

# Enterprise Europe

Enterprise policy news and reviews  
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## SECTORS Delivering the goods in a changing world

### ENTREPRENEURSHIP

Building on the strengths of the smallest enterprises

### SECTORS

Bringing space down to earth

Keeping better guard on intellectual property

Lessons for the future in mechanical engineering

Printing industry repositions itself in digital age

### GLOBAL MARKETPLACE

Transatlantic cooperation enters new era



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**Subscribe to European Economy News**, the quarterly magazine of the Directorate-General for Economic and Financial Affairs (DG ECFIN), and keep up-to-date with developments relating to economics and finance in the EU.

The October 2007 issue includes an article on the new Competitiveness and Innovation Programme (CIP) designed to support small businesses in the EU, which is run in conjunction with DG Enterprise. Other articles cover DG ECFIN's contribution to the Commission's forthcoming Internal Market Review, its role in Kosovo, and an economic profile of the Czech Republic.

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# ENTREPRENEURSHIP

## Building on the strengths of the smallest enterprises

The fourth European Conference on Craft and Small Enterprises, held in Stuttgart on 16 and 17 April under the German EU presidency, provided an opportunity to analyse the sector's overall competitiveness and identify its needs. A wide-ranging set of policy priorities was adopted by the participants, addressed to all political levels, to help firms confront the challenges and benefit from the opportunities ahead. The presence at the conference of the German Chancellor and EU president, Angela Merkel, and Commission Vice-President, Günter Verheugen, as well as several ministers from EU Member States, bears testimony to the importance of the high-profile event, which attracted over 1,000 participants. Stuttgart is to be seen as a step in strengthening the craft and small enterprise dimension in the Union's modern SME policy.

⇒ Craft and small enterprises are at the heart of European entrepreneurship. They build on the strong foundations of pride in established traditions, leverage local roots to respond to the aspirations of today's communities and develop their potential to make the most of tomorrow's broader horizons. As such, they have an important role to play in the success of the EU's growth and jobs strategy and in reinforcing the continent's reputation and competitive advantage for quality products and services.

A few telling figures demonstrate their strong economic performance: 98% of all EU companies have fewer than 50 employees and 90% are even smaller, with less than ten people, among which are many craftsmen. Small companies provide employment for half the Union's workforce and contribute around 40% of the economic value added in Europe.

The conference, which built on the work of two preparatory meetings in Warsaw and Budapest last year, was the first to focus exclusively on craft and small enterprises since 1997. Coming just weeks after the EU celebrated the 50th anniversary of its founding Rome Treaty, the event was timely.

Over the past decade, the landscape in which craft and small enterprises operate has changed drastically.

Ten years ago, the internet was only just beginning to have an impact on the way business is conducted. Now its use is essential. Then, the EU had 15 members, now it has grown to 27. To meet these challenges craft and small enterprises need business support – at all policy levels.

Globalisation is a fact of life which no successful business can ignore. Yet, at the same time, the Union's reinvigorated economic reform package is yielding results. Measures to implement its targets are now firmly on national agendas. Economic growth in the EU is forecast to be 2.7% this year and millions of new jobs are set to be created by 2008, a majority of them by small businesses.



*In her speech to close the conference, German Chancellor and EU President Angela Merkel evoked the enormous potential of craft and small enterprises.*

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**Priorities for action**

Against this background, the conference agreed a set of priorities designed to help craft and small companies make the most of their potential. It asked national governments and the Commission to take these into consideration in their future policy initiatives, especially in the review of the existing modern SME policy. Concrete measures will be put forward soon.

The final declaration stresses the importance of regular information between European and national regulators and small enterprises' representative organisations. This should be accompanied by improved monitoring of the economic performance of SMEs through better use of existing statistical data and analyses. The Commission will act on the latter immediately.

Europe's competitiveness is based on a highly qualified labour force. Therefore, the conference also emphasised the need to improve the availability of appropriate skills and competences in the enterprises especially in view of the demographic challenges ahead, and to make a career in craft and small enterprises more attractive for young people. To achieve this, the conference called for greater transparency in the mutual recognition of professional qualifications for vocational education and training as well as assistance in developing appropriate concepts to keep the workability of these enterprises and their employees. Moreover, e-skills are nowadays a key element for competitive SMEs. However, few small enterprises have a tailor-made strategy for their business. They need to see the opportunities and require support in this regard.

Young people should be encouraged to participate more actively in the EU-funded Leonardo da Vinci mobility scheme for apprentices, while all those working in the sector are being urged to upgrade their linguistic and computer skills in particular. The inclusion of entrepreneurship in general and technical educational curricula could also help to stimulate interest and aptitude.

The conference acknowledged that craft and small enterprises should be helped to take advantage of the enormous potential of the internal market and of opportunities outside the EU. As domestic markets shrink, this becomes ever more important. It was suggested that this could be achieved through

market monitoring, special assistance programmes or help to become involved in regional clusters and cooperation initiatives.

This could build on the extensive infrastructure that already exists, such as SOLVIT. This online problem-solving network helps companies and individuals to sort out problems that arise when public authorities apply single market legislation in an incorrect or overzealous manner and create technical barriers to cross-border trade.

The conference looked forward to the services that the new EU Business Support Network could provide craft and small enterprises. This will draw on the experience and expertise of the network of some 300 Euro Info Centres in almost 50 countries that can provide practical information on EU legislation and programmes. This is being merged with the Innovation Relay Centres network to create a single access point and ensure an integrated service for SMEs.

The declaration recognises that demographic, environmental and security changes bring challenges and opportunities for the innovative skills and ingenuity of small firms as they adapt their products and services. The conference called for measures to encourage technology transfer and to raise awareness of the many issues involved in respect for intellectual property rights.

Participants made clear that they would like to be more closely involved in the standardisation process conducted by recognised European organisations and their counterparts on national level, so that their needs are taken into account when common norms are being drawn up. They also invited the possibility of practical support in implementing new standards as these arrive on the market. This could be provided by the distribution of simplified manuals and the training of experts.

**Securing necessary finance**

The conference agreed that access to finance – one of the toughest obstacles small businesses encounter, especially in the new Member States – could be eased through wider use of guarantee schemes. These make it easier for such companies to secure loans supporting their development and through the provision of mezzanine finance. Adequate

finance can also bring to life many innovative ideas lying dormant in firms that lack the resources to take advantage of them.

EU assistance can also come from other sources. The new framework programme for Competitiveness and Innovation (CIP) has an overall budget of €3.6 billion over seven years to provide support for innovative activities. This can be used for measures to improve access to finance or to fund EU services to help businesses.

The current generation of EU regional and social funds offers more flexible funding arrangements than in the past, providing national governments and regional authorities make use of this new opportunity. In addition, small businesses can access the seventh research and development framework programme more easily than its predecessors, since 15% of its finance is reserved for SMEs.

### *Business-friendly environment*

For small companies, a favourable business environment is crucial. For them, better regulation is not simply a matter of reducing costs, it is a question of survival. With this in mind, the Commission has launched a drive to reduce the burden of red tape by 25% by 2012.

Given that the majority of administrative costs stem from the national level, it is significant that Member States have also recently signed up to this commitment. Mr Verheugen, who first presented the initiative to his colleagues, explained to the conference that, if achieved, it would lead to a 1.4% increase in GDP.

The initiative was endorsed by the conference, which expressed the hope that the political pledge made at the March European Summit would soon be turned into reality.

### *Think small first*

Building on the European Charter for Small Enterprises, approved by EU leaders in June 2000, the conference emphasised the need for the 'Think Small First' principle to be applied across all policy areas when legislation is being reviewed or conceived.

The sentiment matches the Directorate-General for Enterprise and Industry's own priorities. Small and medium-sized enterprises feature alongside innovation, the jobs and growth strategy and better regulation.

This has taken concrete form with the creation of the post of SME Envoy. Françoise Le Bail, the current incumbent, is building on the work of her two predecessors and puts emphasis on strengthening the SME dimension in all community policies with the help of her deputy, Maive Rute, director for the promotion of SMEs' competitiveness.

The function does not involve simply ensuring regular and effective dialogue between the Commission and small business stakeholders. It also involves ensuring that all Commission departments are aware of the impact of their work on SMEs. This was clearly seen in the redrafting of the European Eco-Management and Audit Scheme (EMAS). This is a voluntary instrument that acknowledges organisations or enterprises that continuously improve their environmental performance.

The initial system was considered too expensive and complicated for most craft and small enterprises to implement. As a result, the Commission set up an environmental compliance assistance programme. Many Member States have initiated similar schemes to help SMEs looking to improve their environmental performance and obtain EMAS registration. The revised future EMAS regulation, therefore, will simplify implementation for small companies and offer them specific guidelines.

This is especially topical since small businesses can play a vital role in helping the EU to reach its goals of cutting CO<sub>2</sub> emissions by at least 20% by 2020, increasing energy efficiency, reducing greenhouse gases and promoting the use of renewable resources. Further support to help SMEs in working towards this target can also come from the CIP, which contains a specific intelligent Energy-Europe Programme with a dedicated budget of €730 million to promote greater use of renewable energy and reduced consumption.


To ensure that contacts between Commission officials and entrepreneurs take place not just by email or in meetings, the Directorate-General for Enterprise and Industry recently introduced an innovative placements scheme. This provides an opportunity

for 350 of its officials, including the most senior staff, to follow a one-week in-company programme to learn about SME needs on the ground. The take-up has been particularly strong among craft and small enterprises.

### Charting the way ahead

The conference proved a success in bringing together the different constituencies of policy makers, business representatives and entrepreneurs and offering them an environment in which they could collectively build a platform for the future.

Though the Commission is already addressing many of the points raised through the different measures it has put in place to help small companies, the conclusions that emerged from the conference will add further impetus to moves to develop EU support for craft and small enterprises. These initiatives are an integral part of the Union's modern SME policy for the years ahead. But that is only one part of the two-way dialogue.

From the Commission's point of view, the conference will have been a real success if participants went home with three clear messages: that the EU cares and is doing something about the problems they face; that opportunities they might not have been aware of exist; and that they have a real capacity to adapt to the demands of a changing world. 

Ralph Diestelhorst

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**4th European Conference on Craft and Small enterprises**

[http://ec.europa.eu/enterprise/entrepreneurship/craft/4th\\_conference.htm](http://ec.europa.eu/enterprise/entrepreneurship/craft/4th_conference.htm)

**New European Portal for SMEs**

[http://ec.europa.eu/enterprise/sme/index\\_en.htm](http://ec.europa.eu/enterprise/sme/index_en.htm)



The conference attracted over 1,000 participants from 36 countries. The event also provided informal opportunities for exchanging ideas.

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# SECTORS

## Bringing space down to earth

The contribution the space industry makes to our daily lives is far more significant, and tangible, than merely providing us with a better understanding of the universe – important as that is. The sector plays a crucial role in ensuring Europe has a high level of technological and industrial capability and makes its presence felt in areas as varied as environment, transport, communications, humanitarian aid and financial markets. If the EU does not wish to become dependent on others, notably the US, in this area, it must develop a truly European Space Policy. The Commission and the European Space Agency, working together, have shown how this could be achieved and EU governments have recently given their political support to the strategy.



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⇒ Space is synonymous with innovation, exploration and new frontiers. It has a capacity to stretch imagination and understanding. The sector also has a strategic importance of its own, helping to fuel research and industrial competitiveness and bringing concrete benefits to millions.

EU governments have now formally recognised the powerful contribution it makes to two of the Union's main internal goals: ensuring Europe's independence, security and prosperity and boosting economic growth

and employment. It also impacts on external challenges by providing vital information on critical global issues such as climate change and humanitarian assistance.

At their fourth meeting on 22 May, EU space ministers unanimously endorsed the paper the European Commission and European Space Agency (ESA), who have been cooperating increasingly closely since 2004, had jointly drafted. This analyses the key challenges facing the European space sector and offers ways these could be addressed.

The policy is designed to increase transparency and to help the major players in the sector – the EU, the ESA, national authorities and European intergovernmental organisations – to work together more effectively, reduce duplication, achieve synergies and create a coordinated European space effort that meets user and national needs.

Space is a high-risk, high-innovation sector requiring sustained technological investment where the timeline between concept validation and orbit can be ten years or more. Given the fragmentation in European supply and demand for space systems, largely to meet security and defence requirements, any moves to ensure interoperability and coherence can only be beneficial.

The programme covers major space applications: satellite navigation, earth observation, satellite communications and also security and defence, science and technology, industrial policy, governance, exploration



of the solar system and access to space. On the basis of wide-ranging consultation, it sets out a framework for future developments, but does not contain specific expenditure or regulatory measures.

When presenting the policy, Günter Verheugen, the Enterprise and Industry Commissioner, emphasised the importance of Europe playing a major, independent role in space policy, especially as new challengers in the shape of China and India appear on the scene.

“This is an important milestone for further development of space policy in Europe. I am convinced that Europe needs to remain present in the area of space if it does not want to become an irrelevant space power,” he said.

Jean-Jacques Dordain, the ESA’s director-general, noted that the new strategy brought “a new European dimension to space and a space dimension to Europe”. He pointed out that “there are no citizens left who do not depend on the space sector, even if they are not aware of it”. However, he suggested jokingly, they would become fully aware if all satellites were switched off for just one hour.

#### **Aim of the EU/ESA cooperation agreement.**

“The coherent and progressive development of an overall European Space Policy...to link demand for services and applications using space systems in support of the Community policies with the supply of space systems and infrastructure necessary to meet that demand.”

#### ***Reaping the benefits***

Finding ways to derive the widest possible use from technological breakthroughs in the space sector will ensure that investment enjoys the maximum economic, political and social returns. The EU is already leading the way in key areas.

Perhaps the best known joint European programme is Galileo, the global navigation infrastructure system that will use 30 satellites to provide accurate timing and positioning services worldwide.

The system will provide information that will be a major benefit to a host of sectors. Transport, rescue and communications will be heavy users. But it can also be applied for other purposes: land survey, agriculture, scientific research, tourism, energy distribution networks and banking systems.

Galileo should be fully operational by the end of 2012. After the recent failure of a public/private partnership to agree all the financial aspects of the initiative, the Commission has proposed an alternative route for the EU to reach its goal. It has advised that the public sector should finance the initial infrastructure and that the system should be operated by a private concession holder. The proposal is being considered by national governments.

Global Monitoring for Environment and Security (GMES) is another major EU initiative. This uses data from satellites in space and measuring instruments in the air, on the ground, the sea or deep under water to provide information services on environment and security.

With the increase in natural and manmade catastrophes, there is a growing need for this form of monitoring exercise. It can detect dangerous gases and substances in the air, follow the evolution of land cover, assess the state of the sea and identify small movements of the earth’s crust.

The inputs are analysed and provide valuable information that can help EU, national, regional and local authorities address a range of environmental and other challenges and assess policy implementation.

For instance, the system can be used to steer fishermen to their optimal catch and to track vessels fishing illegally. It can give farmers information to maximise their crop yield and offer accurate monitoring to discourage fraud. Other services will help civil protection forces to prepare for, and respond to, major disasters ranging from floods and forest fires to earthquakes.

It is not just decision-makers, scientists and organisations that reap dividends from GMES in order to improve policy planning. Ordinary citizens will also benefit as GMES services provide information affecting their daily lives, whether it be city mapping or details of air quality and ultraviolet intensity.

Both the Commission and the ESA are closely involved in the initiative. The former is in charge of identifying user needs and develops the services, while the latter manages the implementation of the space segment. Unlike Galileo, the infrastructure used by GMES largely already exists (satellites and ground-based instruments developed by ESA or Member States) and the challenge will be to make the best use of these European and national resources. Further investments will be destined to bridge technological and operational gaps. For the system to become fully operational, it will be necessary to ensure the long-term viability of services provision and of the supporting observation infrastructure.

Europe is also well placed in Satellite Communication Systems. It is home to three of the five largest operators in the world. These provide global telecommunications, television broadcasting, data and mobile services.

The satellite systems distribute over 3,000 television channels and are an essential complement to basic microwave and cable public telephony and data networks. They play an invaluable role when land networks are put out of action by natural disasters such as floods, and help armed forces deployed on humanitarian or peace-keeping missions.

European firms are well represented in the manufacture and servicing of satellites and their launcher rockets – Ariane Space is the world's number one launcher – and the EU operates the world's largest environmental space programme. Satellites can also be used to bring educational facilities to remote regions and to expand medical support in developing countries.

### Space policy in figures

Europe's expenditure in 2006 on civil space programmes (about €5.5 billion) was less than a third of that in the US (\$17.3 billion) in a global market that is worth €90 billion and growing 7% per year. The US invests as much as the rest of the world put together in civil space and its expenditure on defence space is even higher.

The sector is a significant source of European employment – providing 28,000 jobs – and, despite the relatively low investment in space, the industry is highly competitive. It holds 40% of the world

market for manufacturing, launching and servicing satellites – a market that is estimated to reach €400 billion by 2025.

### Looking to the future

EU governments have now asked the Commission and the ESA to propose an implementation plan for space policy and to carry out regular monitoring and priority setting and to present a revised space strategy to ministers at their fifth meeting next year.

On the practical side, this will examine the financing of space projects, using as a starting point the €1,430 billion already available in the 7th Programme of Research and Technology Development between 2007 and 2013, and exploring further mechanisms; identifying final users of GMES services and defining the conditions under which national satellites and data will be available to GMES. These aspects will be addressed by the Commission after full consultation with Member States and ESA.

Thought will also be given to measures to encourage technological innovation, to new financing schemes such as public/private partnerships, to ways to help small and medium-sized companies make their contribution to the sector and to potential synergies between civilian and military use.

Attention is also being given to the international aspects of space policy. This ranges from improving access for European suppliers to third-country markets and looking for international partners for European programmes to making full use of space systems to support developing countries, especially in Africa. ≡

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**European Space Policy Portal**

[http://ec.europa.eu/enterprise/space/index\\_en.html](http://ec.europa.eu/enterprise/space/index_en.html)

# SECTORS

## Delivering the goods in a changing world



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The European Union's industrial policy is an increasingly proactive, but strictly non-interventionist, integrated mix of measures. Some of these are horizontal, addressing issues of common concern to many industrial sectors. Others tend to be vertical, focusing on a specific sector with its own distinctive needs. The Commission mid-term review of the policy concludes that the mix is about right, but points to the new challenges to industry of technological advances, reducing carbon emissions and improving energy efficiency.

⇒ This series of four articles explores the bases for the recent assessment. Protection of intellectual property rights is a striking example of a horizontal issue defined by the experiences of many different areas of enterprise. Vertical initiatives tend to reflect the relative performance of sectors. Some may be doing well but, like the mechanical engineering industry, realise they cannot rest on their laurels and must continually improve to stay ahead of international competition. Others, like the graphics industry, are already feeling the effects of globalisation and are being advised to reposition themselves in order to flourish.

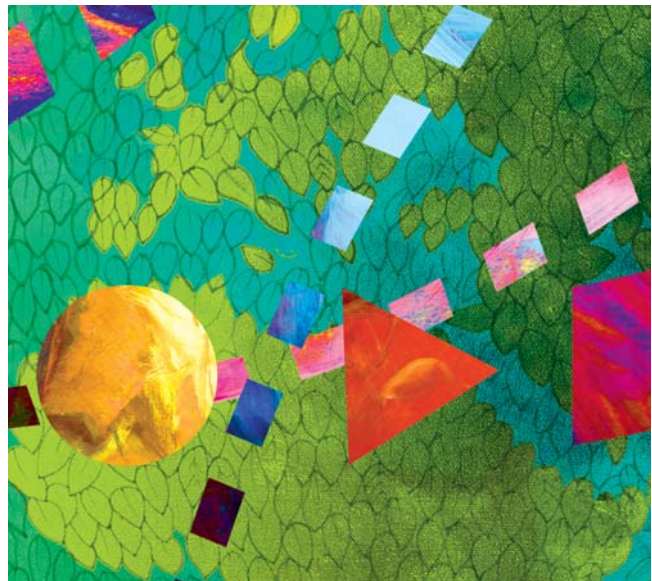
The overall aim of the EU's industrial policy is to provide the right framework of regulation and competition to encourage innovation and strengthen competitiveness, while making Europe an attractive venue for new investment, research and job creation.

The added value of EU action in this area is that it complements measures taken by Member States and makes it possible to tackle issues, such as developing a robust space policy, which would be difficult to address on a purely national basis.

A well-functioning industrial policy is essential for the success of the Union's overall jobs and growth strategy. Industry represents about one-fifth of EU output and has experienced economic growth of 2.6% for each of the past two years. It is central to innovation and provides over 80% of private sector R&D.

In its recent mid-term review of industrial policy, the Commission takes stock of the impact of the integrated approach it introduced two years ago when it combined industry-specific activities with horizontal measures that are of benefit to several sectors.

The assessment, combined with recent economic developments, indicates that the recalibrated policy is producing results and that no fundamental changes



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are required. But the challenges of globalisation, rapid technological development and concerns about energy and climate change are intensifying, and this requires a strengthening of some initiatives and the introduction of new ones, particularly the move towards a sustainable industrial policy.

Some of the recent initiatives are already having an impact on policy development. The high level group established to examine competitiveness, energy and the environment helped to merge three policy strands that traditionally tended to be seen in competition rather than harmony, contributing substantially to the development of the Commission's energy and climate change package, which received the full approval of EU leaders at their annual economic summit in March.

### *New challenges*

Based on a careful assessment of today's business challenges, the Commission's mid-term review puts forward a programme of work for 2007–2009.

Simplifying and improving the regulatory environment and reducing the administrative burden on companies will remain a top priority.

The pressure of climate change is focusing increasing attention on Europe's environmental industries. These are at the global forefront of technologies that generate some 2.2% of GDP and employ 3.4 million people.

However, regulatory and other obstacles can make it difficult for companies to fully exploit the new market opportunities, while the absence of an internal market and a global approach to climate change limit the size of the market for low-carbon and resource-efficient products.


The report also draws attention to the ongoing structural change in industry, the close interdependency between industry and services, and the continued innovation and research gap between the EU and the US and Japan. This is particularly true for high R&D intensity sectors, where corporate R&D investment in Europe is only 36%, compared to 67% in the US.

### Outlook

As part of moves to create the best possible conditions for environmental industries and to promote a sustainable industrial policy, the Commission intends

to present an action plan early next year that will help put into effect the energy and climate change package agreed in March 2007.

Before then, it will table a policy document this autumn focused on energy intensive industries which are meeting ever tougher international competition for natural resources and raw materials. This will examine how to reduce possible detrimental effects on the environment, while ensuring companies remain competitive.

At the same time, the Commission will continue to keep under review policies ranging from access to third country markets to facilitating structural change. It will determine whether they need to be fine tuned as globalisation increasingly makes its presence felt. 

*Christophe Masson, Ronald Mackay*

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**Policy Page: Industrial Policy**

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# SECTORS

## Keeping better guard on intellectual property

Faced with lower-cost competitors elsewhere in the world, European companies have sought to offset this disadvantage through better quality, stronger service and more innovative products. But increasingly these efforts are being undermined by rogue manufacturers who cynically disregard intellectual property rights. And such criminal behaviour is prevalent inside the EU as well as further afield. As a new report underlines, this can badly affect SMEs. But solutions can be found and potential risks minimised, especially if companies themselves are more proactive and do their homework before embarking on new business ventures.



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⇒ Effective protection of their intellectual property rights (IPR) has always been a matter of concern for European companies, but it assumes even greater importance in today's globalised economy.

Even traditional 'stay at home' businesses increasingly find that the larger firms, to whom they normally sell, are present in countries like China and that they must be there too. This expanding global trade makes it increasingly

easy for bona fide articles to be copied and passed off as the real thing at a cheaper price and inferior quality.

The speed of communication today has made it simple for counterfeiters thousands of miles away to study the basic design of new items and swiftly manufacture their own copies.

Major multinational corporations have extensive in-house lawyers or can call on outside expertise to protect their patents and copyrights. Small companies do not have these internal resources and may be reluctant to turn to outside help for fear of the costs involved.

The Directorate-General for Enterprise and Industry commissioned a study to assess the impact abuses have on small businesses and to consider ways in which SMEs can better protect themselves. The report covers SMEs based in the European Union, focusing on four sectors: auto parts, mechanical engineering, textiles and toys.

The four main types of IPR are trademarks, patents, designs and copyrights. However, IPR is much wider and can also cover geographical indications, plant varieties, semiconductor topographies, trade secrets and 'passing off' goods for something they are not.

### *Scale of the problem*

Precisely because counterfeiting is illegal, it is difficult to measure accurately its extent. The OECD estimates that the international trade in counterfeit and pirated items amounts to about \$200 billion annually – the equivalent of 2% of world commerce.

The report notes that four out of five small businesses that replied to the survey were significantly concerned about abuse of their intellectual property rights and three-quarters said they had been affected by it.

One in five maintained they had lost 5% or more jobs compared to the previous year.

Around a quarter felt their business was being adversely affected and that the problem would become worse over the next five years.

Surveys show that in Germany, for instance, almost one-third of mechanical engineering companies have suffered losses of 5% or more due to counterfeiting, while in the Spanish toy industry, the illegal practice has led to lost sales of some 11%. Some individual firms reported even more serious losses. In one case, a business stated it had lost 25% of its total sales to counterfeits.

### **Case study**

**Situation:** A French company agreed a joint venture with a Chinese manufacturer to provide patterns to produce seasonal collections of clothes. The design of each individual item was not protected in China, but the trademark appearing on the collar label was.

**Problem 1:** Unbeknown to the French company, its Chinese partner had subcontracted the work. After two to three deliveries, the quality of the merchandise deteriorated. The French company refused to accept the goods, found alternative manufacturing sources and terminated the contract.

**Problem 2:** The French company was informed that products bearing identical or similar trademarks to its own items were being sold in South East Asia.

**Response:** The French company hired a private detective to locate the factory making the counterfeit goods, which turned out to be the very subcontractor who had been making the genuine goods. An informant was placed on the premises and once the original joint venture had been terminated, the supply of fake clothing dried up.

**Lessons:** The problems might have been avoided if the French company had had a trusted local representative routinely checking on production and quality. It no longer works exclusively with one partner or one country. Contracts have been modified to ensure all information is received on possible subcontractors before being signed. However, designs are still not registered in China or other countries where the products are manufactured.

Counterfeiting also damages a company's reputation and image, leads to health and safety risks, means a loss of revenue for national exchequers and stifles innovation and business initiatives. Between one-quarter and one-third of the companies surveyed said their decisions to invest in R&D or production were adversely influenced by considerations of IPR abuse.

### *Be prepared*

What emerges clearly from the report is that prevention is better than cure and that here it is companies themselves that can shoulder much of the responsibility. "Companies can help themselves to avoid or confront IPR problems by understanding the nature of intellectual property rights and the forms of protection available to them," it notes.

It emerges that very few companies make regular audits of the existence or registration of their rights and that even fewer can call on an in-house legal team. Only a small number use protective measures such as withholding sensitive technologies from high-risk markets, performing due diligence checks, or testing potentially unreliable markets with older technologies.

Proper registration of intellectual property may be the only way a rights holder can instigate a legal action against illegal copying. However, it is estimated that up to 80% of small businesses fail to register their patentable rights. In addition, very few are aware that patent or trademark registration only provides protection in the country where those rights are registered, not everywhere the firm does business.

The report offers over a dozen practical self-help measures which companies can take without incurring major costs to increase protection of their rights. The majority of these can be implemented from the firm's home base, yet will strengthen their position in overseas markets.

At the outset, a business must decide exactly what it wants and needs to protect, and act accordingly. As well as making potential-risk assessments, companies can introduce concrete changes into their production processes to reduce the opportunities for counterfeiters. One firm prevented its overseas workforce from discovering the secret of its recipe based on several gases by arranging for these to be mixed remotely and supplied to the factory in two separate batches for final mixing.

For the complete list of self-help suggestions, see Box on page 17.

### *Support for SMEs*

The report examines the 100 or so initiatives – the majority launched in the last five years – which EU governments and different organisations have taken to help SMEs facing IPR abuse.

Most of these focus mainly on raising awareness of the dangers and scale of counterfeiting, rather than on helping to ensure effective enforcement. Some, such as the German Business Action Group against Product and Trademark Counterfeiting, do both. Since 1997, it has helped its members by monitoring the internet and deploying investigative teams.

Germany and France are among leading countries in tackling counterfeiting. In the latter, the Economics Ministry and professional federations are producing a special guide advising SMEs on how to protect their rights. A major communication campaign took place last year to alert the public to the dangers of counterfeit consumer products.

France also offers a pre-diagnosis, under the IP Genesis scheme, to enable a company to evaluate its industrial portfolio. This is performed by an IP expert at no cost to the enterprise and provides some 200 SMEs a year with authoritative advice on the property rights they should be protecting.

But the report makes it clear that ultimately the responsibility lies with Europe's businesses to take the first steps towards ensuring they are keeping proper guard on their intellectual property. ≡

*Stephanie Mitchell*



## Be Prepared

### Advisory check list on protecting IPR

#### Know what you have

- Decide which information, secrets, processes are of value and treat them accordingly
- Decide which IPR needs to be registered, in which market

#### Careful design and production

- Design products and services to minimise risk of abuse
- Retain critical design and production activities in home country
- Change key elements in products and packaging regularly
- Incorporate tracers or fingerprinting into product/package design

#### Know your markets and business partners

- Avoid risky markets or test them with older technologies
- Perform due diligence checks on contractors and partners
- Maintain direct contact and visits with production sources and distributors
- Monitor production, packaging, overruns, supply chain.

#### Know your distributors, markets, staff and customers

- Educate them about value of your genuine products/services
- Collect information from them about possible fakes
- Use non-disclosure or secrecy agreements
- Insert IPR protection clauses in commercial contracts

#### Work with the experts

- Seek advice before trouble arises
- Consider using in-house legal team, patent lawyers, auditors, investigators
- Inform IPR-related authorities about your products and keep in touch with them



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### FOR MORE INFORMATION

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**Report: Effects of counterfeiting on EU SMEs and a review of IPR enforcement support measures**  
[http://ec.europa.eu/enterprise/enterprise\\_policy/industry/doc/Counterfeiting\\_Main%20Report\\_Final.pdf](http://ec.europa.eu/enterprise/enterprise_policy/industry/doc/Counterfeiting_Main%20Report_Final.pdf)

**Annex: Inventory of support measures**  
[http://ec.europa.eu/enterprise/enterprise\\_policy/industry/doc/Counterfeiting\\_inventory\\_final.pdf](http://ec.europa.eu/enterprise/enterprise_policy/industry/doc/Counterfeiting_inventory_final.pdf)

# SECTORS

## Lessons for the future in mechanical engineering

Mechanical engineering is one of the EU's most successful industries. Its importance reaches far beyond the sector itself since it provides the input for a wide range of other activities. As such, it makes a major contribution to the health of the economy as a whole. To ensure the mechanical engineering sector continues to thrive, the Commission established an independent working group which has just presented a report containing recommendations on how to address the main challenges the industry will face in the coming years.



ranging from biotechnology to informatics, material technology and nanotechnology.

A highly diversified sector with a large number of small and medium-sized family-owned companies, the industry has many strengths. It has extensive manufacturing experience and a first-rate track record. It enjoys a broad technological base, and has a well-deserved reputation for entrepreneurship. From this position, it can develop its technical leadership and provide developments that can benefit other sectors of the economy.

However, as the industry itself acknowledges in the report,\* careful analysis shows that it also contains some general weaknesses. These include a risk-averse mentality, low labour mobility and a certain resistance to change. To these can be added fragmented European markets, growing competition from globalisation, more demanding customers and increasing environmental challenges.

The study group, which contained representatives from industry, academia, trade unions and national and European administrations, conducted a pragmatic assessment of the industry to gain a better understanding of its present strengths and weaknesses and the challenges on the horizon.

It focused its work on four key areas: access to markets at home and abroad, the need for a skilled workforce, research and innovation, and the requirement of a strategic industrial and technological base.

⇒ Gone are the days when mechanical engineering simply meant machines. Now, it is a multi-technology industry, with high added value that provides all other sectors of the economy with the machines, production systems, components and associated services they need to develop, distribute and innovate their own products.

The sector makes a strategic input not only into traditional industries such as automobiles and chemicals, but also into cutting-edge technologies

\* *EnginEurope: For a thriving European Mechanical Engineering industry in the 21st century, European Commission.*  
[http://ec.europa.eu/enterprise/mechan\\_equipment/engin/engineurope\\_frep.pdf](http://ec.europa.eu/enterprise/mechan_equipment/engin/engineurope_frep.pdf)

## Recommendations

At the outset, the study group emphasises the importance of strengthening Europe's strategic industrial and technological base to create an overall climate within which the sector can flourish. Notwithstanding the presence of a large number of SMEs, it notes that size matters when confronting competition from emerging economies and identifies factors that prevent EU companies from growing.

These include levels of taxation that limit incentives to develop businesses, complex legal frameworks, administrative difficulties and features of intellectual property rights that may discourage inventors from licensing their technology.

Access to markets, both within the EU and further afield, is of crucial importance to an industry that frequently supplies highly innovative products, tailor-made to fit customer needs. As the report notes, an average European mechanical engineering company sells approximately two-thirds of its products and services outside its own domestic market.

As a sector, the European mechanical engineering industry is the largest exporter of machinery in the world, and these sales continue to grow. Its main export markets are the USA (19%), China (11%) and Russia (6%).

Within the EU, the group emphasises the need to promote identical regulations and standards, to harmonise worker protection legislation and to develop a European company legal format, particularly for SMEs.

To ensure that European manufacturers can compete on an equal footing with non-EU producers, the report recommends that EU regulations are benchmarked with those used elsewhere. It also advises the European Union to take a tougher line in defending European mechanical engineering interests in the WTO and in its bilateral relationships.

As a leading supplier of innovative, ever more complex products and customised solutions, the industry relies heavily on a constant supply of highly skilled staff. Even today, the number of university graduates coming onto the market is insufficient. In Finland, for instance, almost half the companies in the sector have difficulty finding suitable employees.

Part of this may be related to the sector's outdated image as male dominated and shop-floor based. To offset this, the industry is being encouraged to project itself as modern, green and dynamic with suitable rewards for the successful. At the same time, school and university curricula should be modernised to better match skills with demands, and the group highlights the pivotal role teachers can play in conveying industry-positive attitudes to pupils.

Finally, the report complains of the heavy bureaucracy involved in looking to participate in EU programmes. It suggests this would be reduced if companies could simply set out their projects' key economic objectives at the initial stage, instead of filling out cumbersome applications.

## Outlook

While the industry-led analysis concentrated on just this one sector, many of the study group's observations and 65 recommendations are relevant for other parts of the economy. The Commission is not immediately planning any specific initiative for the sector, but instead is examining how the many ideas can be fed into its wider industrial policy strategy.

### Mechanical engineering in the EU economy

24,500 companies employ 2.6 million people, provide 8% of total EU manufacturing output and, with annual sales of €420 billion, have 41% of the world market.



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**Policy page: Competitiveness of the EU mechanical engineering industry**  
[http://ec.europa.eu/enterprise/mechan\\_equipment/engin/study.htm](http://ec.europa.eu/enterprise/mechan_equipment/engin/study.htm)

# SECTORS

## Printing industry repositions itself in digital age

The European graphic industry has a rich tradition that stretches back centuries. But the strong competition it is now encountering from new arrivals on the market, notably in China, is posing a serious threat to many companies, especially small family businesses. The Directorate-General for Enterprise and Industry commissioned a report on the competitiveness of the European graphic industry, which was published in August. It examines the challenges the sector faces and offers a six-point action plan to help it reposition itself and prosper in today's competitive climate.



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⇒ The European graphic industry makes a significant contribution to the European economy. It employs over 820,000 people and has a turnover of almost €100 billion. It has a reputation for quality, is increasingly committed to environmental and sustainable development policies and, thanks to new technologies and processes, can offer a complete range of services.

But the industry also has weaknesses that hamper its ability to counter cheaper competitors. It is highly fragmented with a minority of large companies. Small firms with fewer than 20 employees account for 85% of the sector. Many of the businesses have shaky finances, little strategic vision and a reluctance to invest in non-productive activities such as R&D and marketing.

Indeed, investment is largely targeted at production equipment as firms try to overcome internal competition primarily by building up their capacity, increasing productivity and reducing prices. In many cases, the result is underutilisation of expensive machinery.

The environment in which the printing industry operates has also changed considerably in recent years. Within the EU, both their client and supplier base have shrunk as companies rationalise and merge. The result is that printers find themselves squeezed between the lower prices the former are willing to pay and the higher costs the latter look to charge.

Externally, the industry has found itself under growing competition from countries with low wage costs that are able to mass produce to satisfy their own internal

markets before moving into exports. China is a case in point, selling not just books and other printed products abroad, but also printing machines. The country is showing double-digit growth rates per capita in paper consumption and the industry is set to continue expanding in the years ahead.

This development may not be a particular threat to European printers with niche, high-class markets. But it is to businesses with largely manual operations that operate long delivery times and do not develop strong customer relationships.

### **Environmental opportunities**

In one sense, however, the tide could be turning in European printers' favour. Frequently critical of the European regulatory framework, with its emphasis on environmental, social and labour standards, they may now benefit from it as decision-makers' focus increasingly on global services rather than the product itself.

Here, environmental protection becomes a key differentiator and EU regulations could limit access to imports of printed products that fail to satisfy high European standards. Thus, legislation that the industry feared would endanger its competitiveness may in future become one of its assets.

### **Practical recommendations**

The report sets out a six-point action plan containing practical recommendations that have been tested in a series of interviews with experts in the graphics sector. This is designed to help European printers increase their profit margins, refine their investment policy, improve productivity and concentrate on services where they can best bring their particular expertise to bear.

#### **The report's six action areas**

1. Manage production costs
2. Find new growth basis
3. Support European printers and develop the EU Printing Industry
4. Invest in human resources for the future
5. Make the printing industry a reference in terms of health and safety and environmental performance
6. Improve the image of the printing industry with all its best practices


In particular, the plan emphasises the need to develop value-added services for customers. This could be achieved by marketing innovative printing solutions and by developing a better understanding of customer markets so that services are tailored to meet specific requirements.

A potential route for future profitability is for printers to transform themselves into multimedia information providers by improving the use of digital developments such as web design, CD and DVD production and print management.

The strategy would mean printers redefining their market position by integrating more services into their operations and building a closer relationship with their clients. Data base management, on-demand printing and personalisation of products and services could all help to consolidate customer links and possibly open up attractive markets that competitors, relying on low wages and mass production, could not access.

The report recommends greater attention should be focused on promoting best management and operational performance practices. These would be used to help raise quality, reduce costs and prevent small firms from being caught in a vicious cycle of overinvestment and surplus capacity.

The sector is being advised to invest more in human resources and to ensure that future employees are trained in the particular skills that a modern printing industry requires. Its attractiveness to young people would also be enhanced if companies better convey the technological advances they are making and the career opportunities that now exist.

These, and the other actions, will need to be well timed and the efforts of the graphic industry will require the support of national and European policy makers. For this reason, the report strongly advises the industry to strengthen its communication strategies with national and EU authorities, professional organisations and other sectors whose activities have an impact on its own fortunes. 

*Jean-Pierre Haber*

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**Policy page: Forest-based Industries - Printing sector**  
[http://ec.europa.eu/enterprise/forest\\_based/printing\\_en.html](http://ec.europa.eu/enterprise/forest_based/printing_en.html)

# GLOBAL MARKETPLACE

## Transatlantic cooperation enters new era

Fresh political impetus will be given to economic and regulatory cooperation between the European Union and the United States this autumn when the first meeting of the new Transatlantic Economic Council takes place in Washington in November. The Council, which has the backing of political leaders on both sides of the Atlantic, will be jointly chaired by Günter Verheugen, the Enterprise and Industry Commissioner, and Allan Hubbard, the National Economic Council Director based in the White House.



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⇒ Regulatory cooperation between the European Union and the United States is well developed, helping to ensure the smooth flow of bilateral trade worth US\$ 1 billion dollars that crosses the Atlantic every day.

By their very nature, these contacts tend to take place in meetings between small groups of experts examining technical rules, administrative provisions and practices, and questions of enforcement. The aim is to examine initiatives in the pipeline and iron out potential divergences as quickly as possible since, given the sheer volume of trade, one small regulatory obstacle or unnecessary duplication of administrative procedures can have a major negative impact.

By aligning rules on issues such as conformity assessment and product safety, regulators can help to reduce paperwork and compliance costs to the

benefit of both companies and consumers. Bilateral contacts and mutual trust have developed over the years and there is now almost a score of dialogues between different Commission departments and their American counterparts working on regulatory harmony in different sectors.

A new era in this practical cooperation is being launched with the creation of the Transatlantic Economic Council (TEC). This will provide clear political visibility and direction from the top to practices that have been developed from the bottom up. By upgrading cooperation mechanisms, the aim is not to secure harmonisation but rather to provide a framework and agree priorities in what has become a strategic and long-term process.

It will also broaden the current agenda to include issues such as intellectual property rights, investment

and cargo trade. By making the existing process more transparent, it will provide a channel for stakeholders with an interest in regulatory developments to make their views known.

### Political impetus

The TEC was created by Commission President José Manuel Barroso, German Chancellor Angela Merkel and US President George W. Bush at the bilateral EU/US Summit in Berlin at the end of April. They see the new Council as an effective vehicle to advance transatlantic economic integration.

The declaration issued at the Summit sets out 11 specific responsibilities for the TEC that will guide transatlantic cooperation between the Summits. The brief emphasises the importance of achieving results. It calls on the Council to set clear goals and to report to European and American leaders on "achievements and areas where more progress is needed".

Reducing regulatory burdens will remain a major focus of overall attention. Within this, certain sectors have been selected for priority treatment: ICT and electrical equipment, cosmetics, medical devices, medicinal products and automotives.

On the broader economic front, the TEC will strengthen joint EU/American action on protecting intellectual property rights, ensuring secure trade, developing financial markets, promoting innovation and technology and encouraging investment.

Given the range of issues that will be examined – secure cargo trade and the safety of third country imports such as toys are expected to be raised at its first meeting in November – the Council has several permanent members apart from Mr Verheugen and Mr Hubbard. They will be accompanied, on the European side, by the Commissioners for External Relations, for Trade, and for the Internal Market and Financial Services, and by the US Secretaries of the Treasury and Commerce and the US Trade Representative. Other Commissioners and US Cabinet Members may be invited to join them according to the issues being discussed;

six Commissioners are expected to attend the November meeting.

### Practical results

As a recent example of the pragmatic cooperation already taking place, the European Commission and the US Food and Drug Administration signed two confidentiality arrangements this summer that will enable them to cooperate more closely and exchange valuable information on regulatory aspects concerning cosmetics and medical devices.

In both Washington and Brussels, the arrival of the Transatlantic Economic Council is being seen as a milestone that will further strengthen the economic partnership between the EU and the US in the years ahead.

The EU/US economic partnership is the deepest and largest bilateral trade and investment relationship in the world. Between them, the two economic giants account for over €3 trillion of commercial sales each year.

The EU is home to almost 70% of total outward US investment. In 2005, American companies invested four times as much in Belgium as they did in China the following year.

**Annual bilateral trade:** €600 billion  
**Combined trade:** 40% of world trade  
**Combined GDP:** 60% of world GDP  
 Bilateral investment flows provide 14 million jobs



Armin Kummer

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**Policy Page: EU-US Regulatory cooperation**  
[http://ec.europa.eu/enterprise/enterprise\\_policy/gov\\_relations/internatl\\_regul\\_coop\\_eu\\_us/index.htm](http://ec.europa.eu/enterprise/enterprise_policy/gov_relations/internatl_regul_coop_eu_us/index.htm)

# ENTERPRISE EUROPE

## MOREOVER

### Tell us if red tape makes your life difficult

⇒ Do you have ideas for cutting unnecessary red tape? If so the Commission wants to hear from you.

The Directorate-General for Enterprise and Industry has launched a new website to channel the public's views on how to reduce administrative burdens. The initiative is part of the campaign to cut administrative costs by 25% by 2012 and follows similar exercises in Belgium, the Netherlands, the United Kingdom and Portugal. The new site is available in all EU languages and contains a simple questionnaire that can be used to table suggestions.

"We need to consult and learn from those who are facing EU legislation in their daily work as they are best placed to highlight those administrative obligations which are the most time consuming and could be simplified," Vice-President Günter Verheugen said at the launch.



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As it steps up its Better Regulation campaign, the Commission has appointed Edmund Stoiber, the outgoing Bavarian Prime Minister, to head a group of 15 experts to give advice on how to cut back bureaucratic burdens. ■■■

<http://ec.europa.eu/enterprise/admin-burdens-reduction>

