



# Near East University

## Faculty of Economics and Administrative Sciences

### Department of Business Administration

#### GRADUATION PROJECT

#### SMALL AND MEDIUM SIZE ENTERPRISES IN EU AND

#### COMPETITIVE ADVANTAGES

**MAN 400**

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## I. INTRODUCTION

Aim of following study is to study the small enterprises in and its competitive advantages in European Union. This project will begin the definition of small and medium size enterprises, structure of small enterprises in European Union and statistical working on small and medium sized enterprises. Small and medium sized enterprises play major role in the European Union and there are 20,5 million enterprises in the European economic area and Switzerland, providing employment for 122 million people.

Small firms have some competitive advantages over large firms, we analyze existing advantages of small firms in second chapter. European Commission has created many kinds of policies and activities for small enterprises annually. They need those policies in new technological development. By endorsing the Charter for small enterprises, the European Union showed its commitment to improving the business environment. We will analyze the most recent implementation report on the European Charter's objectives reports on the Member States' progress in third chapter.

Finally we analyze European Commission' policies and activities on small enterprises to become the most competitive and dynamic knowledge based economy in the world. This sources provided annual reports of European Commission and Observatory of European Small and Medium sized enterprises. Special Thanks to Asist. Prof. Dr. Hüseyin Özdeşer for this study.

## II. DEFINITION OF A SMALL AND MEDIUM SIZE ENTERPRISES IN EU

Definition of micro, small and medium-sized enterprises adopted by the commission. This community definition is given in the commission recommendation (European commission, 96:4). In briefly, the definition of a small and medium enterprise is summarised in the table below.

Table.2.1.

DEFINITION OF A SMALL AND MEDIUM SIZE ENTERPRISE (SME)			
Criteria	Micro-enterprise	Small	Medium
Number of employees	0-9	10-49	50-249
Annual turnover Or Total balance sheet	---	>E 7 m  >E 5 m	>E 40 m  >E 27 m
Independence	---	No more than 25% of the capital or voting rights held by one or more enterprises which are not themselves SMEs	

Source: Commission Recommendation 96/280/EC of 3 April 1996 concerning of small and medium-sized enterprises.

For the new definition of small and medium enterprise, the commission has conducted two consultation rounds, in 2001 and in 2002, involving member state governments, business organizations and expert. This large-scale consultation process also included a second public consultation via the Internet. The new Commission recommendation on the definition of small and medium enterprise is foreseen for adaptation during the first quarter of 2003. As the new recommendation is adopted in the following criteria (European commission, 2003:4)



- a) The category of micro, small and medium sized enterprises is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, or an annual balance sheet total not exceeding euro 43 million.
- b) Within the small and medium enterprise category, small enterprise is defined as an enterprise which employ fewer than 50 persons and whose annual turnover or annual balance sheet total does not exceed euro 10 million.
- c) Within the small and medium enterprise category, a micro enterprise is defined as an enterprise which employs fewer than 10 persons and whose annual turnover or annual balance sheet total does not exceed euro 2 million.

## 2.1. Structure of Small Business And Medium Sized Enterprises

There are 20,5 million enterprises in the European Economic area and Switzerland, providing employment for 122 million people. Some 93% of those enterprises are micro, 6% are small, less than 1% medium sized and only 0.2% are large enterprises of all these enterprises nearly 20 million are established within the European Union ([www.europa.eu.int/comm/dgs/enterprise](http://www.europa.eu.int/comm/dgs/enterprise)). Two thirds of all jobs are in SMEs, so one third of all jobs are provided by large enterprises. Within SMEs, total employment is split up roughly equally between micro enterprises, and small and medium sized enterprises. The size class distribution of employment differs between countries.

**Table.2.2.**

### **The basic facts about SMEs and large enterprises in Europe**

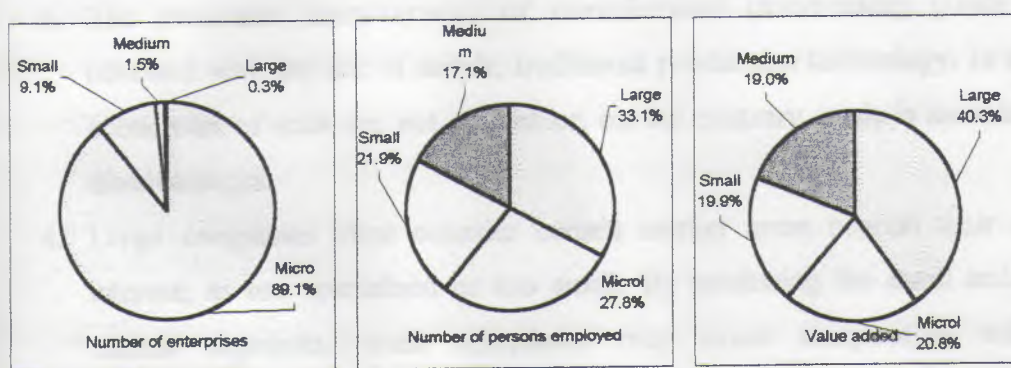
	SME	Large	Total
Number of enterprises	20,415	40	20,455
Employment	80,790	40,960	121,750
Occupied people per enterprises	4	1,020	6
Turnover per enterprise	0.6	255.0	1.1
Share of exports in turnover	%13	%21	%17
Value added per occupied person	65	115	80
Share of labour costs in value added	%63	%49	%56

Source: Estimated by EIM Business and Policy Research; estimates based on Euro stat's SME database

## 2.2. Statistic Information About Small And Medium Sized Enterprises

On average, an enterprise in Europe including all European giants provides employment to 6 people; the average for SMEs only is 4 people. However, this varies between 2 people in micro enterprises and over 1000 in large enterprises. Between countries there are large differences as well. On average an enterprise has 2 occupied persons in Greece and 3 in Italy and Liechtenstein, as against 10 in Ireland, Luxemburg and Netherlands. SMEs play a major role in the European Union's business economy, accounting for approximately two thirds of employment and 60% of value added in the European Union ([www.europa.eu.int/comm/enterprise/enterprise\\_policy/analysis/observatory](http://www.europa.eu.int/comm/enterprise/enterprise_policy/analysis/observatory)).

**Figure 2.1. Breakdown of Main Indicators in the EU's Business economy.**



Source: Structural business statistics, Euro stat (theme 4/SBS/sizclass), 2002

## 2.3. Employment Growth In Europe

On balance, large enterprises lost jobs between 1988 and 2001, while employment in the SME sector increased. In the early years this growth was concentrated in micro and small enterprises, as employment growth in medium sized and large enterprises only started in 1997. In 2001, employment growth slowed down. Current estimates show that this occurred both in SMEs and large enterprises but the slow down is slightly more pronounced in large enterprises ([www.europa.eu.int/comm/enterprise/enterprise\\_policy/analysis/observatory](http://www.europa.eu.int/comm/enterprise/enterprise_policy/analysis/observatory)). Over the years most jobs in Europe were created by micro enterprises, whereas large enterprises lost jobs.



### III. COMPETITIVE ADVANTAGES OF SMALL ENTERPRISES IN EU

The competitive advantages of small enterprises over large firms are as follows:

1. Good local industry can be competitive in producing for the needs of small local markets. The advantage of small firms results from the fact that certain goods must be produced locally and the transportation costs are high (certain food products, construction materials). When producing goods of this kind, small firms are "naturally protected" from the competition of large companies.
2. If the processing of dispersed raw materials gives significant reduction in weight and volume and limits the risk of damage then in this field small companies can also be competitive.
3. The particular characteristics of manufactured (hand-made) goods can be obtained with the use of simple, traditional production technology. In this area, economies of scale are not present or, on the contrary, scale is associated with disadvantages.
4. Large companies often consider certain market areas beyond their scope of interest, as too specialised or too small. By producing for small and selected market segments, small companies may avoid competition with large companies.
5. Many technological processes can be divided into several stages. Small firms can be competitive in the production of sub-assembly parts, finishing products, offering services.
6. Big industry is usually very capital consuming, and the accumulation of capital requires time therefore, small companies can be competitive in the transformation period.
7. Among the social elements, it is worth mentioning that SMEs are often owner-managed, by highly entrepreneurial people, driven by the desire for self-betterment, with direct access to the rewards of their activity. Many SMEs are a means of utilising limited capital, in a way that provides work for the surrounding family; the motivations to hard work are clear.



## **IV. ACTIVITIES OF EUROPEAN CHARTER FOR SMALL ENTERPRISES**

Small enterprises are the backbone of the European economy. They are a key source of jobs and a breeding ground for business ideas. At Lisbon they set of the goal for the European Union to become the most competitive and dynamic knowledge based economy in the world, capable of sustainable economic growth, more and better jobs and greater social cohesion. By endorsing this charter, they commit to work along the following lines for action, taking due consideration of small business needs (European Charter, 2002:3).

### **4.1. Education And Training For Entrepreneurship**

Europe will nurture entrepreneurial spirit and new skills from an earlier age. General knowledge about business and entrepreneurship needs to be taught at all skull levels. Specific business related modules should be made an essential ingredient of education schemes at secondary level and at colleges and universities.

### **4.2. Cheaper And Faster up**

Cheaper and Faster start up should evolve towards the most competitive in the world. Countries with the longest delays and most burdensome procedures for approving new companies should be encouraged to catch up with the fastest. Online access for registration should be increased.

### **4.3. Better Legislation And Regulation**

National bankruptcy laws should be assessed in the light of good practice. The learning from benchmarking exercises should lead us to the improvement of current practices in the EU. New regulations at national and Community level should be screened to assess their impact on small enterprises and entrepreneurs. National and European Commission rules should be simplified. Government should adopt user-friendly administrative documents. Small enterprises could be exempted from certain regulatory obligations. The Commission could simplify competition legislation to reduce the burden of compliance for small business.

#### **4.4. Availability Of Skills**

We shall endeavour to ensure that training institutions, complemented by in house training schemes, deliver an adequate supply of skills adapted to the needs of small business, and provide lifetime training and consultancy.

#### **4.5. Improving Online Access**

Public authorities should be urged to increase their electronic communication with the small business sector. Thus companies will be able to receive advice, make applications, file tax returns or obtain simple information online, therefore faster and more cheaply.

#### **4.6. More Out Of The Single Market**

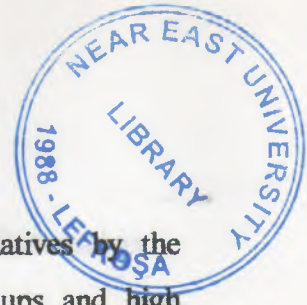
Small businesses are feeling the benefits from the reforms underway of Europe's economy. The Commission and Member States must therefore pursue the reforms underway aiming at the completion in the Union of a true internal market, user friendly for small business, in critical areas for development of small business including electronic commerce, telecommunications, utilities, public procurement and cross border payment systems.

#### **4.7. Taxation And Financial Matters**

Tax systems should be adapted to reward success, encourage start-ups, favour small business expansion and job creation and facilitate the creation and succession in small enterprises. Member States should apply best practice to taxation and to personal performance incentives. In order to improve the access of small enterprises to financial services, they will:

- a) Identify and remove barriers to the creation of a pan European capital market and to the implementation of the Financial Services Action Plan and the Risk Capital Action Plan.
- b) Improve the relationship between the banking system and small enterprises by creating appropriate access conditions to credit and to venture capital.





c) Improve the access to the structural funds and welcome initiatives by the European Investment bank to increase funding available to start ups and high technology enterprises, including equity instruments.

#### **4.8. Strengthen The Technology Capacity Of Small Enterprises**

They will strengthen existing programmes aimed at promoting technology dissemination towards small enterprises as well as the capacity of small business to identify, select and adapt technologies. They will foster technology co-operation and sharing among different company sizes and particularly between European small enterprises, develop more effective research programmes focused on the commercial application of knowledge and technology and develop and adapt quality and certification systems to small enterprises. It is important to ensure that a Community patent is available and easily accessible to small enterprises. They will also foster the involvement of small enterprises in inter firm co-operation, at local, national, European and international levels as well as the co-operation between small enterprises and higher education and research institutions. Actions at national and regional levels aimed at developing inter firm clusters and networks should therefore be supported, pan-European co-operation between small enterprises using information technologies enhanced, best practice in co-operative agreements spread, and small enterprises co-operation supported to improve their capabilities to enter pan-European markets and to extend their activities in third country markets.

#### **4.9. Successful e-business Models And Top Class Small Business Support**

They will co-ordinate Member States and EU activity to create information and business support systems, networks and services which are easy to access and understand and relevant to the needs of business; ensure EU wide access to guidance and support from mentors and business angels, including through websites and exploit the European Observatory on SMEs.

#### **4.10. Develop Stronger And more Effective Representation Of Small Enterprises**

They will complete a review of how the interests of small business are represented at EU and national level, including through the social dialogue. They commit to progress towards these goals using the open method of co-ordination of national enterprise policies. The Multiannual Programme for Enterprise and Entrepreneurship, the Cardiff process on economic reforms, the Luxembourg process on employment policies and other Community programs and initiatives will be used to this end. They will also monitor and evaluate progress annually on the basis of a Commission report on the relevant issues at the Spring Summits, and they will use effective indicators to assess progress over time and in relation to the best in the world to reinforce their learning, searching for better practice in all fields that affect small business to continuously improve their performance.



## **V. ACTIVITIES IN OTHER POLICY AREAS**

### **5.1. Competition Policy**

Over the period of the past three years there have been great efforts on the part of the Commission to modernise its competition rules, make procedures more efficient, increase their transparency and hence facilitate their application. This policy trend has a direct bearing on SMEs.

#### **5.1.1. State Aid Control**

In the area of state control, one of the chief objectives of modernisation is the reorientation of State aid from sectoral and regional to horizontal objectives, the latter including the promotion of SMEs. This objective was first endorsed by the Lisbon European Council in March 2000. As far as the introduction of more efficient and transparent procedures is concerned, the Commission adopted the first block exemption regulation in the field of State aid in 2001 (Commission Regulation, 2001:30). The regulation provides that aid fulfilling all the conditions laid down in the regulation does not have to be notified to the Commission, unless it exceeds certain thresholds set by it. The new regulation strikes the balance between minimising competition distortion and the objective of facilitating the development of economic activities of SMEs. The Commission also adopted a regulation clarifying its approach towards de minimis aid, which can be granted without prior notification. Another important development in the modernisation of State aid rules and simultaneously creating a better business climate for SMEs has been adoption of the Commission on State aid and risk capital in 2001 (European Commission, 2001:3). The communication makes clear that governments can take many measures to promote risk capital, which do not constitute State aid. On the other hand, where public intervention does constitute State aid the Commission will now be prepared to apply different criteria from the link to eligible costs when assessing that intervention under the State aid rules. These criteria include the size of the enterprises targeted by the measures.

### **5.1.2. Anti Trust Rules**

The modernisation of the anti trusts rules have also taken account of the interests of SMEs. The first cornerstone of this reform was the new "block exemption" Regulation exempting certain categories of vertical agreements and concerted practices from the prohibition of restrictive agreements and the corresponding Guidelines (European Commission, 2000:1). The Regulation takes into account the interest of small and medium sized companies. On 17 July 2002, the Commission adopted the new block exemption regulation for vertical agreements in the motor vehicle sector. Based on this regulation, SMEs will have better opportunities to compete in the markets for the distribution of new motor vehicles: dealers, most of which are SMEs, will no longer be obliged to both sell new vehicles and to provide after sales services; in future they will be able to specialise in either of these areas. The new rules also facilitate the sale of different brands by the same dealer and allow dealers to expand their businesses by opening secondary sales and delivery outlets. The Commission adopted a new regulatory framework for horizontal cooperation agreements (Commission Regulation, 2000:3). The adoption reduces the compliance burden for companies by making the applicability of Article 81 to horizontal agreements more predictable and less burdensome. These advantages are particularly evident in respect of SMEs.

### **5.2. Employment And Social Policies**

In response to title eight of the Amsterdam Treaty on Employment, Member States agreed on a joint employment policies according to common objectives. The European Employment Strategy (EES) was launched at the Luxembourg Jobs Summit in 1997, with the aim of combating unemployment.

The employment guidelines, which make up the core of the process, are focused on four pillars employability, entrepreneurship, adaptability, and equal opportunities for men and women. The second pillar is devoted to entrepreneurship and the conditions, which favour the creation of new jobs. It aims at facilitating the development of an environment favourable to start-ups and business growth and at exploiting effectively the employment potential of the knowledge society and of the services sector. It places



emphasis on employment friendly taxation and better access to finance for enterprises, and also has the objective of stimulating action for employment at regional and local level. An evaluation of the European Employment Strategy was adopted in summary form in the Commission Communication "Taking Stock of Five Years of the European Employment Strategy ([www.europa.int/comm/employment\\_social/](http://www.europa.int/comm/employment_social/)). The evaluation looks at the performance of the labour market over the last five years and also gives some pointers to the future shape of the EES. The evaluation will provide input to the political debate on the future of the strategy, which will lead to a proposal from the Commission for a new generation of Employment Guidelines. The latest joint Employment Report refers to a large number of Member States initiatives to improve entrepreneurship, although employment growth in small business, in services and in self-employment was adversely affected in 2001 by the general economic slowdown ([www.europa.eu.int/comm/employment\\_social/](http://www.europa.eu.int/comm/employment_social/)). Particular emphasis has been placed on measures to facilitate business registration, to encourage self-employment and to develop an entrepreneurial culture, notably amongst women. New initiatives were taken to create job opportunities in knowledge based services and the environmental sector. Most Member State have implemented or announced new initiatives to combat undeclared work.

#### **5.2.1. Corporate Social Responsibility**

The EU's commitment to the promotion of corporate social responsibility (CSR) has to be seen in the wider context of the strategic Lisbon goal and the EU Strategy on Sustainable Development ([www.europa.eu.int/comm/environment/eussd/index](http://www.europa.eu.int/comm/environment/eussd/index)). Both the CSR and sustainable development concepts are based on a balanced interaction of the three pillars of economic growth and competitiveness, environmental and social responsibility. In July 2002, the Commission published a new strategy on CSR, which aims to take forward the contribution of business to sustainable development ([www.europa.int/comm/enterprise/csr/](http://www.europa.int/comm/enterprise/csr/)). It builds on over 250 replies received in response to the Green Paper consultation launched a year before. CSR is defined as a concept whereby companies integrate social and environment concerns in their business operations and in their interaction with their stakeholders on a voluntary basis. An

important operational element of the EU's strategy is the creation of a Multi Stakeholder Forum, launched in October 2002, which aims at fostering a dialogue between the business community, trade unions, civil society organizations and other stakeholders. Its overall aims are to promote innovation, transparency and convergence of CSR practices and tools.

### **5.3. Environmental Policy**

Promoting environmental management systems in small and medium sized enterprises  
In 2002, the Commission launched a best procedures project on Member State initiatives to promote environment management systems (EMSs) in SMEs. The project defined in response to a call by the May 2001 Industry Council and carried out in close cooperation with Member States experts, examines and compares relevant factors, policies and initiatives in this area with a view to identifying and exchanging best practices. The project is expected to result in a number of specific recommendation for policy at European and national level.

#### **5.3.1. The Sixth Environmental Action Programme 2001-2010**

Covering the period 2001 to 2010 the sixth EAP gives a strategic direction to the Commission's environmental policy over the next decade as the Community prepares to expand its boundaries ([www.europa.eu.int/comm/environment/](http://www.europa.eu.int/comm/environment/)). It identifies four priority areas climate change, nature and bio- diversity, environment and health and natural resources and waste. To achieve improvements in these areas the new programme set out five key approaches, these are, to ensure the implementation of existing environment legislation, to integrate environmental concerns into all relevant policy areas, to work closely with business and consumers to identify solutions, to ensure better and more accessible information on the environment for citizens and to develop a more environmentally conscious attitude towards land use.



### **5.3.2. Eco Management and Audit Scheme (EMAS)**

Eco Management and Audit Scheme (EMAS) is a voluntary scheme, designed for companies and other organization that are willing to commit them to evaluate, manage and improve their environment performance. The scheme was launched in 1993 and revised in 2001. The EMAS regulation and related guidance documents of the Commission recognise the needs and specific characteristic of SMEs. First, the revised regulation itself was designed to take into account the needs of SMEs explicitly. Its article 11 requires Member States to promote organisation participation in EMAS, in particular SMEs by facility access to information, support funds, public institutions and public procurement, establishing or promoting technical assistance measures, especially in conjunction with initiatives from appropriate professional or local points of contact, ensuring reasonable registration fees, allowing for local authorities, in participation with industrial associations, chambers of commerce and interested parties, to provide assistance in the identification of significant environmental impacts and designing step by step approaches which will eventually lead to EMAS registration.

### **5.3.3. The Community Eco label Award Scheme**

The Community Eco label scheme aims to promote products, which have a reduced environmental impact during their life cycle, and to provide consumers with better information on the environmental impact of products. It is a third party certification scheme which takes into account the whole life cycle of a product from cradle to grave. The scheme now also covers services and the work on first service group, tourism accommodation, will be finished this year. Several hundred products from more than 120 manufactures have so far been awarded the eco label. The eco label working plan adopted by the Commission in 2001 set in place an active marketing programme aimed at increasing the market penetration of eco labelled products ([www.europa.eu.int/comm/environment/ecolabel](http://www.europa.eu.int/comm/environment/ecolabel)). The eco label gives an opportunity for SMEs to market and distinguish their products on the basis of their environmental excellence.

#### **5.3.4. Financial Instrument For The Environment**

The life programme was launched in 1992. Dedicated to sustainable development; it aims to contribute to the elaboration, the implementation and the updating of the community policy and legislation in the environmental field ([www.europa.int/comm/environment/life](http://www.europa.int/comm/environment/life)). This instrument works toward implementation of the community policy as set out in the sixth Environmental Action Programme. SMEs are the main beneficiaries of the life programme and especially of the life environment area. The specific objective of this area is to contribute to the development of innovative and integrated techniques and methods and to the further development of Community environmental policy, through the co-financing of demonstration project. Five intervention areas are defined; land use development and planning, sustainable management of groundwater and surface water, minimisation of the environmental impact of economic activities, waste management and reduction of the environmental impact of products through an integrated approach. Applications for funding can be presented each year.

#### **5.4. Energy, Transport And Telecommunications Policies**

##### **5.4.1. Energy**

The most direct and concrete positive impact energy policy may have on SMEs stems from the improvement of conditions for competition, making energy available at competitive prices. The electricity and Gas directive, currently under adoption will benefit SMEs, which become eligible for market opening (Directive of the European Parliament and of the council, 1996/91). The implement of the Gas and Electricity Directives has allowed customers exceeding certain thresholds to choose their suppliers. This has lead to competitive pressure in the generation and supply of electricity and gas, which benefits small business eligible for market opening. Reductions of 5-20% in electricity bills have been recorded in a number of Member States as a result. The Commission has proposed new measures to allow all business to choose their suppliers and to facilitate cross-border exchanges of electricity these measures due to adopted in 2003.



Member States that have already adopted this approach have recorded large reductions in bills. Adoption of the proposed Directive on the energy performance of buildings is expected to lead to the creation of jobs in SMEs, in particular in the sectors of building energy performance and certification as well as of the installations of more energy efficient equipment, boilers and air conditioners. In December 2001, The Commission proposed to revise the Guidelines for the Trans European Networks in the Energy sector (TEN-Energy) to identify 12 priority axes for the further development of the energy networks ([www.europa.eu.int/comm/energy\\_transport/en](http://www.europa.eu.int/comm/energy_transport/en)). Projects on these axes are expected to strongly contribute to the security of energy supply and to the competitive operation of the internal energy market. They will alleviate congestion on the electricity grids and lead to increased competition among energy suppliers to the benefit of the European economy and SMEs. Also the Altener and save programmes to Promote, respectively, renewable energies and energy efficiency greatly benefits SMEs. Both Altener and save support pilot actions proposed by enterprises and other legal persons of the Member States and EEA EFTA countries. They finance up to %50 of the eligible cost of each project. Altener focuses on the promotion of Renewable Energy Sources (RES)([www.europa.eu.int/comm/energy/en/pfs/Altener](http://www.europa.eu.int/comm/energy/en/pfs/Altener)). The programme aims at increasing the uptake of RES in the EU and at increasing trade in renewable products, equipment and services in order to reduce CO and other greenhouse gases emission and Save aims at promoting the Rational Use of Energy (RUE) by creating an environment in which investments in energy efficiency will be accelerated and energy efficiency will be recognised as a market opportunity. ([Www.europa.eu.int/comm/energy/en/pfs/save](http://Www.europa.eu.int/comm/energy/en/pfs/save)).

#### **5.4.2. Transport**

As of 23 March 2005, the directive on the organisation of the working time of persons performing mobile road transport activities imposes restrictions on the working time of employed drivers (European Parliament, 2002:35). The Regulation on a driver attestation aims to avoid distortions of competition resulting from Community transport enterprises using non-Community drivers under non-Community conditions of employment. To put an end to these practices the regulation establishes a driver attestation issued by the competent authorities in the Member States certifying drivers conditions of employment. Important legislation in the field of rail transport such as the interoperability directives is likely to have an indirect effect on SMEs. Harmonised technical specifications for interoperability and European standards will help in opening up markets. This will enable SMEs to specialise their production further and to establish relationships with several rail systems producers. On average approximately 16-20 billion euros are invested every year in the Trans European Network (TEN) whose guidelines were adopted in 1996 by the European Parliament and the Council ([www.europa.eu.int/comm/energy\\_transport/en/tn](http://www.europa.eu.int/comm/energy_transport/en/tn)). Community financial aid in the field of Trans European transport network is allocated as a general rule to the public authority responsible for the preparation and implementation of the infrastructure project. The transport will have an indirect impact on SMEs by unblocking major routes and thus increasing market opportunities. The Commission has recently proposed to revise the guidelines in order to concentrate the Community actions on measures to reduce bottlenecks and hence improve the overall benefits for the economy. Research projects in the area of rail transports have a direct effect on SMEs. Participation in these projects enables SMEs to broaden their technological knowledge base and to improve their skills. This tends to improve the competitiveness of these firms on technology and skill driven markets.

#### **5.4.3. Telecommunications**

The Commission launched the basic outline for Europe in November 1999([www.europa.eu.int/information\\_society/topics/telecom](http://www.europa.eu.int/information_society/topics/telecom)). Subsequent action plans



have set out roadmaps of what needs to be done by when. There have so far been two action plans; the Europe Action plan 2002 and the Europe Action plan 2005([www.europa.eu.int/information society/Europe/action plan/index](http://www.europa.eu.int/information_society/Europe/action_plan/index)). Europe 2002 casts its net very wide successfully putting the Internet at the top of the European political agenda. Europe2005 narrowed the focus concentrating on effective access, usage and the ready availability of the Internet. It aims to ensure widespread availability and use of broadband networks throughout the Union by 2005 as well as security of networks and information. In March 2002, the Council and the European Parliament adopted a new regulatory framework for electronic communications networks and services ([www.europa.eu.int/information society/topics/telecom/regulatory/new](http://www.europa.eu.int/information_society/topics/telecom/regulatory/new)). The package will simplify and streamline the existing EC legislative framework, cutting the number of laws from 23 down to eight and creating a truly liberalised telecommunications market where competition cuts prices and improves the quality of services. The result will be cheaper and faster Internet access for citizens and business alike. And to stimulate Internet take up the EU has concentrated on providing a favourable environment in which companies and any other types of organisation can develop digital skills and services. In the Europe 2005 Action Plan, the importance of broadband networks is emphasised. Broadband means faster infrastructure and will be accompanied by improving its quality and by facilitating rich content, applications and services.

### **5.5. Structural Funds Policies**

The European Union's regional policy is based on financial solidarity as part of Member States contributions to the Community budget goes to the less prosperous regions and social groups ([www.europa.eu.int/comm/regional policy/sources](http://www.europa.eu.int/comm/regional_policy/sources)). The Structural Funds are the Union's main instruments for financial support to SMEs

- a) 70% of the funding goes to regions whose development is lagging behind. They are home to 22% of the population of the Union.
- b) 11.5% of the funding assists economic and social conversion in areas experiencing structural difficulties. 18% of the population of the Union lives in such areas.

- c) 12.3% of the funding promotes the modernisation of training systems and the creation of employment.

There are also four Community initiatives seeking common solutions to specific problems. They spend 5.35% of the funding for the structural funds on cross border, transactional and interregional cooperation, sustainable development of cities and declining urban areas, rural development through local initiatives and combating inequalities and discrimination in access to the labour market. The Structural Funds finance multi annual programs, which constitute development strategies drawn up in a partnership associating the regions, Member States and the Commission taking into account guidelines lay down by the Commission, which apply throughout the Union. They act on economic and social structures to develop infrastructure such as transport and energy extend telecommunications services, help firms and provide training to workers and disseminate the tools and know-how of the information society.

#### **5.6. Support to SMEs Under The Structural Funds Policies**

The current Structural Funds programming period is based on the Guidelines issued by the Commission at the beginning of the exercise. At the end of 2002, 80% of the Structural Funds available for all sectors during the period 2000-2006 around 144 billion euro of the 195 billion euro foreseen had been programmed according to these guidelines ([www.europa.eu.int/comm/regional\\_policy/country/prordn](http://www.europa.eu.int/comm/regional_policy/country/prordn)). Nevertheless, an extract of the statistics concerning specific aid to SMEs and the craft sector shows that some 16 billion euro are dedicated to SMEs, representing 11% of the total Structural Funds budget. In relation to the Commission Guidelines, this programming shows that efforts have been made to increase aid in the form of risk capital, which has almost doubled since the previous programming period. This aid does not represent more than 6% of the total aid to SMEs while at the same time the aid schemes still constitute a third.



### 5.7. Agriculture And Rural Development Policies

In March 1999, the Council extended the reform process of the Common Agricultural Policy (CAP) by adopting Agenda 2000([www.europa.eu.int/comm/agenda2000](http://www.europa.eu.int/comm/agenda2000)). As far as price and market policies are concerned, this led to a new decrease in support prices, favourable to the competitiveness of the products and the agricultural holdings. The granting of direct income support compensated for the effects of this decrease on the farmer's standard of living. The adoption of Agenda 2000 also installed an integrated policy for sustainable rural development as a second pillar of the CAP. According to this new policy, the support of the European Union is no longer limited to agricultural structures but embraces the totality of components related to rural development.

## CONCLUSION AND RECOMMENDATION

Competition and enterprises policies complement each other. They share the aim of increasing social welfare. The main objective of competition policy is to prevent distortions of competition, thus enabling the competitive process to function. Enterprise policy aims at increasing competitiveness of firms and entire industries by creating a favourable business environment and by addressing particular market failures. Both policies play a significant role in the creation of the world's most competitive and dynamic knowledge based economy capable of sustainable economic growth, the goal set out by the Lisbon European Council. Competition and enterprise policies are closely entered in the EU Treaty. Enterprise policy focuses on the conditions necessary for safeguarding competitiveness and the treaty specifies that this objective should be achieved through the policies and activities pursued under all other provisions set out in it. However, no measure can be introduced which could lead to distortions of competition. The Treaty provisions on competition policy enable the Commission to balance the anti competitive effects of a given agreement and state aid measure against their economic benefits.

The interaction between the competition and enterprise policies of the European Union shows their synergy. Both policies need to adjust continuously to new challenges, new market, and new ways of doing business and new drivers of growth and of dynamic competition.



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