

Speech by Commissioner Danuta Hübner

At the Conference "Structural Funds 2007-2013: opportunities for small and medium-sized enterprises"

Limassol, 16 April 2007

"SMEs are drivers for growth in European regions"

Ladies and Gentleman, kalispera sas (good evening),

It is a great pleasure for me to be here in Limassol with you today. Since this is my first visit to Cyprus as Commissioner, and therefore my first opportunity to talk to the Cypriot public, I would like to share with you my views not only on regional policy but on Europe in general.

Limassol, as Europe's principal harbour in the south-east, is in a very literal way the European Union's gateway to our two neighbouring continents. And at the same time it is Cyprus' life line to the European mainland. In more modern times, Limassol is of course the birth place of my friend, the Cypriot Commissioner Markos Kyprianou - although I fear that the fame of my distinguished colleague has recently been slightly overshadowed by your tennis hero Bagdatis, also a son of Limassol!

We are meeting today on the occasion of a conference dealing with the place and role of SMEs within new regional policy. But before I turn to regional affairs allow me to make some more general comments on Europe – where it stands today and what challenges lie ahead of us. The 50th anniversary of the signature of the treaties of Rome, establishing what today is the European Union, is certainly a good moment to reflect on European integration.

Over these fifty years we have built a zone of peace, stability and prosperity which we have gradually expanded from the original community of six countries to almost the whole continent. We have achieved all this thanks to the political will and vision of the founders of the European project. But we have succeeded also because we have been unified through common values and principles. These values and principles stretch far beyond the economic dimension. They encompass democracy, the respect of dignity and human rights, and equal opportunity for all.

In the 21st century the Union is confronted with new challenges which differ from those we faced fifty or even ten years ago. And we are at a critical moment when we have to find ways to stand up to them. These challenges are very real and very urgent. They include climate change, energy security,

terrorism, organised crime, mass migration, and an increasingly competitive global economic environment. And with 27 members, the Union has not only expanded in size, it has also become more diversified. I am convinced this diversity is our wealth and we must be able to exploit this diversity to make the Union stronger.

For this we need a renewed framework which will equip the Union with new tools to address the consequences of globalisation, to enhance solidarity among Member States and to guarantee security for our citizens. We need a Union with common policies in all those areas where there is clear European value added, a Union of values and of citizens, which is globally significant, open, and efficient.

In Berlin, last month, our leaders agreed on a Declaration which calls for agreement on new common foundations for the Union before the end of 2009. Now, to prove that Europe is united not only through declarations, Member States will have to find a common solution, acceptable to all of them. I believe that the Constitutional Treaty, which Cyprus ratified in June 2005, is a good basis on which such a consensus could be built and I hope that we will have a new European treaty before the 2009 elections to the European Parliament. To the question of what the parameters of such a solution could be, the answer should come with a road map which Chancellor Merkel will present in June. The process of negotiations with Member States is run by her in a very skilful way and there are reasons to be optimistic.

Let me turn now to your country and to how it can benefit from the regional solidarity, economic and social cohesion which has underpinned the successful development of other Member States. I travel a lot and I tend to view Europe through its 27 Member States and even more so through the 268 regions. This is a constant reminder to me that all Member States and indeed all of those regions – no matter how big or how small – both benefit from and contribute to the success of the Union. All of them have a role to play in promoting Europe's prosperity and competitiveness. Today I would like to address three issues related to SMEs, in line with the title of your conference. First, I will say some words on the role of SMEs in developing regions. Secondly, I want to talk about the specific opportunities that cohesion policy is providing for SMEs for 2007-2013. And, finally, I want to say a word about the different challenges for SMEs in rural and urban areas.

On my way to Limassol, we made a stop at the motorway ring, where I saw the progress made in bridging over two of the last roundabouts. Once finished, this project will make a real difference to the traffic flow in Limassol by reducing travel time and increasing safety. I hope that in the new programming period at least two major infrastructure projects will also be undertaken: one concerning the deepening and widening of the Limassol Port, and another providing an express road

link between the harbour and the Paphos-Larnaka highway. These investments will not only improve Cyprus' link with the continent but also increase the competitiveness of Cypriot SMEs.

Accessibility matters, in particular in case of insular territories such as Cyprus. But in itself it is not enough. We need to increase investment in research and development, particularly in the private sector. We need to do more in education and training to ensure that people have the right skills and can adjust to the rapidly changing technological basis of the economy and evolving demand patterns. The Commission's strategy is also very clear on the importance of entrepreneurial energy and a spirit of risk-taking in unlocking the business potential of our SMEs.

Speaking in Limassol, where it is very easy to see what the opening of harbour cities to foreign trade means in concrete terms, and where you have world class facilities for shipping education, it is easy to understand that Cyprus has a longstanding tradition of entrepreneurship. However, too often the development of companies stagnates at a certain level. More than 90% of all Cypriot companies have fewer than 9 employees. The challenge is to find a way for them to expand beyond this level and to obtain the size necessary to enter other markets, in the Union and abroad.

With the Cypriot Government we are working on a package of actions for the period 2007-2013, ranging from the fostering of business clusters and the creation of business parks, to the facilitation of access to financing in the form of subsidies and loans. Significant funds are available for investment - six times as much as in the period 2004-2006. But investments on their own will not be enough. To be successful, the relationship capital must develop. We will need Cypriot companies to engage in co-operation, within business branches and across sectors. Partnerships must be developed wherever possible, and joint efforts must be made to put more Cypriot companies not only on the Cypriot map but also on the world map.

And this is a message that I would like to pass to Cypriot business: we need to develop everywhere a culture of trust and cooperation. Cooperation is not a zero-sum game. Modern economics teaches us that whenever resources are scarce there are competitive pressures to cooperate as there is an important correlation between trust and economic success.

Therefore I am particularly pleased that Cyprus has presented in the Operational Programme 'Sustainable Development and Competitiveness' a high allocation to R&D and innovation, and that cooperation between research institutions and enterprise is one of its main priorities. Cyprus is characterised by a very highly educated work force, and you need to create high value jobs that match the high qualifications. Many Cypriot researchers and innovators are today working abroad, because the opportunities in the country are still limited.

That is why in the programming period 2007-13, we will target investment at centres of excellence, like the new Limassol University of Technology. This should allow in particular for the creation of spin offs in the form of companies able and willing to exploit commercially the research results. For this to happen, we must also foster a spirit of risk-taking in companies by providing subsidies, soft loans or technical support in areas such as the protection of patents.

These are the challenges and the actions which need to be taken if we want to reinforce the competitiveness of Cypriot SMEs. How are they addressed by the new regional policy in the period 2007-2013?

In the future programmes, Member States can choose to provide specific support so that SMEs themselves can invest in research and development. But support can also be provided to promote technology transfer. If SMEs do not have the capacity to carry out research themselves, they should be able to access more easily research which is carried out in publicly funded research institutions. This might be done, for example, by nurturing clusters which bring together SMEs and research and technological institutions.

Another priority area is improving SMEs access to finance and increasing the availability of capital for new business start-ups and micro to medium enterprises. This is essential because small enterprises are too often starved of the funds to finance their ideas. Past experience has shown that this is an area where those responsible for implementing regional policy would like to do more. But they have been hindered both by a lack of expertise and a lack of access to risk capital.

I am therefore pleased to learn that the Cypriot authorities have started discussions with the Commission and the EIF on JEREMIE, the new financial instrument that we devised to support SMEs. Importantly, when funds from operational programmes invested under JEREMIE are repaid, they can be recycled and reinvested in further measures to support innovative micro, small or medium enterprises. This is good news for regional policy and for SMEs - for each euro coming from the budget, the sum of financial products available could range from 2 to 10 euros.

A further important novelty in this period is that, under new regional competitiveness objective, any SME that wishes to grow and create jobs can be assisted through cohesion policy. Under the present rules only SMEs that are in the areas designated for assistance can be supported. In Cyprus this meant that companies based in Limassol, Nicosia, Paphos or Larnaka were not eligible for funding. From now on this territorial limitation will no longer exist.

Let me turn to the last part of my presentation and say some words on our approach to SMEs in rural and urban areas.

In regional policy we are well aware that in Europe there is a wide variety of territories, populations and conditions and that this must be seen as a valuable asset. Within each European country we find a rich miniature of this situation and we must take advantage of it. We have cities in which we must invest to attract foreign investment. We can turn them into local and regional bases for innovation, entrepreneurship and economic growth. And we have rural areas that are a source of biodiversity and agricultural and traditional know-how that need to be nurtured and protected. For this to happen, the local economy has to diversify. We have to introduce innovative business approaches and create new areas of attraction to investment.

In Cyprus one of the major SME sectors is tourism. Since 2004 regional policy has been investing in the development of the agro-tourism industry in rural areas across the island. Some of our investments have been in infrastructure to increase the attraction and the accessibility of mountainous and rural villages. Other investments involved private business, like hotels, bed and breakfasts, or handicraft shops. The calls launched by the Planning Bureau attracted significant interest, and although the start was rather slow, implementation has now caught up and we are beginning to see the results.

In the coming period, the diversification of the rural economy will remain a priority for the Cypriot authorities and the European Commission. The challenge is to break the logic of depopulation. Tourism will again be one of the main sectors, but other sectors will also be eligible for support. New ideas are welcome and needed, with a view to exploiting the potential of the country's population in a knowledge based economy.

In the urban areas, we will also continue to allocate substantial financing to re-generating urban neighbourhoods. One of the most interesting proposals is the creation of a cultural area in Nicosia, which will contain an interesting mixture of public institutions and SMEs, in particular in the leisure sector. For SMEs the new plan will represent a major business opportunity, which also necessitates a certain amount of co-operation.

One of the lessons learned from the 2004-2006 programming period is the need for more and better spatial planning. In many areas, in particular rural areas, investments in infrastructure are needed. But without a long term plan that covers an area of a certain size, there is a risk that our investments, however relevant at the very local level, do not fit into the overall pattern. One of the

main challenges in this respect is the small size of Cypriot villages and towns, which often makes it difficult to create an appropriate planning platform.

Ladies and Gentlemen,

In conclusion, we need to improve planning by finding ways for small communities to co-operate beyond narrow administrative borders and to develop multi-community service and business areas. For this to work, we have to involve spatial planning experts, but also municipality boards, civil society and locally based SMEs. This takes me back to the message I began with – regional policy offers a unique opportunity to create local alliances and co-operative networks which today matter so much in the global success.

Sas efcharisto (thank you)