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**COMMISSION CONSULTATION ON FRAMEWORK PROGRAMME FOR
COMPETITIVENESS AND INNOVATION (2007 – 2013)****UNICE RESPONSE****Introduction**

UNICE welcomes the opportunity to comment on the intended Competitiveness and Innovation Programme (hereafter 'CIP') due to contain the successor to the current multiannual programme for enterprise and entrepreneurship and in particular for small and medium-sized enterprises (SMEs) (2001 – 2005) (hereafter 'MAP'), recently prolonged until 31 December 2006.

The Commission Communication on Financial Perspectives 2007 – 2013 issued on 14 July 2004¹ highlighted the Commission's intention to support enterprise by addressing competitiveness and innovation through a single framework programme which would have "the potential to unlock and facilitate action in targeted areas".

This intended CIP follows a previous consultation launched in March 2004 on an initially foreseen Support Programme for Entrepreneurship and Enterprise Competitiveness (hereafter 'SPEC') which was due to replace the afore-mentioned MAP.

The CIP is a wider programme bringing together a number of existing and planned Community programmes in the fields that have been identified as most critical to boosting European productivity and sustainable growth:

- the Multiannual Programme for Enterprise and Entrepreneurship (MAP);
- the Intelligent Energy-Europe programme;
- promotion and demonstration of environmental technologies covered by the Life programme;
- the Modinis, e-Content and e-TEN programmes;
- certain innovation-related activities of the Framework Programme for Research and Technological Development.

These programmes would therefore no longer exist as separate programmes but be integrated into a single framework programme.

The present consultation seeks views from stakeholders on the framework programme, its objectives and instruments.

¹ COM(2004)487 final

Competitiveness and innovation programme: horizontal by nature

UNICE particularly appreciates that the new European Commission presided by José Manuel Barroso has put realising the Lisbon Strategy and competitiveness at the top of the political agenda. Appointing a single Commissioner (Commissioner Verheugen) responsible for the Competitiveness Council Commissioners' Group is a significant symbol of the Commission's intention to address Competitiveness.

UNICE supports the Commission's intention to refocus the Lisbon Strategy on growth and employment, given the current situation in Europe of low growth, an ageing population and intensifying global competition. In this context UNICE welcomes the CIP as an important policy step in this direction and expects it to ensure that "competitiveness and innovation" are considered as horizontal policy issues which must not be subject to secluded action plans.

UNICE appreciates that competitiveness is taken as the overriding theme that must inspire and drive the sub-actions on innovation, entrepreneurship, ICT, better regulation. Policy action for entrepreneurs and small and medium-sized enterprises (SMEs) needs a coherent approach in support of their competitiveness: UNICE appreciates that different policy actions fall under a single framework. We would encourage the Commission to go a step further and similarly streamline reporting arrangements.

Indeed, the four objectives outlined by the Commission are important:

- Encourage innovation and the sustainable use of resources
- Ensure the mastery and best use of ICT
- Improve SMEs' access to finance
- Economic and administrative reform for more entrepreneurship and a better business environment.

We understand that Commissioner Verheugen will have prime responsibility for the CIP. UNICE welcomes this since he has been appointed Vice-President, his portfolio comprises enterprise and industry policy and he will chair the Competitiveness Council Commissioners' Group.

We regret that the consultation document is not more explicit on how the CIP will effectively coordinate the different action plans and how synergies will be created.

We recommend for optimum implementation of CIP that a multi-disciplinary horizontal structure mirroring the horizontal nature of the CIP, and responding to Commissioner Verheugen's "competitiveness" competence be in place.

Challenges: competitiveness is a bigger picture

UNICE agrees with the Commission that Europe faces challenges in the four above-mentioned objectives. However, UNICE takes this opportunity to recall that for Europe to attain and retain a competitive edge in a global environment the Commission must not forget that other no less important objectives need to be addressed²:

- Unleash the internal market of 25+
- Improve the functioning of the labour market

² See « Business Vision For Europe – Growth, Jobs and Prosperity », Sept. 2004 -UNICE, available on www.unice.org

- Make environment policy more effective and efficient
- Foster international Trade and investment

UNICE recommends that the Competitiveness Council Commissioners Group have a general responsibility for over-seeing Community actions that will have an effect on competitiveness in addition to co-coordinating positions ahead of the Council and at President Barroso's request, considering the impact of only significant draft Commission proposals outside the Competitiveness Council's remit³.

The consultation document points out that the CIP should bring together a number of existing programmes and provide for better synergies with others. It is regretted that how such synergies will effectively take place is not explained in the consultation document. It does not mention the status of the entrepreneurship action plan and its interaction with CIP. We would like to reiterate our concerns that what is needed in the field of entrepreneurship is *more* focus and not less. We have called for a strengthened coordination between Member States, the establishment of common indicators and objectives and better follow-up mechanisms. Our demands are indeed supported by the Council and the European Parliament. It must be avoided that the CIP watering down the approach on entrepreneurship.

Consult business more when taking into account of the "enterprise dimension"

The Commission must ensure that the "enterprise dimension" is identified, understood and acted on in relation to all relevant policies and actions at Community level". Notably the role of the SME Envoy⁴ should be reinforced within the Commission.

UNICE supports the Commission taking a horizontal and "think small first" approach. Because enterprises are better placed to demonstrate the "enterprise dimension", we encourage the Commission to involve representative business organisations in the policy making process at an earlier stage, also in relation to policies which do not fall under the immediate responsibility of Commissioner for Enterprise and Industry but other Commissioners, to enable the Commission to "identify, understand and act".

The Objectives

1. Encourage innovation and sustainable use of resources

UNICE takes note of the intention of the Commission to make a distinction between "innovation" and research and development (R&D). Indeed, innovation is broader than R&D even though they remain linked and should be conducted in synergy, avoiding a fragmented approach.

Establishing innovation under the competence of the Commissioner responsible for enterprise and industry is an important step to considering innovation beyond R&D *stricto sensu*. Nevertheless, UNICE is of the strong opinion that this must not lead to a total separation between Commission activities on the one hand in the area of "innovation" and in the other in R&D such as the planned new "European Technological Platforms". Efficient co-operation and co-ordination between innovation related EU initiatives and programmes is necessary. Although the CIP does refer to "*creating synergies by its [the CIP's] interaction with the RTD FP and by reinforcing the link between research and*

³ See portfolio assignment letter from President Designate José Manuel Barroso to Commissioner Gunter Verheugen, 12 August 2004, available on http://europa.eu.int/comm/commissioners/newcomm_pdf/pf_verheugen_en.pdf

⁴ See http://europa.eu.int/comm/enterprise/entrepreneurship/sme_envoy/index.htm

innovation and its marketplace" we are concerned that there is not more specific explanations as to how such synergies and interactions will effectively take place in a more efficient manner than is currently the case.

Moving certain innovation-related activities of the Framework Programme for Research and Technological Development (future FP 7) into the remit of the CIP must not lead to the over-emphasising basic research in the future FP 7 to the detriment of applied research.

We take this opportunity to stress the importance of education and training for a skilled workforce a knowledge-based society.

UNICE appreciates that a single framework such as the CIP with competitiveness and innovation as its driving force will include in its remit environmental technology using pilot projects or first full-scale applications to demonstrate their technical performance and economic viability. We also believe it positive for projects on renewable energy working through the Intelligent Energy Agency are brought under the remit of CIP.

2. Ensure the mastery and best use of ICT

The importance of ICT usage has rightly been identified as an important objective towards a more competitive Europe.

Firms that increase their efficiency by using ICT (multifactor productivity) contribute to economic growth. The introduction of new technology in itself does not as such create additional value or profit, this only happens when the work and production processes are reorganised. Productivity gains often do not emerge until long after the innovation was introduced. This was the case with electricity and it is the same today with information technology. However, this is not an excuse for delaying the necessary investments in ICT if the EU is to successfully achieve the goals set out in Lisbon

It is the ICT industry on the one hand -through its investments in R&D and its innovation- that is the primary driving force of change, and the myriad different uses for IT on the other, that are changing the way we work and thus improving productivity throughout the economy. As a 'General Purpose Technology' ICT has a strong impact on a wide range of industries and it often is an enabler for major innovations in 'ICT-users industry'.

UNICE believes it is important from a policy point of view to recognise the aforementioned time lag, and the enormous business implications this has, when considering policy measures to enhance the exploitation of ICT by users and when addressing key related economic and social issues associated with these, such as the improvement of ICT skills for European workers, increasing lifelong learning opportunities and enhancing employment mobility. Furthermore, it is of paramount importance to address SMEs usage of ICT.

Exploitation of ICT by business is a key factor in enhancing European competitiveness. The rate of expansion of ICT applications especially in SMEs are very dependent on security and trust. Supporting the development of products and services applicable for SMEs, e.g. through R&D support, standardisation and educational projects would drive progress towards the competitiveness goals. eGovernment should be further developed. This will improve the quality of public services and reduce the costs of these services, including the costs to business in complying with government regulations, thereby contributing to greater productivity. In addition eGovernment will have an important leverage effect on SME usage given the numerous interactions between SMEs and administrations.

UNICE calls on the Commission to ensure full cooperation and coordination between Commission services (DG Enterprise and Industry and DG Information Society) to ensure that the future eEurope Action Plan to follow on from the eEurope 2005 Action Plan is devised taking into account the aim of improving competitiveness and innovation.

Moreover, UNICE would also like to draw attention to the conclusion of the independent 'Five-Year Assessment Panel of IST-RTD'⁵. This high-level group concludes in their recent report Europe's research and development in Information Society Technologies (IST) makes a vital contribution to efforts to become the world's most competitive knowledge economy. But Europe must step up this investment if it is to achieve 'critical mass' in these technologies. The report also highlights the need to reduce bureaucracy, which threatens to stifle research.

3. Improve SME's access to finance

A great challenge for SMEs is to access financial resources (in particular innovative enterprises) at their seed, start-up and growth phases. Such companies are often considered as a high-risk investment with return on investment only in the medium or long term. Banks and investors should have access to sufficient expertise to enable expert evaluation of the merit of the research and innovation to be financed.

There is a need for improved access to capital through further integration of Europe's financial markets and through the development of alternative means of financing. There is a need to:

- to create deeper and more liquid capital markets, which will lead to lower cost of raising capital for entrepreneurs and to lower trading costs for investors. In this context, the speedy and consistent implementation of the Financial Services Action Plan measures in member states is key;
- to strengthen alternative means of financing, which will reduce the high dependency of SMEs on bank loans and strengthen their equity base. In addition, member states' tax policies will have to put greater emphasis on fiscal neutrality between debt and equity finance.

UNICE would welcome reinforcing budgetary allocations for the community financial instruments provided primarily through organisations such as the European Investment Fund, for improving SMEs access to finance.

This would provide additional leverage to national instruments. Nevertheless, the recommendations of the external evaluation report carried out on the Multiannual programme for enterprise and entrepreneurship should be taken into account⁶.

Based on the afore-mentioned SPEC consultation, concerning notably the financial instruments foreseen therein, UNICE particularly appreciates the Commissions intention to foresee funding for innovative companies that experience problems in raising second and third round "follow-on" finance to allow them to bring products/services to the market.

⁵ See http://europa.eu.int/comm/dgs/information_society/evaluation/pdf/5_y_a/ist_5ya_final_140105.pdf

⁶ See SEC(2004) 1460 COMMISSION STAFF WORKING PAPER Report on a multiannual programme for enterprise and entrepreneurship and in particular for small and medium-sized enterprises (SMEs) (2001-2005) (pursuant to Article 5(1) of Council Decision 2000/819/EC of 20.12.2000), 15.11.2004, http://europa.eu.int/comm/enterprise/enterprise_policy/mult_entr_programme/doc/sec_2004_1460_en.pdf

This is an important step to assist companies in growth, in addition to financing start-up or seed capital⁷.

Not least, we consider that promotion and awareness campaigns regarding these financing possibilities should also be carried out with financial intermediaries and national financial organisations in order to enhance the visibility of Community Financial Instruments. Business organisations are particularly well placed to undertake information and training activities in this regard. Better and wider disseminated information as well as support for networking/exchange of experience between financial intermediaries should be provided for.

4. Economic and administrative reform for entrepreneurship and a better business environment

On this fourth and final objective of the CIP, UNICE appreciates that the common denominator will be “to improve the overall conditions for entrepreneurship, SME development, competitiveness and innovation”. Nevertheless, we believe that “entrepreneurship” and in particular the entrepreneurship action plan and “better regulation” (i.e.: simplification, business impact assessments, reduction of administrative costs) should be more prominent in the results forecasted.

The consultation document rightly identifies a number of areas, such as innovation activity where the link to economic growth is evident. Several studies, such as the Global Entrepreneurship Monitor reports⁸, have also identified the link between better entrepreneurship and economic growth. Better regulation, less red tape, lower administrative costs, lower taxes, better access to capital and more favourable attitudes towards entrepreneurship are the key factors to improve the “entrepreneurship deficit” that Europe suffers from.

Under this objective, the Commission refers to, among other things, corporate social responsibility. We take this opportunity to strongly reiterate that any action on CSR should not run counter to the recognition of CSR as being voluntary and market driven and the value of a bottom-up approach. We urge the Commission to take full account of the findings and recommendations of the final report of the European Multi-stakeholder Forum⁹ in any action it may undertake in this area.

UNICE welcomes exchange of best practice. Nevertheless, we also believe that for instruments such as the “SME Charter”¹⁰ setting performance indicators against which to measure Member States performance is necessary.

UNICE appreciates that the Charter is coupled with a reporting mechanism whereby Member States draw up reports on their implementation of the Charter. Annual reporting enables to assess where progress is made or not made. In that sense, it is an important tool to maintain pressure on Member States to deliver on the actions promised in the Charter in 2000. In other words, there is an incentive to act and as appears from the Commissions annual reports, some actions are being taken.

⁷ See results of consultation on SPEC, notably two reports on specific meetings on financial instruments at the following link: http://europa.eu.int/comm/enterprise/enterprise_policy/spec/index.htm

⁸ See <http://www.gemconsortium.org/>

⁹ See http://forum.europa.eu.int/irc/empl/csr_eu_multi_stakeholder_forum/info/data/en/csr%20ems%20forum.htm

¹⁰ The European Charter for Small Enterprises was approved by EU leaders at the Feira European Council on 19-20 June 2000. The Charter calls upon Member States and the Commission to take action to support and encourage small enterprises in ten key areas (ex: education and training for entrepreneurship, taxation and financial matters, better legislation and regulation etc...).

However, UNICE strongly believes that more can be done: we believe that Member States progress in implementing the Charter must be benchmarked against performance indicators. This view was expressed also by the Competitiveness Council in March 2004 where it called on the Commission and Member States to *“identify and jointly agree appropriate indicators of performance and progress as a basis for the subsequent voluntary setting of targets for increased entrepreneurial activity”*. Such performance indicators will enable to enhance the peer pressure the current reporting mechanism has among Member States, maintain exchanges of best practice and give impetus to result oriented national policies.

Similarly, UNICE considers that performance indicators would benefit the implementation of the Entrepreneurship Action Plan. Assessment should be made of the level of entrepreneurial activity in Member States. We recommend the Commission report on progress in implementation of current Action Plan before embarking on phase II of the Action Plan (starting 2006 and to be carried under CIP after 2007).

Regarding impact assessments, UNICE takes the opportunity of the consultation on the CIP to urge the European Commission to foresee a sufficient budget for it to fulfil its mandate from the Spring Council 2004: i.e. to *“refine impact assessments for new legislative proposals”*, *“to put a particular emphasis on measuring administrative burdens on companies”* and to enhance to competitiveness dimension of impact assessments.

Impact assessments and consultation of stakeholder organisations should be mandatory for all proposed legislation in order to examine their impact on competitiveness, and should be carried out from the very early drafting to the final adoption of legislation in Council and Parliament.

Whereas all the necessary means to realise such impact assessments should be provided by the EU, business would like this exercise to be in the hands of an **independent body**. It should establish binding quality standards and a common analytical methodology for assessing draft legislation. It should further have effective sanctions at its disposal to change or even block proposals in case of deficiencies.

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