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# The impact of EU enlargment on European SMEs

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# The impact of EU enlargement on European SMEs

This report has been prepared from information provided by all partners of the European Network for SME Research ENSR (see Annex IV) and was coordinated by Mr. Thomas Oberholzner from the Austrian Institute for SME Research, the Austrian ENSR partner.

**OBSERVATORY OF EUROPEAN SMEs**

A series of reports submitted to the Enterprise Directorate-General of the European Commission (see also Annex IV to this report) by:

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*These are the abbreviations used in this report for the Europe-19*

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| AT | Austria | NL | Netherlands | CY | Cyprus | PL | Poland |
| BE | Belgium | PT | Portugal | CZ | Czech Republic | SK | Slovakia |
| DK | Denmark | SE | Sweden | EE | Estonia | SI | Slovenia |
| DE | Germany | UK | United Kingdom | HU | Hungary | BG | Bulgaria |
| EL | Greece | EU | European Union | LV | Latvia | RO | Romania |
| ES | Spain | IS | Iceland | LT | Lithuania | TR | Turkey |
| FR | France | LI | Liechtenstein | MT | Malta | | |
| FI | Finland | NO | Norway | | | | |
| IE | Ireland | EEA | European Economic Area | | | | |
| IT | Italy | CH | Switzerland | | | | |
| LU | Luxembourg | Europe-19 | EEA plus Switzerland | | | | |

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# Contents

# Chapter 5



# Chapter 6



# Annexes

# Preface

Enterprises are at the heart of the strategy launched by the European Council in Lisbon in March 2000. Reaching the objective of becoming the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth, creating more and better jobs, and developing greater social cohesion will ultimately depend on the success of enterprises, especially small- and medium-sized ones.

The *Observatory of European SMEs* was established by the Commission in December 1992 in order to improve monitoring of the economic performance of SMEs in Europe. Its task is to provide information on SMEs at the national and European level.

The reports of the *Observatory* provide an overview of the current situation in the SME sector in Europe through statistics on the number of enterprises, on total employment, and on production by size of enterprise. In addition, the *Observatory* reports cover a range of thematic issues.

The *Observatory of European SMEs* covers 19 countries: the 15 countries of the EU, plus Iceland, Liechtenstein, Norway, and Switzerland.

In 2003 and 2004, the following reports are planned:
- Competence Development in SMEs
- SMEs and Access to Finance
- SMEs in Europe 2003
- Highlights from the 2003 Survey
- Internationalisation of SMEs
- SMEs and Co-operation
- The Impact of EU Enlargement on European SMEs
- SMEs and the Liberalisation of Network Industries

The research for the *Observatory* reports is carried out on behalf of the Enterprise Directorate-General of the European Commission by ENSR, the European Network for SME Research, co-ordinated by EIM Business & Policy Research from the Netherlands in a consortium led by KPMG Special Services from the Netherlands.

The *Observatory of European SMEs* is managed in the Enterprise Directorate-General by Unit A-5, 'Competitiveness Analysis and Benchmarking'.

*For a description of the activities of the Enterprise DG, see the website of the European Commission: http://europa.eu.int/comm/dgs/enterprise For more information on the Observatory of European SMEs, including how to access or order the reports, see:*
*http://europa.eu.int/comm/enterprise/enterprise_policy/analysis/observatory.ht*m
*Information on previous reports of the Observatory may be found there as well.*

# Summary

<u>The impact of EU Enlargement on European SMEs</u>

- The enlargement process of the EU is changing the business environment under which SMEs in current and (prospective) new Member States are operating. The removal of barriers to the flow of goods, services, capital and labour provides new market opportunities, increases competition on domestic markets, and facilitates access to new sources for inputs.
- The overall impact of the enlargement process on SMEs in the 13 candidate countries is much stronger than on SMEs in Europe-19, where effects vary by sector and region: SMEs in manufacturing, wholesale and transport are affected to the greatest extent. Furthermore, in almost all sectors the impact on SMEs in regions bordering candidate countries is significantly greater than on SMEs in other regions.
- SMEs in ***manufacturing*** and ***wholesale*** trade have been affected mainly by the liberalisation of and growth in foreign trade. In the candidate countries some SME-dominated industries have been profiting from an export growth to the EU-15, e.g. wood processing, clothing, and furniture, while exports from Europe-19 concentrate mainly on rather large-scaled industries. Overall, 11 % of manufacturing SMEs in Europe-19 experienced an increase in turnover due to the enlargement process, whereas 9 % experienced a decrease. However, for medium-sized enterprises (50-249 employees) this relation is 24 % to 3 % respectively. After full entry, growing wages will gradually reduce labour cost advantages in the candidate countries and thereby negatively affect the position of some labour intensive industries. On the other hand, catching-up in productivity and technology will make medium-tech and high-tech industries increasingly competitive vis-à-vis Europe-19. The further reduction of transaction costs as from 2004 will offer new trading opportunities especially for smaller manufacturing firms in border regions between current and new Member States. On balance, the outlook on future enlargement effects by manufacturing SMEs in Europe-19 is optimistic: 27 % think that there will be a positive turnover effect, while 14 % expect decreasing sales.
- The growing exchange of goods between Europe-19 and the candidate countries means additional business opportunities for ***transport*** firms. In Europe-19, the transport sector shows the highest shares of both SMEs having experienced sales increases (13 %) and decreases (12 %) due to the enlargement process so far. The forthcoming liberalisation of the cabotage transport is likely to increase competition on EU-15 home markets, but companies in the new Member States will lose cost advantages once they have to comply with stricter EU standards. On balance, future turnover expectations are positive (23 % vs. 16 %) in Europe-19.
- In the candidate countries, SMEs in the ***construction*** industry are benefitting from increasing demand due to investment requirements in a.o. infrastructure, while, in Europe-19, the main direct impact of the enlargement process on this industry has been lower costs of and easier access to inputs (as reported by 10 % of SMEs). Forthcoming integration steps will make it possible to provide cross-border construction services, which will increase competition mainly for micro enterprises in EU-15 regions bordering new members and for those active in areas of low technology.
- In ***retail***, two-way shopping tours led to both additional competition and a growth of potential customers in EU-15-CEEC border regions, while SMEs in ***tourism***, especially those located in traditional European travel destination areas, profit from additional demand due to increasing income in the CEECs.
- Professional ***business services*** are benefitting from growing demand for legal advice, market research, translation, etc., Information Technology (IT) service providers are engaged in modernising the IT infrastructure in candidate countries, and suppliers of technical services find business opportunities in civil engineering, recycling, etc. However, a certain minimum size seems necessary to take advantage of these opportunities: While 7 % of micro enterprises in Europe-19 experienced a turnover increase due to the integration process, it is almost 20 % for small and medium-sized enterprises.

- Next to competition and demand effects, two further aspects affect SMEs in the 13 candidate countries: First, the adoption of the ***acquis communautaire*** ensures, on the one hand, an improvement of the business environment and, on the other hand, implies significant investment requirements by SMEs in areas like emissions, waste management, product safety, working conditions, etc. Although this eventually allows for full access to the Single Market, the cost burden may in some cases threaten business survival. The 'compliance burden' differs by industry and it is more serious for smaller firms. The larger the company the better prepared and informed it is. Second, ***foreign investments***, in the form of subsidiaries or production plants, represent important clients for small locally based suppliers and sub-contractors and they secure the transfer of technology and management skills to domestic SMEs. On the other hand, foreign companies are often more competitive and may crowd out local SMEs, especially in construction and retail. A so-called 'credibility effect' will boost FDI to the new Members after 2004, and additional small-scale investments in border regions with old Members can be expected in particular.
- Significantly more businesses in the candidate countries than in Europe-19 seem to take ***strategic measures*** to seize opportunities or avoid risks associated with the enlargement process. In Europe-19, strategic responses are comparatively more frequent in (i) manufacturing and wholesale and (ii) larger firms. Similar to the EU-15, the expectations of SMEs in candidate countries concerning the development of their companies after entering the EU are generally optimistic and the vast majority is positive about joining the Union.
- The willingness to employ workers from candidate countries is high among SMEs in Europe-19. Almost 30 % are hoping that the liberalisation of ***labour markets*** vis-à-vis the new Member States will improve their personnel situation. However, actual inflow of migrants will be limited with the possible exception of commuters in border regions. Conversely, in the candidate countries, outward migration might then be felt in certain high-skill sectors and in regions bordering current Members.
- In Europe-19, ***policy support*** in the context of enlargement is focused on the provision of relevant information, the promotion of co-operation between enterprises in the current and future Member States, and management consultancy. Measures are in place at the European as well as at the national level. In some Member States enlargement is taken into account in the general internationalisation support instruments, whereas some EEA countries have introduced specific measures designed to prepare businesses for enlargement. With respect to candidate countries the EU introduced some large-scaled programmes intended to help businesses to adapt to the new environment (strengthening their competitiveness, facilitating acquis compliance and encouraging cross-border co-operation). The general national SME policies in candidate countries have a focus on promoting SMEs in their preparations for EU accession, especially by fostering their international competitiveness.

# Chapter 1
# Introduction

The current enlargement process constitutes one of the most important evolutionary steps for the European Union and it will continue to do so in the years ahead. In May 2004, 10 countries will formally enter the Union and another 4 countries have applied for membership[1].

Since the mid 1990s a vast number of studies have attempted to evaluate the economic impact of the enlargement process on the EU-15 and on candidate countries. Research mainly concentrated on macro-economic effects, the labour market (especially the migration potential), on foreign trade and investment, or on particular regions. However, thorough investigations into the effects on SMEs have been relatively infrequent, although their position in the context of enlargement is different from larger enterprises, due to a lower direct involvement in international activities and a different strategic potential.

The aim of this report is to provide an overall picture of the relevance of enlargement for European businesses, with a strong focus on the size dimension. The objective is to give a general overview of the manifold effects, opportunities and threats, while highlighting geographical and sectoral differences. Moreover, results will be put into perspective with regard to the views and expectations of the entrepreneurs themselves and their strategic reactions. Finally, an overview of SME-relevant policy measures related to enlargement is presented.

The information and results of this report rely on an extensive stock of literature and data at European, national and regional level[2], on the results of the ENSR Enterprise Survey 2003 (see Annex III) and on a collection of national policy measures. Furthermore, results are supplemented by expert interviews carried out in the candidate countries.

The structure of the report is as follows: Chapter 2 discusses SME-relevant changes in the business environment caused by the enlargement process. In that way, 'enlargement' is defined in more concrete terms. The chapter also provides a brief overview on macro-economic consequences on the EU-15 as well as on candidate countries. Chapter 3 investigates the effects on SMEs in Europe-19, following a sectoral approach first and subsequently combining these outcomes with the views and expectations as expressed by SMEs. Moreover, relevant labour market issues and strategic measures applied by companies in the context of the integration process are discussed. Chapter 4 deals with effects on SMEs in the 13 candidate countries, distinguishing between general and sector-specific aspects. An overview of policy actions helping SMEs to exploit opportunities and avoid risks is presented in Chapter 5. The last chapter draws the main conclusions from the research.

1 The 10 countries entering the EU in May 2004 are: Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovak Republic, and Slovenia. The other three candidate countries are: Bulgaria, Romania, and Turkey. Croatia has applied for membership in February 2003, i.e. after the present study was launched. For this reason Croatia is not explicitly taken into account in this report, which therefore focuses on the 13 acceding and candidate countries, together referred to as the 'candidate countries' in this report.

2 Amongst others, this literature has been collected by the ENSR partners in the EEA, Switzerland, and the acceding and candidate countries.

# Chapter 2
# The enlargement of the EU: changes in the business environment

## 2.1. Integration measures

Ten new Member States will formally enter the EU in May 2004 and full accession of other candidates is foreseen in the years ahead[3]. However, the accession of the new Members cannot be understood as a single event happening at a particular moment in time. In fact, entry into the Union is a complex process of gradual integration in many different domains, starting years before the day of the new Member's formal accession and, due to transition periods, still not completed by that day. It may therefore appear more appropriate to refer to an enlargement *process* (see also Box 1 for important milestones of enlargement from a more political perspective).

**Box 1: Milestones of enlargement**

*1992*: The first (provisional) Europe Agreements came into force (Hungary, Poland, Czechoslovakia; similar agreements existed with Turkey since 1963, with Malta since 1970, and with Cyprus since 1972)

*June 1993*: Copenhagen Council set conditions for accession

*July 1997*: 'Agenda 2000' of the European Commission - first assessment of candidates

*March 1998*: Start of negotiations with Hungary, Poland, Czech Republic, Slovenia, Estonia and Cyprus

*November 1998*: European Commission presented the first series of progress reports

*February 2000*: Start of negotiations with Bulgaria, Lithuania, Latvia, Malta, Romania and Slovak Republic

*December 2002*: Conclusion of negotiations with 10 candidate countries at Copenhagen European Council

*April 2003*: Signature of accession treaties in Athens, Greece

*May 2004*: Formal accession of 10 new members

In principle this process is of a legal nature and comprises various integration steps, changing the regulatory framework under which (micro, small and medium-sized) enterprises in current as well as future Member States are operating, especially with respect to the regulation of business relations between the old and new Members. For various reasons, however, the definition of integration measures occurring under the umbrella of 'enlargement' leaves room for arbitrariness and debate:

– The necessary integration and adaptation measures to be implemented depend on the starting position of each candidate country, in particular as far as the external relations with the Union and the alignment of the legal and administrative systems are concerned.

3 The dates of application for membership range from April 14th, 1987 for Turkey to June 10th, 1996 for Slovenia. Croatia is not explicitly taken into account in this report.

- Some integration steps may be the result of other agreements or treaties (e.g. the WTO) and are therefore independent from the enlargement process.
- There is a number of treaties/agreements already in the 'run-up' of enlargement (e.g. Europe Agreements).[4]

This report considers the steps and adaptations described below as relevant elements of the enlargement process with current candidate countries[5]. An important part of these changes result from the inclusion of the (potential) new Members into the 'Single Market'. Generally speaking, this means the removal of barriers to facilitate the flow of goods, services, capital, and persons between the two 'integration blocs'.

Removal of barriers to trade in goods

Tariff and non-tariff barriers to trade in goods between Member States of the European Union (and the European Economic Area) are widely reduced. Hence, the integration into the Union requires the lifting of such barriers between the present EU countries and the candidate countries. With respect to the ten CEECs, the mutual reduction of customs duties on industrial (i.e. non-agricultural) goods started in 1992 with the conclusion of the so-called Europe Agreements. The reduction of customs duties was asymmetric and faster for EU tariffs than for those of the CEECs. For a number of sensitive industries (e.g. textiles, steel, coal) free trade was delayed until 2001. The EFTA countries have also adopted similar agreements with many CEECs since 1989.

For the three Mediterranean candidate countries such trade agreements with the EU have existed even longer, namely since the 1960s and 1970s. With Turkey and Cyprus, a customs union existed since 1995 and 2002 respectively.

Today, the European Economic Area (EEA) and the candidate countries constitute a free trade zone for industrial products. From a historic perspective, the reduction of trade tariffs and the creation of free trade may not be regarded as an element of the current accession process, especially if the Copenhagen European Council in June 1993 is seen as the formal start of the enlargement. Also within the relevant literature there is no uniformity with respect to this issue, even though in more recent studies often an explicit distinction is made between the past trade liberalisation and 'enlargement'. For the CEECs, trade liberalisation vis-à-vis the EU and other steps related to the accession process have been running very much at the same time. The trade liberalisation effects are, therefore, also taken into account in this report.

The European Union is not only a free trade area, but also represents a customs union, which means that a uniform customs tariff is applied vis-à-vis third countries. Apart from the two exceptions (Cyprus and Turkey), the EU/EEA and the candidate countries will form a customs union at the time of formal accession, i.e. in 2004 as far as eight CEECs and Malta are concerned. At that time, any current customs inspection and customs clearance, as well as turnover tax on imports, will be removed. Above all, this leads to an important reduction of paper work, administrative procedures and delays (hold-up at the border) for trade.

Next to customs tariffs, technical regulations and standards related to products can hamper trade between countries. Within the EU this obstacle is countered by uniform norms and the principle of mutual recognition of standards. With respect to candidate countries, the process of alignment in this field has already started prior to accession by negotiating 'Protocols to the Europe Agreements on Conformity Assessment and Acceptance of Industrial Products (PECAs)'. PECAs pertain to certain industrial sectors and require the adoption and implementation of the relevant EU legislation on industrial products by the candidate country. Up to now, PECAs have come into force with the Czech Republic, Estonia, Hungary, Latvia, Lithuania, the Slovak Republic and Slovenia[6].

Free movement of capital

Restrictions to capital transactions are not possible within the European Union. However, the candidate countries have widely liberalised the conditions for capital movements already in the run-up to accession, in particular as far as foreign direct investments (FDI) are concerned. These conditions refer to, for example, the protection of

4 Consider also that, from the perspective of the EU, integration steps take place even vis-à-vis non-candidate countries (e.g. Switzerland), although one would not refer to an 'enlargement process' in these cases.

5 Some factors which are frequently associated with enlargement are not included in the 'definition' used in this report: (i) the extension of the Euro-zone and the introduction of the Euro in the new Member States respectively; (ii) the regime change in agriculture, e.g. the application of the CAP (as the Observatory of European SMEs deals with non-primary private enterprise only); (iii) state budgetary implications.

6 For further details see http://europa.eu.int/comm/enterprise/regulation/pecas/pecas.htm.

foreign ownership, the permission to repatriate profits and capital, and the equal treatment of foreign and domestic investors.[7]

For candidate countries, full accession will bring about changes in the financial and taxation systems, in order to harmonise rules with the European Union. This may further reduce uncertainty for direct investments in these countries, although it is likely to have a stronger effect on portfolio investment or other short-term capital flows[8]. Moreover, some remaining investment restrictions in specific domains (e.g. real estate) will be lifted by accession. For those countries entering the Union in 2004 transitional provisions for the post-accession period are only agreed upon in the case of agricultural land.

Freedom to provide services and freedom of establishment

Within the EU, people or companies may set up business in any other Member State or provide cross-border services without restrictions and under the same conditions as nationals. Moreover, with respect to proof of qualification the principle of mutual recognition prevails (i.e. someone carrying on trade activities in a Member State for a certain period and with competence is also allowed to do so in another Member State). Between the EU and the candidate countries these rights of establishment and service provision are not yet effective, but will come into force with full accession.

The introduction of free service provision is more relevant for some types of services than for others. In this context, four types of services can be distinguished, based on the geographical relationship between supplier and purchaser:[9]

(i) *No cross-border movement either of supplier or of purchaser*: This is possible if a physical meeting between the two parties is not necessary, e.g. in the case of information or certain advice services that are provided via the web, the telephone or mail. Examples are call centres or software development. As there were no major restrictions to international exchange of this type of services before enlargement, then no significant regime change is to be expected by accession.

(ii) *Purchaser moves to supplier*: Examples of this service type are tourism, retail sale or some personal services like hairdressers. For tourism and the mentioned personal services there were/are no restrictions to 'trade' prior to enlargement, consequently there will be no change to the situation. By contrast, as far as retail trade is concerned, direct imports by private persons may have been limited hitherto, as for example in the case of Austria and Germany. Accession will bring the end of such restrictions[10].

(iii) *Supplier sets up branch establishment*: This method of service delivery between EU countries and candidate countries will be significantly eased by enlargement, due to the above mentioned mutual recognition and to the disappearance of residence permits.

(iv) *Supplier moves to purchaser*: Important examples of this type of service are crafts, construction and related activities, security services, or some cleaning services. The application of internal market rules due after accession (mutual recognition of qualifications and free movement of workers) will significantly facilitate cross-border provision of such services between the current and future EU members. Note, however, that service delivery is governed by the Directive on the posting of workers when using employees (i.e. dependant workers), which foresees the application of the host countries' labour legislation for employees of the foreign (sending) company. Furthermore, transitional arrangements on a reciprocal basis have been negotiated with respect to two bordering countries, Germany and Austria. Here, for a list of activities (e.g. construction, cleaning, security) the same gradual system as with respect to free movement of workers (see below) may apply if a company from one of the future Member States wants to send its employees to perform a job in these two countries[11].

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7 Very similar to the case of trade liberalisation one might discuss whether or not free movement of capital represents an integration step directly related to 'enlargement'.

8 See Boeri, T., H. Brücker, The Impact of Eastern Enlargement on Employment and Labour Markets in the EU Member States, Berlin and Milan, 2000, p. 29.

9 Such a classification was suggested, for example, in Österreichische Raumordnungskonferenz, Regionale Auswirkungen der EU-Integration der Mittel- und Osteuropäischen Länder, Band I (Regional impact of the EU integration of the central and eastern European countries, volume I), Vienna, 1999, pp. 235-241.

10 Restrictions of direct imports by private persons may actually be seen as an aspect of free movement of goods. However, as retail is essentially a service sector it is here dealt with under the heading of service provision.

11 For more detail see European Commission, Directorate-General Enlargement, Free movement for persons - a practical guide for an enlarged European Union, Brussels, August 2002.

Finally, *transport* represents a specific service activity, too. Enlargement will liberalise market access in the field of road transport between the current and prospective EU countries, enabling companies to operate freely in the entire territory of the Union. However, the opening of the national cabotage[12] markets for non-resident hauliers will be phased in gradually over a maximum period of five to six years, depending on the speed of acquis compliance of candidate countries in the field of transport-related legislation.

Free movement of labour

Citizens of EU Member States have the unrestricted right to work in other Member States under the same conditions as residents of the host country. Free movement of workers is further enhanced by mutual recognition of qualifications. These rights do not yet apply between present EU Member States and candidate countries. Migration is currently regulated by bilateral agreements and by general national immigration policies, being characterised predominantly by temporary labour immigration (e.g. guest, seasonal, or project-tied workers) and cross-border commuters[13].

The implementation of this freedom vis-à-vis the 10 new Member States will follow a gradual approach during a maximum transition period of seven years[14]. So, current EU countries can, on a reciprocal basis, keep their national rules on work permits for people from new Member States, except Cyprus and Malta, for some years after accession. The transitional provision is valid for both main forms of movement of workers, i.e. full migration including the change of residence and cross-border commuting.[15]

Taking over the acquis in candidate countries

Entering the European Union requires the adoption of the so-called *acquis communautaire* (i.e. the existing stock of community legislation) in the new Member States. The range of the acquis goes far beyond the regulations directly related to the Single Market. For the purpose of accession negotiations the acquis had been arranged in 31 'chapters', including the 'four freedoms' and subjects such as company law, taxation, social policy, energy, environment, consumer protection, or budgetary issues. In some fields adaptation is already completed in candidate countries, whereas in the most difficult areas (e.g. environmental regulations) there are transitional provisions postponing adjustments for a few years after accession[16].

Although the process of taking over the acquis is a gradual one, it poses a formidable challenge for candidate countries in general and their SMEs in particular. First, it implies a continuous change of the legal and institutional framework, and, second, this framework will as a rule become stricter and more rigorous compared to the previous situation. For instance, the SME report of the Polish Agency for Enterprise Development lists 129(!) legal changes implemented in 2001 and affecting Polish SME operations. Important areas in this list are labour law, tax law, environment protection law and public procurement[17]. By contrast, Malta and Cyprus are seen to have had functioning market-oriented systems for a long time, so take-over of the acquis means relatively small changes there[18].

It has to be stressed, however, that the framework changes and reforms in CEECs cannot be attributed exclusively to 'enlargement'. These countries have been undergoing a fundamental change from centrally planned economies to market economies, happening in the same time period as accession preparations[19]. This refers to, for example, privatisation and ownership issues or price liberalisation.

12 I.e. a transport having its starting and end point within the respective nation.

13 Boeri, T., H. Brücker, The Impact of Eastern Enlargement on Employment and Labour Markets in the EU Member States, Berlin and Milan, 2000, p. 25; European Commission, Directorate-General for Economic and Financial Affairs, The economic impact of enlargement, Enlargement Papers No. 4, Brussels, June 2001.

14 Note that this transition period refers to working purposes only, whereas movement for residence purposes is not touched. Also, there is no transition period with respect to mutual recognition of qualifications.

15 For more detail see European Commission, Directorate-General Enlargement, Free movement for persons - a practical guide for an enlarged European Union, Brussels, August 2002.

16 Detailed information on the status of transposition can be found in the so-called Regular Reports of the European Commission.

17 Polish Agency for Enterprise Development, Report on the Condition of the Small and Medium-Size Enterprise Sector in Poland for the Years 2000-2001, Warsaw, 2002, pp. 97-148.

18 Commission of the European Communities, Impact of Enlargement on Industry, Commission staff working paper, SEC(2003) 234, Brussels, 24.2.2003.

19 This point is also raised, for example, in European Commission, Directorate-General for Economic and Financial Affairs, The economic impact of enlargement, Enlargement Papers No. 4, Brussels, June 2001.

State aid, support programmes and structural funds

Upon accession the new Member States will be subject to the competition policy of the EU, which will gradually narrow the scope for state aid and subsidies for enterprises. This is especially relevant for large enterprises, while restrictions to subsidise SMEs will be less stringent in the EU. However, due to financial constraints, direct support to firms presently is small in most candidate countries.[20]

On the other hand, the accession process of candidate countries is accompanied by a huge amount of financial (and non-financial) aid stemming from the EU. The respective countries and their business sectors are profiting from measures such as PHARE, ISPA or SAPARD, and participate in EU programmes like the Sixth RTD Framework Programme or the Multi-annual Programme for Enterprise and Entrepreneurship[21]. Because of the low-income levels in candidate countries almost their entire territory[22] will qualify as Objective 1 regions and benefit from Structural Funds (SF) aid, which will replace PHARE support in the CEECs after accession. The ten countries joining the Union in 2004 will receive a total amount of 21.9 billion Euro from 2004-2006[23]. At the same time, however, some territories of the present EU members will lose SF support in future programming periods, even though a phasing out mechanism is likely to be implemented.

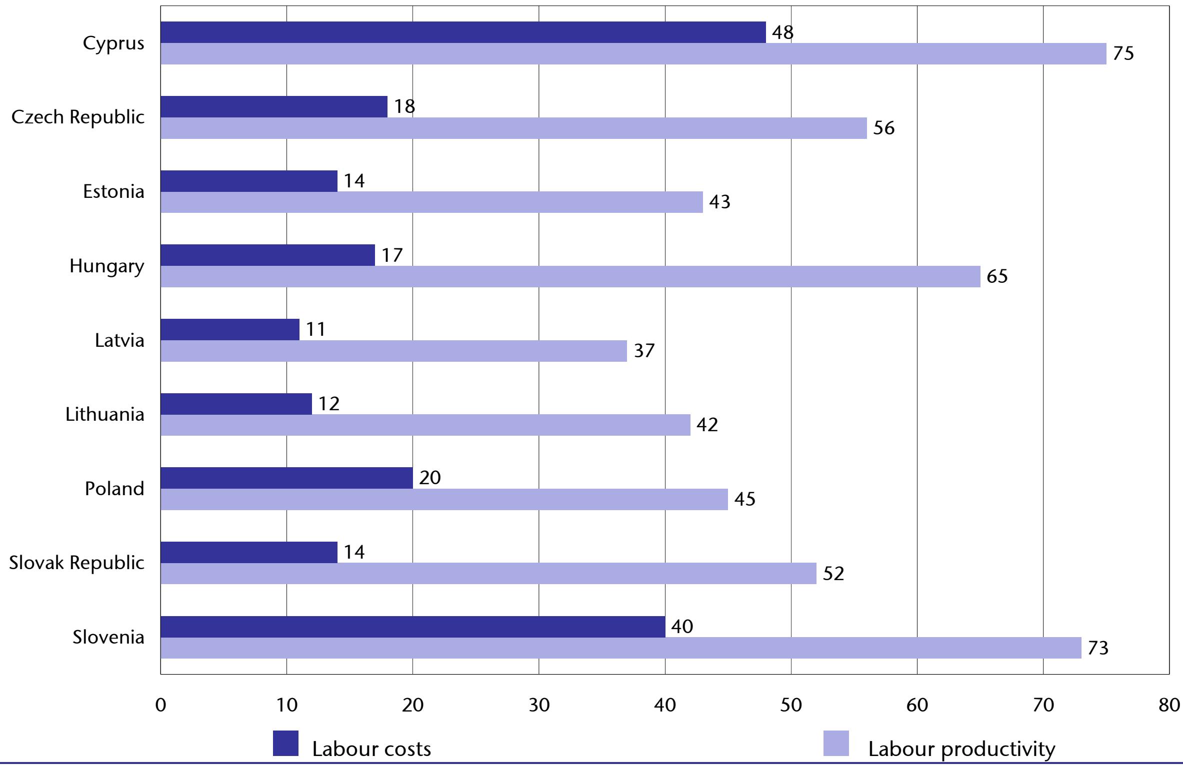
## 2.2. Competitive position of enterprises

From the viewpoint of enterprises, many of the changes in the business environment described in Section 2.1 mean the opening-up of new markets or facilitated access to such markets as well as the potential appearance of new competitors on 'own' domestic markets. The economic impact of the changing business environment on SMEs in current and new Member States depends to a large degree upon the initial position of enterprises in terms of their relative competitive advantages and disadvantages.

The main competitive advantage of the candidate countries lies with ***labour costs***. According to a Eurostat survey total hourly labour costs in 2000 ranged - within the country group joining the EU in 2004 - from 11 % of EU average in Latvia to 48 % in Cyprus (see Figure 2.1). However, as labour productivity levels in acceding countries are significantly below EU levels (Latvia 34 % to Cyprus 75 %) the gap in labour costs per unit of output is not that large, although certainly still important[24]. Moreover, since the initial stage of transition nominal wages have increased substantially, outpacing in several countries labour productivity growth[25]. In addition, many candidates show a trend of appreciation in the exchange rates of their currencies[26]. Thus, the wage cost advantage of future Member States is in the process of gradually dropping off.

20 However, some tax incentives, notably to attract foreign investment, will have to be cancelled or have been cancelled.
21 See also Chapter 4 of this report.
22 Only a few urban agglomerations are excluded.
23 European Commission, Enterprise Directorate General, Enlargement: What can enterprises in the new Member States expect? Questions and answers, Brussels, 2003.
24 Calculations for 2001 show that, in manufacturing, average labour costs per unit of output range from 17 % of the EU level in Bulgaria to 72 % in Slovenia; see European Commission, European competitiveness report 2003, Luxembourg, 2003, p. 145.
25 European Commission, Directorate-General for Economic and Financial Affairs, Key structural challenges in the acceding countries: The integration of the acceding countries into the Community's economic policy co-ordination processes, European Economy Occasional Papers No. 4, Brussels, July 2003.
26 In the literature, this phenomenon is extensively discussed in the context of the so-called Balassa-Samuelson effect (or process).

**Figure 2.1: Labour productivity 2002 (GDP in PPS per person employed) and hourly labour costs 2000 in nine acceding countries, index: EU-15 = 100**




Source: Eurostat, Labour Costs Survey 2000, EU Member States and Candidate Countries, Statistics in focus 3 - 18/2003, 11 June 2003, and http://europa.eu.int/comm/eurostat/datashop, Theme: General Statistics, Catalogue No. 1-eb021, 12 November 2003.

The major competitive advantages of EU firms vis-à-vis companies in candidate countries include a higher investment capacity (among other things because of better availability and lower cost of finance), the use of more advanced technology, as well as experience with the internal market. With respect to finance, it is widely acknowledged that this is probably the most serious business constraint in many candidate countries, especially in the CEECs[27]. In particular, the problems are related to interest rates and collateral requirements[28]. As far as technology is concerned, several studies in acceding countries have confirmed a definite backwardness. In a 2001 survey among 165 SMEs in the Czech Republic technology and equipment were, by far, the most quoted perceived disadvantages compared to Austrian competitors (mentioned by slightly more than 50 % of companies)[29]. In a Polish survey of 500 SMEs (2001) 68 % of respondents reported a technological gap with EU competitors[30]. Finally, in a survey of 800 SMEs in the Slovak Republic in 2002, more than a third assessed their production technology level to be lower in comparison to EU firms[31].

27 See, for example, European Commission, European competitiveness report 2003, Luxembourg, 2003.
28 See for example Szabo, A., The development of the SME sector in the various regions of the OSCE, paper presented at the 3rd OSCE Parliamentary Assembly Conference on Sub-Regional Co-operation, Bern, 14-15 May 2003; Polish Agency for Enterprise Development, Report on the Condition of the Small and Medium-Size Enterprise Sector in Poland for the Years 2000-2001, Warsaw, 2002, p. 221-222; Latvian Central Statistical Bureau, Mazo un vidējo uzņēmumu ilgtermiņa apsekojuma rezultāti (Results of a long-term survey of small and medium-sized enterprises), Riga, 2003.
29 Oberholzner, T., W. Bornett, H. Kanov, I. Pichler, Untersuchung der branchen- und regionalbezogenen Auswirkungen der EU-Erweiterung auf die oberösterreichische Wirtschaft (Study on the sectoral and regional impacts of EU enlargement on the economy of Upper Austria), Vienna, 2001, p. 151.
30 Polish Agency for Enterprise Development, Report on the Condition of the Small and Medium-Size Enterprise Sector in Poland for the Years 2000-2001, Warsaw, 2002, p. 235.
31 NADSME, SMEs in the process of Slovakia's accession to the EU, Bratislava, 2002.

## 2.3. Macro-economic and income effects of enlargement

In the last few years, which were characterised by advancing European integration especially for CEECs, most candidate countries experienced a higher real GDP growth than the EU, implying a catching-up and convergence process vis-à-vis the Union (see Table 2.1)[32]. However, even though the economic growth rates of the CEECs are on average higher than the EU's, it is obvious from Table 2.1 that a catching-up to, for instance, 80 % of EU-15 per capita GDP will still take decades rather than years[33].

The macro-economic effects on the entire EU-15 of the integration process with the CEECs are seen to have been very modest so far[34]. This is immediately understandable when considering the fact that the two main impact channels, trade with and FDI in candidate countries, still account for only a small fraction of total extra EU trade (16 % in 2002) and total extra EU investment (7.2 % in 2001)[35]. Exceptions are Austria and Germany, which have stronger trade and investment relations with the CEECs. Austrian research, for example, has estimated the real GDP effect on Austria of the 'opening of the East' to amount to 3.6 % cumulative over the period 1989-1997[36].

**Table 2.1: Basic indicators for candidate countries as compared to the EU-15**

| | Population 2002 (index EU-15=100) | Cumulative real GDP growth 1995-2002 in % | GDP 2002 (index EU-15=100)* | GDP per capita in PPS, 2002 (index EU-15=100) |
|---|---|---|---|---|
| Bulgaria | 2.1 | 3.7 | 0.2 | 25 |
| Cyprus | 0.2 | 28.6 | 0.1 | 74 |
| Czech Republic | 2.7 | 11.8 | 0.8 | 60 |
| Estonia | 0.4 | 43.8 | 0.1 | 41 |
| Hungary | 2.7 | 30.6 | 0.8 | 57 |
| Latvia | 0.6 | 47.5 | 0.1 | 35 |
| Lithuania | 0.9 | 39.9 | 0.2 | 39 |
| Malta | 0.1 | 24.9 | 0.0 | - |
| Poland | 10.1 | 31.8 | 2.2 | 39 |
| Romania | 5.8 | 5.3 | 0.5 | 25 |
| Slovak Republic | 1.4 | 30.2 | 0.3 | 47 |
| Slovenia | 0.5 | 31.3 | 0.3 | 74 |
| Turkey | 18.3 | 21.0 | 2.1 | 23 |
| Candidates (13) | 45.9 | 27.4 | 7.6 | 33 |
| EU-15 | 100.0 | 17.0 | 100.0 | 100 |

* Conversion based on exchange rates.

Source: Eurostat.

The macro-effects of the ***forthcoming integration steps*** have been examined, amongst others, by the European Commission, DG Economic and Financial Affairs, focusing on the entry of the ten CEECs and the eight '2004-joiners' in particular[37]. In this study, the basic assumption is that acceding to the European Union is associated with higher physical investment, due to transfers and additional FDI, and higher total factor productivity due to continued structural reforms. Depending on the scenario, calculations result in an annual extra growth (i.e. on

32 However, it is not possible to quantify accurately the contribution to this growth of the accession process, since the general transition reforms surely played an important role as well.

33 Different estimates of the catch-up have been computed in European Commission, Directorate-General for Economic and Financial Affairs, Key structural challenges in the acceding countries: The integration of the acceding countries into the Community's economic policy co-ordination processes, European Economy Occasional Papers No. 4, Brussels, July 2003.

34 European Commission, Directorate-General for Economic and Financial Affairs, The economic impact of enlargement, Enlargement Papers No. 4, Brussels, June 2001. Various studies have attempted to measure the impact of the enlargement process on main macro-economic variables for both the current EU-15 and the candidate countries. Results differ by type of model and specification and every model has its shortcomings and constraints, representing only partially the complexity of the real integration process. On the other hand, many exercises exposed similar outcomes at least in the broad course.

35 Source: Eurostat.

36 Breuss, F., F. Schebeck, Kosten und Nutzen der EU-Osterweiterung für Österreich (Costs and benefits of EU eastern enlargement for Austria), WIFO-Monatsberichte, 1998, 11, p. 745.

37 European Commission, Directorate-General for Economic and Financial Affairs, The economic impact of enlargement, Enlargement Papers No. 4, Brussles, June 2001.

top of the baseline scenario without enlargement) caused by accession of 1.7 to 3.2 percentage points for the '2004 joiners' and 1.4 to 2.7 percentage points for the CEEC-10 in the period 2005-2009.

Although the completion of the enlargement could increase GDP growth in the CEECs by more than two percentage points annually, the positive macro-effects on the current Member States would be very modest. In principle, this is again due to the very small economic weighting of candidate countries in comparison to the EU-15 (see Table 2.1). Considering a final demand impulse because of accelerated economic growth in the acceding countries, as well as a migration impulse and a competition impulse, the study computes a *cumulative* extra growth caused by enlargement of 0.5 to 0.7 percentage points over a 10 years period (again depending on the scenario)[38]. As one might expect, an above average impact is being registered in Germany, Austria and Finland, whereas the lowest effect is found for Ireland, Spain and Portugal. Another study[39] on the Germany economy, for example, has estimated an overall GDP effect caused by enlargement of about 0.4 % *annually* (!).

Summing up, the overall economic impact of the recent integration process of CEECs as well as of enlargement itself has been and will be positive and more pronounced in the candidate countries compared to the EU-15. In essence this is due to the different size of the integration blocs. Within the Union, effects have been and will be stronger in nations bordering the candidate countries and weaker in more distant western regions. At the macro level, enlargement will boost total income, especially in the future Member States.

38 Other macro-economic studies confirm the rather small effect on the entire EU, e.g. Baldwin, R. E., J. F. Francois, R. Portes, The Costs and Benefits of Eastern Enlargement: The Impact on the EU and Central Europe, Economic Policy, 1997, 24, pp. 127-170.

39 Keuschnigg, C., M. Keuschnigg, W. Kohler, Eastern Enlargement to the EU: Economic Costs and Benefits for the EU Present Member States? Germany, s.l., September 1999.

# Chapter 3
# The impact of enlargement on SMEs in Europe-19

This chapter discusses the effects of the enlargement process, past and prospective, on SMEs in Europe-19, whereas Chapter 4 is devoted to the impact on SMEs in the 13 candidate countries. Section 3.1 is organised by main sectors (manufacturing and services), reflecting the fact that the most important effects derive, directly or indirectly, from trade in commodities and services. Another impact mechanism, foreign direct investment (FDI), is - with few exceptions - of limited relevance for SMEs, and briefly discussed in Box 2 at the end of that section. Subsequently, an overall assessment for the SME sector is given in Section 3.2, putting the results into perspective with the experiences and views of the entrepreneurs. Section 3.3 deals with labour market issues and Section 3.4 investigates the strategic behaviour of SMEs in the context of enlargement.

## 3.1. Sectoral effects

### 3.1.1. Manufacturing

The liberalisation of foreign trade in the frame of the Europe Agreements, one of the first integration steps vis-à-vis the CEECs during the 1990s, has contributed to a significant growth of EU exports to and EU imports from these countries (see data in Annex III). Today the candidate countries are the second most important trading partners of the Union, with the USA still ranking first. For EU-15 manufacturing firms, these additional export opportunities mean expansion of markets, additional sales, production and growing employment. Via backward linkages this may also positively affect businesses (often SMEs), which do not export directly. By contrast, imports from candidate countries may compete with domestic EU producers, and consequently lead to a decrease in sales of domestic companies, or, alternatively, replace imports from other parts of the world[40]. Imports may also lead to an improved cost position and competitiveness of EU-15 businesses as prices for inputs decrease.

A first assessment is that the overall impact of export-induced production as well as possible displacements by imports are very modest, as the ratio of exports to and imports from candidate countries in relation to the GDP of the EU-15 is only 1.8 % and 1.6 % respectively (2002 data). The direct involvement in these trade flows is higher for larger enterprises than for smaller ones, because small firms in general serve limited market areas and face other obstacles to internationalisation[41]. Empirical evidence[42] confirms that the share of exporting firms is positively correlated with firm size even within the group of SMEs.

40 It is clear that EU-15 manufacturing as a whole is benefitting from increasing trade, as the EU-15 achieves a considerable trade surplus with these countries. The trade surplus, however, reached a peak in absolute terms in 1997 and has been decreasing since 2001 (see data in Annex III).

41 There is also a cost disadvantage for smaller enterprises, as any international activity entails fixed costs, implying relatively lower costs for higher trade volumes.

42 European Commission, Highlights from the 2002 survey, Observatory of European SMEs, Report submitted to the Enterprise Directorate-General by KPMG Special Services, EIM Business & Policy Research, and ENSR, Brussels, 2002.

However, exports to and imports from candidate countries concentrate on a few ***industries***, where trade-induced effects are more significant:

– Road vehicles, (electrical) machinery and equipment, plastic products and pharmaceutical and chemical products account for the largest share of the EU-15 'export cake'. The prominent share of machinery reflects the high investment and technology needs in the acceding countries[43]. All these export products are produced in relatively large-scaled industries though, with a comparably low occurrence of SMEs.
– Main imports from candidate countries comprise (electrical) machinery and equipment, and road vehicles, as well as wooden products, textiles, clothing, and furniture, which are all SME-dominated industries. Within these product categories large differences in unit values (i.e. value in relation to physical quantity) indicate that the candidate countries still specialise on rather labour intensive and low price segments, while the EU concentrates on higher quality and upper price segments and skill-intensive production (i.e. increasing vertical specialisation).[44]

Trade with candidate countries is also concentrated in ***geographical terms***. Member States, which are spatially close, in particular Germany, Italy and Austria (see data in Annex III), have significantly higher trade volumes. Relative to country size, Austria, Germany, Finland (with a strong focus on Estonia), Luxembourg and Belgium have the strongest trade relations with the acceding countries. Exports and imports are particularly active in immediate border regions[45]. By contrast, Portugal, Spain, the United Kingdom and Greece[46] have relatively weak interactions. Proximity is seen to be especially important for the international activities of SMEs, as it offers, for instance, easier management and control for the entrepreneur. Hence, manufacturing SMEs in countries and regions bordering CEECs are benefitting most from export-induced demand[47] and are most affected by import competition from candidate countries.

Nevertheless, more distant countries may still be affected by so-called trade diversion, i.e. other Member States substitute imports from candidate countries for imports from the Member State. For example, Ireland is seen to compete increasingly with some accession countries[48]. With respect to the southern EU Member States there seems to be no clear-cut evidence for trade diversion, although there are indications that the commodity structure of exports from candidate countries has become similar to Spain's[49]. On the other hand, considerable differences in unit values suggest that the CEECs still do not compete with these countries in the same segments[50].

<u>Outlook beyond 2004</u>

Despite the unanimous opinion in the literature that trade will further increase following the accession of ten new EU members in 2004, there is no consensus about the extent of that increase[51]. In general terms, the following trends are likely to occur.

1 The abolition of customs inspection and customs clearance[52] as well as the continued harmonisation of standards will reduce fixed costs and complexity of trade and thus give scope for smaller lots and provide new trading possibilities for small firms in particular[53]. The relative decrease in transaction costs will be hig-

43 Commission of the European Communities, Impact of Enlargement on Industry, Commission staff working paper, SEC(2003) 234, Brussels, 24.2.2003.
44 See e.g. Boeri, T., H. Brücker, The Impact of Eastern Enlargement on Employment and Labour Markets in the EU Member States, Berlin and Milan, 2000, p. 32.
45 See Mayerhofer, P., G. Palme, Strukturpolitik und Raumplanung in den Regionen an der mitteleuropäischen EU-Außengrenze zur Vorbereitung auf die EU-Osterweiterung, Teilprojekt 8: Aspekte der regionalen Wettbewerbsfähigkeit (Structural policy and spatial planning in the regions at the central European EU border in the context of preparing for EU enlargement, sub-project 8: aspects of regional competitiveness), s.l., October 2001, pp. 70-71.
46 Greece has very strong trade linkages to Cyprus. However, the weighting of Cyprus within the bloc of candidate countries is very small.
47 Note, however, that exporting firms may purchase inputs from other parts of EU-15, which would exhibit an indirect demand effect there.
48 RWI, Impact of the Enlargement of the European Union on Small and Medium-sized Enterprises in the Union, Final Report to the European Commission DG Enterprise, Essen and Glasgow, 2000, p. 14.
49 Martin, C., et al., European Union enlargement: Effects on the Spanish economy, Economic Studies Series, No. 27, La Caixa, Barcelona, 2002.
50 See for example Havlik, P., CEE industry in an enlarged EU: restructuring, specialization and competitiveness, in: Richter, S., The Accession Treaty and Consequences for New EU Members, wiiw Current Analyses and Country Profiles No. 18, s.l., April 2003, p. 28.
51 In particular, it is not clear whether or not a theoretical 'potential trade' is already exhausted.
52 Some studies presume a reduction in transaction costs of 10 % due to the abolition of customs inspection and clearance; see e.g. Österreichische Raumordnungskonferenz, Regionale Auswirkungen der EU-Integration der Mittel- und Osteuropäischen Länder, Band I (Regional impact of the EU integration of the central and eastern European countries, volume I), Vienna, 1999, p. 60.
53 See amongst others Pirilä, H., Kaupan teknisten esteiden ja tuotevalvonnan vaikutus suomalaisyritysten toimintakykyyn sisämarkkinoilla (The impact of technical barriers to trade and product surveillance on the functioning capability of Finnish companies in the European Single Market), Ministry of Trade and Industry, Studies and Reports 10/2001.

her for short-distance linkages, especially stimulating exports/imports in the EU-15-CEEC border regions. Facilitated trade also makes possible additional cost-cuts by exploiting economies of scale.

2 Import demand from (and thus EU-15 export opportunities to) the new Member States will grow or remain high for the following product categories: (i) Products with high income elasticity, e.g. cars where demand in the CEECs is expected to increase substantially by 2010, with a potential of 2.4 million new cars sales annually[54]. This will have a demand effect for SME suppliers as well. (ii) Investment goods (machinery equipment, technology), as candidate countries still have to modernise their capital assests[55]. (iii) Environmental and safety products (e.g. recycling technology, low emission machinery, protective equipment, relevant consultancy and training services; mostly SME-dominated industries), as candidate countries need to comply with relevant standards in that area[56].

3 Increasing productivity and technological catching-up in the new Member States will enable them to offer a broader and more differentiated range of products and give scope for increasing vertical division of labour in supplier networks[57]. In some labour intensive sectors, the new Member States will gradually lose their comparative cost advantage, making imports into the EU-15 less attractive.

### 3.1.2. Services

Transport

Within the transport sector, road haulage is a typical SME-dominated industry. The increased exchange of goods between the EU-15 and the candidate countries is raising demand and bringing additional business for transport services[58]. As it is especially short distance and small load activities at the border-region-level that will be enhanced after 2004 (see Section 3.1.1), there seem to be specific opportunities for smaller carriers in those regions. Moreover, the relative competitive position of Western European enterprises will improve, since the application of EU legislation is likely to raise costs of their competitors in the CEECs. For example, the regulation on working times in road transport is stricter in the EU than in most of the candidate countries. With accession, these rules have to be aligned to EU standards. The same holds for some environmental and technical vehicle requirements.

Two unfavourable effects on EU-15 transport services can be identified as well: First, due to the abolition of customs declarations, forwarding agents may lose a part of their business. Second, up to 2004, a specific segment of the transport market, the cabotage transport[59], was not liberalised and therefore not open for competition between EU-15 companies and businesses from the candidate countries. In this respect some concern is expressed about the possibility that suppliers from the new Member States crowd out smaller EU-15 hauliers on their domestic markets because of distinctly lower costs[60]. However, since a transitional arrangement has been agreed for a maximum period of five years (see Section 2.1), this risk seems to be significantly eased.

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54 Pelkmans, J., J.-P. Casey, EU enlargement: external economic implications, BEEP briefing No. 4, s.l., April 2003, p. 6; see also European Commission, Enterprise Directorate General, Enlargement: What can enterprises in the new Member States expect? Questions and answers, Brussels, 2003.

55 The Danish Trade Council, The Challenge of EU Enlargement, 2002; RWI, Impact of the Enlargement of the European Union on Small and Medium-sized Enterprises in the Union, Final Report to the European Commission DG Enterprise, Essen and Glasgow, 2000.

56 The Danish Trade Council, The challenge of EU Enlargement, 2002; Commission of the European Communities, Impact of Enlargement on Industry, Commission staff working paper, SEC(2003) 234, Brussels, 24.2.2003.

57 The product or industry pattern of trade will continue to shift from an inter-industry type towards an intra-industry one, i.e. two-way trade within the same commodity groups; see e.g. Abraham, F. et al., De nieuwe EU: de doodsteek voor de Vlaamse economie? (The new EU: the deathblow for the Flemish economy?), Acco, Louvain, 2002.

58 The current trade patterns imply an imbalance in commodities shipped. Firstly, the amount of goods from the EU to the CEECs is higher than the other way round. Secondly, the nature of goods carried (and therefore required transportation means) differs between the two directions. This leads to a relatively low transport capacity utilisation.

59 I.e. a transport having both its starting and end point within the same nation.

60 See for example Alho, K., V. Kaitila, M. Widgrén, EU:n itälaajenemisen vaikutukset Suomen elinkeinoelämälle (The effects of EU eastern enlargement on Finnish firms), The Research Institute of the Finnish Economy (ETLA), Series B 178, 2001; Riedel, J. et al., EU-Osterweiterung und deutsche Grenzregionen. Strukturpolitik und Raumplanung an der mitteleuropäischen EU-Außengrenze zur Vorbereitung auf die EU-Osterweiterung (EU eastern enlargement and German border regions. Structural policy and spatial planning in the regions at the central European EU border in the context of preparing for EU enlargement), in: ifo Dresden Studien, No. 28/1, Dresden, 2001.

Business services

The opening of the CEECs and the subsequent manifold new activities of EU enterprises in these foreign markets (e.g. acquisitions, exporting) required the support and advice of ***professional business services***[61]. In particular, demand for specialists in the area of legal services, consultancy, marketing, market research or translation increased[62]. Business service providers in the candidate countries had a clear competitive disadvantage in the field of expertise and know-how[63]. So, a number of (small) Western European consultants specialised in assisting domestic clients to enter the CEECs[64]. With the increase of economic linkages in the course of enlargement in 2004, the demand, and therefore business opportunities, for these kind of services will probably continue to rise.

For Western European ***IT services*** the integration of the CEECs had a similar beneficial effect. The necessary modernisation of companies and administrative bodies in the candidate countries, supported by financial aid from the EU, led to a high demand for hardware and software as well as system implementation. In Finland, IT is seen as one of the major benefitting industries[65]. IT service providers in the CEECs itself are developing slowly, also because of insufficient skills and equipment[66].

Also for some ***technical services*** additional business opportunities emerged in the course of accession preparations in the candidate countries. This holds especially for the civil engineering, environmental, recycling and energy domains, where the alignment with the acquis requires considerable investments in candidate countries. Here EU-15 firms still have distinct advantages over CEEC-based firms with regard to expertise, knowledge and technology.

Tourism

Growing incomes in the CEECs are fostering people's demand for tourism services, as travelling is an income-elastic good. For example, guests from the CEECs have contributed to the growth of overnight stays and, in general, to the growth of the tourism industry in Austria[67]. In a Greek study, tourism has been identified as one of the country's main opportunity sectors in the context of enlargement[68]. In the years ahead, the traditional upper-price travel destinations in Western Europe should be able to profit most from this development. However, as the quality of tourism supply increases in the CEECs, additional competition from providers in the candidate countries emerges, too.

Sectors affected mainly in border regions

Some sectors are affected mainly in EU-15 regions directly bordering candidate countries: construction, trade and some specific business services.

For EU-15 ***construction*** firms, trade liberalisation offered the possibility to import from the CEECs inputs, in particular building materials and modules, in order to reduce costs and improve competitiveness on the home market. However, a survey among 300 small and medium-sized construction firms in Upper Austria, directly bordering the Czech Republic, showed that only 5 % of respondents actually purchased such materials in the

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61 RWI, Impact of the Enlargement of the European Union on Small and Medium-sized Enterprises in the Union, Final Report to the European Commission DG Enterprise, Essen and Glasgow, 2000, p. 42.

62 Riedel, J. et al., EU-Osterweiterung und deutsche Grenzregionen. Strukturpolitik und Raumplanung an der mitteleuropäischen EU-Außengrenze zur Vorbereitung auf die EU-Osterweiterung (EU eastern enlargement and German border regions. Structural policy and spatial planning in the regions at the central European EU border in the context of preparing for EU enlargement), in: ifo Dresden Studien, No. 28/1, Dresden, 2001; Oberholzner, T., W. Bornett, H. Kanov, I. Pichler, Untersuchung der branchen- und regionalbezogenen Auswirkungen der EU-Erweiterung auf die oberösterreichische Wirtschaft (Study on the sectoral and regional impacts of EU enlargement on the economy of Upper Austria), Vienna, 2001, p. 115.

63 Commission of the European Communities, Impact of Enlargement on Industry, Commission staff working paper, SEC(2003) 234, Brussels, 24.2.2003.

64 See, for example, www.transeuropa.info.

65 Alho, K., V. Kaitila, M. Widgrén, EU:n itälaajenemisen vaikutukset Suomen elinkeinoelämälle (The effects of EU eastern enlargement on Finnish firms), The Research Institute of the Finnish Economy (ETLA), Series B 178, 2001.

66 RWI, Impact of the Enlargement of the European Union on Small and Medium-sized Enterprises in the Union, Final Report to the European Commission DG Enterprise, Essen and Glasgow, 2000, p. 42.

67 Österreichische Raumordnungskonferenz, Regionale Auswirkungen der EU-Integration der Mittel- und Osteuropäischen Länder, Band I (Regional impact of the EU integration of the central and eastern European countries, volume I), Vienna, 1999, p. 250.

68 Kanelis, D., M. Apostolou, K. Nanos, Opportunities and threats in Europe-25, Ethnos, Athens, 20 April 2003.

neighbouring country in 2001[69]. As from 2004 the further reduction of transaction costs may facilitate such imports as well as sub-contracting, especially for smaller enterprises.

Full integration of candidate countries into the Single Market in 2004 may also raise competition, as cross-border provision of construction services will be facilitated. Although service delivery is governed by the Directive on the posting of workers - which foresees the application of the host countries' labour legislation (including wages) for employees of the foreign sending company - competitors from the CEECs will have labour cost advantages over suppliers from the EU-15[70]. However, the provision of construction services seems only possible within limited geographical boundaries[71], e.g. commuting distances, and is therefore mainly relevant in those EU-15 regions directly bordering CEECs. As mentioned in Section 2.1, Germany and Austria have the right to restrict - vis-à-vis the new members - the freedom to provide services in the area of construction during a transitional period after enlargement. In fact, competition from the new Member States will be more significant only in the field of small projects with low know-how and technology content (e.g. plumbers, painters, typically dominated by micro enterprises).

Market opportunities for EU-15 construction companies arise from the demand in CEECs for investments in housing, infrastructure, and environmental protection, which will probably remain high after accession[72], with Structural Funds supporting such investments. EU-15 firms are assigned mainly to projects with high technology content and to planning and management tasks, which however usually requires a certain minimum size.

In ***retail trade***, the opening of the East-West borders in the early 1990s has allowed for competition between outlets of the EU-15 and the CEECs in the immediate border regions concerned (determined by distances consumers are willing to travel) [73]. In fact, lower retail prices of consumer goods in the CEECs, and a modern, quality-oriented, and broad selection of products in the EU-15 have led to two-way shopping tours at the local level[74]. The balance of flows, and its relative impact, depends very much on geographical characteristics, e.g. the differences in population density or the (road) transport infrastructure. In the medium term incentives for cross-border shopping, which in general still implies longer travelling distances, will gradually weaken as price differences decrease and the quality of products converges.

Finally, some more labour intensive business services in the EU-15 might face additional competition from the CEECs after enlargement. Examples are ***security and cleaning services*** where the introduction of free service provision across borders may put some pressure on suppliers in neighbouring EU-15 regions. Similarly to construction, however, the Directive on the posting of workers and the possibility for Austria and Germany to restrict cross-border provision of services for a transitional period, are measures to cushion any negative impacts.

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69 Oberholzner, T., W. Bornett, H. Kanov, I. Pichler, Untersuchung der branchen- und regionalbezogenen Auswirkungen der EU-Erweiterung auf die oberösterreichische Wirtschaft (Study on the sectoral and regional impacts of EU enlargement on the economy of Upper Austria), Vienna, 2001, pp. 121-122.

70 This is mainly due to problems in the practical application and enforcement of the Directive.

71 RWI, Impact of the Enlargement of the European Union on Small and Medium-sized Enterprises in the Union, Final Report to the European Commission DG Enterprise, Essen and Glasgow, 2000.

72 Alho, K., V. Kaitila, M. Widgrén, EU:n itälaajenemisen vaikutukset Suomen elinkeinoelämälle (The effects of EU eastern enlargement on Finnish firms), The Research Institute of the Finnish Economy (ETLA), Series B 178, 2001; The Danish Trade Council, The Challenge of EU Enlargement, 2002.

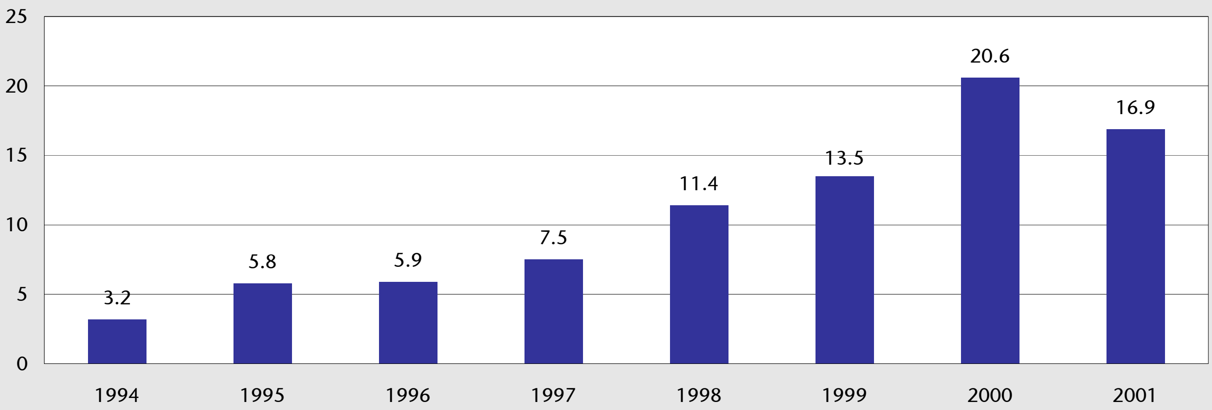
73 Up to 2004, direct importing of goods by private persons was partly restricted on a mutual basis through specific limits in terms of value or physical amount (see Section 2.1). However, enforcement and control of these regulations often were of limited effectiveness.

74 Riedel, J. et al., EU-Osterweiterung und deutsche Grenzregionen. Strukturpolitik und Raumplanung an der mitteleuropäischen EU-Außengrenze zur Vorbereitung auf die EU-Osterweiterung (EU eastern enlargement and German border regions. Structural policy and spatial planning in the regions at the central European EU border in the context of preparing for EU enlargement), in: ifo Dresden Studien, No. 28/1, Dresden, 2001.

**Box 2: The role of foreign direct investments**

With the liberalisation of capital movements between the EEA and the CEECs during the 1990s, primarily large-scaled Western European companies - manufacturing, insurance/banking groups, construction, large retail chain stores - seized the opportunity to conquer new markets or establish more cost-efficient production sites via foreign direct investments (FDI). Figure 3.1 illustrates the increasing FDI flows from the EU-15 to the 13 candidate countries[75]. Within the EU-15, Germany, the Netherlands, Austria and France are the most important investors.
By contrast, smaller businesses are distinctly less involved in FDI[76], as this is a comparatively complex form of internationalisation. For SMEs short geographical distance is particularly important in the context of FDI activities[77], so direct investments in the CEECs are more widespread among SMEs only in EU-15 regions bordering these countries.

**Figure 3.1: Foreign direct investment flows from the EU-15 to the 13 candidate countries, 1994-2001, billion Euro**




Source: Eurostat.

The relocation of production units from EU-15 Member States to the CEECs[78] (in order to exploit low labour costs) could, however, negatively affect local sub-suppliers, in most cases SMEs. A closer look at FDI flows reveals that, overall, this threat appears to be limited: Firstly, the total amount of FDI going to the candidate countries is still relatively modest when compared to the EU's total FDI outflows (7.2 % in 2001)[79]. Secondly, the majority of FDI goes into services, while in 2001 the 'producing sector' (manufacturing) accounted for only 40 % of the FDI stock in five CEECs (CZ, HU, PL, SI, SK) and even less in the Baltic countries[80]. Finally, analyses of investment motives in Austria, Belgium, Finland and Germany have pointed to the fact that, in manufacturing, investments primarily aim at developing or penetrating new markets rather than seeking to improve cost efficiency[81].

75 A good deal of this inflow is due to the privatisation process in the CEECs, and FDI originating from non-European countries, e.g. the USA, increased sharply, too.

76 European Commission, Highlights from the 2002 survey, Observatory of European SMEs, Report submitted to the Enterprise Directorate-General by KPMG Special Services, EIM Business & Policy Research, and ENSR, Brussels, 2002.

77 RWI, Impact of the Enlargement of the European Union on Small and Medium-sized Enterprises in the Union, Final Report to the European Commission DG Enterprise, Essen and Glasgow, 2000, p. 30.

78 This risk is seen, for example, in Ireland and Portugal; see Cronin, M., EU Enlargement, IBEC Submission to the Forum on Europe, Dublin, January 2002; Barry, F., A. Hannan, Will enlargement threaten Ireland's foreign direct investment (FDI) inflows, Quarterly Economic Commentary, Economic and Social Research Institute, Dublin, December 2001; Moreira, T., E.P. Gomes, R. Feijó, O Alargamento da UE: Reflexão no Ministério da Economia (Enlargement of the EU: Reflections of the Ministry of the Economy), DGREI - Directorate-General of International Economic Relations, Lisbon, 2002; ICEP, O alargamento da União Europeia (The enlargement of the European Union), ICEP Information Department, Lisbon, 2002.

79 More than half of the EU's total FDI outflows go to North America.

80 European Commission, European competitiveness report 2003, Luxembourg, 2003.

81 See for example Janssens, S., J. Konings, How do western companies respond to the opening of Central and East European economies? Survey evidence from a small open economy - Belgium, Tijdschrift voor Economie en Management, Vol. XLIV, 1, 1999, p. 51-68; Kaitila, V., M. Widgrén, Baltian maiden EU-jäsenyys ja Suomi (Baltic EU membership and Finland), The Research Institute of the Finnish Economy, Series B 139, 1998; Scharr, F. et al., Grenzüberschreitende Unternehmensaktivitäten in der sächsisch-polnischen Grenzregion (Cross-border business activities in the Saxonian-Polish border region), in: ifo Dresden Studien, No. 29, Dresden, 2001.

It is only in the textile and apparel as well as the motor vehicle sectors where some dislocations may have occurred[82]. In any event, incentives for cost-oriented relocations diminish as wages and unit labour costs rise in candidate countries.

Outlook beyond 2004

In general, further integration after 2004 is likely to encourage capital flows from the EEA to the new Member States, as uncertainty for investors is reduced and institutional and legal stability is increased (so-called 'credibility effect')[83]. Indeed, in a recent survey by the Union of Belgian Enterprises (VBO/FEB) among 100 Belgian companies active in the CEECs, respondents mentioned weak administration (64 %) and legal uncertainty (51 %) as main barriers for doing business there[84]. Similarly, in a survey among some 260 Norwegian firms, respondents reported that EU membership would improve the conditions for establishing and conducting business in the CEECs[85].

Furthermore, two specific developments may be envisaged:

- The reduction of transaction costs and the harmonisation of product standards and legislation in the course of the inclusion of candidate countries into the internal market could give scope for exploiting economies of scale at the plant level and centralising production in a smaller number of locations[86].
- Decreasing transaction costs may function as an incentive for investments related to or combined with considerable exchange of goods, e.g. outward processing, sub-contracting and assembly. In other words, a barrier to exploiting differences in production conditions across regions would diminish. This could offer new opportunities especially for small-scale activities, and therefore SMEs, in border areas.

## 3.2. Overall assessment for SMEs at the firm level

This section attempts to summarise and integrate the results of the sectoral analysis and present conclusions about the impact of enlargement on the SME sector in Europe-19. For that purpose, the outcomes of Section 3.1 will be combined with and compared to the experiences and views of the businesses themselves, which have been collected in the frame of the ENSR Enterprise Survey 2003 (see Annex II).

### 3.2.1. Confirmed effects of the enlargement process

Based on the analysis at the sector level in Section 3.1, Table 3.1 sets out the main types of possible integration effects on the enterprise sector. Firstly, businesses may be directly involved in and profit from the increasing interactions (exporting or importing of goods or services, making investments) with the candidate countries. However, the engagement of a firm may lead to indirect effects on other businesses in the EU, which might be 'positive' or 'negative'.

82 See for example Commission of the European Communities, Impact of Enlargement on Industry, Commission staff working paper, SEC(2003) 234, Brussels, 24.2.2003.

83 Direction des Relations Economiques Extérieures (DREE) du Ministère de l'Economie, des Finances et de l'Industrie (MINEFI), L'Elargissement de l'Union Européenne' (The Enlargement of the European Union), Notes Bleues de Bercy No. 248, March 2003; Boeri, T., H. Brücker, The Impact of Eastern Enlargement on Employment and Labour Markets in the EU Member States, Berlin and Milan, 2000, p. 28.

84 This result is confirmed by another Belgium and a Danish study, Janssens, S., J. Konings, How do western companies respond to the opening of Central and East European economies? Survey evidence from a small open economy - Belgium, Tijdschrift voor Economie en Management, Vol. XLIV, 1, 1999, p. 51-68; Confederation of Danish Industries, A Brave New Region? Removing Barriers to Business in the Baltic Sea Region, s.l., June 2003.

85 The Confederation of Norwegian Business and Industry, EU utvides - følger norsk næringsliv med? (The EU is enlarged - are Norwegian enterprises paying attention?), Oslo, 2002.

86 RWI, Impact of the Enlargement of the European Union on Small and Medium-sized Enterprises in the Union, Final Report to the European Commission DG Enterprise, Essen and Glasgow, 2000, pp. 21-22.

**Table 3.1: Main types of possible integration effects on the enterprise sector in Europe-19**

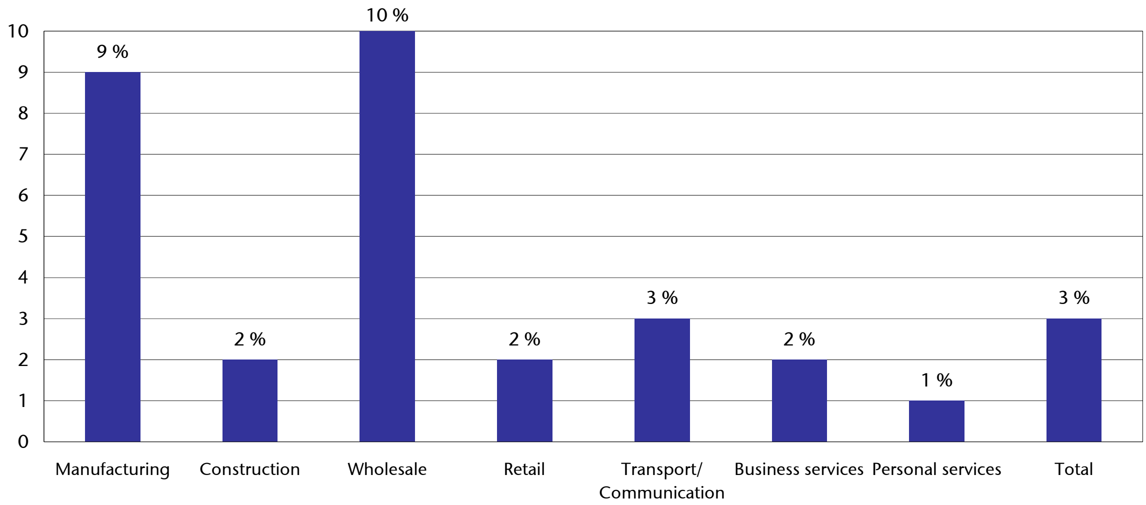
| | Direct effect | Indirect effect |
|---|---|---|
| Increasing exports of goods or services | Additional sales for EU firm | Additional sales for other EU firms via backward linkages |
| Increasing imports of goods or services | Improved input position and competitiveness for EU firm (costs, etc.) | Improved input position and competitiveness for other EU firms via forward linkages<br>Displacement of production of other EU firms (additional competition) |
| Increasing foreign direct investment | Additional sales/new markets or improved cost position for investing EU firm | Cutting off EU suppliers in case of relocations |

A first approach is to investigate to what extent SMEs in Europe-19 have 'direct interactions' with candidate countries. The analysis in Section 3.1 suggests that only very few (manufacturing and wholesale) SMEs are active in the export and import of goods to/from the candidate countries. One may assume that in the service sectors - this includes tourism, transport, construction, business and personal services - even less SMEs have such direct interactions, as total external service trade of the candidate countries amounts to only one quarter of their total trade in commodities[87]. Moreover, SMEs both in manufacturing and services are hardly involved in FDI.

The ENSR Enterprise Survey 2003 confirms that direct relations with candidate countries are rare among SMEs in Europe-19. On average, only 3 % of them have important business contacts in terms of export and/or import and/or subsidiaries/joint ventures in these countries. As could be expected two sectors stand out in this respect: in manufacturing and wholesale 9 % and 10 % respectively do have direct relations (see Figure 3.2)[88]. There is also a clear difference between size-classes, as 12 % of small and 9 % of medium-sized enterprises have a direct business contact in one or more of the 13 candidate countries, while this is true for only 3 % of micro enterprises. Finally, the role of geographical proximity for SMEs in establishing and maintaining commercial relations is reflected in the survey results, too. In 'bordering countries' (i.e. Finland, Germany, Austria, Italy and Greece) the percentage of SMEs active in candidate countries is 5 %, while in the remaining countries of Europe-19 this share is only 2 %. This result is in line with other regional surveys: For example, a 2001 study[89] covering the Federal State of Saxonia (Germany) revealed that approximately 4 % of craft enterprises had business relations with candidate countries, mostly export activities.

87 Source: balance of payments data of Eurostat.
88 Due to the colloquial understanding of 'exports', the survey is probably underestimating 'service exports' in some service sectors. For example, if a hotel in Spain hosts guests from Poland that would be a Spanish service export to Poland in the sense of balance of payments.
89 Glasl, M., Auswirkungen der EU-Osterweiterung auf das Handwerk in Sachsen. Ergebnisse einer empirischen Untersuchung (Impacts of EU enlargement on the craft sector in Saxonia. Results of an empirical investigation), Munich, 2002.

**Figure 3.2: Percentage of SMEs in Europe-19 having direct business linkages (trade/investment) with candidate countries, by sector**




Source: ENSR Enterprise Survey 2003.

The integration process may affect businesses, in particular their sales and cost position, also via forward and backward linkages to other (large) companies (see Table 3.1). However, the analysis in Section 3.1 suggests that the relevance of the different effects varies between sectors, geographically and in terms of enterprise size.

For ***manufacturing***, exporting allows for additional sales, whereas importing raises competition and in some cases negatively affects production in Europe-19. However, importing from candidates can lower input costs and ease access to inputs as well. Accordingly, in the ENSR Enterprise Survey 2003 (see Table 3.2), 11 % of manufacturing SMEs report increased turnover, while 9 % experienced a negative sales effect due to the enlargement process. For medium-sized enterprises in that sector the relation between positive and negative turnover effects is 24 % vs. 3 %, reflecting that (i) larger firms are better able to access foreign markets and (ii) the main export goods are produced in rather large-scaled industries. 12 % of manufacturing SMEs are profiting from lower costs and/or easier access to inputs. For all kinds of effects manufacturing SMEs are affected more than the average.

For ***construction*** enterprises in Europe-19, working in candidate countries in most cases has required FDI (setting up subsidiaries, etc.), which is seldom an option for small firms. Hence, the ENSR Enterprise Survey 2003 shows that relatively few SMEs in this sector report about positive turnover effects due to enlargement, but negative impacts are infrequent, too. On the other hand, 10 % of construction SMEs have benefitted from an improved input position (import of building materials, etc.). In ***wholesale***, turnover effects as perceived by SMEs are very similar to manufacturing. However, micro and small enterprises are more affected than medium-sized ones, due to the fact that wholesalers specialised in international business are comparatively small. In the case of ***retail***, additional sales as well as competition occur mainly in border regions and the overall affect in Europe-19 is therefore quite modest. Increasing transfer of commodities between the EU and the candidate countries brought about new sales opportunities for ***transportation***, being the sector with the highest share of SMEs reporting a growing turnover due to enlargement (13 %). However, transport also has the highest proportion of firms experiencing losses. Thus, enlargement is felt very unevenly within this industry. In ***business services***, 8 % of the SMEs recorded a sales increase due to the integration process, but in the case of small and medium-sized enterprises it is almost 20 %. As business services in the candidate countries are hardly competitive, negative effects are very infrequent here (4 %). ***Personal services***, which include tourism, show a below-average affect with respect to all types of impact. Finally, Table 3.2 shows that the reduction of transport/transaction costs is mostly relevant for those industries moving considerable amounts of goods at international level (i.e. manufacturing, wholesale, transport). With the exception of wholesale, the balance between favourable and unfavourable turnover effects is positive for all sectors.

**Table 3.2: Perceived effects of the enlargement process so far, percentage of SMEs by sector, Europe-19**

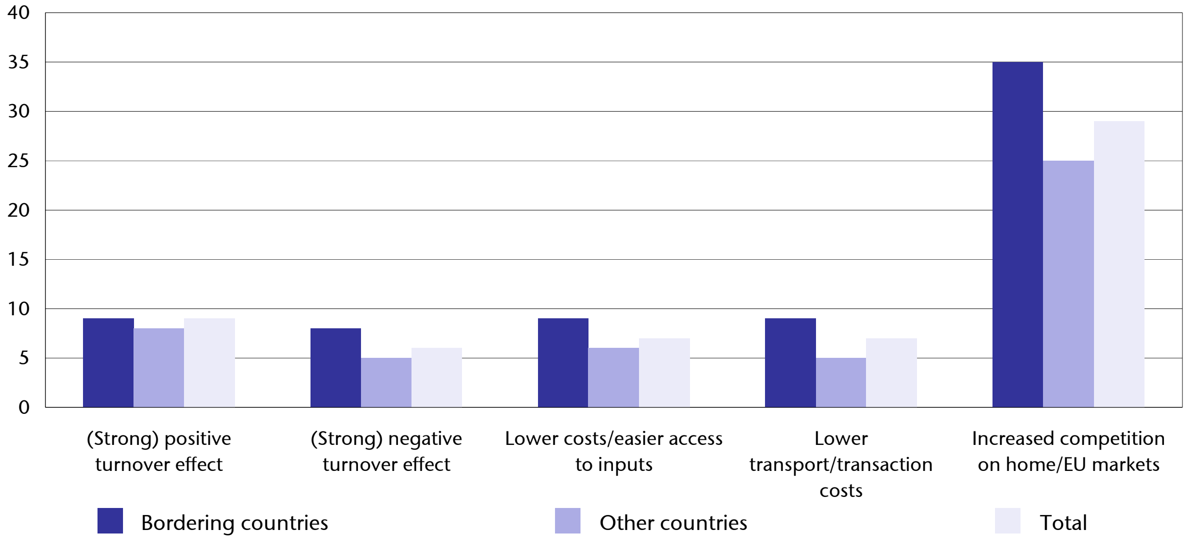
| | (Strong) positive turnover effect | (Strong) negative turnover effect | Lower costs/easier access to inputs | Lower transport/ transaction costs | Increased competition on home/EU markets |
|---|---|---|---|---|---|
| Manufacturing | 11 | 9 | 12 | 10 | 35 |
| Construction | 7 | 6 | 10 | 3 | 27 |
| Wholesale | 11 | 11 | 8 | 13 | 39 |
| Retail | 9 | 5 | 7 | 7 | 32 |
| Transport/ Communication | 13 | 12 | 7 | 12 | 35 |
| Business services | 8 | 4 | 6 | 5 | 25 |
| Personal services | 7 | 5 | 5 | 4 | 24 |
| Total | 9 | 6 | 7 | 7 | 29 |

More answers possible.

Source: ENSR Enterprise Survey 2003.

Figure 3.3 shows that SMEs in 'bordering countries' experienced effects more frequently than those in other countries. However, impacts are most significant in the regions very close to the border, a pattern that cannot be adequately reflected by evidence at the national level (especially in the case of large countries, such as Germany or Italy).

**Figure 3.3: Perceived effects of the enlargement process so far, percentage of SMEs by country group, Europe-19**




Source: ENSR Enterprise Survey 2003.

## 3.2.2. Effects of the forthcoming integration steps

With respect to the full entry of ten new Member States in 2004, the manufacturing and wholesale sectors will be affected by increasing exports and imports due to the reduction of transaction costs and positive income effects. This may lead to additional sales to and purchases from these new Member States as well as more import competition, which is supported by the results of the ENSR Enterprise Survey 2003 (see Table 3.3): ***manufacturing*** and ***wholesale*** SMEs expect above-average positive turnover effects (27 % and 25 % respectively), significantly more competition (40 % and 44 % respectively) and above-average sales losses (14 % and 11 % respectively). In addition, relatively high proportions expect improved access to inputs (16 % and 13 %)[90]. In manufac-

90 As mentioned above it is difficult to deduce actual impacts from perceived impacts. This holds even more for expected impacts. Expected effects should therefore be interpreted in a relative/comparative way rather than in an absolute sense.

turing, medium-sized enterprises are more optimistic than micro and small ones with respect to turnover development. In wholesale it is again the smaller companies that expect to be more affected (by all types of effect).

As for the ***construction*** industry, the liberalisation of cross-border service delivery will provide opportunities for additional sales and bring more competition. As these effects will be more limited in geographical terms, overall expectations of SMEs in Europe-19 are relatively low. However, importing will be easier and 14 % of construction SMEs see the possibility of purchasing cheaper building materials. In ***retail trade***, both positive and negative turnover expectations are below average, probably due to the local market areas, which are hardly affected by enlargement (with the exception of border regions). However, medium-sized retailers are more pessimistic than micro and small ones as almost 20 % expect declining sales and more than 50 % believe that competition will increase. By contrast, positive turnover expectations are relatively widespread in the ***transport*** sector (23 %). Basically, growing commodity exchange between the EU and the new Member States support this view. The disappearance of customs declarations, which is a business activity of many transport firms, and the liberalisation of the cabotage[91] may explain why 16 % of SMEs expect sales to decrease and 43 % expect more competition. In ***business services,*** only 7 % of SMEs expect negative sales effects.

**Table 3.3: Expected effects following completion of enlargement, percentage of SMEs by sector, Europe-19**

| | (Strong) positive turnover effect | (Strong) negative turnover effect | Lower costs/easier access to inputs | Lower transport/ transaction costs | Increased competition on home/EU markets |
|---|---|---|---|---|---|
| Manufacturing | 27 | 14 | 16 | 13 | 40 |
| Construction | 16 | 11 | 14 | 8 | 32 |
| Wholesale | 25 | 11 | 13 | 15 | 44 |
| Retail | 18 | 6 | 12 | 10 | 36 |
| Transport/ Communication | 23 | 16 | 8 | 16 | 43 |
| Business services | 18 | 7 | 9 | 6 | 29 |
| Personal services | 21 | 9 | 8 | 7 | 25 |
| Total | 21 | 10 | 11 | 9 | 33 |

More answers possible.

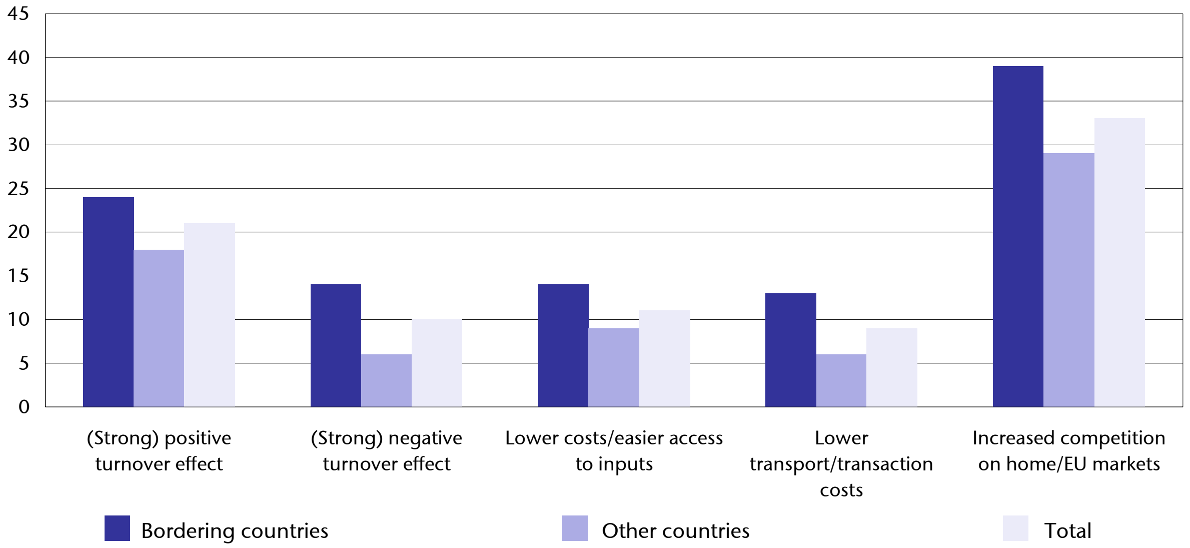
Source: ENSR Enterprise Survey 2003.

The balance between favourable and unfavourable turnover expectations is distinctly positive for all sectors. Moreover, the percentage of SMEs expecting effects *after* the completion of enlargement (Table 3.3) is higher than the percentage having perceived any effects of the enlargement process *so far* (Table 3.2). Although a comparison between experienced and expected consequences should be interpreted with caution, this nevertheless supports the conclusion that in many sectors enlargement will open up opportunities especially for small firms, whereas the previous integration steps have affected mainly larger companies (being able to overcome trade barriers, conduct FDI, and cope with complex conditions for doing business in the candidate countries).

As in the case of effects experienced to date, Figure 3.4 shows that SMEs in 'bordering countries' more often expect effects on their turnover, be it positive or negative, lower input or transaction costs and stronger competition after enlargement has been completed.

91 I.e. a transport having its starting and end point within the same nation.

**Figure 3.4: Expected effects following completion of enlargement, percentage of SMEs by country group, Europe-19**




Source: ENSR Enterprise Survey 2003.

The results of the ENSR Enterprise Survey 2003 are confirmed by a Finnish survey[92] among more than 3 000 SMEs in 2003: On average, 16 % of respondents report that the situation for their own businesses will improve due to enlargement, while 10 % expect a deterioration (the rest does not see any change). On the other hand, it should be noted that some surveys among small firms in specific border regions, notably in Austria and Eastern Germany, also revealed more negative and pessimistic attitudes of entrepreneurs. For instance, according to a survey among 700 enterprises in the district of Dresden in 2001, 48 % of entrepreneurs expected a worsening of their business situation because of the enlargement, whereas only 14 % see an improvement[93].

## 3.3. Labour market issues

This section considers the relevance for SMEs in Europe-19 of a specific change in the regulatory framework: the introduction of free movement of labour (see Section 2.1). A potential major inflow of workers from the CEECs into EU labour markets after enlargement represents one of the central political and public concerns in the context of the accession process. The hypothesis of large migration flows is primarily based on the significant income differentials between the EU and the CEECs.

An analysis by the European Commission[94] calculated a cumulative net inflow of migrants of 900 000 people or 0.35 % of the EU-15 working-age population between 2005 and 2009 (without taking into account transitional arrangements)[95]. Although this appears to be modest from an overall EU perspective, it is likely that immigrants from the CEECs will concentrate on only a few EU Member States, above all Austria and Germany. The reason is geographical proximity and the present high proportion of CEEC-nationals already living in these two countries. So, the relative net inflow is estimated to be three to six times higher in the two Member States than in the EU as a whole. In addition, in direct border regions an upsurge of cross-border commuting can be expected, which

92 Federation of Finnish Enterprises, results from SME survey 2003, http://www.yrittajat.fi/sy/home.nsf/pages/C2256DB30028DDCFC2256D2500271F34.

93 Industrie- und Handelskammer Dresden, Die EU-Osterweiterung aus Sicht der grenznahen Wirtschaft. Ergebnisse einer Unternehmensbefragung im Sommer 2001 (EU enlargement from the viewpoint of businesses in the border region. Results of a business survey of summer 2001), Dresden, 2001.

94 European Commission, Directorate-General for Economic and Financial Affairs, The economic impact of enlargement, Enlargement Papers No. 4, Brussels, June 2001.

95 Note that, in general, uncertainties in such estimations are very high.

however strongly depends on the specific geographical circumstances[96]. Thus, as this might lead to labour market adjustment problems in the concerned regions, transitional safeguards have been agreed in the frame of the accession negotiations (for details see Section 2.1).

While migrants and commuters may pose problems (unemployment, wage pressure) on the supply side of the labour market, they can at the same time represent an important resource for businesses. In this context skill patterns are a central aspect. Measured by formal indicators, qualification levels of workers from the CEECs are seen to be comparatively high[97]. However, for several reasons, e.g. limited language capabilities, skills and qualifications cannot be fully transferred in foreign labour markets[98]. Therefore, the majority of CEEC nationals currently working in the EU are employed in rather low skilled jobs in tourism, construction or manufacturing. In Finland, for example, Estonian workers are important as drivers in the road transport sector.

Overall the additional labour supply due to an inflow of migrants from the CEECs after enlargement appears to be very limited in quantitative terms. Hence, the possibilities for European SMEs to ease skill shortages, which are currently felt by 13 % of them according to the ENSR Enterprise Survey 2003, may be limited, too (with the possible exception of EU regions bordering a new Member State, where commuters may raise labour supply more considerably). The expectations and hopes of European SMEs regarding an improvement of their personnel situation following enlargement seem to be too optimistic, as 27 % of respondents in the ENSR Enterprise Survey 2003 thought that the liberalisation of labour markets would help to reduce skill shortages or labour costs. Interestingly, this percentage is significantly higher in countries with relatively low wages, e.g. Greece (54 %), Ireland (50 %), Italy (42 %) and Spain (32 %), whereas in some high-wage countries SMEs are more reluctant: the Netherlands (8 %), Denmark (9 %), Iceland (11 %), Switzerland[99] (13 %), Norway and Sweden (18 %).

These results suggest that there is widespread willingness among Western European SMEs and sufficient absorption capacity to employ workers from the candidate countries. Some regional business surveys reach similar conclusions. For example, a survey amongst approx. 1 200 craft enterprises in Lower Saxonia (Germany) in 2001 showed that about 5 % of firms already employed workers from candidate countries and a further 21 % would be interested to hire employees from these countries[100]. Given the future demographic developments in Western Europe, with a shrinking working age population, the absorption capacity of EU-15 labour markets will probably increase further in the coming years.

In the short term the chance for SMEs to tap new labour resources depends of course on the design of transitional arrangements by national governments. The annual labour outflow rates from the CEECs are assumed to reach a peak after some 3-4 years after granting free movement, and to decline again thereafter[101]. EU-15 countries restricting immigration for too long therefore run the risk to 'gamble away' the chance for urgently needed labour resources.

## 3.4. The strategic behaviour of SMEs in the context of enlargement

The changes in the business environment associated with the enlargement process entail both opportunities and threats for SMEs, with their actual realisation also depending on the strategic behaviour of businesses. This section investigates to what extent and how SMEs in Europe-19 have reacted or are planning to react in the context of enlargement.

96 Riedel, J. et al., EU-Osterweiterung und deutsche Grenzregionen. Strukturpolitik und Raumplanung an der mitteleuropäischen EU-Außengrenze zur Vorbereitung auf die EU-Osterweiterung (EU eastern enlargement and German border regions. Structural policy and spatial planning in the regions at the central European EU border in the context of preparing for EU enlargement), in: ifo Dresden Studien, No. 28/1, Dresden, 2001.

97 European Commission, Directorate-General for Economic and Financial Affairs, The economic impact of enlargement, Enlargement Papers No. 4, Brussels, June 2001.

98 Boeri, T., H. Brücker, The Impact of Eastern Enlargement on Employment and Labour Markets in the EU Member States, Berlin and Milan, 2000, p. 60.

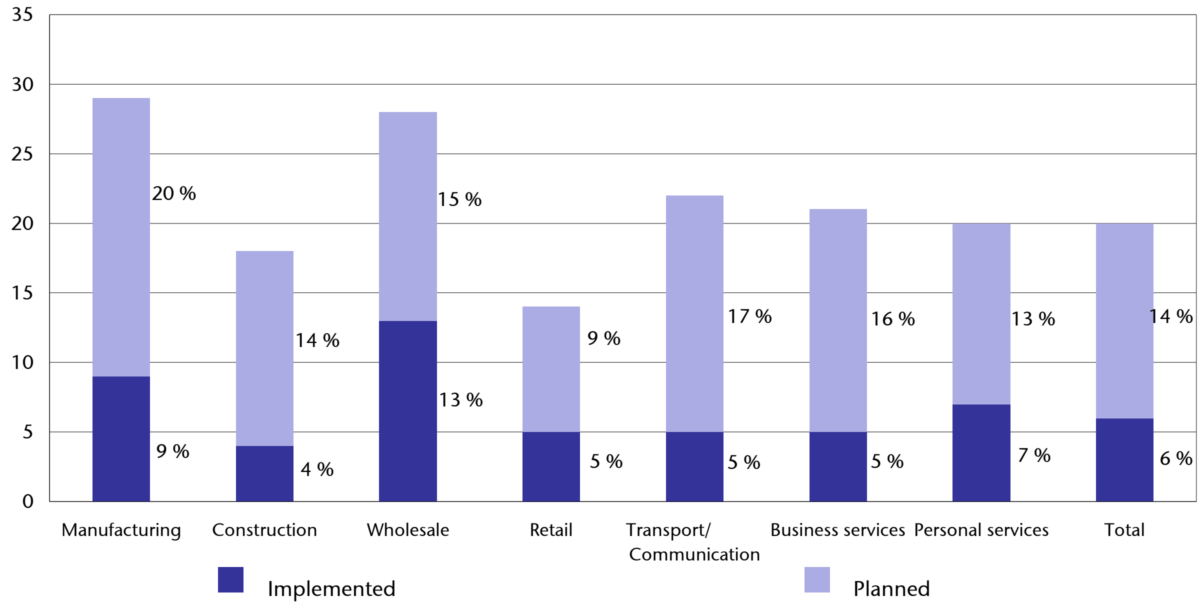
99 Moreover, for Switzerland, the legal regime for labour movement is different.

100 Müller, K., K. Bang, Die Auswirkungen der EU-Osterweiterung auf die niedersächsischen Klein- und Mittelunternehmen am Beispiel des Handwerks (The effects of EU enlargement on craft SMEs in the Federal State of Lower Saxonia), Göttinger Handwerkswirtschaftliche Studien, No. 66, Göttingen, 2002.

101 European Commission, Directorate-General for Economic and Financial Affairs, The economic impact of enlargement, Enlargement Papers No. 4, Brussels, June 2001.

According to the ENSR Enterprise Survey 2003, the strategic response of SMEs in Europe-19 on the integration process seems to be rather limited. Overall, only 6 % of those SMEs that have been or expect to be affected by enlargement[102] have already taken strategic measures to seize opportunities or avoid risks, and another 14 % are planning to do so. The frequency of strategic activities differs by sector (see Figure 3.5), with manufacturing and wholesale showing distinctly above-average activity and retail trade being particularly reluctant to take measures. Moreover, the larger the enterprise the higher the probability of implemented or considered strategies: in total 20 % for micro enterprises, 32 % for small enterprises and 42 % for medium-sized enterprises. The sectoral as well as size-related differences can be explained by the fact that any kind of internationalisation strategy is obviously a key option in the context of enlargement. Firstly, exporting and importing (of goods) is indeed mainly an issue for manufacturing and wholesale and, secondly, smaller firms have more difficulties to handle internationalisation. Finally, at the country level, Austria (18 % implemented and 16 % planning) and Germany (11 % implemented and 18 % planning) clearly stand out against the Europe-19 average. In these two countries, on the one hand, the pressure to react on enlargement seems to be relatively high and, on the other hand, opportunities for small-scale and short-distance cross-border activities are much better.

**Figure 3.5: Percentage of SMEs having implemented or planning to implement strategic measures in order to exploit opportunities or avoid risks in the context of enlargement, by sector, Europe-19 (basis: only affected SMEs)**




Source: ENSR Enterprise Survey 2003.

Those SMEs that have implemented or are planning measures show a wide diversity of strategies. Overall, higher specialisation of products and services and/or new products and services, the establishment or strengthening of co-operations with firms from candidate countries, and the improvement of quality or customer service are mentioned most often, while none of these measures stands out markedly. Also within each of the different sectors these activities are mostly top ranked, with the exception of manufacturing and wholesale where exporting plays an important role. The establishment or strengthening of co-operations with organisations from candidate countries seems to be particularly interesting for the service sectors (personal and business services, and construction). In general, manufacturing and wholesale display the highest variety of strategies.

More distinct differences prevail between size-classes in this respect (see Table 3.4). Starting or increasing exports and imports is an option mainly for small and medium-sized enterprises, but clearly less for micro enterprises. The relevance of cost reduction grows with firm size as well, as the potential for rationalisation might indeed be lower in smaller businesses. By contrast, micro and small enterprises opt more frequently than medium-

102 See types of effects above.

sized enterprises for higher specialisation of products and services, new products and services, and an improvement of quality or customer service. A further interesting aspect of enlargement preparations is shown by a German study: according to a survey among 700 enterprises in the district of Dresden in 2001, almost 20 % of respondents had started or were planning to learn the languages of the neighbouring regions (Czech and Polish)[103].

**Table 3.4: Implemented or planned strategic measures in the context of enlargement, by size-class, percentage of SMEs, Europe-19**

| | Micro | Small | Medium-sized | Total |
|---|---|---|---|---|
| Start or increase exports to candidate countries | 25 | 37 | 34 | 27 |
| Start or increase imports from candidate countries | 18 | 28 | 29 | 19 |
| Establish or increase other forms of co-operation with firms or organisations from candidate countries | 37 | 39 | 33 | 37 |
| Cost reduction programme in own firm | 26 | 35 | 45 | 27 |
| Higher specialisation of products/services and/or new products/services | 39 | 36 | 19 | 39 |
| Improving quality and/or customer service | 32 | 38 | 21 | 32 |
| Set up, buy or participate in firms in candidate countries | 15 | 22 | 13 | 16 |
| Other activities or plans | 13 | 10 | 17 | 13 |
| Don't know/no answer | 2 | 2 | 1 | 2 |

Only enterprises implementing or planning strategic measures are included

Source: ENSR Enterprise Survey 2003.

103 Industrie- und Handelskammer Dresden, Die EU-Osterweiterung aus Sicht der grenznahen Wirtschaft. Ergebnisse einer Unternehmensbefragung im Sommer 2001 (EU enlargement from the viewpoint of businesses in the border region. Results of a business survey of summer 2001), Dresden, 2001.

# Chapter 4
# The impact of enlargement on SMEs in candidate countries

The overall economic impact of the integration process on candidate countries is much more pronounced than the impact on the EU-15. Firstly, investment flows and the exchange of goods and services have a much higher weighting for candidate countries compared, for example, to their GDP. Secondly, these countries have to take over the *acquis communautaire* (see Section 2.1), representing an important change in the business environment.

The transformation process from centrally planned to market economies in the CEEC candidate countries, starting in the early 1990s, has been associated with the complete re-organisation of the business sector (e.g. privatisation, de-regulation of prices) and the external opening for trade and investment[104]. The SME sector in particular was under-developed initially, and it emerged only slowly during the transition phase[105]. The same holds for entrepreneurship and entrepreneurial attitudes in the population. This means that SMEs in the CEECs have been facing a continuously changing legal and institutional environment during the last years and, as they are rather young, have been searching for their strategies, market niches, customers and suppliers. Consequently, the initial conditions for SMEs in most candidate countries have been very different from those in the EU-15, where a well-established business sector exists.

Section 4.1 discusses more general effects on (small) businesses in candidate countries. Section 4.2 investigates effects, which are only relevant or more pronounced for specific sectors/industries. Finally, Section 4.3 reviews expectations and attitudes of entrepreneurs towards accession.

## 4.1. General effects

### 4.1.1. Foreign direct investment

In the course of transition and European integration, candidate countries received an important inflow of foreign direct investment, most of which originating from the EU-15. Table 4.1 shows that investments varied over time, largely reflecting the privatisation process in the individual recipient countries. In general the amount of FDI was, for most candidates, significant in relation to GDP (with the exception of Turkey, where inflows were comparatively small). The main sectoral destinations of FDI are: public utilities, telecommunication, retail, banking and insurance, food industry, petroleum, metal working and machinery, motor vehicles, chemical and plastic products, and textiles.

104 In some cases it is difficult to distinguish between changes caused by transition and changes caused by enlargement preparations. Some basic reforms however, e.g. in the field of property rights, certainly cannot be seen as part of the enlargement preparations.

105 Commission of the European Communities, Impact of Enlargement on Industry, Commission staff working paper, SEC(2003) 234, Brussels, 24.2.2003.

**Table 4.1: Total FDI inflows to the candidate countries, 1997-2001**

| | 1997 | | 1998 | | 1999 | | 2000 | | 2001 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Million Euro | % of GDP | Million Euro | % of GDP | Million Euro | % of GDP | Million Euro | % of GDP | Million Euro | % of GDP |
| BG | 445 | 4.9 | 479 | 4.2 | 723 | 5.9 | 1 086 | 7.9 | 397 | 2.6 |
| CY | 433 | 5.8 | 237 | 2.9 | 642 | 7.4 | 501 | 5.2 | 419 | 4.1 |
| CZ | 1 148 | 2.5 | 2 416 | 4.8 | 4 792 | 9.3 | 5 405 | 9.7 | 5 489 | 8.6 |
| EE | 235 | 5.8 | 513 | 11.0 | 284 | 5.8 | 425 | 7.6 | 603 | 9.8 |
| HU | 1 928 | 4.8 | 1 815 | 4.3 | 1 849 | 4.1 | 1 785 | 3.5 | 2 730 | 4.7 |
| LT | 313 | 3.7 | 826 | 8.6 | 456 | 4.6 | 410 | 3.4 | 497 | 3.8 |
| LV | 460 | 9.3 | 318 | 5.8 | 352 | 5.7 | 445 | 5.7 | 198 | 2.3 |
| MT | 71 | 2.4 | 238 | 7.6 | 830 | 24.3 | 674 | 17.4 | 350 | 8.7 |
| PL | 4 328 | 3.4 | 5 677 | 4.0 | 6 821 | 4.7 | 10 133 | 5.7 | 6 377 | 3.1 |
| RO | 1 071 | 3.4 | 1 812 | 4.8 | 977 | 2.9 | 1 110 | 2.8 | 1 442 | 3.2 |
| SI | 414 | 2.6 | 178 | 1.0 | 78 | 0.4 | 492 | 2.4 | 486 | 2.2 |
| SK | 154 | 0.8 | 504 | 2.6 | 306 | 1.6 | 2 317 | 10.9 | 1 647 | 7.2 |
| TR | 710 | 0.4 | 838 | 0.5 | 763 | 0.4 | 1 063 | 0.5 | 3 647 | 2.2 |
| Total | 11 711 | 2.4 | 15 852 | 3.0 | 18 872 | 3.5 | 25 846 | 4.1 | 24 282 | 3.8 |

Source: Eurostat, Acceding Countries: still attractive for Foreign Direct Investors, 1997-2001 Data, Statistics in focus 2 - 51/2003, 9 July 2003; Eurostat, Foreign Direct Investment in the Candidate Countries: sector and country composition, Statistics in focus 2 - 55/2002, 3 October 2002.

At the macro level, FDI inflows constitute a direct contribution to growth and compensate for deficits in the trade balance, which most CEECs have. Higher investment ratios increase total factor productivity, which in turn is essential for the speed of convergence with the EU-15[106]. Especially in manufacturing FDI was a driver of modernisation and structural change. At the firm level, small regional suppliers and sub-contractors benefitted from large-scale foreign investment and entire new supplier networks might emerge. Moreover, the transfer of technology and management skills to locally based businesses is facilitated[107]. For example, foreign car manufacturers have invested heavily in 'up-skilling' and technological up-grading of their local suppliers[108]. Finally, foreign financial institutions (banks) have been improving the financing situation of local SMEs by offering a broader portfolio of services and additional credit volume[109]. For a number of CEECs, empirical research confirmed that FDI is a key factor in explaining regional growth[110].

However, FDI may lead to some unfavourable effects on the locally based small business sector as well:

- In general, foreign-owned companies have higher profitability and productivity than domestic firms[111], inter alia due to advantageous financing conditions[112]. Thus, foreign-owned companies are usually more competitive and may tend to crowd out domestic firms, particularly in construction and retail trade (e.g. foreign shopping centres and chain stores), which prevents the development of a local SME sector.
- Furthermore, FDI is seen as a factor to increase regional disparities, since investments and consequently growth is concentrated in few geographic areas (mainly capital regions and regions bordering the EU-15). In fact, this process leads to a West-East-divide in economic prosperity of some CEECs (e.g. Hungary and the Slovak Republic) and a disparity between urban agglomerations and rural areas.[113]

106 Boeri, T., H. Brücker, The Impact of Eastern Enlargement on Employment and Labour Markets in the EU Member States, Berlin and Milan, 2000; European Commission, European competitiveness report 2003, Luxembourg, 2003, p. 134.

107 Landesmann, M., S. Richter, Consequences of EU Accession: Economic Effects on CEECs, wiiw Research Reports No. 299, August 2003, p. 33.

108 Pelkmans, J., J.-P. Casey, EU enlargement: external economic implications, BEEP briefing No. 4, s.l., April 2003, p. 8.

109 Piasecki, B., A. Rogut, D. Smallbone, Wpływ integracji Polski z Unią Europejską na sektor MSP (The impact of Poland's integration with the European Union on the SME sector), Polska Fundacja Promocji i Rozwoju Małych i Średnich Przedsiębiorstw, Warsaw, 2000.

110 Tondl, G., G. Vuksic, What makes regions in Eastern Europe catching up? The role of foreign investment, human resources and geography, ZEI Working Paper B 12, Bonn, 2003.

111 Commission of the European Communities, Impact of Enlargement on Industry, Commission staff working paper, SEC(2003) 234, Brussels, 24.2.2003.

112 Commission of the European Communities, Towards the enlarged Union - Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries, COM(2002) 700 final, Brussels, 9.10.2002.

113 Tondl, G., G. Vuksic, What makes regions in Eastern Europe catching up? The role of foreign investment, human resources and geography, ZEI Working Paper B 12, Bonn, 2003.

Increasing stability of institutional and legal environments may attract further FDI - especially small-scale investments in border regions to EU-15 countries - to the new Member States as from 2004, not only from Western Europe but also from non-European countries[114]. Moreover, the sectoral pattern of investments is expected to shift from low-skill and labour intensive towards more sophisticated activities[115]. However, additional FDI inflow may increase regional disparities in candidate countries even further[116].

### 4.1.2. Take-over of the acquis

The implementation of the so-called acquis communautaire affects SMEs in the candidate countries in different ways: First, it improves the general business environment, second, it requires enterprises to undertake substantial investments to comply with new legal provisions ('compliance burden'), and finally, in some countries/industries increasing indirect taxes could affect consumer demand.

Improvement of the business environment

The adoption of EU legislation in the candidate countries is seen to increase the effectiveness, efficiency and reliability of their entire institutional framework, such as the functioning of administrative authorities, courts, or the macro-economic policy. Specific improvements for businesses are expected, for example, in the field of corruption, legal proceedings or public procurement procedures[117]. The adaptation of regulations in the financial sector will facilitate the SMEs' access to finance. The acceptance of the acquis also ensures that the EU's SME policy approach is transferred to the responsible authorities in the candidate countries[118], for example, by the set-up of national SME support or development agencies, or by the adoption of the European Charter for Small Enterprises[119] and the preparation of a report on its implementation[120]. In general, the ten countries acceding in 2004 are well advanced already in adjusting their legal and regulatory framework. For the other candidates major changes are still ahead[121].

'Compliance burden'

In many areas, however, companies in the candidate countries are required to undertake substantial investments in order to comply with the new regulatory framework of the EU, which usually is much more strict and demanding than the previous, national provisions[122]. The most important domains are environmental regulations (e.g. emissions, waste management, licensing of plants), legislation on industrial products (e.g. product safety), health and safety requirements, consumer protection, and social or working conditions (e.g. working time in road transport). For firms this means an additional cost burden, which may - in combination with the difficult access to finance (see Section 2.2) - even threaten their survival; although, in the long run, compliance is likely to contribute to the quality of products and services, eventually strengthening corporate competitiveness, as has been shown in a study on the Bulgarian road transport industry[123].

The 'compliance burden' seems to be highest in *manufacturing*, especially in the production of chemicals and pharmaceuticals, basic metals and fabricated metal products, transport equipment, and in the food industry[124].

114 Boeri, T., H. Brücker, The Impact of Eastern Enlargement on Employment and Labour Markets in the EU Member States, Berlin and Milan, 2000.

115 Pelkmans, J., J.-P. Casey, EU enlargement: external economic implications, BEEP briefing No. 4, s.l., April 2003, p. 24.

116 Landesmann, M., S. Richter, Consequences of EU Accession: Economic Effects on CEECs, wiiw Research Reports No. 299, August 2003, p. 35; see also Orłowski, W. M., Koszty i korzyści z członkostwa w Unii Europejskiej. Metody, modele, szacunki (Benefits and costs of membership in the European Union. Methods, models, estimates), CASE, Warsaw, 2000.

117 See e.g. Stefanov, R., Business Environment and SMEs Financing in the Accession, Institute for Economic Policy, Sofia, 2003.

118 The SME policy is represented by 'Chapter 16' of the accession negotiations.

119 See http://www.europa.eu.int/comm/enterprise/enterprise_policy/charter/charter_en.pdf.

120 Commission of the European Communities, Report on the implementation of the European Charter for Small Enterprises in the candidate countries for accession to the European Union, Commission staff working paper, SEC(2003) 57, Brussels, 21 January 2003.

121 Commission of the European Communities, Towards the enlarged Union - Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries, COM(2002) 700 final, Brussels, 9.10.2002.

122 In some areas, however, the adoption of EU regulations may well lead to more simplified requirements. An example is the registering of start-ups.

123 Slavova-Nocheva, M., The competition between railroad transport and motor transport in Bulgaria, Rail Road Transport Magazine, No. 4, Sofia, April 2003.

124 Particularly high compliance costs in the food sector are seen in some Polish studies, e.g. Rogut, A., Małe i średnie przedsiębiorstwa w integracji ekonomicznej. Doświadczenia Unii Europejskiej. Lekcje dla Polski (SMEs in the economic integration: Experiences of the EU countries, lessons for Poland), University of Lodz Press, Lodz, 2002.

As compliance investments entail significant fixed costs, the relative burden is higher for smaller companies[125]. In fact, larger enterprises and especially foreign-owned firms seem to be better adjusted already to the new regulations, whereas SMEs are lagging behind with respect to readiness[126]. This is also confirmed by the 2003 CAPE survey[127]: The share of businesses in the 10 CEECs having not started compliance preparations at the time of the survey was 58 % for micro/small, 46 % for medium-sized, and 35 % for large companies[128]. Moreover, the survey also identified size differences with respect to the level of information on the acquis: Whereas 33 % of micro and small enterprises have practically no information on EU legislation, this is true for only 22 % of medium and 20 % of large firms.

Indirect tax rates

Due to the acceptance of the EU tax legislation, indirect tax rates for specific products/services have to be raised in some candidate countries[129], which may negatively affect consumer demand. For example, the Czech Republic, the Slovak Republic, and Slovenia would have to increase their rates on construction services, and in some countries excise duties on cigarettes and alcohol do not comply with EU rules yet. Moreover, some candidate countries currently have higher minimum thresholds for turnover levels, above which entrepreneurs are subject to VAT. Consequently, when adopting the tax acquis a greater number of very small firms would have to charge and pay VAT, raising the prices of their products/services. Increasing VAT because of accession is seen as a threat especially in Cyprus[130].

### 4.1.3. Financial aid and EU programmes

Accession preparations in candidate countries have been supported by considerable financial aid from the EU. The PHARE programme is backing enterprise and SME development (one of the priorities within pre-accession aid), which also allows for co-financing of the acquis-related investments described above. A specific subprogramme, the Business Support Programme (BSP), is designed especially to close the information gap concerning the acquis in the enterprise sector[131], and another PHARE-component is dedicated to encouraging cross-border co-operation (PHARE CBC). Another instrument, ISPA, focuses on the development of the candidate countries' infrastructure, which was widely outdated at the beginning of the transition process[132]. In Bulgaria, for example, the poor road system is regarded as one of the major obstacles to the development of the transport industry[133].

After full entry to the EU, the cited pre-accession instruments will be replaced mainly by support from the Structural Funds and the Cohesion Fund. Cohesion Fund transfers will, similarly to ISPA, concentrate on infrastructure and environmental issues. Structural Funds aid will be more directly allocated to the enterprise sector. However, there is some concern about the new members' ability to fully use the committed financial transfers. This is due (i) to the required co-financing of projects from national funds, which typically amounts to 25 % in the case of Structural Funds and 15 % in the case of the Cohesion Fund[134], and (ii) to insufficient experience and know-how in developing and managing successful project applications.

125 See e.g. Piasecki, B., A. Rogut, D. Smallbone, Polish SMEs in the context of the European Single Market, Wydawnictwo Wyższej Szkoły Społeczno-Ekonomicznej, Polska Fundacja Promocji i Rozwoju Małych i Średnich Przedsiębiorstw, Warsaw and Lodz, 2000.

126 Havlik, P. et al., Competitiveness of Industry in CEE Candidate Countries, Composite Paper, WIIW, Vienna, July 2001.

127 Eurochambres and SBRA, Corporate Readiness for Enlargement in Central Europe, A Company Survey on the State of Preparations for the Single Market, Third edition, Brussels, 2003, p. 11.

128 The definition of size classes slightly deviates from the one used in the ENSR Enterprise Survey 2003 (which is at the same time the definition officially recommended by the European Commission). In the CAPE survey the definition is as follows: micro enterprises: up to 10 staff members; small enterprises: 11 to 50; medium-sized enterprises: 51 to 250; large enterprises: 251 or more.

129 Römisch, R., Taxation and enlargement: the impact on the new members, in: Richter, S., The Accession Treaty and Consequences for New EU Members, wiiw Current Analyses and Country Profiles No. 18, s.l., April 2003, pp. 17-19.

130 Cypronetwork Consultancy Group, Study of the Problems the SMEs in the Retail and Wholesale Trade face due to the Accession of Cyprus to the EU, Nicosia, 2002.

131 Commission of the European Communities, Impact of Enlargement on Industry, Commission staff working paper, SEC(2003) 234, Brussels, 24.2.2003.

132 In addition, ISPA allows for co-financing of investments related to the environmental acquis.

133 Slavova-Nocheva, M., The competition between railroad transport and motor transport in Bulgaria, Railroad Transport Magazine, No. 4, Sofia, April 2003.

134 Richter, S., EU enlargement: the issue of transfers, in: Richter, S., The Accession Treaty and Consequences for New EU Members, wiiw Current Analyses and Country Profiles No. 18, s.l., April 2003, p. 4.

Next to these support instruments, SMEs in candidate countries are able to participate in the following EU programmes:

- The *Multiannual Programme for Enterprise and Entrepreneurship (MAP):* In the frame of this action, candidate countries take part in the so-called BEST procedure aimed at exchanging best practice in the area of policies related to the business environment and in the Euro Info Centres (EIC) network.
- The *Sixth RTD Framework Programme:* In the frame of this programme, for example so-called Innovation Relay Centres are set-up in the candidate countries, providing a wide range of business support services targeted at technology-oriented SMEs[135].
- The *Leonardo da Vinci Programme:* This programme supports vocational training in the candidate countries.

The financial instruments of the MAP, i.e. the SME Guarantee Facility, the ETF Start-up Facility and the Seed Capital Action, which are managed by the European Investment Fund (EIF), have also been extended to the candidate countries. They facilitate access to loan and equity finance for SMEs by providing guarantees for national loan guarantee schemes, venture capital for national venture capital funds and grants for hiring and training fund managers. Another measure to improve the access to finance for SMEs in candidate countries is the SME Finance Facility, a joint initiative of the PHARE programme, the European Bank for Reconstruction and Development (EBRD), the Council of Europe Development Bank, the Kreditanstalt für Wiederaufbau (KfW) and the European Investment Bank (EIB). The Facility provides loan, leasing and equity finance to financial intermediaries to increase in turn their lending and investment capacity.[136]

### 4.1.4. Labour market effects

From the perspective of SMEs in the candidate countries, the enlargement process may pose challenges with respect to the labour market in at least two ways: (i) through the accelerated structural change and (ii) through free movement of labour within the expanded EU.

The economies of the candidate countries, above all the CEECs, are experiencing a dramatic structural change, which is primarily rooted in the transition to market economies and further intensified by the European integration process (via FDI inflows and trade). The changes are reflected in a decline of the agricultural and industrial sector and a growing service sector, in increasing productivity, new market demands and the application of new technologies. For SMEs all this translates into new and rapidly changing requirements regarding input factors and especially the workforce. However, labour supply in transition countries hardly keeps pace with these requirements, as it is characterised by relatively low mobility of workers across labour market strata, occupations and sectors[137]. Under these conditions, both unemployment and skill gaps occur. For example, a 2001 survey among 165 Czech SMEs[138] revealed that 46 % of construction firms and 36 % of transport firms suffer from skill shortages, and several business surveys in Lithuania[139] indicate that access to knowledge and to a skilled workforce is a growing concern.

With full accession, the introduction of free movement of labour between current and new Member States could add to these skill gaps. Migration - although limited in overall terms (see Section 3.3) - might negatively affect certain segments of the labour market, especially high-skill categories and regions bordering the EU-15 (due to outward commuting). Accordingly, emigration of qualified labour has been identified as a possible drawback of accessing the Single Market, as reported by an Estonian and a Slovenian study[140].

135 European Commission, Enterprise Directorate General, Enlargement: What can enterprises in the new Member States expect? Questions and answers, Brussels, 2003.
136 European Commission, Enterprise Directorate General, Enlargement: What can enterprises in the new Member States expect? Questions and answers, Brussels, 2003.
137 European Commission, Directorate-General for Economic and Financial Affairs, The economic impact of enlargement, Enlargement Papers No. 4, Brussles, June 2001.
138 Oberholzner, T., W. Bornett, H. Kanov, I. Pichler, Untersuchung der branchen- und regionalbezogenen Auswirkungen der EU-Erweiterung auf die oberösterreichische Wirtschaft (Study on the sectoral and regional impacts of EU enlargement on the economy of Upper Austria), Vienna, 2001, p. 152.
139 The World Bank, Aiming for a knowledge economy (Lithuania), s.l., March 2003.
140 Siimon, A., The Estonian SME policy in the context of the EU, in: Economic Policy of the Republic of Estonia and the EU, Tartu-Värska Conference Proceedings, Tallinn, 1999, p. 297-302; Damijan, J. et al., Ocena makro in mikroekonomskih učinkov vstopa Slovenije v EU. (Estimation of macro and micro economic impacts of Slovenia entering the EU), Slovenian Chamber of Commerce, Ljubljana, May 2003.

## 4.2. Sector-specific effects

### 4.2.1. Manufacturing

Whereas the overall trade in commodities with the EU-15 is low relative to the GDP of the Union, it is more significant if compared to the economic size of the candidate countries. It is mainly larger firms - and especially the foreign-owned ones - rather than small and/or domestic-owned companies that are directly involved in exporting and importing (which is similar to Western Europe). For example, a survey among 300 SMEs in Latvia shows that only 6.6 % of enterprises were engaged in exports to the European Union in 2002[141]. In Poland, only 5 % of manufacturing SMEs' total sales in 2001 was represented by exports to the European Union[142], while in Turkey SMEs contribute approx. 10 % to total exports[143]. However, small local-based businesses often benefit by supplying to internationally operating large firms.

At the ***industry level***, the candidates' export performance with the EU is highest in (electrical) machinery and equipment, road vehicles, wooden products (especially in the Baltic states), textiles and clothing, basic metals, as well as furniture, with the last industry showing a strong SME dominance. Thus, these industries, though primarily in low price segments, have benefitted most from an export-induced demand effect, while especially in machinery and equipment as well as in road vehicles import competition from the EU-15 is strong, too.

This trade pattern is currently changing, and full accession in 2004 will reinforce this trend. Growing wages will gradually reduce the labour cost advantage, with negative effects on industries like textiles, leather and wooden products[144] (although in the short run these industries particularly may benefit from the abolition of remaining trade barriers[145]). On the other hand, the ongoing productivity catching-up in medium-tech and high-tech industries[146] will strengthen such companies' competitiveness vis-à-vis the EU-15 and therefore open new export opportunities[147]. The trend of increasing export shares of technology-driven industries can already be observed in the most advanced CEECs, in particular in the Czech Republic, Estonia, Hungary and the Slovak Republic[148] (but to a lesser degree in Bulgaria, Latvia, Lithuania, and Romania, which still have a high share of labour-intensive exports).

Furthermore, the following industry and size-specific aspects may be considered:

- Due to the further reduction of transaction costs, smaller firms and those in EU-15-CEEC border regions will probably find new trading co-operation possibilities (see also Section 3.1.1), as suggested, for instance, by a Polish study showing that foreign technical standards are a major export barrier for small firms rather than for larger ones[149].
- The steel industry, which is mainly large scaled, may need further painful restructuring to be competitive in an enlarged EU, for example in the Czech Republic[150], which may adversely affect small sub-suppliers.
- Demand for cars is expected to increase strongly, with a positive effect on the local supply of components to large car manufacturers in the candidate countries. On the other hand, due to the adoption of the acquis with respect to customs tariffs, duties on products from third countries (mainly Japan and

141 Hipotēku banka and SKDS Market and Public Opinion Research Centre Mazās un vidējās uzņēmējdarbības vide Latvijā (Small and Medium-Sized Business Environment in Latvia), s.l., June/July 2002.

142 Polish Agency for Enterprise Development, Report on the Condition of the Small and Medium-Size Enterprise Sector in Poland for the Years 2000-2001, Warsaw, 2002, p. 216.

143 Source: Turkish ENSR partner.

144 Havlik, P. et al., Competitiveness of Industry in CEE Candidate Countries, Composite Paper, WIIW, Vienna, July 2001; Rogut, A., Małe i średnie przedsiębiorstwa w integracji ekonomicznej. Doświadczenia Unii Europejskiej. Lekcje dla Polski (SMEs in the economic integration: Experiences of the EU countries, lessons for Poland), University of Lodz Press, Lodz, 2002.

145 The Office of the Committee of European Integration, Bilans korzyści i kosztów przystąpienia Polski do Unii Europejskiej (The balance of costs and benefits of Poland's accession to the European Union), Warsaw, 2003.

146 In fact, the fastest productivity growth rates are registered in the production of electrical and optical equipment, and transport equipment (see European Commission, European competitiveness report 2003, Luxembourg, 2003, p. 143).

147 Havlik, P., CEE industry in an enlarged EU: restructuring, specialization, and competitiveness, in: Richter, S., The Accession Treaty and Consequences for New EU Members, wiiw Current Analyses and Country Profiles No. 18, s.l., April 2003, p. 27.

148 Commission of the European Communities, Impact of Enlargement on Industry, Commission staff working paper, SEC(2003) 234, Brussels, 24.2.2003, p. 8-9; European Commission, European competitiveness report 2003, Luxembourg, 2003.

149 The Office of the Committee of European Integration, Bilans korzyści i kosztów przystąpienia Polski do Unii Europejskiej (The balance of costs and benefits in Poland's accession to the European Union), Warsaw, 2003.

150 European Commission, Enterprise Directorate General, Enlargement: What can enterprises in the new Member States expect? Questions and answers, Brussels, 2003, p. 21; Havlik, P., CEE industry in an enlarged EU: restructuring, specialization, and competitiveness, in: Richter, S., The Accession Treaty and Consequences for New EU Members, wiiw Current Analyses and Country Profiles No. 18, s.l., April 2003, p. 32.

USA) will decrease, bringing more competitive pressure on the car market[151]. For Slovenian enterprises general market access to former Yugoslavian countries could become more difficult due to inclusion into the EU customs area[152].
- The chemical industry, and in particular its smaller companies, may face serious challenges and difficulties with respect to implementing the acquis in the domain of environmental protection and workplace safety.[153]
- Due to the necessary investments in the field of e.g. environmental protection, industries dealing with recycling and waste management and those firms producing materials and equipment for such purposes may find new business opportunities.[154]

### 4.2.2. Services

Since the outset of the transition process the CEECs have widely restructured their economies, and services, initially clearly underdeveloped compared to Western Europe, have been catching-up in terms of output and employment shares. In 2001, the shares of services in total value added and employment in Hungary, Poland, the Slovak Republic and Slovenia were already very close to the average EU ratio[155]. The enlargement process itself is influencing specific service industries in different ways.

The EU integration process is having a positive effect on demand for ***construction*** services, due to (i) investment requirements originating from the acquis, (ii) EU financial support to up-grade the infrastructure (e.g. ISPA and - after accession - the Cohesion Fund) and (iii) the establishment of large foreign companies, partly conducting green-field investments. In Malta, construction is seen to be the sector profiting most from EU accession, as an additional output effect of almost 9 % is expected[156]. Once free provision of services has been granted, new business opportunities in neighbouring EU-15 regions may emerge. However, a Hungarian study suggests that it is primarily the larger enterprises that are able to take advantage of these developments[157].

In ***retail trade*** smaller shops have been facing strong competition from large chain stores, which are often owned by foreign companies, thereby reinforcing the trend towards larger enterprises and more concentrated markets. In border regions to the EU-15 cross-border shopping tours have become relevant, however, the balance of purchasing power transfers is far from clear (see also Section 3.1.2). A survey among retailers in the Hungarian region bordering Austria revealed that turnover originating from Austrian clients is considerable and reaches on average 8.5 % of total turnover[158].

The income effect connected to enlargement will impact on the demand for ***tourism*** services in the candidate countries and in the CEECs in particular. However, at least part of this additional demand will be directed abroad. Within the candidate countries traditional tourist locations with high quality supply may benefit most. For example, in Malta a marked expansion of tourism is expected as a consequence of accession[159].

The ***transport*** sector is seen to profit from increasing demand caused by growing international commodity flows. Hauliers from the CEECs in particular may also benefit from improvements of the road systems, and from additional business opportunities once the cabotage has been liberalised. On the other hand, transport firms are confronted with significant investment requirements related to the adoption of EU regulations (e.g. technical equipment of vehicles, etc.) and stricter social and working conditions (e.g. working time of drivers). Especially smaller companies may need to recruit additional workers, while larger firms may attempt to re-allocate their

151 Pelkmans, J., J.-P. Casey, EU enlargement: external economic implications, BEEP briefing No. 4, s.l., April 2003, p. 6.

152 Damijan, J. et al., Ocena makro in mikroekonomskih učinkov vstopa Slovenije v EU. (Estimation of macro and micro economic impacts of Slovenia entering the EU), Slovenian Chamber of Commerce, Ljubljana, May 2003.

153 Havlik, P. et al., Competitiveness of Industry in CEE Candidate Countries, Composite Paper, WIIW, Vienna, July 2001; European Commission, Enterprise Directorate General, Enlargement: What can enterprises in the new Member States expect? Questions and answers, Brussels, 2003, p. 24.

154 Piasecki, B., A. Rogut, E. Stawasz, S. Johnson, D. Smallbone, Warunki prowadzenia działalności gospodarczej przez MSP w Polsce i krajach Unii Europejskiej (Business environment for running SMEs in Poland and in the EU countries), Polska Fundacja Promocji i Rozwoju Małych i Średnich Przedsiębiorstw, Warsaw, 1998.

155 For further details see Vidovic, H., The services sectors in Central and Eastern Europe, in: Richter, S., The Accession Treaty and Consequences for New EU Members, wiiw Current Analyses and Country Profiles No. 18, s.l., April 2003, pp. 44-54.

156 Bayar, A., Malta and the EU - Membership and Non-Membership, the costs and benefits, EcoMod and EMCS Ltd, 2003.

157 Oelberg, K., C. Lampert, A. Gelei, L. Csizmazia, Építőipar az Európai Unióban és Magyarországon (The construction industry in the European Union and in Hungary), Magyar Kereskedelmi és Iparkamara, Budapest, 2002.

158 Grosz, A.: Erwartungen der ungarischen Unternehmen in Verbindung mit der EU-Erweiterung (Expectations of Hungarian businesses in connection with EU enlargement), West Hungarian Research Institute, Győr, 2002.

159 Bayar, A., Malta and the EU - Membership and Non-Membership, the costs and benefits, EcoMod and EMCS Ltd, 2003.

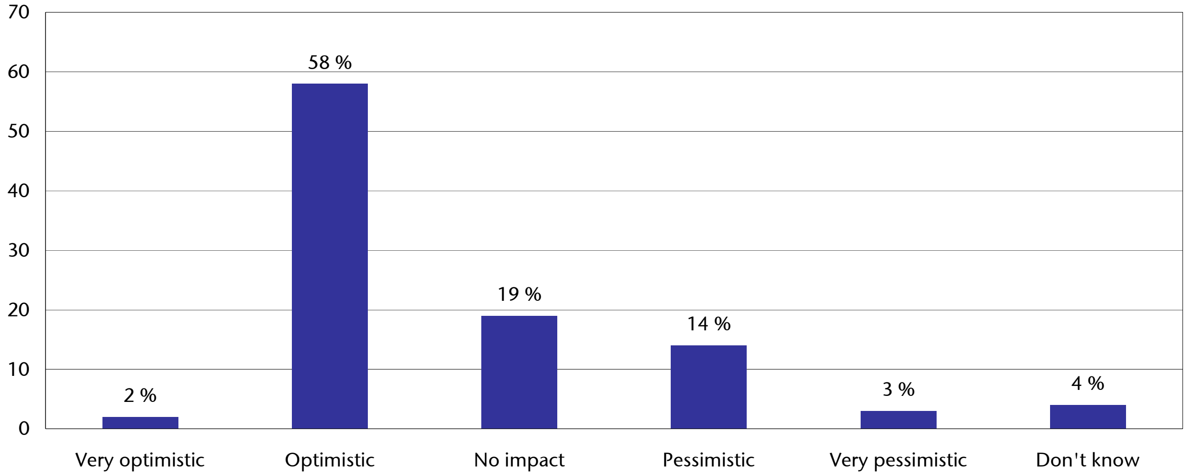
drivers and optimise their shipping plans[160]. In the same way as for the EU-15 (see Section 3.1.2), candidate countries' smaller forwarding agents are concerned about the potential loss of business activities[161].

The largest gap between the EU-15 and the CEECs can be found in ***business and technical services***[162]. Enlargement will facilitate the transfer of relevant technology and know-how and consequently accelerate the 'catching-up' in this area. Technical services in particular may be boosted through high investment requirements in the course of acquis alignments, e.g. civil engineering, recycling or energy technology.

## 4.3. Expectations and attitudes of businesses towards EU accession

Although SMEs in the candidate countries have been facing a number of challenges in the course of the accession process, their expectations concerning the development of their companies after entering the EU are generally optimistic and a large majority is positive about joining the EU. According to the CAPE survey of 2003, 89 % of respondents are in favour of accession, with percentages ranging from 69 % in Latvia to 97 % in Romania[163]. Furthermore, Figure 4.1 shows that 60 % of the surveyed companies are (very) optimistic with respect to their business prospects in view of accession compared to only 17 %, which are (very) pessimistic.

**Figure 4.1: Assessment of business prospects by companies in view of accession, percentage of enterprises, ten CEECs**




Source: Eurochambres and SBRA, Corporate Readiness for Enlargement in Central Europe, A Company Survey on the State of Preparations for the Single Market, Third edition, Brussels, 2003.

160 Urząd Komitetu Integracji Europejskiej, Wdrożenie ustawy o czasie pracy kierowców oraz ustawy o transporcie drogowym w zakresie zabezpieczenia finansowego (The implementation of the law on working time of drivers and the law on financial security), Warsaw, 2001.

161 Jakomin, L., S. Zupančič, M. Medeot, I. Jakomin, J. Kržišnik, I. Trstenjak, Vstop Slovenije v Evropsko Unijo in vpliv na notranjo špedicijo (Slovenian entry into the EU and its influence on internal forwarding), research report implemented by PRINZ Institute, The Chamber of Commerce and Industry of Slovenia, Ljubljana, October 2002.

162 Vidovic, H., The services sectors in Central and Eastern Europe, in: Richter, S., The Accession Treaty and Consequences for New EU Members, wiiw Current Analyses and Country Profiles No. 18, s.l., April 2003, pp. 44-54.

163 Eurochambres and SBRA, Corporate Readiness for Enlargement in Central Europe, A Company Survey on the State of Preparations for the Single Market, Third edition, Brussels, 2003, p. 25.

Other national or regional investigations confirm that, on balance, SMEs expect accession to have a positive impact. However, some analyses display different results:

– A survey among more than 1 900 Estonian SMEs in 2002 shows that 35 % consider accession to have a positive influence on their own business operations, 22 % do not see any influence, and 20 % expect a negative effect.[164]
– A study of almost 200 SMEs in Slovenia in 1999 found that 52 % saw the Single Market primarily as an opportunity, 16 % saw it mainly as a threat, and 28 % saw neither opportunities nor threats[165]. Both the Estonian and the Slovenian studies suggest that optimism increases with firm size.
– However, in 2001 a Polish survey among 300 companies with less than 50 employees reported that the majority of respondents expected negative effects from EU accession: 28 % believed that the situation of businesses will deteriorate, while only 19 % expected an improvement (no change 36 %, no assessment possible 17 %).[166]
– An investigation among 300 Latvian SMEs confirms the Polish results: 33 % forecast a worsening of business operations after EU accession and only 17 % expect an improvement, while 23 % see no change and 27 % are not in a position to give an assessment.[167]

The CAPE survey also asked companies for the main effects expected from EU accession:

– 20 % of businesses expect 'tougher competition on the home market from European companies';
– 15 % of businesses think that they will have 'easier access to EU markets'; and
– 14 % expect 'more transparent business practices on the home market (competition rules, state aid, public procurement, etc.)'.

According to a Slovakian survey of 800 SMEs in 2002, 47 % of respondents expressed their concern about greater competition on the domestic market after entering the European Union[168].

Significantly more businesses in the candidate countries than in the EU-15 see the need to react strategically to the changes in the business environment associated with enlargement. On average, only 24 % of companies do not intend to change strategy at all, although cross-country differences exist: Whereas in Slovenia a change of strategy is not necessary for 46 % of respondents, the share is only 11 % in Romania and Estonia and 15 % in Bulgaria[169].

164 Ministry of Economic Affairs and Communications, Development Trends of Estonian Small and Medium Enterprises, Tallinn, 2003.
165 Rebernik, M., M. Rus, Slovenian SMEs in the Light of the European Observatory for SMEs, Institute for Entrepreneurship and Small Business Management, Maribor, 2000.
166 Source: Polish Agency for Enterprise Development.
167 Hipotēku banka and SKDS Market and Public Opinion Research Centre Mazās un vidējās uzņēmējdarbības vide Latvijā (Small and Medium-Sized Business Environment in Latvia), s.l., June/July 2002.
168 NADSME, SMEs in the process of Slovakia's accession to the EU, Bratislava, 2002.
169 Eurochambres and SBRA, Corporate Readiness for Enlargement in Central Europe, A Company Survey on the State of Preparations for the Single Market, Third edition, Brussels, 2003, p. 24.

# Chapter 5
# Policy measures in the context of EU enlargement

In order to avoid adverse disruption to the enterprise sector and to ensure that economic opportunities are actually exploited, various policy actions at the European, national and regional level have been introduced to support (small) firms to adjust to the new environment of an enlarged EU. This chapter provides a brief overview of relevant measures at the European level and presents some selected instruments at the national/regional level, to illustrate which type of support is pursued and how it is designed. Section 5.1 addresses the policy situation in the present Member States, whereas Section 5.2 deals with support targeted at companies in the candidate countries.

## 5.1. Measures addressing SMEs in Europe-19

A key prerequisite for enterprises to adjust to new external conditions is sufficient information about these conditions. Exploiting new business opportunities requires firms in current Member States to establish commercial links with candidate countries. Both information acquisition and building international contacts are more difficult and costly for smaller companies than larger ones. It is therefore consistent, in the context of enlargement, that the support to SMEs is focused mainly on the provision of relevant information and on the promotion of co-operation between enterprises in the current and future Member States.

In line with the particular relevance of enlargement for SMEs in EU regions bordering candidate countries, the Commission launched a *'Community Action for Border Regions'* in 2001[170]. The programme covers 23 regions in Finland, Germany, Austria, Italy and Greece. Since 2001, a broad-based SME project ('Growing Together with Europe') run by a network of 28 chambers of commerce (ARGE28) is being financed under this programme. The network offers information on enlargement, organises seminars and workshops for entrepreneurs, provides financial aid for consultancy on strategies and acts as an agent for business contacts and co-operation in candidate countries[171]. In 2002, the Community Action provided financial support to *'Regional Partnership Events for SMEs in EU Regions Bordering the Candidate Countries',* which were organised by local Euro Info Centres. The 2003 initiatives focused, amongst other things, on[172]:

- Improving the access to support services for entrepreneurs of micro and small businesses and on facilitating their inter-regional and cross border co-operation.
- Qualifying, re-training and increasing mobility of employees working in sectors affected by enlargement (in particular the most vulnerable groups such as unskilled workers).
- A specific '*Enlargement Programme for SMEs*', supporting co-operation and business partnerships between SMEs in the current EU Member States and in candidate countries.

Next to the Community Action for Border Regions, the Enterprise Directorate-General of the Commission has launched a pan-European campaign *'Business opportunities with enlargement'* in 2003[173]. The campaign is run by

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170 Commission of the European Communities, Communication from the Commission on the impact of enlargement on regions bordering candidate countries - Community action for border regions, COM(2001) 437 final, Brussels, 25.7.2001.

171 See also http://www.arge28.org/.

172 For more detail see http://europa.eu.int/comm/enlargement/borderregions/.

173 See also http://europa.eu.int/comm/enterprise/networks/eic/eic_enlargement_en.html; and http://eic.cec.eu.int/Enlargement/.

the Euro Info Centres and encompasses about 400 activities such as business clubs, workshops, and information days. Access to practical and industry-specific information (e.g. legislation, export guides) is key within this initiative. Moreover, it is the aim to establish new contacts between SMEs in present and future Member States. An example is a virtual office for entrepreneurs in Poland, Estonia and Sweden.

Finally, the EU also supports the enlargement preparation of SMEs via more general instruments, e.g. Structural Funds and Community Initiatives. Especially many Interreg programmes in EU countries bordering candidate countries encourage cross-border co-operation among SMEs and other preparatory activities related to enlargement. *An example is the Finnish Interreg programme for the Southern Finland Coastal Zone. Here, many projects aim to support SMEs in finding business opportunities in Estonia and other Baltic countries. An emphasis is put on industry-specific initiatives such as the 'IT sector co-operation between Southern Finland and Estonia' or the 'Baltic Sea Wood Product Network'. The Southern Finland Coastal Zone programme is closely connected to the Estonian PHARE-CBC programme.*[174]

***At the national level,*** only a few EEA countries have introduced specific policy measures explicitly geared towards preparing businesses in the context of enlargement. However, some countries are setting priorities on (selected) CEECs within their more general internationalisation support instruments. This is the case, for example, in France, Finland or Spain. The increasing competitive pressure due to enlargement is one of the policy rationales of the Portuguese *Business Modernisation Incentive Scheme (SIME),* a general competitiveness enhancing measure. Moreover, some countries run programmes aimed at supporting the private enterprise sector in candidate countries (see also Section 5.2). Domestic SMEs may indirectly profit from such actions as assistance activities are contracted out and various co-operations with candidate countries may then develop in the follow-up. This is the case, for example, in the *Eastern Europe Support Programme* in Denmark.

Those countries that have specific policy measures addressing enlargement, concentrate very much on the provision of relevant information, consultancy, and on fostering co-operation between domestic firms and firms in candidate countries, including export and investment activities. Austria and Germany display the most comprehensive and manifold array of initiatives. In the following a few examples are presented to illustrate the nature of policy support in some EU countries.

- In *France*, the 'Enlargement Mission' of the Direction des Relations Economiques Extérieures (DREE; Division of External Economic Relations) of the Ministère de l'Economie, des Finances et de l'Industrie (MINEFI; Ministry of Finance and Industry), forms an information and support committee for enterprises on all enlargement matters. They supply country- or sector-related information on e.g. legislation, standardisation, and public procurement. In 2003, more than 100 information events were planned.
- In *Spain*, the 'Plan de Ampliación' (Enlargement Plan), launched in 1999, represents a broad programme comprising a multitude of actions. Its key objectives are to raise awareness among private enterprises of the opportunities and challenges in the new EU member countries and, most importantly, to foster commercial relations with some candidate countries, namely Poland, Hungary and the Czech Republic. Mechanisms applied are, amongst others, the provision of general and industry-specific information, including information on investment opportunities, commercial missions to the CEECs and vice versa to Spain, and investment support. Different authorities and organisations are involved in the management of the Plan, however, the main responsibility lies with the Spanish Ministry of Economic Affairs.[175]
- In *Norway*, a specific Investment Fund for Central and Eastern Europe exists. The fund was established in 1997 and is run by the Norwegian Industrial and Regional Development Fund. The basic aim is to strengthen co-operation between Norwegian enterprises and enterprises in the target region. So far, an important share of the supported investments went to the Baltic countries and Poland.[176]
- In *Sweden*, SIDA in co-operation with NUTEK and ALMI launched the 'StartÖst' (Start East) programme in 1995/1996. The scheme addresses Swedish SMEs with a profitable business idea to be implemented in East and Central Europe. The business idea should be undertaken in co-operation with an enterprise from that area (a collaboration agreement is an eligibility criteria). Support is given by loans for associated investments in the start-up phase. A large number of projects focus on Lithuania and Latvia.[177]

174 Source: Finnish ENSR partner.
175 See also: http://www.mcx.es/sgcomex/ampliacion.pdf and http://www.mcx.es/sgcomex/home1fra.htm.
176 See also: http://www.snd.no.
177 See also: http://www.nutek.se.

- In *Austria*, a high number of initiatives and measures, mainly at the regional level, have been put in place. For example, a 'fitness programme' enables businesses in Lower Austria to benefit from enlargement. Amongst other things, a number of cross-border 'Impulse Centres' have been established at the border of Lower Austria and the Czech and Slovak Republic, which offer support in the field of cross-border co-operation. The Economic Chamber of Vienna runs a „EU-Erweiterungs-Beratungszentrum' (EU enlargement consulting centre), which offers a number of free or subsidised services, e.g. information about enlargement, workshops with internationalisation experts, contact meetings in candidate countries, search for co-operation partners, help from co-operation assistants, and coaching to implement internationalisation strategies[178]. Similar measures have been introduced by other regional governments and regional chambers.
- In *Germany*, too, a vast number of instruments are in place to support the efforts of German enterprises to take advantage of new business opportunities in Central and Eastern Europe. Similar to Austria, many measures concentrate on the regions bordering candidate countries. A very good example of actions encouraging cross-border business activities is the 'Deutsch-Polnische Wirtschaftsförderungsgesellschaft' (TWG; German-Polish Agency for Business Development), being rather unique with respect to its transnational set-up and offers a comprehensive array of assistance, illustrating the general range of support types available in Germany and also in Austria (see Box 3). Furthermore, a wide range of (regional) policies aim at up-grading the German border regions and their business communities in a more general sense to counter structural adjustment pressures in the course of EU enlargement. An example is the 'Ertüchtigungsprogramm Ostbayern' (Efficiency Boosting Programme Eastern Bavaria).

**Box 3: Deutsch-Polnische Wirtschaftsförderungsgesellschaft AG (TWG; German-Polish Agency for Business Development plc)**

The TWG was created on the initiative of the Polish and the German governments in 1994. The shareholders are four German Federal States bordering Poland as well as the Republic of Poland. The basic aim of the Agency is to assist SMEs (the TWG focuses on small and medium-sized enterprises) from the concerned border regions in accessing the markets of the neighbouring country and to promote German-Polish business relations by supporting investments and co-operation projects.

The TWG provides the following types of assistance:
- Information on framework conditions in Poland (and Germany), e.g. regulations, locations, markets;
- Advice on foreign trade, co-operation and investment opportunities;
- Help in finding co-operation partners and skilled workers;
- Analyses of market developments;
- Evaluation of investment locations;
- Assistance in language issues;
- Organisation of information events and conferences, as well as information trips.

The main strength of the TWG is the importance they attach to individual consultancy. For each client a plan is developed and its implementation is subsequently supported. TWG´s staff, German as well as Polish employees are all bilingual and have close contacts with the administrations in both countries and they are well acquainted with local traditions and markets.

By the beginning of 2003, the TWG had served 8 800 clients in total. As a result the Agency contributed to the establishment of 170 joint ventures and 160 other co-operation agreements. It is estimated that, as a consequence, more than 1 000 new jobs have been created. Moreover, 70 German-Polish business conferences and 30 co-operation exchange events have been organised, attended by more than 10 000 enterprises. Currently, the Agency receives approx. 100 new requests per month.

Source: http://www.twg.pl.

178 See also: http://wko.at/wien/aw/

## 5.2. Measures addressing SMEs in candidate countries

The challenges connected to enlargement are more significant and also different in nature for SMEs in the candidate countries compared to Europe-19. This is also reflected in policy measures as regards their general scale and dimension as well as their aims and orientation. ***At the European level,*** PHARE provided important funds to prepare SMEs in candidate countries for accession (see Section 4.1.3)[179]. Similar to the enlargement-related policy support in present EEA countries, encouraging cross-border co-operation is an essential element of PHARE, namely in the form of PHARE CBC. However, a major part of the assistance is intended to enhance the general competitiveness of SMEs and to help businesses to comply with the acquis (see Section 4.1.2), including on the one hand actual co-financing for related investments and on the other hand the provision of relevant information (e.g. via the so-called *Business Support Programme*). Providing information on the acquis is also one of the main tasks of the EIC network in candidate countries, whose previously mentioned pan-European campaign *'Business opportunities with enlargement'* is implemented in these countries, too.

CAPE III, the Accession Programme for Eastern Europe of Eurochambres, also focuses on the adoption of the acquis. The programme is funded by the European Commission and runs until July 2004. Amongst other things, the CAPE Acquis Audit offers companies in the target countries screening by external experts on their level of compliance with relevant EU legislation.

Apart from pre-accession aid to candidate countries stemming from the EU level, many individual Member States also provide comparable support schemes to strengthen private business in future member countries. For example, the Chambers of Commerce of Halle-Vilvoorde, Antwerp and Limburg in *Belgium* have developed an *Acquis Support Programme for Bulgarian Business Organisations*. The project is targeting business organisations in specific Bulgarian regions and offers various training schemes to enable these organisations to better accompany and guide their SMEs within the European market after accession. Training topics are inter alia the European institutional and legal framework, standardisation, public procurement and financing from European sources. Another example is the *Eastern Europe Support Programme* in *Denmark*. This programme, which is run by the National Agency for Industry and Housing, concentrates on the Baltic countries and Poland. It basically aims at capacity building in business support systems and at increasing the technology and innovation performance in the target countries. The overall objective is to support the development of a strong private SME sector. The scheme follows a project-oriented approach, as projects are prepared by the Agency in collaboration with the recipient states. Priority is given to the involvement of SMEs of the relevant candidate countries.[180]

***At the national level,*** the candidate countries' policy strategies to prepare SMEs for accession are strongly interwoven or overlapping with the country's general SME support policy. General SME programmes are often oriented towards EU accession, this approach underlining the high priority attributed to preparing SMEs for accession in a rather comprehensive way. For example, the influence of the prospective EU accession on SME or business promotion policies is apparent in:

- *Cyprus*, where the recent introduction of a *New Industrial Policy* is justified amongst others by the anticipated EU entry.
- *Malta*, where EU integration played a role in replacing the Industrial Development Act by the new *Business Promotion Act*.
- *Hungary*, where the *Economic Competitiveness Operational Programme* aims at ensuring a competitive economy in the Single Market.
- *Poland*, where improving the ability of SMEs to operate on the Single Market constitutes one of the main objectives of the *Government policy guidelines for small and medium-sized enterprises from 2003 to 2006*.
- *Slovenia*, where the integration into the Single Market is influencing the new *Strategy for the Economic Development of Slovenia 2001-2006*.

Fostering international competitiveness of enterprises represents the basic policy strategy in relation to EU accession in many of the candidate countries' general economic and business development programmes. Next to the general schemes, additional specific measures targeted at strengthening the companies' international competitiveness are in place. Examples are the *Polish Strategy for the light industry 2000-2005*, which provides various types of support to increase the international competitiveness of the clothing, textile and leather industry in the

179 PHARE covers the central and eastern European countries. However, for Cyprus, Malta and Turkey separate but similar pre-accession instruments exist.
180 See also http://www.ebst.dk/oestsoette_eng

fields of price, quality and technology; a *Slovenian initiative to develop regional clusters* in order to help SMEs (up to 50 employees) in attaining competences to operate on foreign markets; the *Latvian Guarantee Programme* which facilitates access to finance for SMEs planning to invest in new technologies, with the ultimate aim to increase their competitiveness also on EU markets; and a *scheme to encourage the adoption of standards* (e.g. ISO) by SMEs in *Cyprus* in order to up-grade product quality and thereby improve export opportunities. Although strengthening international competitiveness of SMEs is a widespread policy objective in the context of EU accession among candidate countries, the examples show that the instruments to achieve it are very diverse.

Apart from enhancing international competitiveness of SMEs, some of the general programmes also include measures addressing more immediate issues of accession preparation. For instance, the provision of relevant information to SMEs on EU regulations is foreseen in the Hungarian *Széchenyi Enterprise Development Programme* and the *SME Development Credit Programme* of Latvia is offering assistance via loans for, amongst other things, introducing EU standards in the fields of product quality or environmental affairs.

# Chapter 6
# Conclusions

The enlargement of the EU is a complex integration process altering the business environment under which enterprises in both the current and new Member States are operating. For enterprises, the introduction and enhancement of free movement of goods, services, capital and labour implies (improved) access to (new) markets and resources, but also increased competition on domestic markets. In addition, the general legal and institutional framework in candidate countries is changing due to the adoption of the acquis communautaire and a new system of business support.

From the perspective of SMEs, in both the current and future Member States, this report has identified the following main effects of the enlargement process:

New markets, clients and business opportunities

The liberalisation of foreign trade brought about new export opportunities for manufacturing and wholesale firms. Larger, manufacturing SMEs in a few specific industries and SMEs in EU-15 regions/countries bordering the new members benefitted most, although indirect export may be important for the smaller businesses. The further reduction of transaction costs as from 2004 will facilitate direct exporting by smaller firms and provide new opportunities for small-scale FDI activities. Transport firms (road haulage as a SME-dominated industry) have been profiting from the growing exchange of commodities between current and future Member States, while European SMEs in tourism are benefitting from an income effect in the new Member States. In the *EU/EEA countries*, many small and medium-sized providers of business-, IT- and technical services are positively affected by growing demand in the course of accession preparations, while, in the *candidate countries*, infrastructure investments - supported by EU financial aid - provide business opportunities for domestic SMEs in construction and technical services. Finally, from the perspective of small locally based suppliers and sub-contractors in candidate countries, investments conducted by EU companies (often LSEs) - e.g. production plants, subsidiaries - represent important new clients, too.

New competitors

In the *EU/EEA countries*, especially some small-scaled manufacturing industries (e.g. wooden articles and furniture) seem to be affected by import competition from the candidate countries. Moreover, import competition is greater in EU regions bordering candidate countries. As candidate countries catch up in terms of technology and skill levels in the years ahead, import competition might extend to medium- and high-tech manufacturing industries as well. In road transport, the forthcoming liberalisation of the cabotage is likely to bring new competitors from the candidate countries into the EU transport markets. The construction sector in Austria and Germany is protected from the delivery of such services across the border by transitional agreements, nevertheless, micro enterprises in these countries might have to face new competition after 2004. In the *candidate countries*, significant competition stems from direct investments by (large) EU companies, tending to crowd out local SMEs, e.g. in the construction and retail sector.

The balance between favourable opportunity effects and unfavourable competition or displacement effects on SMEs seems to be positive in both, current and future Member States. The ENSR Enterprise Survey 2003, covering Europe-19, shows that, for all sectors, the share of SMEs perceiving/expecting positive turnover effects due to enlargement is higher than the share perceiving/expecting negative effects. Comparable surveys in candidate countries also display favourable 'balances', however, with distinctly lower shares of 'no effect'-responses compared to Europe-19 survey.

New sources for input factors

The integration process allows for access to new input markets as well. According to the ENSR Enterprise Survey 2003, SMEs in manufacturing (12 %) and construction (10 %) (in Europe-19) have benefitted most from easier/cheaper access to inputs due to the enlargement process. After enlargement is completed, decreasing transaction costs may facilitate establishing cross-regional production networks involving considerable cross-border movement of goods, e.g. outward processing, sub-contracting or assembling. For SMEs in candidate countries, foreign direct investments by EU firms, subsidiaries or joint ventures etc., represent an important access channel to technology and know-how.

Access to labour resources

The ENSR Enterprise Survey 2003 shows that there is widespread willingness among SMEs in Europe-19 to employ workers from the candidate countries after enlargement is completed: almost 30 % of SMEs think that the liberalisation of labour markets will help to reduce skill shortages or labour costs. However, these expectations appear to be too optimistic, as studies have shown that the additional labour supply due to an inflow of migrants from the CEECs will be rather limited. The only exceptions are EU regions bordering a new Member State, where commuters may strengthen labour supply more significantly. From the perspective of SMEs in candidate countries, a brain drain to the current Member States might be felt in certain high-skill segments, while the growing importance of technology-intensive industries is pushing up the domestic demand for skilled workers. Policies to increase the mobility of the labour force across occupations etc. are necessary to avoid skill gaps as well as unemployment in candidate countries.

Investment requirements for SMEs in candidate countries

The acquis alignment calls for considerable investments by enterprises, in particular in some manufacturing industries such as chemicals or food. For smaller firms this may constitute a problem as additional financing is often required, which is a major obstacle for SMEs in candidate countries. However, for those firms successfully managing adaptation, compliance will allow for access to the Single Market and may eventually strengthen the company's competitiveness.

Improved business environment in candidate countries

The adoption of the acquis also ensures an improvement of the business environment, e.g. a more efficient institutional and legal system and a reliable economic policy. Furthermore, SMEs may benefit from considerable pre-accession aid and eligibility to Structural and Cohesion Funds allows for even stronger support after full entry in 2004.

Seizing opportunities or avoiding risks associated with the enlargement process requires the ***strategic response*** of SMEs, which is however rather limited in Europe-19. According to the ENSR Enterprise Survey 2003 only 6 % of those SMEs perceiving or expecting any effect of the enlargement process have already taken strategic measures and another 14 % are planning to do so. Strategic moves are more common in manufacturing and wholesale and the frequency is positively correlated to firm size. Implemented or planned measures show a wide diversity. Higher specialisation, new products/services, establishing co-operations, and improvement of quality are mentioned most often. Exporting and importing activities are an option mainly for small and medium-sized companies, but less for micro enterprises. The same holds true for cost reduction. Micro and small enterprises opt more often than medium-sized ones for specialisation, new products and quality improvements.

***Policy measures*** at the European as well as the national level assist SMEs to adapt to the new business environment. Support is focused on the provision of relevant information, the promotion of co-operation between enterprises in the current and future Member States, and consultancy on strategies. At the European level, a number of specific schemes of DG Enlargement and DG Enterprise are in place, but the more general Interreg programme is of relevance, too. At the national level, some countries are setting priorities on selected CEECs within their general internationalisation support instruments, while only a few EEA countries have introduced self-standing policy measures geared towards preparing businesses in the context of enlargement. In this respect, Austria and Germany have the most comprehensive and manifold array of initiatives.

Case studies show that individual tailor-made consultancy is a key success factor for programmes intended to encourage cross-country co-operation and business activity abroad. The mere information on legal provisions or addresses from databases and the like is often insufficient for small companies. Advisors have to know the local situation 'on the other side' and should preferably speak the respective language. This implies that measures implemented (but not necessarily funded or co-ordinated) at the local/regional level are probably more adequate. 'Two-way' programmes, i.e. a programme offering the same service to SMEs on both sides of the border, might benefit from a better exchange of information and an extensive knowledge base within the support organisation.

# Annex I
# The position of SMEs in Europe-19

92 % of all European enterprises have less than 10 employees

In 2003, there are about 19.5 million enterprises in the European Economic Area (EEA) and Switzerland, providing employment for almost 140 million people. Some 92 % of these enterprises are micro (0-9 employees), 7 % are small (10-49), less than 1 % are medium-sized (50-249) and only 0.2 % are large enterprises (250+). Of all these enterprises 18.7 million are established within the European Union. Just over two thirds of all jobs are in SMEs, so almost one third of all jobs is provided by large enterprises. Within SMEs, the major share of employment is in micro enterprises, enterprises employing less than 10 employees (56 %).

The size-class distribution of employment differs, however, between countries. For example, the share of micro enterprises in total employment is 57 % in both Italy and Greece.

On the other hand, the share of large enterprises in total employment is 41 % in the United Kingdom and even 45 % in Iceland, versus 30% on average.

**Table I.1: The basic facts about SMEs and large enterprises, in Europe-19, 2003**

| | | SME | Large | Total |
|---|---|---|---|---|
| Number of enterprises | (1 000) | 19 270 | 40 | 19 310 |
| Employment | (1 000) | 97 420 | 42 300 | 139 710 |
| Occupied persons per enterprise | | 5 | 1 052 | 7 |
| Turnover per enterprise | Million € | 0.9 | 319.0 | 1.6 |
| Share of exports in turnover | % | 12 | 23 | 17 |
| Value added per occupied person | € 1 000 | 55 | 120 | 75 |
| Share of labour costs in value added | % | 56 | 47 | 52 |

Source: Estimated by EIM Business & Policy Research; estimates based on Eurostat' s Structural Business Statistics and Eurostat's SME Database. Also based on European Economy, Supplement A, May 2003 and OECD: Economic Outlook, No. 71, June 2003. Since a different source has been used, data presented is not directly comparable with data presented in earlier reports of the Observatory of European SMEs.

The average European enterprise employs 7 people

On average, an enterprise in Europe - even including all very large enterprises- provides employment to 7 people; the average for SMEs is only 5 people. However, this varies between 3 people in micro enterprises, and over 1 000 in large enterprises. Countries differ significantly with respect to the scale of their enterprises. For example, the average number of occupied persons per enterprise varies between 2 in Greece, and 12 in the Netherlands.

Medium-term developments (1988-2003) show that in SMEs employment increased, whereas in Large Scale Enterprises (LSE) employment decreased.

Real turnover and value added growth has been smaller in SMEs than in LSEs. However, as labour productivity grew only moderately in SMEs, employment growth was larger in SMEs than in LSEs. In fact, employment in SMEs grew, while in LSEs, it decreased. These patterns can be observed in many individual sectors of industry (except extraction and producer services, which both are LSE-dominated sectors).

# Annex II
# Set-up and structure of Survey

## II.1. Introduction

The ENSR Enterprise Survey 2003 is designed to make uniform data on SMEs available from nineteen European countries. This enables the Observatory of European SMEs, in addition to using Eurostat and other secondary data, to make comparative analyses based on recent and comparable SME data. Data have been collected from enterprises in each of the 19 countries covered, i.e. the 18 Member States of the EEA and Switzerland.

Interviews were conducted using the CATI-system of Intomart. CATI stands for Computer Assisted Telephone Interviewing. The overall design and implementation of the stratification, the questionnaire and the fieldwork were done in close collaboration between staff from EIM Business & Policy Research in the Netherlands, partners in the ENSR network and Intomart.

In this annex the sample size and stratification plan of the ENSR Enterprise Survey 2003 are described. This will foster a proper use and interpretation of the data that have been collected. The 2003 ENSR Survey of SMEs was carried out from April-August 2003.

## II.2. Sample size

The size of the sample was determined by considering the need to report on dichotomous variables at country and size class level, with reasonable accuracy and confidence. Statistical theory shows for dichotomous variables that if sample errors are not to exceed ± 10 %, at a confidence level of 95 % a total sample size of about 90 is needed for that level. This applies to estimates at the country-size class level combined. As three size classes are distinguished in nineteen countries, the minimum required sample size can be calculated as 3 * 19 * 90 = 5 130 interviews. Estimates at the country or size class level separately are of course much more precise at the same level of confidence, as there are many more respondents at these levels.

To allow additional analyses, i.e. by various subgroups to be distinguished in the group of sampled enterprises, the planning did not aim at 5 130 interviews but at about 50 % more: 7 745 interviews. Actually even 7 837 completed interviews were obtained.

## II.3. Stratification plan

Interviewing 7 745 SMEs means covering about 0.04 % of all SMEs. A simple random sample would imply that in total only about 65 medium-sized enterprises (spread over nineteen countries and seven sectors) could be expected in the sample. Obviously this would be insufficient to reach any valid conclusion about the group. Therefore a disproportionately stratified sample is used; this means interviewing less than a proportional number of smaller enterprises and more than a proportional number of larger enterprises. Consequently, observations from the survey must be weighted in order to arrive at representative results.

The stratification of the ENSR Enterprise Survey 2003 is defined in terms of industry (i), enterprise size (s), and country (c). The stratification aims to minimise the standard deviation of the weights used in raising sample results to population levels, taking account of the fact that, in many cases, data by country and/or by enterprise size class or by sector of industry are presented. In order to guarantee a sufficient number of observations for these subsets of the European enterprise population, the following constraints A to E have been imposed:

A. In each country/size class combination: at least 100 observations.
B. In each industry/size class combination: at least 100 observations.
C. In each country/industry combination: at least 35 observations.
D. In each individual industry/size class/country combination: at least 2 observations.
E. In each individual industry/size class/country combination: an upper limit of 10 % of the stock of enterprises.

Restriction E supersedes the other restrictions if conflicts arise. So if 100 observations at the country/size class level (restriction A) would exceed 10 % of the stock of enterprises, the 10 % was set as an upper limit.

The stratification plan that resulted from this procedure is presented in Table II.1, by country and size class (for all sectors).

**Table II.1 Stratification plan: country by size class (for all sectors)**

| Country | Micro (0-9) | Small (10-49) | Med.-sized (50-249) | Total |
|---|---|---|---|---|
| Austria | 107 | 100 | 99 | 306 |
| Belgium | 172 | 99 | 99 | 370 |
| Denmark | 139 | 99 | 100 | 338 |
| Finland | 103 | 101 | 99 | 303 |
| France | 461 | 100 | 100 | 661 |
| Germany | 493 | 100 | 100 | 693 |
| Greece | 162 | 100 | 100 | 362 |
| Iceland | 99 | 97 | 13 | 209 |
| Ireland | 100 | 101 | 100 | 301 |
| Italy | 607 | 99 | 100 | 806 |
| Liechtenstein | 139 | 22 | 3 | 164 |
| Luxembourg | 100 | 101 | 45 | 246 |
| Netherlands | 132 | 101 | 100 | 333 |
| Norway | 134 | 100 | 99 | 333 |
| Portugal | 164 | 99 | 101 | 364 |
| Spain | 363 | 100 | 100 | 563 |
| Sweden | 153 | 99 | 100 | 352 |
| Switzerland | 116 | 99 | 99 | 314 |
| United Kingdom | 527 | 100 | 100 | 727 |
| Total | 4 271 | 1 817 | 1 657 | 7 745 |

Source: Sample optimisation developed by EIM.

The stratification procedure results in a sample of 4 271 micro firms, 1 817 small firms and 1 657 medium-sized firms (see Table II.1). Although there are many more micro firms than larger firms in this sample, the differences in sample size between the three distinguished size classes are much smaller than the corresponding differences in the population. In other words, micro enterprises are still underrepresented in our sample, while small and especially medium-sized enterprises are over represented.

Disproportionate stratifications have also been made regarding country. The sample size ranges from 164 for Liechtenstein to 806 for Italy. Again, while the sample size is larger for large countries, small countries are over-represented in the survey. Without this overrepresentation, it would not be possible to make valid statements concerning the smaller countries.

The overrepresentation of certain countries, sectors and size classes is corrected by weighting the survey results. Therefore, all percentages in text, tables and figures in this report refer to weighted results.

# Annex III
# Trade of EU Member States with 13 candidate countries

**Table III.1: Trade of EU Member States with 13 candidate countries, 1995-2002, in billion Euro**

| | | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|
| Austria | Export | 5.2 | 6.0 | 7.7 | 8.2 | 8.7 | 10.3 | 11.0 | 11.8 |
| | Import | 3.5 | 4.5 | 5.4 | 6.3 | 7.0 | 9.4 | 10.9 | 11.7 |
| | Balance | 1.7 | 1.5 | 2.3 | 1.9 | 1.7 | 0.9 | 0.1 | 0.1 |
| Belgium* | Export | 2.8 | 3.6 | 4.6 | 5.2 | 5.1 | 6.7 | 6.6 | 7.5 |
| | Import | 1.9 | 2.0 | 2.4 | 3.2 | 3.6 | 5.0 | 5.9 | 5.7 |
| | Balance | 0.9 | 1.6 | 2.2 | 2.0 | 1.5 | 1.7 | 0.7 | 1.8 |
| Denmark | Export | 1.3 | 1.5 | 1.8 | 2.1 | 2.0 | 2.2 | 2.4 | 2.6 |
| | Import | 1.1 | 1.1 | 1.4 | 1.6 | 1.8 | 2.2 | 2.6 | 2.7 |
| | Balance | 0.2 | 0.4 | 0.4 | 0.5 | 0.2 | 0.0 | -0.2 | -0.1 |
| Finland | Export | 1.8 | 2.3 | 3.1 | 3.5 | 3.5 | 4.4 | 3.6 | 3.8 |
| | Import | 0.8 | 0.8 | 1.0 | 1.2 | 1.2 | 2.0 | 2.2 | 2.0 |
| | Balance | 1.0 | 1.5 | 2.1 | 2.3 | 2.3 | 2.4 | 1.4 | 1.8 |
| France | Export | 6.1 | 8.1 | 9.6 | 10.9 | 11.9 | 14.9 | 14.8 | 16.2 |
| | Import | 4.5 | 5.0 | 5.2 | 6.5 | 7.4 | 9.7 | 11.1 | 11.6 |
| | Balance | 1.6 | 3.1 | 4.4 | 4.4 | 4.5 | 5.2 | 3.7 | 4.6 |
| Germany | Export | 28.6 | 33.4 | 40.3 | 46.8 | 46.5 | 57.6 | 60.4 | 65.2 |
| | Import | 26.0 | 26.8 | 31.7 | 37.7 | 42.0 | 50.8 | 56.7 | 60.7 |
| | Balance | 2.6 | 6.6 | 8.6 | 9.1 | 4.5 | 6.8 | 3.7 | 4.5 |
| Greece | Export | 1.1 | 1.3 | 1.5 | 1.6 | 1.6 | 2.5 | 2.5 | 2.2 |
| | Import | 0.9 | 0.9 | 1.2 | 1.3 | 1.3 | 1.8 | 2.1 | 2.0 |
| | Balance | 0.2 | 0.4 | 0.3 | 0.3 | 0.3 | 0.7 | 0.4 | 0.2 |
| Ireland | Export | 0.4 | 0.5 | 0.7 | 0.8 | 1.0 | 1.7 | 1.3 | 1.2 |
| | Import | 0.2 | 0.2 | 0.3 | 0.3 | 0.6 | 0.7 | 0.8 | 0.7 |
| | Balance | 0.2 | 0.3 | 0.4 | 0.5 | 0.4 | 1.0 | 0.5 | 0.5 |
| Italy | Export | 10.9 | 13.4 | 15.4 | 16.0 | 15.5 | 20.4 | 22.5 | 23.1 |
| | Import | 7.0 | 7.0 | 8.4 | 9.5 | 10.5 | 13.3 | 15.9 | 16.6 |
| | Balance | 3.9 | 6.4 | 7.0 | 6.5 | 5.0 | 7.1 | 6.6 | 6.5 |
| Luxembourg | Export | - | - | - | - | 0.2 | 0.3 | 0.3 | 0.3 |
| | Import | - | - | - | - | 0.1 | 0.2 | 0.3 | 0.3 |
| | Balance | - | - | - | - | 0.1 | 0.1 | 0.0 | 0.0 |
| Netherlands | Export | 3.8 | 4.4 | 5.4 | 6.3 | 6.6 | 8.7 | 8.5 | 9.9 |
| | Import | 3.0 | 3.3 | 3.9 | 4.6 | 5.2 | 6.2 | 6.3 | 6.7 |
| | Balance | 0.8 | 1.1 | 1.5 | 1.7 | 1.4 | 2.5 | 2.2 | 3.2 |

**Table III.1: Trade of EU Member States with 13 candidate countries, 1995-2002, in billion Euro (continued)**

| | | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|
| Portugal | Export | 0.2 | 0.2 | 0.3 | 0.3 | 0.3 | 0.5 | 0.5 | 0.5 |
| | Import | 0.2 | 0.2 | 0.2 | 0.4 | 0.5 | 0.8 | 1.0 | 1.1 |
| | Balance | 0.0 | 0.0 | 0.1 | -0.1 | -0.2 | -0.3 | -0.5 | -0.6 |
| Spain | Export | 1.6 | 2.3 | 3.1 | 3.5 | 3.5 | 5.5 | 5.0 | 6.0 |
| | Import | 1.3 | 1.3 | 1.6 | 1.9 | 2.3 | 3.1 | 4.0 | 4.6 |
| | Balance | 0.3 | 1.0 | 1.5 | 1.6 | 1.2 | 2.4 | 1.0 | 1.4 |
| Sweden | Export | 2.0 | 2.6 | 3.6 | 3.9 | 4.6 | 5.3 | 4.1 | 4.4 |
| | Import | 1.4 | 1.4 | 1.8 | 2.3 | 2.5 | 3.5 | 3.5 | 4.0 |
| | Balance | 0.6 | 1.2 | 1.8 | 1.6 | 2.1 | 1.8 | 0.6 | 0.4 |
| UK | Export | 4.8 | 6.2 | 8.0 | 7.8 | 7.4 | 10.3 | 9.2 | 9.8 |
| | Import | 3.7 | 4.1 | 5.3 | 6.0 | 6.8 | 9.0 | 10.7 | 12.9 |
| | Balance | 1.1 | 2.1 | 2.7 | 1.8 | 0.6 | 1.3 | -1.5 | -3.1 |
| EU-15 | Export | 70.7 | 86.0 | 105.0 | 116.8 | 118.5 | 151.3 | 152.8 | 164.5 |
| | Import | 55.5 | 58.7 | 69.9 | 82.7 | 92.8 | 117.8 | 134.1 | 143.2 |
| | Balance | 15.2 | 27.2 | 35.1 | 34.1 | 25.7 | 33.5 | 18.7 | 21.3 |

* Up to 1998 including Luxembourg.

Source: Eurostat.

# Annex IV
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