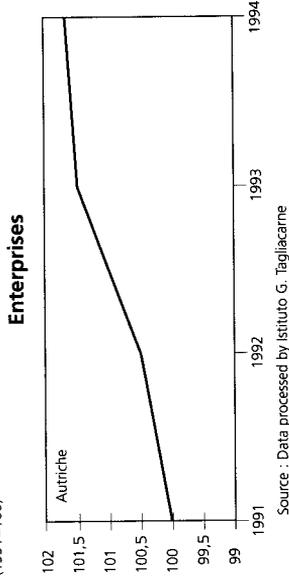
Source: National statistics

Statistics relating to *craft industry exports* are available for some countries. It can be seen that even the smallest firms are able to compete on the export market, which is not merely the prerogative of larger firms. A good example of this is Italy, where the craft industry accounted for 18.3% of total exports in 1994; this figure is even higher than the sector's contribution to GDP. Craft industry exports are also significant in Denmark, where they account for 6% of total exports. Conversely, the figures for Germany (2% of total exports) and France (4.2% of total exports) are lower than the craft industry's performance as a percentage of GDP. In Austria, the craft industry accounts for 2.8% of total exports.

Craft industry growth and employment (1991 = 100)

Professional approach

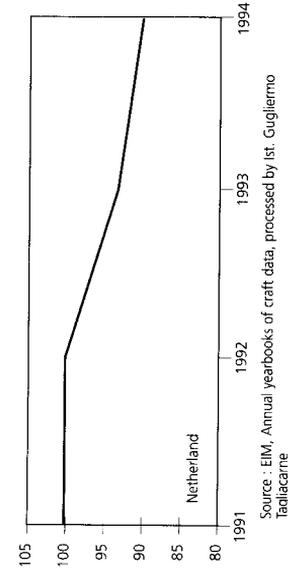
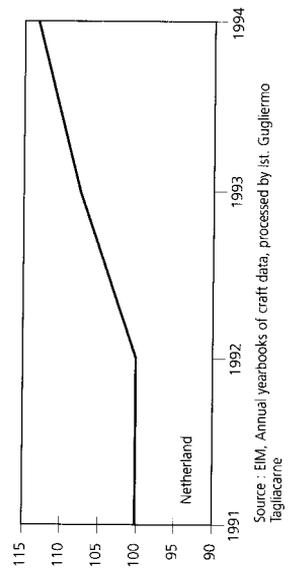
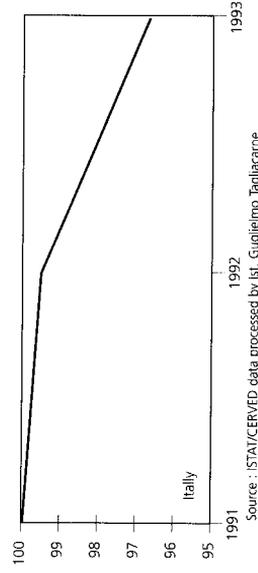
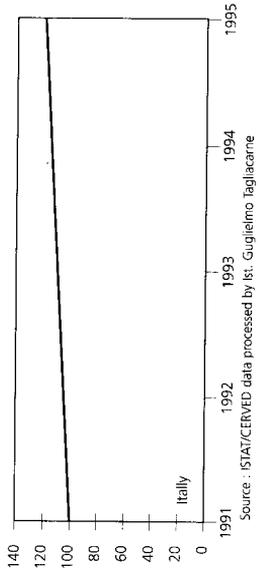
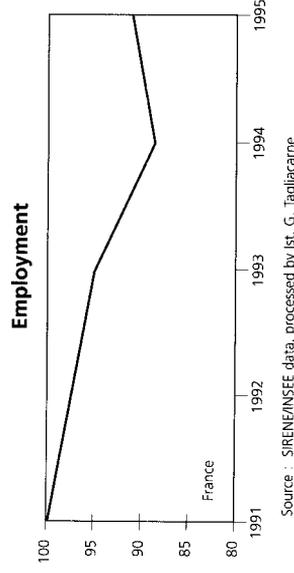
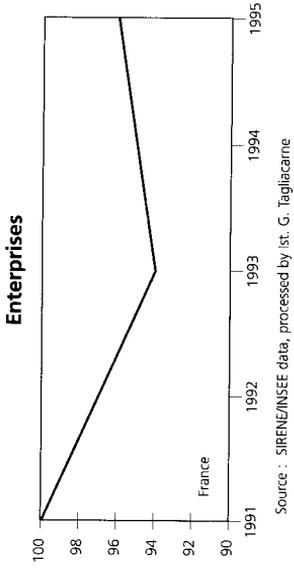
(1991=100)



Craft industry growth and employment (1991 = 100)

Sector/size approach

(1991 = 100)



Craft industry growth and employment (1991 = 100)

Artistic approach

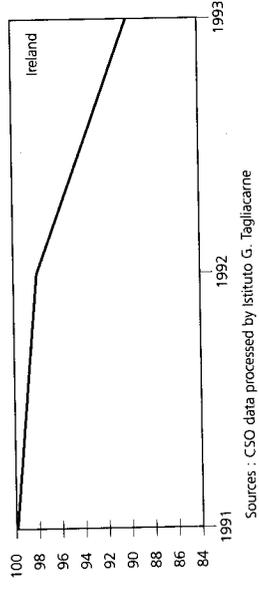
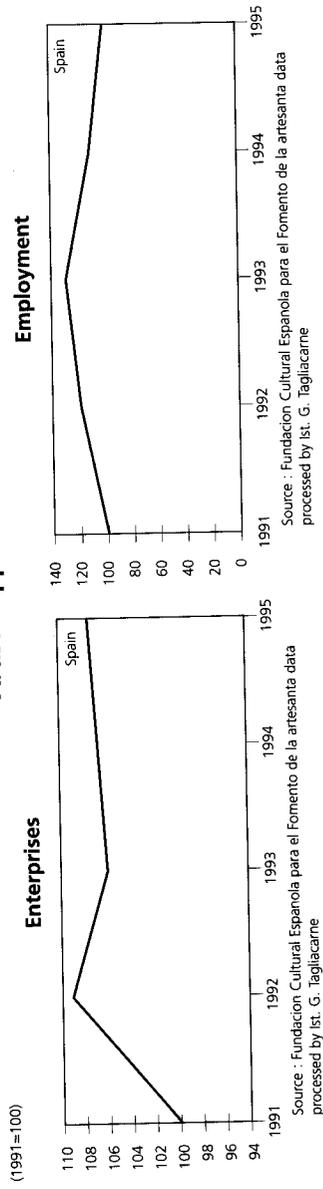


Table 8 - Craft industry exports*

Country	% of total exports
Austria	2,8
Denmark	6,0
France	4,2
Germany	2,0
Italy	18,3

* The figures are an underestimate, as they only refer to direct exports.

Source: National statistics

The craft industry in Europe - the trend of the last five years

Recent years have seen substantial expansion of craft industries in many European countries. Statistics show an increase in the number of craft businesses in nearly all of eight countries (Austria, Germany, France, Italy, Ireland, Luxembourg, the Netherlands and Spain) in 1991-1994/95. France and Spain differ in that they have had uneven growth in the number of businesses. The trend in France can be divided into two periods: the decrease in 1991-1993 was followed by an increase (though insufficient to make up for the ground lost earlier) in 1994/95. In Spain, however, the number peaked in 1992, fell in 1993, and rose again in both 1994 and 1995. There was no comparable trend in employment, which increased in Germany, Austria and Luxembourg, and decreased in the other countries. In Italy, France and the Netherlands, there have been two distinct trends in the number of craft firms and employment in recent years, with an increase in the former and a downturn in the latter. This can be partly explained by the appearance of new enterprises: many apprentices quit their salaried jobs to set up their own business; thus the employed move on to self-employment.

Regional aspects

In the Europe of the regions, the craft industry is less evenly distributed than might be thought. In Italy, Germany and Austria, there is a direct correlation between high per capita GDP levels and the concentration of enterprises, whereas in France it is the reverse: here, the regions with medium-low per capita GDP levels have the highest density. In practice, and contrary to common perception, the craft industry is to be found both in highly-developed areas and in those which are lagging behind - in fact in many areas it has sown the seeds for much entrepreneurial activity; in Italy, for example, the regions with the highest level of craft activity are Tuscany, the Marches, Veneto, etc., i.e. regions with a medium-high level of economic development¹². In particular, the craft industry contributes to the development of areas in which there is a strong business base and/or industrial areas. A survey conducted by Istituto G. Tagliacarne reveals that the most dynamic industrial areas, or

¹² Cf Ist. G. Tagliacarne - Reddito e occupazione nell'artigianato, Roma, 1995

those which are more likely to act as a magnet, are those with a high concentration of craft firms, particularly the north-eastern (Veneto) and central (Tuscany and the Marches) regions¹³. The same is true of Germany, where regions such as Baden-Württemberg and Bavaria - two of the highest-income regions in Europe - have the highest craft industry density. In Austria, the high-density areas are the Vienna area and Lower Austria. On the other hand, in France it is Corsica, the Midi-Pyrénées, Limousin and Languedoc-Roussillon which are ahead of all other areas, despite having a medium-low per capita income¹⁴.

Turning to the weaker areas of the European Union, southern Italy has a less developed craft industry. This is not true of Spain, where Andalusia (a less developed region) is one of the regions with the highest level of craft activity, and Great Britain, where Scotland has the highest craft industry density.

Table 9 - Regions with the highest density of craft industries in some European countries

Country	Region
Austria	Regions of Vienna, Lower Austria
Germany	Baden-Württemberg, Bavaria
Spain	Andalusia, Madrid Region
Great Britain	Scotland and the London area
Italy	Tuscany, the Marches, Veneto
France	Corsica, Midi-Pyrénées, Limousin, Languedoc-Roussillon

Source: *National statistics*

The lack of adequate information makes this overview of craft industry statistics necessarily patchy and incomplete, thus highlighting the need for a European programme to improve craft-industry statistics.

¹³ Cf Ist. G. Tagliacarne - Unioncamere, *Rapporto sull'impresa e sulle economie locali*, Roma, 1995

¹⁴ Source: Ministère des PME - Direction de l'Artisanat, *La France de l'Artisanat*, Paris, 1995.

Table 10 - Breakdown of regions according to craft industry density per 10,000 inhabs. (descending order)

Place	Regions	Craft industry density (1991)	Per capita GDP (Italian average = 100)
1	Marches	310	100,4
2	Emilia Romagna	305	123,4
3	Veneta	281	112,7
4	Tuscany	279	105,5
5	Umbria	254	99,0
6	Lombardy	245	126,4
7	Valle d'Aosta	245	126,7
8	Trentino	243	122,2
9	Friuli V.G.	236	118,2
10	Piedmont	225	112,8
11	Abruzzo	206	89,6
12	Liguria	191	116,6
13	Molise	187	77,4
14	Basilicata	177	63,6
15	Sardinia	172	76,6
16	Puglia	144	73,2
17	Lazio	115	113,7
18	Sicily	114	69,6
19	Calabria	113	59,0
20	Campania	102	69,5
	Italy	200	100,0

Source: *Ist. Guglielmo Tagliacarne*

Table 11 - Breakdown of regions according to craft industry density per 10,000 inshabs. (descending order) *

Place	Regions	Craft industry density (1991)	Per capita GDP (Italian average = 100)
1	Corsica	232	71
2	Languedoc-Roussillon	184	79
3	Limousin	183	78
4	Midi-Pyrenées	182	86
5	Auvergne	171	80
6	Aquitaine	166	88
7	Rhone-Alpes	166	99
8	Poitou-Charentes	161	79
9	Provence-Alpes-Cote d'Azur	160	90
10	Brittany	149	82
11	Basse-Normandie	143	88
12	Bourgogne	142	88
13	Franche-Conté	142	92
14	Centre	137	91
15	Pays-de-la-Loire	132	85
16	Champagne-Ardenne	118	99
17	Ile de France	113	151
18	Alsace	112	100
19	Haute-Normandie	110	96
20	Lorraine	107	85
21	Picardy	107	85
22	Nord-Pas-De-Calais	81	79
	Metropolitan France	137	n.a.
	DOM (overseasregions of France)	181	n.a.
	France	138	100

* Craft industry density is calculated according to the number of people per 10,000 inhabitants on the 1994 roll of handicrafts

** La France de l'artisanat, Ministère des PMI, du Commerce et de l'Artisanat, Direction de l'artisanat

*** Eurostat data processed by Istituto G. Tagliacarne.

Source: Ist. Guglielmo Tagliacarne

Table 12 - Breakdown of German regions according to craft industry density per 10,000 inahbs. (descending order)

Place	Regions	Craft industry density (1994)	Per capita GDP (German average = 100)
1	Bavaria	85	115
2	Baden-Württemberg	83	113
3	Saxony	78	56
4	Thuringia	76	55
5	Rhineland-Palatinate	76	90
6	Hesse	71	134
7	Mecklenburg-Western Pomerania	63	56
8	Saxony Anhalt	63	56
9	Schleswig-Holstein	62	95
10	Saarland	60	93
11	Lower Saxony	60	93
12	North Rhine-Westphalia	57	102
13	Hamburg	52	186
14	Bremen	49	138
15	Berlin	44	100
	Germany	69	100

Source: Statistisches Bundesamt, *Handwerkszahlung*, 1994;

Table 13 - Regional spread of craft industries in Austria

Region	% of total
Burgenland	3
Lower Austria	19
Vienna	20
Carinthia	7
Styria	13
Upper Austria	17
Salzburg	7
Tirol	9
Vorarlberg	5
Austria	100

Source: IFG estimates

Training for the craft industry: an introduction

In the craft industry - perhaps more than in other sectors - the firm is the centre for training activities, and professional skill and ability are prerequisites for success. Often, access to the profession is subject to rules, certificates, etc. which specify the official "skills" needed to carry out a particular activity. In this sense, training is a major factor in the continual growth and development of the sector, particularly when considered against the background of the range of possibilities and options available in the "training sector": from the formal teaching of basic and specialist skills (including manual skills) and know-how, to the inculcation of good business practice and styles of management.

The national training systems - both initial and ongoing - are thus a prerequisite for the existence, continuity and development of the professionalism of the players in SMEs - and especially craft industry SMEs.

The key feature is the integration of the education system and industry provided by combined work/training schemes, apprenticeships, work-experience placements and ongoing training. The latter serves two purposes: first, it keeps workers up to date; secondly, it builds on the body of accumulated knowledge, which is often unique and passed on informally.

Finally, in some countries the status of craftsman is governed by precise regulations and is subject to an exacting procedure (exams, certificates, practical tests, etc.); this highlights the need many countries feel to preserve the "uniqueness" of the craft professions, by maintaining their distinguishing features. This is also necessary to achieve recognition of the quality of the craft professions, in order to safeguard the interests of consumers and end-users. In Sweden, for instance, "journeyman's" and "mastercraftsman's" certificates are required for 100 typical craft sector activities, representing a wide range of occupations from baker to ice-cream maker.

The institutional background

A coordinated group of people is involved in programming, organizing and carrying out the (initial and continuous) vocational training courses. The group is structured as follows: a) central government - ministries, ministerial departments and governments agencies; b) local government; c) sector-specific associations (both nationally and locally, with their own training centres across the country).

Some specific institutes and vocational training centres play an important role, (e.g. AMU, a Danish centre found in many Danish cities; the Chamber of Handicrafts in Germany; COLO - national vocational training centres in the Netherlands; and the Local Education Authorities in England and Wales).

There is a distinct correlation between (initial and ongoing) training systems and the SME sector, in particular the craft industry. It should be emphasized, however, that in some countries there are no dedicated craft industry training centres: in **Ireland** craft industry training is part of secondary education and training schemes for jobseekers; in **Denmark** it is covered by the Basic Vocational Education (EUD) section of Higher Technical Examination Courses (HTX) and the Labour Market Training System (AMU - system, which is mainly responsible for providing training and refresher courses for skilled and semi-skilled workers).

The two vocational training systems differ in their target groups: young people in the case of initial vocational training and adults in the case of continuous vocational training. Moreover, the two types of training have different aims: the first prepares the trainee and introduces him/her to working life by providing students with the theory and practice needed to set up a business and/or start a professional activity. Its strong links with manufacturing make it effective. The second type offers maintenance and upgrading of skills, and retraining courses; its effectiveness is a result of the frequency of the programmes and its close links with the concept of lifelong learning.

The integration referred to is best exemplified by the combined work and training/education schemes. These combine hands-on training in the workplace with education or training courses in vocational and technical schools.

In these schemes, the firm and the school are partners; they share roles and responsibilities, and this formula - which assumes that the world of education and the world of work are "permeable" - underpins the framing of active training policies which help to boost the economy.

Moreover, this rotation between work experience and training highlights the need to think of the formal training system and industry as being responsible for the other's growth and enhancement.

The apprenticeship is certainly the most popular way of achieving this rotation. It is a combination of work and training experience for young people, who acquire - by means of a "learning contract" - the basics they need to work in a firm. As already shown, the apprenticeship is subject to an agreement (or contract) concluded between the employer and the apprentices (via their respective legal representatives).

In the crafts sector, the entrepreneur's role as trainer is particularly important. It allows the inculcation of specific professional skills, together with a package of managerial skills which are typical of the smaller firm: the development of craftsmanship at a professional level requires both intense, interactive support, backed up by detailed training procedures, and specific planning and marketing skills, and - more generally - managerial strategies.

For the most part, the actual content of the apprenticeship is the fruit of close cooperation between government organizations and the social partners which represent the craft industry.

The apprenticeship is often a compulsory requirement - and not only in the craft sector - for admission to a profession. In **Austria** more than 200 professions use the apprenticeship system; in **Great Britain** the modern apprenticeship system - which started up in 1995 - underlies the National Vocational Qualification System (NVQ), based on the identification of industrial skills; it guarantees a person's ability to carry out an activity at a specific level (in Great Britain there are currently 500 NVQs for 150 occupations, which cover 80% of all occupations); in **Ireland**, most apprentice training programmes have been carried out under a single system since 1995: the Standard Based Apprenticeship Programme, FAS - the government agency for jobs and employment - is responsible for planning the activities of all apprentices throughout the various stages of the apprenticeship, and for the training activities which back up hands-on experience within the firm. Training is given in Vocational Schools, Regional Technical Colleges and at the Dublin Institute of Technology.

The final stage of the apprenticeship often includes a theoretical/practical exam. In **Germany and Austria**, in order to pass the final exam which confers admission to a specified trade, e.g. carpenter, the student must show s/he can "produce" a product, or carry out some concrete task to prove s/he has the aptitude and skills needed for the relevant profession.

Often the representative organizations of the sector set up and run dedicated vocational training centres (e.g. **Finland**: Craft Trades Training Foundation; **France**: Apprentice Training Centre; **Italy**: centres belonging to the sector's two main organizations: "Confartigianato" [Confederazione Nazionale dell'Artigianato] and the "CNA" [Confederazione Nazionale dell'Artigianato]), or play an active role in promoting training for the sector (in **Great Britain**, the government-funded Craft Councils promote craft-related education at all levels of formal and informal training).

The craft sector - and particularly the vocational training element - is governed by national legislation: in **Spain**, the Organic Law for the General Ordering of the Education System (LOGSE), which provides the main thrust of the regulations governing training for Craft Activities and Design; in **Italy**, the Framework Act for the Craft Industry; in **Austria**, the law on vocational training (*Berufsausbildungsgesetz*); in **Germany**, the vocational training programme (*Handwerksordnung und Berufsausbildungsgesetz*); in **Holland** the Framework Act for Continuous Training (*Kaderregeling Bedrijfstakgewijze Scholing*), in force since 1 January 1995, etc.

In **France**, an *accord paritaire* (September 1994) on vocational training, signed by the UPA (*Union Professionnelle de l'Artisanat*) and the social partners, aims to promote apprenticeships and, *inter alia*, provides craft workers with "time benefit" for training activities.

Apprentices' wages are often calculated according to occupation, and are increased yearly: e.g. in Denmark, apprentices' wages are set by special sector commissions, which include social partner representatives. The level of remuneration depends on the type of work, the length of training and the age of the apprentice (usually about 18 years old).

Craft industry participation in training activities

The basic concept underpinning the whole training strategy is that *the craft firm must be at the heart of training activities*.

As the Thyssen Report for the European Parliament points out, it is no coincidence that the EP Committee on Social Affairs has called for training funds to target the craft industry, and for the following action to be initiated:

- ➔ emphasize the firm's training role by conferring the status of "maître d'apprentissage";
- ➔ exchanges of skills and know-how;
- ➔ Europe-wide recognition of the apprenticeship diploma.

Training initiatives to support and encourage craft industry start-ups are mostly included in programmes and/or national and regional initiatives to boost start-ups. Training is thus one of the main tools - an integral part of a start-up package which includes financial incentives, advice, technical assistance and tutorship - which specifically aim to pass on basic managerial know-how.

The main problem in designing a training course of this type is usually of a cultural nature, since:

- ➔ the craftsman generally has a production-centred corporate strategy in the narrow sense;
- ➔ the craft industry concentrates too much on the product;
- ➔ new enterprises, which have grown out of older firms, are particularly prone to this problem.

Consequently, training becomes an instrument of growth for the craft industry, and especially for its new entrepreneurs, by:

- ➔ improving the ability to spot and solve corporate problems, other than those strictly related to manufacturing;
- ➔ giving the budding entrepreneur a more global view of company and market strategies;
- ➔ promoting cooperation between micro-businesses in order to improve business relationships and procedures for exchanges of know-how, etc.;
- ➔ developing the language skills needed to do business on foreign markets.

These training programmes should not, however, be occasional or “one-off” occurrences; it is vital that they be provided on a regular basis. In practice, this means designing a strategy based on the continuous training of the budding entrepreneur.

In this respect, three European examples can be quoted. In Ireland, for example, the main programmes for SMEs (Enterprise Development Programme, the Training Support Scheme, the Plato Programme and the Country Enterprise Board) provide management assistance, training, assistance/guidance and back-up for (potential) small businesses. In Greece, the OAED (Manpower Employment Organization) runs a programme to help new entrepreneurs (co-funded by the European Social Fund), the main aim of which is to provide financial support for individual start-ups.

In Luxembourg, the Chamber of Commerce - through the Enterprise Start-up Service (SCE) provides budding young craft industry entrepreneurs with information and advice, and offers personal service and assistance.

National craft industry and SME policies

At Community level, the Delors White Paper on Competitiveness, Growth and Employment recognizes the important contribution made by SMEs and the craft industry to the economic growth of the European Union. At national level, too, the Member States see small firms as a flywheel for growth - particularly in the weakest areas - and as one of the best ways of creating new jobs. It is here that the craft industry has made and can continue to make a major contribution. A survey carried out in Italy in 1988¹⁵ reveals that some two-thirds of new entrepreneurs came from a “crafts” background. Further research has shown that small and micro-businesses maintain employment levels better than medium-sized and large firms when there is a downturn in the economy.

¹⁵ Survey carried out nationwide by Istituto G. Tagliacarne.

This means that the small business and craft sector, if backed by selective intervention policies - targeted rather than scatter-gun - can make an important contribution towards creating new firms and new jobs.

Generally speaking, Member State legislation on the sector aims to:

- ➔ improve business competitiveness;
- ➔ enhance smaller firms' ability to cope with economic and technological change;
- ➔ safeguard and create jobs;
- ➔ ensure a wide choice and high standard of goods and services.

The following is a summary of the main types of EU Member State intervention for SMEs and the craft industry in recent years:

Austria

- ➔ support for SMEs (KMU - Förderungsgesetz 1996);
- ➔ subsidized credit;
- ➔ consultancy and training relief;
- ➔ funding for R&D;
- ➔ support for internationalization.

Belgium

- ➔ Introduction of a SME barometer to promote awareness of SME issues and encourage appropriate intervention policies;
- ➔ improved access to a topped-up "Transfer Fund" for smoother transfers of undertakings;
- ➔ social security reforms.

Denmark

- ➔ Tax policy reform - more public investment and tax reform;
- ➔ special concessions for businesses.

Germany

- ➔ Tax relief for businesses;
- ➔ interest relief;
- ➔ reduction in corporate profit tax;
- ➔ 30-point programme to achieve the aims of the Delors White Paper, and special concessions for new businesses.

Greece

- ➔ Privatization, tax and competition reforms;
- ➔ Regional aid.

Finland

- ➔ Development fund - special guarantees for services to firms;
- ➔ insurance relief for SMEs;
- ➔ relief for minority partners.

France

- ➔ Medelin Plan: tax reform, access to credit, competition, bureaucracy, cooperation between firms;
- ➔ Guarantee Fund for productive investment;
- ➔ FFCA;
- ➔ Multiannual guidance programme for the craft industry (tax reforms, access to credit, competition, red tape);
- ➔ plan for SMEs;
- ➔ Law of July 1996 on the development and promotion of trade and the craft industry.

Ireland

- ➔ Reduced fiscal drag on corporate profits;
- ➔ aid for new businesses (Seed Capital Scheme).

Italy

- ➔ A relaunch of technological innovation, with a development plan made up of 8 sub-programmes relating to tax relief, direct subsidies, etc.;
- ➔ Artigiancassa action on funding (encouraging young people and women to set up in business, protection of the environment, services for businesses, technological innovation, etc.) and concessions (interest subsidies, royalties, and subsidiary guarantees) for craft firms (26,878 interest subsidies and 2,214 subsidiary guarantees were granted in 1995);
- ➔ Laws 488 and 341 - tax relief, one-off payments, etc.

Netherlands

- ➔ "Meer werk, weer werk" plan for improved market flexibility;
- ➔ R&D grants;
- ➔ apprenticeship plan;
- ➔ tax relief.

Portugal

- ➔ PEDIP II Programme (SME development plan);
- ➔ PROCOM Programme (for business);
- ➔ concessions for export;
- ➔ help with funding.

United Kingdom

- ➔ Cooperation and improved competitiveness;
- ➔ bank guarantee plan;
- ➔ concessions for investment;
- ➔ Uniform Business Rate.

Spain

- ➔ credit for SMEs via the Instituto de Credito Oficial (ICO);
- ➔ capital grants;
- ➔ regional measures.

Priorities for the European craft industry - some ideas for discussion

Bearing in mind the special nature of crafts issues - dealt with in various ESC opinions and Commission and EP documents - and emphasizing the importance of the crafts sector to the European economy in terms of the number of firms, employment and contribution to GDP, the Committee feels that the sector should be backed up by appropriate EU policy action; this should be specific, but complement existing policies for SMEs, taking account of their particular circumstances, and aim to raise the economic and social profile of the craft industry, and especially to support it as a breeding ground for new enterprises and new jobs.

Action to promote the growth of the craft industry should take heed of the following four priorities:

- ➔ emphasize the distinctive features of the craft industry compared to other SMEs, both in EU, national and local consultations and negotiations and in implementing Community economic and social policies;
- ➔ promote the creation and development of a European cultural identity for the craft industry;
- ➔ support the economic development of craft industries, by improving their competitiveness and providing easier access to the single market;
- ➔ encourage craft industries and their representatives to take part in exchange and cooperation programmes, both within the Community and in the framework of EU relations with third countries.

The following eleven action lines cannot pretend to cover all the needs of European micro-businesses, but they do provide a springboard for identifying procedures which could provide some of the answers.

The eleven priority action lines are as follows:

Social consultation

Provision should be made for representation of craft industry and SME interests in the negotiations referred to in Article 4 of the agreement on social policy in the Treaty on European Union, insofar as the relevant organizations are represented at European level¹⁶.

Boost business competitiveness

The entrepreneur must have access to a team of advisors who follow the progress of the firm and its employees from start to finish (“life-long advising”), even when the firm changes hands.

To this end, we need to:

- ➔ promote the sector by providing, via the ESF and the Structural Funds, specific funding from the competent ministries for SMEs and the craft industry;
- ➔ support training programmes for “business advisers” in the craft sector’s organizations, and also back cooperation and exchange schemes for them in the various Member States.

Establishment of the European Academy for Craft Industries and SMEs

The Academy’s role must be to further the aims of the industry, and provide a coordination centre for European craft industry research and training institutes, and a think tank for European craft industry problems and for Commission proposals.

Support for the development of a “European identity” for the craft industry and small business culture throughout Europe

Proposed action in this area includes:

- ➔ strengthening the various Member State training centres which are particularly geared towards the study and implementation of new technologies;
- ➔ improved awareness of the role of the craft industry and small businesses in the economy, via better statistical analysis and research into specific subjects, particularly into the sector’s key role as regards women in business, and jobs for young people and the disabled;
- ➔ establishment of a permanent observatory for the craft industry in Europe, within the framework of the European Observatory for SMEs.
- ➔ encouraging freedom of establishment and freedom to provide services, as provided for under Directive 64/427/EEC of 7 July 1964¹⁷.

¹⁶ Cf. Point 1.8 of the ESC Opinion on social dialogue (CES 106/97)

¹⁷ This was one of the European Community’s first directives. Between 1964 and 1982, the Community adopted a further six directives on self-employment in industry and the craft sector, enshrining the concepts of freedom of establishment and the freedom to provide services for most craft industries.

Enhanced role for apprenticeships and promotion of combined work/training schemes

In view of the pre-eminence of the apprenticeship as a means of passing on craft-industry skills, and considering that combined work/training is vital to the development of the sector, the following three action areas are recommended:

- ➔ boost the firm's role in training by involving the craft industry's representative organizations in the creation of a European qualification;
- ➔ encourage skills and know-how exchanges between firms, and especially between young craftsmen who have just completed their apprenticeship and those responsible for training within a firm and/or in specialist centres;
- ➔ promote recognition of apprenticeship diplomas, with a view to creating a European diploma (the cooperation experience between the French APCM (Assemblée Permanente des Chambres de Métiers) and the ZDH (Zentralverband des Deutschen Handwerks) in Germany could be useful here);
- ➔ strengthen action to support employment and create new firms; this action could include finance, worker flexibility, continuous training for apprentices/budding entrepreneurs.

Improve information for micro-businesses

The specific nature of small and micro-businesses - acknowledged in several Committee Opinions and at the Berlin Conference - is evidence of the need to improve information for micro-businesses. To this end, the following are suggested:

- ➔ improve Euro-info Centre activities via heightened cooperation between professional associations, making selected, targeted information available, and focusing on the quality rather than the quantity of the information provided, whether as hard copy or software;
- ➔ make better use of the know-how of craft industry and SME organizations and networks as channels of information and advice on how to harness national and Community funds for the craft industry, particularly those earmarked for innovation and technology transfers;
- ➔ develop an innovation culture which encourages use of new technologies and quality certification in micro-businesses;
- ➔ build on the findings of the Munich preliminary conference - held to pave the way for the Third European Conference on Craft Industries in Milan - regarding the inclusion of the craft industry in the information society.

Simplify bureaucracy

Four priorities have been identified:

- ➔ allow micro-businesses more time than larger firms to apply regulations (except labour law provisions), since their lower turnover often makes compliance costly and complex for craftsmen and shopkeepers;

- ➔ provide tax measures to encourage the establishment, transfer and expansion of craft firms, especially those which operate across national frontiers;
- ➔ support the establishment of *management centres* able to help small businessmen to cope with the tax and accounting obligations prescribed by national law;
- ➔ monitor the impact of new Community legislation on craft firms, particularly in relation to their specific nature as opposed to SMEs, so as to ensure that the letter of the law is respected and to avoid the disastrous financial and managerial consequences for the craft industry of unsuitable legislation.

Incentives for cooperation and exchanges between micro-businesses and their organizations

In order to keep abreast of economic developments, micro-businesses need to cooperate and pool information with other Community and third-country businesses.

To this end, the Committee would recommend:

- ➔ support for cooperation between craft industry organizations and between technical and operational centres associated with the craft industry;
- ➔ top priority to be given, within the framework of the Structural Funds, to economic and financial incentives for micro- and small businesses;
- ➔ encouragement for collective organization and the development of a cooperative mentality, by helping the craft industry to organize itself around a system of common enterprises, including at cross-Community level.

Such a strategy should be underpinned by concerted action involving the local authorities, the Member States and the European Union.

Promote a culture of innovation for craftsmen and small businesses

Economic growth, competitiveness and the creation of new jobs all depend on an increased ability to innovate. In order to achieve these objectives, a culture of innovation must be created. This is necessary both as far as the end-product is concerned, and also for the organizational and marketing side of the industry.

Promote the improvement and development of transport and communication networks

The internationalization of businesses and the globalization of the economy require, perhaps most of all, an efficient transport network and a communications capability for the individual economic operators. An important contribution could be provided by enabling the craft industry to transport its products as cheaply as possible, and providing it with the possibility to communicate easily with other craft sector operators via state-of-the-art communications technology (Internet, E-mail, etc.).

Step up craft industry job creation initiatives

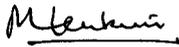
Simple measures could be taken to make takeovers and start-ups easier, by:

- ➔ providing financial assistance, e.g. "soft" loans, mutual guarantees, or protection of family assets;
- ➔ creating a truly equitable tax regime for capital gains, unearned income, transfer tax and VAT recovery;
- ➔ encouraging good practice amongst competitors.

Brussels, 20 March 1997.

The President
of the
Economic and Social Committee

Tom Jenkins



The Secretary-General
of the
Economic and Social Committee

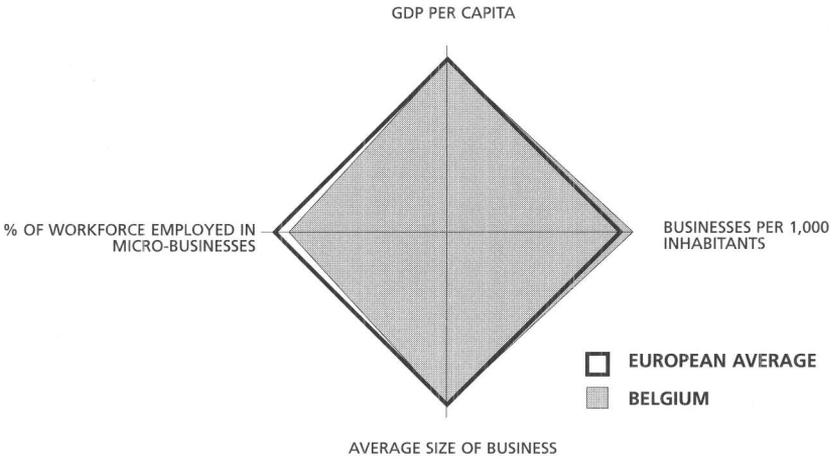
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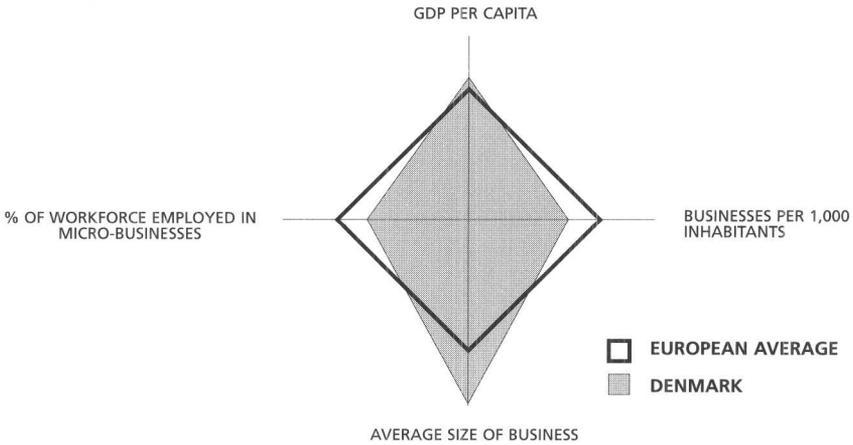
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APPENDIX
BUSINESSES IN EUROPE

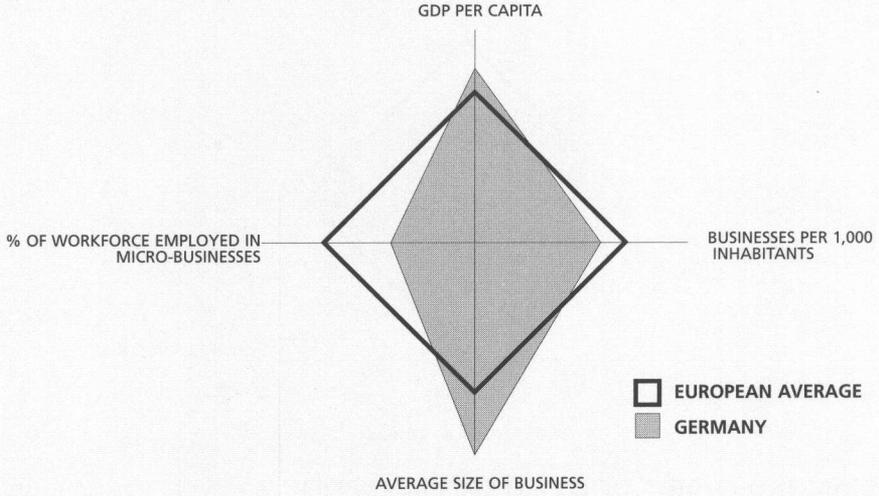
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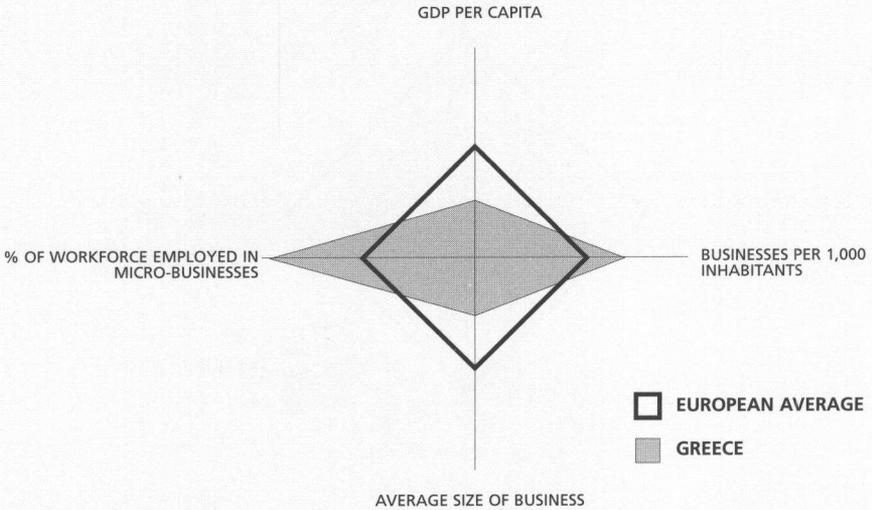
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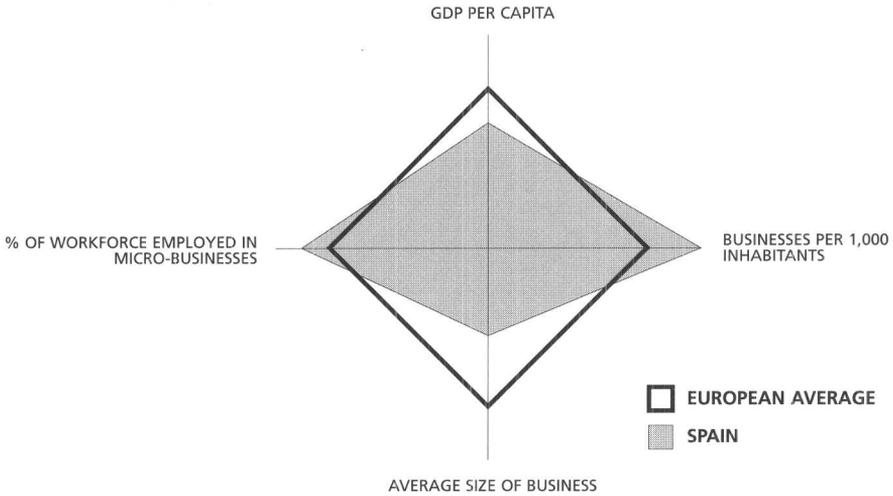
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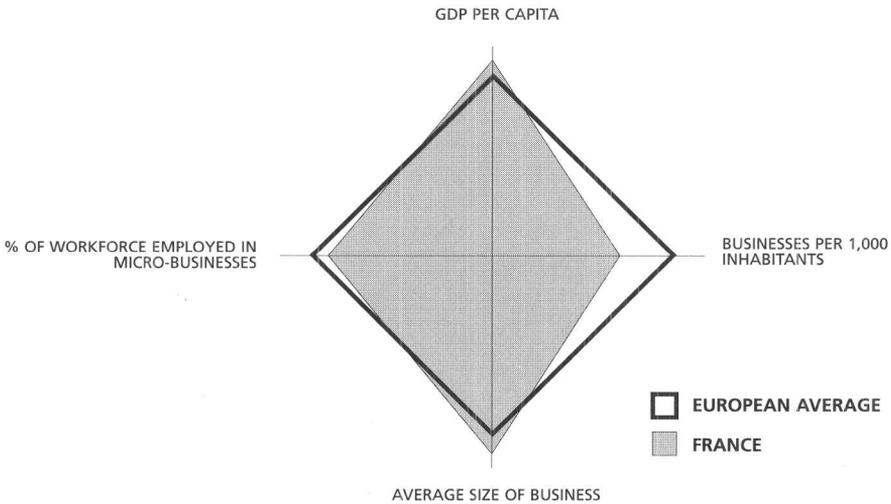
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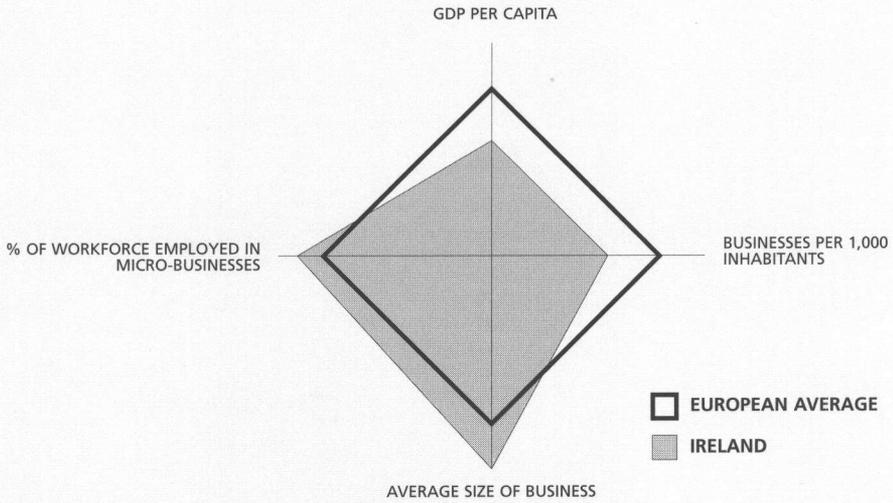
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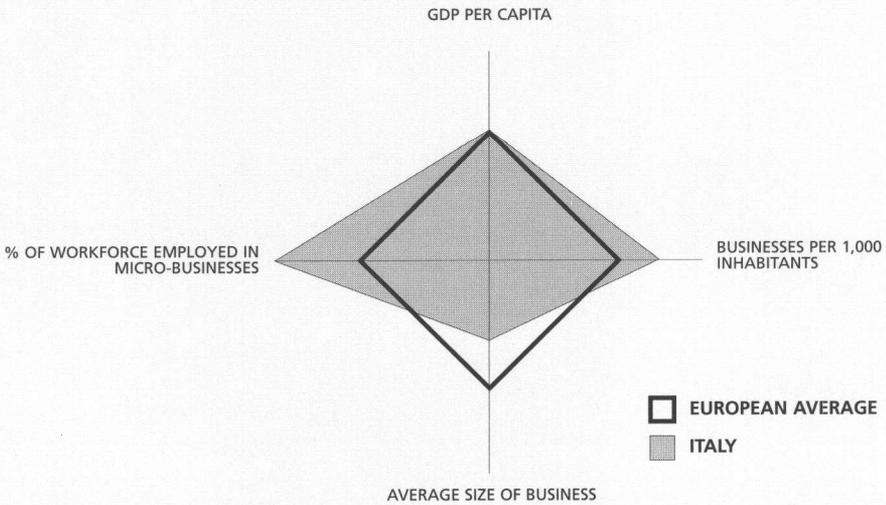
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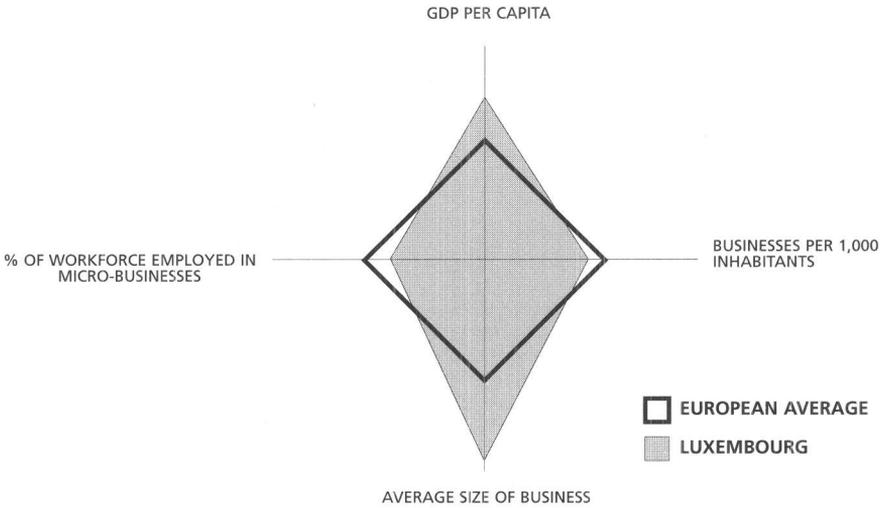
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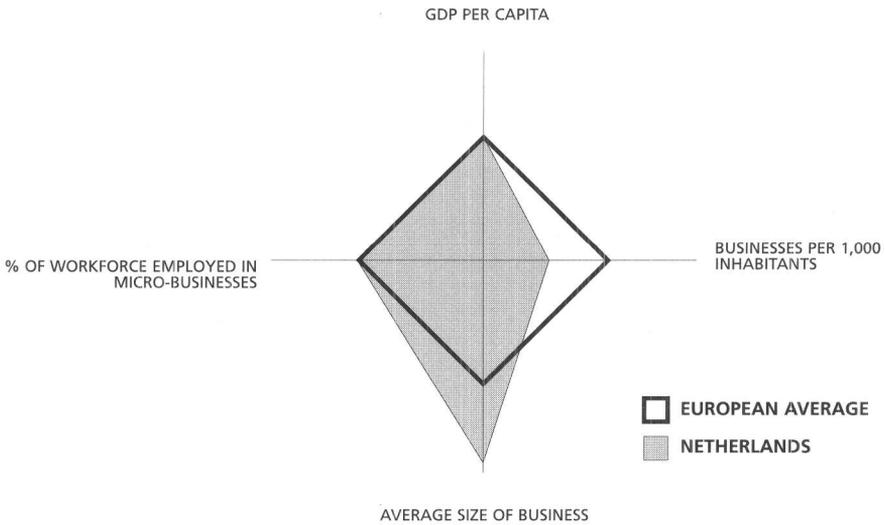
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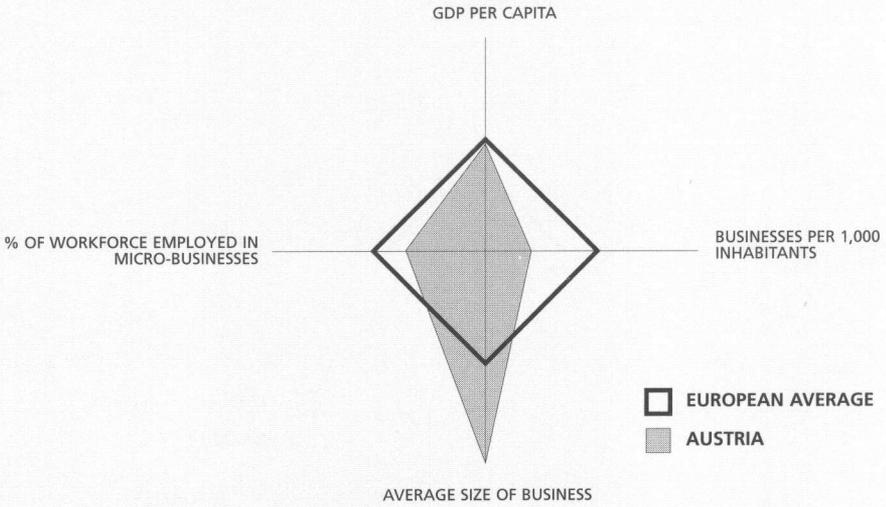
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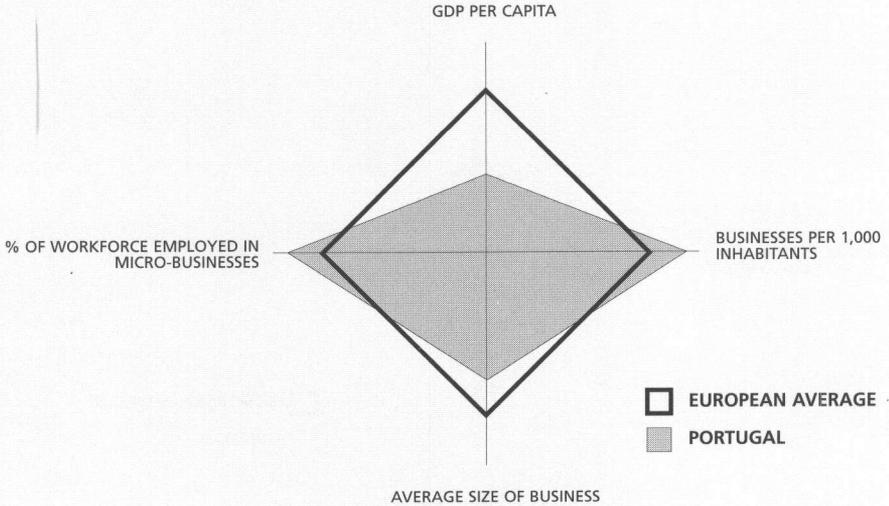
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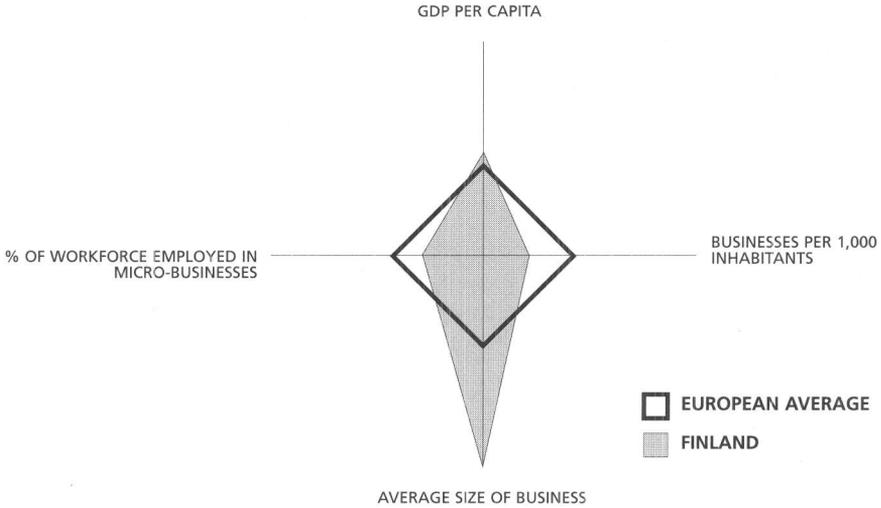
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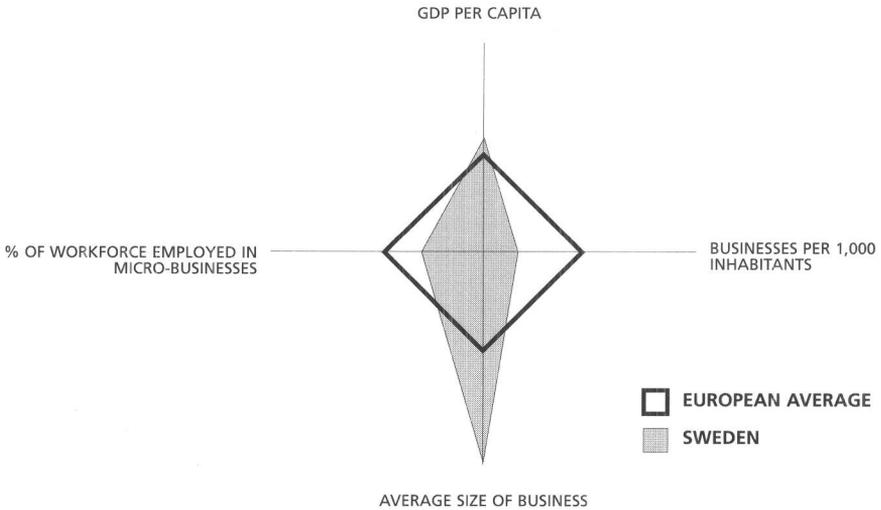
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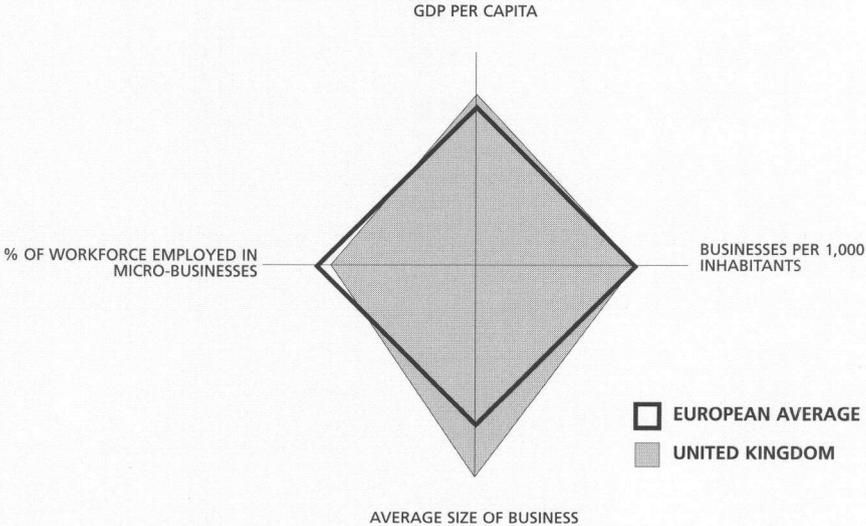
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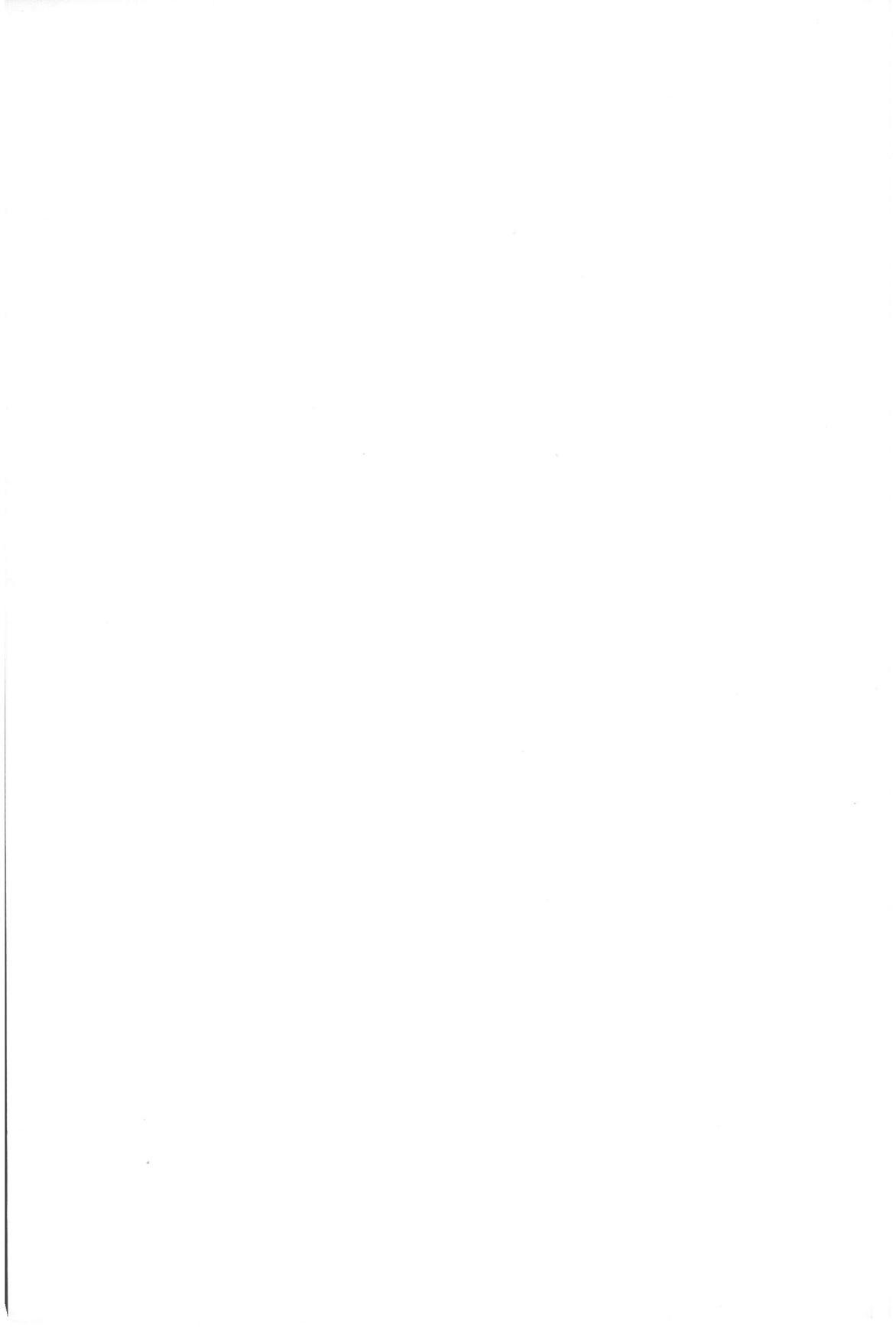


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OPINION
of the
Economic and Social Committee
on the
**Proposal for a Council Decision on a third multiannual
programme for small and medium-sized enterprises (SMEs)
in the European Union
(1997-2000)**

Rapporteur: Mr Lustenhouwer (Netherlands - Various Interests Group)

Co-rapporteur: Mr Malosse (France - Employers' Group)

Introduction

The importance of SMEs for employment, growth, innovation and competitive conditions on the European market has gained broad recognition in recent years. Awareness of the intrinsic value of SMEs is also growing as it becomes ever clearer that independent entrepreneurship enriches our societies and can bridge the traditional opposition between labour and capital. This has been made clear in numerous studies, and fortunately the special position of SMEs is also taken into account in many policy areas. Since its first Opinion on SMEs¹, the Committee has been advocating the incorporation of an SME dimension into Community policy. This has now to a great extent been achieved. The Commission proposal for specific actions in favour of SMEs is in line with this thinking and is the outcome of numerous policy statements by the Council² and the European Parliament on the need for a complementary SME policy.

The programme for 1997-2000 comprises measures aimed at: encouraging an environment conducive to the development of SMEs throughout the EU; improving the competitiveness of European SMEs and encouraging their Europeanization and internationalization. The programme concerns all SMEs regardless of their sector or legal form. The Committee stresses that the programme ought therefore also to be open to firms in the form of cooperative associations etc.

The Commission proposal is limited in the sense that it provides the legal and budgetary basis for specific flanking measures which are not part of other Community policies. The integration of SME policy into other policy areas is part of the Integrated Programme³ in favour of SMEs and the Craft Sector which is shortly to be updated. As the Committee expects to issue a separate Opinion on this subject, this Opinion will confine itself to the proposals as set out in Multiannual Programme.

1 Study on the Situation of SMEs in the European Community, Rapporteur: Mr KOLBENSCHLAG, 26/27 June 1974, CES 714/74.

2 Most recently: Madrid European Council, Conclusions of the Presidency, 16 December 1995, page 14.

3 COM(94) 207 final of 3 June 1994.

In its Opinion of 28 April 1993 the ESC expressed its views on the previous Multiannual Programme which expires at the end of 1996. At the time, the ESC virtually unanimously endorsed the Commission proposals, but expressed concern about the limited scope of the proposals for the craft, commercial and distribution sectors.

In its Opinion of 21/22 October 1992⁴ the Committee looked in more detail at the specific position of the craft sector. The ESC recently decided to bring this work up to date in the form of an own-initiative Opinion on the craft sector. In order to avoid repetition, the aspects of craft policy peculiar to that sector will be dealt with only in passing in this Opinion.

Article 3 of the draft Council Decision contains a definition of the subsidiarity principle in the sense that it provides that the Commission shall take measures only in so far as they cannot be better achieved by the Member States. The Committee fully endorses this thinking. However it is particularly important in relation to the measures under discussion, which complement other Community policies, that action be taken at Community level only when it offers added value and complementarity. SMEs, which at present transcend borders only to a limited extent, should be helped to overcome their structural weaknesses in the first instance by local actions. Community actions should be complementary in nature or else fulfil a pilot function from which non-participating firms can benefit. In this connection the Committee reiterates its call for proper dissemination of the results of pilot actions among SMEs.

At the Cannes Summit in July 1995, the European Council adopted a resolution on the important role of SMEs and craft industries in creating employment.

On 31 January 1996 Commission President, Jacques Santer, announced a European confidence pact for employment to the European Parliament. The pact would have three priorities: SMEs, Trans-European Networks and R&D.

The multiannual programme now under consideration is not therefore the only EU policy instrument to promote the establishment and development of SMEs. This policy must be at the heart of the EU's operational and legislative programmes, and in particular the internal market, the structural instruments, the Leonardo and Socrates education and training programmes, R&D and innovation, the financing instruments, particularly the EIB and the development of the information society.

It is regrettable however that despite good intentions SMEs are not yet accorded the necessary priority in all areas of EU policy. Thus in its decisions and proposals, the Commission has earmarked no additional funds for the Community initiatives (the SME initiative is the only one not to receive additional funding) or for the R&D programmes.

It is therefore important that, in addition to the third multiannual programme, other EU policies take greater account of this priority. The Committee therefore proposes machinery for making this effective: the establishment of a task force for SMEs/innovation in research activities, the implementation of an SME and craft industries programme within Leonardo, the strengthening of the role of DG XXIII in promoting structural activities and the implementation of information society projects.

⁴ ESC Opinion on SMEs and craft industries, 21/22 October 1992, Rapporteur: Mr SCHLEYER, OJ No. C 332, 16 December 1992.

The measures proposed

Simplification and improvement of the administrative and regulatory business environment

This area of the Multiannual Programme falls into four parts.

We are concerned here with questions such as the simplification and improvement of Community legislation and the exchange of best practices. The Committee stresses the importance of these activities and expects to see concrete results in terms of an improved business climate for SMEs in the short term. Measures to simplify laws and regulations at European level should also be stepped up. The Committee in particular emphasizes the importance of an efficient system of cost-benefit analyses. Cost-benefit analyses should be part of the impact reports which it is planned to improve. If the outcome of a cost-benefit analysis is objectively negative, the Committee feels that the necessary political conclusions must be drawn.

The Committee looks forward with interest to the proposals for simplification of the company statute and calls on the Commission to include in these its old proposals on simplification of the 4th and 7th Directives on the submission of annual reports for small EEIGs.

The Committee also hopes that the necessary decisions will soon be taken on statutes for European cooperatives, mutual societies, and other associations in order to provide firms of this type with a suitable legal form for transnational activities.

Improvement of the financial environment for enterprises

In its Opinion of 6 July 1994⁵, the ESC looked in detail at the European Commission's Communication on the financing of SMEs. Many of the problems identified at that time still exist and need to be solved more and more urgently. The Committee at the time also pointed to the direct relationship between the fiscal climate and the financing problems facing SMEs. The Committee has also noted with approval the Commission Communication on the development of capital markets for fast-growing small and medium-sized enterprises (EASDAQ)⁶. As new Commission publications can be expected dealing with the legal and other obstacles to the establishment of EASDAQ, this subject will not be further developed here. The Committee would merely stress the great importance it attaches to the Commission's activities in this area and endorses the proposal to establish a new guarantee instrument (ELISE)⁷ to help employment - creating SMEs to obtain loans.

Helping SMEs to Europeanize and internationalize their strategies, in particular through better information services

The actions under this chapter absorb a major part of the available budget. Thus a good ECU 50 million have been earmarked for the Euro Info Centres (EICs) and a good ECU 34 million for partnership programmes.

5 ESC Opinion on the Communication from the Commission on the financial problems experienced by SMEs, Rapporteur: Mr LUSTENHOUWER, OJ No. C 388 of 31 December 1994.

6 EASDAQ = European Association of Securities Dealers Automatic Quotation

7 ELISE = European Loan Insurance Scheme for Employment

The Committee endorses the principle of concentrating the third programme's resources on a limited number of priorities and on actions which have already proved their worth.

The Commission proposes to emphasize the role of the EICs as first stop shops in order to channel SMEs more effectively towards specialist advice. The Committee endorses this initiative insofar as it will make some EICs more proactive in their approach to SMEs, encouraging local SMEs to take on a European dimension. This presupposes that the number of EICs is not curtailed, enabling them to remain close to their customers.

Networks should be generally established around EICs, offering specialized advice and local sub-centres.

The Committee is aware of the need to make the EIC network more professional and to improve the quality of services. It does not however at this stage see any need for a new selection. The Committee feels that it would be better to carry out a case-by-case evaluation in partnership with national and regional authorities, and particularly the EICs' host organizations which at present shoulder almost all the EICs' operating costs.

The growing success of the various partnership actions testifies to the correctness of the method introduced with *Europartenariat*. These actions (e.g. the *Interprise* programme) have given a new impetus to economic cooperation initiatives within and outside the EU. The Committee stresses the value of developing such arrangements with Eastern Europe and the Mediterranean countries via a partnership with EU business organizations, rather than through external consultants.

As the BC-NET and BRE systems have not yet yielded the expected results, the Committee asks the Commission to consider incorporating these networks into a wider framework of initiatives, led by business organizations, in connection with new information society products (electronic trade, business networks, inter-firm partnership networks, exchange of business files).

In view of the importance of partnership between SMEs as a development instrument, the Committee asks the Commission to consider establishing a financial instrument for intervention after the initial contact, supported by current programmes, based on the model of the ECIP and JOPP instruments which exist for non-EU countries.

Enhancing SME competitiveness and improving their access to research, innovation and training

As Community policies for the promotion of R&D already include specific actions for SMEs, the present proposals are restricted to pilot actions in areas not yet covered by other Community programmes. The content of the actions is not sufficiently clear however, nor whether they meet a need which cannot be met by other means. Thus the Committee thinks that it would be better to develop actions to support entrepreneurs involved in innovative processes than to aim these actions at intermediaries (advisors), but at the same time it attaches great importance to training for SMEs and craft industries in standardization and certification. The funds available under this programme could probably be substantially increased if they were reorganized and integrated with the planned expenditure under NORMAPME which provides support for SMEs in implementing European standards. In its 1993 Opinion on the Multiannual Programme then in force the Committee urged involvement of SMEs in the development of European standards. The Committee is

pleased that the Commission and the Council have heeded this call⁸ and that they now support European SMEs in this work. Pursuit of these activities in the years to come is therefore fully justified.

The Committee once again stresses that the trade and distribution sectors should be involved in drawing up innovation actions, under both the Green Paper and the multi-annual programme. Where innovation is concerned, the focus is too often exclusively on production, with developments in processes and logistics being left aside for simplicity's sake.

Promoting entrepreneurship and supporting special target groups

The Committee agrees with the Commission that entrepreneurship must be stimulated at all levels and a culture promoted in which people are more willing to take on entrepreneurial risks. It is therefore a good thing that activities have been undertaken with great success in a number of Member States to encourage (often young) people to start up and develop their own businesses. A good example of this is Italian Law No. 44, which could serve as a model (best practice) for other Member States. This is undoubtedly a job for the Community, as well as for the Member States. This subject could be tackled in the framework of European SME Week, thus providing a stimulus to entrepreneurship in the broadest sense. Special attention could also be paid to management buy-outs (MBOs).

This chapter of the Multiannual Programme also covers actions for the craft sector, commerce, the distributive trades and specific target groups such as women and young entrepreneurs.

The Committee is pleased that the financial resources made available for these target groups are significantly larger than in previous years. The Committee is currently working on an Own-initiative Opinion on the craft sector. The Committee would like to point out here however that it welcomes the greater emphasis being laid on the craft sector. The conclusions of the European craft sector conference held in Berlin in 1995 need to be translated into concrete actions, where this has not already occurred. DG XXIII's new craft sector department will need to concern itself with this on an ongoing basis.

This Committee has also issued a number of Own-initiative Opinions on the retail trade and intends to return to the subject shortly, as the Commission is about to publish a Green Paper on commerce and distribution.

Community policy should pay greater attention to the distribution sector in view of its role in the relationship between firm and consumer. Thought should be given in this connection to the many questions raised by introduction of the euro.

SME policy development and knowledge of SMEs

This part of the Multiannual Programme accounts for a substantial part of the total budget, i.e. approximately ECU 23 million. The Committee acknowledges the great importance of these actions. The compilation of statistics on the development of the SMEs and their various sectors is essential for the development of policy. In past years the Committee has expressed its regard for the work of the European Observatory for SMEs⁹ and expects its recommendations for qualitative improvement and dissemination of its work to be taken

8 Resolution of the Industry Council of 28 March 1996, point V(4)

9 Most recently: Opinion on the third Annual Report of the European Observatory for SMEs, 20-21 December 1995, Rapporteur Mr PASOTTI, OJ No. C 82 of 19 March 1996.

into account. Qualitative improvement could be achieved, inter alia, by making still greater use of studies of small firms carried out by other organizations. The Committee considers the incorporation of the main data and conclusions into a database accessible to all, albeit not via the Internet, to be an interesting idea which merits further development.

This part of the budget also covers other publications on enterprise policy. In the information society the Committee considers it desirable and essential that the results of SME policy be fully exploited. Only in this way can actions which are often limited in scope achieve a broader impact and perform their exemplary function. This could be one of the EICs' tasks.

Financial resources

The proposed budget for the implementation of the above actions totals ECU 180 million for the period 1997-2000. The budget of the current Multiannual Programme amounted to ECU 112 million. In its proposals the Commission calls for a budget of at least ECU 140 million for the coming four years and an additional ECU 40 million to be allocated later in connection with the 1997 review of the financial perspectives.

Given the need for the additional activities proposed by the Commission, the Committee considers the budget of ECU 180 million for the next four years to be the absolute minimum. This is all the more true as the programme is also open to the associated countries of Central and Eastern Europe, Cyprus and Malta. The Committee wonders whether it would not be better to finance the cost of this expansion of the programme from the funds earmarked for activities in favour of these countries. A smaller budget would severely undermine the credibility of politicians' assurances of the importance they claim to attach to a healthy small business sector and to its role in creating jobs and growth.

Conclusion

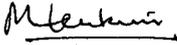
Action programmes of the kind currently proposed need to be revised from time to time in the light of recent developments. Taking account of market needs and effects on the labour market should receive high priority. The Committee feels that this will require intensive, regular contacts between the Commission and SME entrepreneurs' and workers' organizations. For this reason and in view of the impact on the labour market already referred to, the Committee, aware that this is strictly speaking outside the scope of the multiannual programme for SMEs, reiterates its call for expansion of the social dialogue to all social groups in order to give them an opportunity to conduct negotiations¹⁰. The Committee still believes that the representatives of the main economic and social sectors (among which the Committee would obviously include SMEs) should be involved in this within a suitable framework. Independently of this, the Committee points out that good consultation between the Commission and the organizations involved can ensure that actions actually reach entrepreneurs and generate feedback to enable activities to be adjusted. Such consultations can also ensure optimum allocation of the limited resources available. The Committee warns that the current proposals are liable to disperse funds over too many activities. The Committee endorses the internal reorganization of DG XXIII to reflect the future activities proposed.

¹⁰ ESC Opinion on basic Community social rights, Rapporteur Mr F. STAEDLIN, OJ No. C 126 of 23 May 1989.

The Committee has already stressed the importance it attaches to the integration of SME policy into all other aspects of Community policy and it therefore wholeheartedly welcomes the establishment of a special coordination unit for this purpose.

The President
of the
Economic and Social Committee

Tom JENKINS



The Acting Secretary-General
of the
Economic and Social Committee

Adriano GRAZIOSI



OPINION
of the
Economic and Social Committee
on the
**Communication from the Commission on the (Second)
Integrated Programme for Small and Medium-sized
Enterprises (SMEs) and the Craft Sector**

Rapporteur: Mr Lustenhouwer (Netherlands - Various Interests Group)

Introduction

The second integrated programme for SMEs translates into action the call made by the European Council at the Madrid summit on 16 December 1995 and the Resolution issued by the Council on 22 April 1996. The Resolution in particular appealed for closer coordination of policy-making in respect of both measures taken by the Member States and action taken under the various EU instruments and programmes to assist SMEs. Whenever the term "SME" is used in this Opinion, it should be taken to mean small and medium-sized enterprises as described in the European definition, and embracing enterprises in all sectors of the economy, including the craft industry. Agricultural enterprises are, however, excluded.

The integrated programme comprises two parts:

- ➔ the various "concerted actions" to be undertaken with the Member States and
- ➔ action by the European Union itself.

The latter measure includes the multi-annual SME programme which was contained in a Commission proposal to the Council dated 20 March 1996. On 11 July 1996 the ESC issued an Opinion strongly endorsing the Commission proposal¹.

At its meeting in Florence on 21 and 22 June 1996, the European Council also expressly called upon the (Industry) Council to adopt the multi-annual programme by the end of 1996.

The Commission states that the aim of the integrated programme is to provide a coherent framework designed to improve the transparency of the many EU measures - both direct and indirect - to assist SMEs and to give these measures higher priority. We are, after all, in the final analysis, dealing with measures designed to help create jobs and generate economic growth.

¹ ESC Opinion on the Proposal for a Council Decision on a third multi-annual programme for SMEs (1997-2000), CES 646/96, Rapporteur: Mr Lustenhouwer, Co-Rapporteur: Mr Malosse.

General comments

The ESC supports the Commission approach. It trusts that the Council, too, will undertake to support the activities set out in the programme. Only once this happens will a real political signal be given to the effect that account must be taken of the interests of SMEs in all forms of EU policy. To this extent, the proposed programme thus clearly serves the purpose of sending out a political signal.

The ESC also endorses the idea of expanding upon the activities set out in the first integrated programme. There is as yet little tangible evidence of the results of the first programme and additional follow-up action is called for. The ESC notes approvingly that the second programme seeks to address in greater detail certain aspects of the first programme with a view to improving the business climate at all stages of the development of SMEs.

The five priority measures set out in the programme

The activities covered by the integrated programme fall under five main headings:

- I. Simplifying and improving the administrative and regulatory business environment;
- II. Improving the financial and fiscal environment for enterprises;
- III. Helping SMEs to Europeanize and internationalize their strategies, in particular through better information and cooperation services;
- IV. Enhancing SME competitiveness and improving their access to research, innovation, information technologies and training;
- V. Promoting entrepreneurship and supporting special target groups.

The ESC has already given its views recently on many of the measures listed under the above headings. It has, for example, issued Opinions on the financing of SMEs and has repeatedly highlighted the importance of providing training for SME entrepreneurs and workers and circulating research findings to small businesses with an interest in technology in the industrial and craft sectors.

The comments set out in the paragraphs below therefore refer only to new points contained in the integrated programme.

Specific comments

In point B1 under Heading II ("Improve the financial and fiscal environment for SMEs") (page 6), the Commission points out that it is planning to draw up a Recommendation to the Member States calling upon them to pay more attention to SMEs in proposals for joint financing under the European Regional Development Fund (ERDF). The ESC fully supports this approach and readily endorses the comments made on this matter by the Florence European Council to the effect that when decisions are taken on the use of

the available margins of the Structural Funds, priority must be given to support for SMEs, acting in collaboration with the EIB².

In point B2 (page 7) the Commission announces that it intends to submit a communication on direct taxation. The ESC trusts that this communication will produce real, concrete proposals for assisting SMEs to engage in trans-national activities and reducing the attendant costs.

The Commission's views on the preparation of SMEs for the introduction of the euro (point B3, page 8) tie in closely with the ESC's views on this matter, as set out in its Opinion on the Third Multi-Annual Programme for SMEs³.

Turning to Heading III ("Help SMEs to Europeanize and Internationalize their Strategies") on page 9, the Commission states in point A that it will encourage all Member States to set up national contact points to provide a link between the national-level authorities charged with enforcing the rules governing the internal market and between the Member States and the Commission. The ESC emphatically wishes to be involved in these activities, by virtue of its responsibility for the Single Market Observatory (SMO).

Mention is also made under Heading III (page 10) of the Commission's views on state aid. The ESC supports the thesis that all forms of state aid which may distort competition - not merely aid provided by central governments but increasingly also aid made available by regional authorities - need to be examined more intensively and more critically. The latter form of aid, too, needs to comply with the relevant EU rules.

The ESC is thus highly interested in the proposal contained in President Santer's Confidence Pact that a particularly close scrutiny be undertaken of the impact on employment of the current policy on state aid⁴.

The Commission considers that there is still too little transnational investment by SMEs and feels that they are not sufficiently engaged in seeking new export markets in other EU Member States. The ESC endorses the view that this shortcoming can mainly be ascribed to the lack of a suitable financial instrument. Every support should therefore be given to the proposed application within the EU of the experience gained in promoting such investment in non-EU states, under instruments such as the JOP. The ESC would, however, draw attention to the fact that it is absolutely vital to involve the banking sector, and also venture capital funds in the preparation of such a new financial instrument; this is essential in order to ensure that a) when it is brought onto the market, it will mesh in well with existing instruments and b) that there is no distortion of competition (also between banks).

Under Heading IV (page 15), the Commission rightly highlights innovation, research and development and the question of access to the information society. The ESC

2 Conclusions of the Presidency - Florence Summit, 21 and 22 June 1996, SN 300/96-EN, p.4.

3 CES 646/96, point 2.5.3.

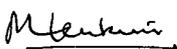
4 Action for employment in Europe, a confidence pact. Communication of the President, point 2.15.

notes with satisfaction that in the latter area in particular, measures are to be taken to identify the needs of SMEs and to tackle the obstacles hampering their use of information technologies. The ESC supports the increased use of resources from the Structural Funds to give SMEs better access to the information society. Training and further training programmes for workers should also clearly devote considerable attention to this requirement.

Brussels, 31 October 1996.

The President
of the
Economic and Social Committee

Tom Jenkins



The Secretary-General
of the
Economic and Social Committee

Adriano Graziosi



Economic and Social Committee of European Communities
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