



3. ENHANCING THE COMPETITIVENESS OF SMES, THE AGRICULTURAL SECTOR (FOR THE EAFRD) AND THE FISHERIES AND AQUACULTURE SECTOR (FOR THE EMFF)

What does EU want to achieve?

The EU wants to invest in **SMEs**, considered to contribute 58% of European business added value, so that they create new employment and enhance their capacity to operate on a larger scale, within and outside their region of origin. More particularly with regard to agriculture and forestry, EU wants to:

- secure **viable food production**;
- contribute to **job creation, maintenance and growth in rural areas**;
- address the challenges of the **size of agricultural holdings** in some regions, and the sector's **age structure**, with only around 6% of farmers under 35 across the EU;
- foster **productivity and efficiency** to respond to competition from non-EU countries, rising input costs, market volatility, and environmental challenges.

How?

The CSF foresees the priority use of **financial instruments** to contribute to SME investments, advisory services, development of new business models, restructuring and generational renewal of farms.

How/why mountains can contribute?

Mountains both provide public goods and produce **many private goods and services**.

Historically, several mountain areas in Europe have been considered as **an ideal place for industry because of nearby energy resources** (water power and, more recently, hydroelectricity plants). Mountains still offer many advantages for producing various types of renewable energy, and these advantages will become more important as fuel prices increase. However, state aid rules now forbid providing mountain companies with a preferential electricity rate, even though – in most cases - mountain areas are not compensated for what they provide to the rest of society! Moreover, the mountain environment represents an advantage for several industries requiring pure air or water (specific chemistry) or cool temperatures (data centres).

According to a recent [European Commission study](#), mountains produce up to **11.4% of European agricultural output!** Even if their productivity is lower than that of more intensive farming systems, mountains occupy 15% of Europe's utilised agricultural area, and therefore represent a significant and precious production potential which will be needed as demand for – quality - food increases. New forms of food industries are being redeveloped. A new chestnut processing factory opened in Isola in France. Ancient cereals are being planted again in the Austrian mountains to produce local bread. Mountains are an ideal place to experiment with the 'relocalisation' of the economy. Large mountain forests provide resources for **excellent wood supply chains**, as in [Vorarlberg](#) in Austria. Mountains are also renowned for **tourism**, an economic sector which is considered by European Commission on its [webpage](#) to account for 10% of EU GDP and employ 12% of the labour force.

Most businesses in mountain areas are small or medium size. A recent [intersectorial diagnosis by APEM in the French Pyrenees](#) establishes, for example, that **96.2% of businesses have less than 10 employees**. There are significant opportunities for them to improve their competitiveness, and policy-makers can provide support in this regard. Finally, people today attach a growing importance to their **quality of life**. Many people would like to live in a mountain area if only they could find the job they look for and were able to access essential services. With the development of ICT, many businesses that once needed a central location can now operate from anywhere. This is a key chance



for mountains to develop their economy and for the distribution of European population and wealth to reach a better balance, for the benefit of all.

The service sector, in particular, is growing in importance and is the biggest employer in many European mountain areas. In this sector, there is room for the creation of many businesses and the provision of modern jobs for younger generations.

What do they need in order to contribute?

First, there is a need to recognise that mountain areas represent a **potential for growth** and that it is worth investing in these areas, also with Structural Funds. Specifying that any action regarding SMEs located in rural areas should be funded only by EAFRD is not really a promising signal in that respect! In addition, financial engineering instruments need to be better adapted to rural SMEs.

The competitiveness of mountain SMEs, including farm and forest businesses, is hampered mainly by **higher production costs** due to **physical characteristics**, by **remoteness** from markets, lack of accessibility and **sparsity of businesses**, which means that transport costs are high and economies of scale are limited. At times when innovation is considered to be the first driver of economic growth, good connections between people inside mountain areas, and between them and people outside, are absolutely crucial. This requires physical accessibility by road, rail and air of course. But more and more, connectivity via ICT is considered to be a key driver: **the roll out of next generation broadband has to be prioritised in mountain areas**. Support to investment in buildings and specific adapted machinery is also crucial, as high investment costs are often a great obstacle to business start-up.

In addition, companies need to be supported in the development of value chains that compensate higher costs with higher added value. Quality development and certification, shorter supply chains, excellence and innovation will help mountain businesses to succeed.

Finally, **succession planning from one generation to the next** is probably one of the biggest challenges for mountain economies. The average age of entrepreneurs is higher in mountain areas than in the lowlands, and many companies are in danger of not being transferred. APEM estimates that 20% of entrepreneurs will retire in the coming 10 years in the Pyrenees, and 39% of them envisage no business transfer at all. In parallel, business creation rates in the same area are above national average. These trends call for an active and concerted policy for economic renewal.

Example of actions/practices/policies/projects which could deliver on this objective

The following measures are already implemented in some mountain areas and are likely to deliver good results in other mountain areas across Europe:

- Support **diversification at SME level** :
 - o A good example, echoing the example of MEDLAINE, is the [Ardelaine](#) cooperative in Ardèche, Massif Central, France. In the declining, traditional sector of wool processing, a group of workers of a closing enterprise combined in a cooperative to reorganize the factory in 1982. They decided to accentuate the **heritage value** of the buildings they inherited, the **traditional aspects of wool production, new methods of product creation** and **selling methods**. Further they diversified into the cultural sector (creation of two local museums) and tourist activities. See [PADIMA good practice guide on economic diversification](#), p. 134.
- Support **entrepreneurship** through education from an early age :
 - o In Hedmark (Norway), the SANN - *School, employment, local environment, innovation* - initiative (PADIMA [Good Practice 39 on education](#)), developed by the County and the



Koppang High School, focuses on giving students in their first year of high school the opportunity to create products in work-related situations, not only in an educational environment. Students do short internships with a specific innovation-related objective. The programme has had great success in terms of both involvement of young pupils (+200% growth in numbers) and teachers, and increasing pupils' self-confidence and capacity to create a business.

- Give particular attention to the potential that **women** represent for mountain areas:
 - o The [Womeninnovation](#) initiative from Buskerud, Norway (presented in the [PADIMA](#) project) has put the accent on the specific creation of business by women – in a context where, at national level, only 28% of the entrepreneurs were women, and much less in mountain areas. The initiative involves several aspects and is about **development of competences, networking** and **product release** on the market.

In the field of **agriculture and food production**, we identify the following actions as prominent to improve the competitiveness and economic viability of the mountain farming and food sector:

- Support for the **structuring of added value supply chains** using:
 - o **Quality development**, especially – though not only - in relation with the uptake of the new optional quality term « mountain product »: EAFRD Article 17 measures must be used to develop quality mountain products;
 - o **Training of farmers and supply chain actors** to improve their technical and marketing skills;
 - o Support to **cooperation for the development** of new products and new processes, cooperation between farmers and with other supply chain actors;
 - In the Pyrenees, a territorial supply chain has been developed in order to support the production of an old potato variety ('[Pays de Sault](#)'). Potato production has been combined with other production (especially of bovine meat) in order to sustain the agricultural economy of the region. This area is one of leading mountain territories for young people to start farming.
 - o Support to **cross-fertilising strategies associating food and tourism promotion**;
- Support **young farmers** who wish settle in mountain areas, with particular attention to newcomers which do not have direct access to family capital and machinery;
- Support for **research and advice** improving the efficiency of farming practices in mountains;
- Support for **investments in buildings and in machinery**, looking at all innovative ways to organise this support, including financial engineering which should be better suited to rural SMEs and be better used in both ERDF and EAFRD (with extended scale and scope of rural finance tools as low-rates loans and capital-risk insurances);
- Support for **diversification into other activities and to pluri-activity**.

In the field of mountain **forestry and wood supply chains**, competitiveness and value added can be increased by:

- Support for all stages of **local projects**, including the preparation phase, so that they are adapted to the local context, using integrated approaches, e.g. at mountain range level, and taking into account the whole wood sector, not just one part of the supply chain in isolation;
 - o The project [UNCI'PLUS](#), implemented by FORESPIR in the Catalan Pyrenees (Spain) aimed at improving multifunctional management of mountain pine forest and at characterising the properties of wood from mountain pines to diversify marketing opportunities and increase added value.
- Making **tools available** and the **legislative context favourable**: possibilities of training, branding and certification;



- Providing **adequate funding**:
 - o CAP, by maintaining support for forest investments and for replanting;
 - o Complementarity between ERDF, EAFRD, ESF;
 - o Funding or financial solutions provided at local level;
 - o Look for solutions to finance also investment, infrastructures, for property guidance activities and the mobilisation of owners;
- Support for **research & advice** improving the efficiency of forestry practices in mountains;
- Support for **investments in buildings and machinery**, looking at all innovative ways to organise this support, including financial engineering schemes better suited to rural SMEs ;

In the field of **tourism**:

- Support the development of **new tourism products** (packages, specific experiences) and services that help to improve revenue, employment and numbers of visitors throughout the year:
 - o In Extremadura (Spain), the [Optitur](#) company provides tourism operators with advice on how to target and build specific tourism products for different target groups;
 - o Tourism networks and routes – such as the [Cheese route in Austria](#), the network of churches in Scotland, and the bike trail in Switzerland – are the types of actions which could find support under these priorities;
 - o New forms of interpretation at nature or cultural heritage sites;
- Support development of **strong territorial branding strategies** with territorial brands applying transversally to products and services :
 - o In [Entlebuch](#), a Biosphere Reserve in Switzerland, the brand '[Echt Entlebuch](#)' respects clear specifications elaborated in partnership with local businesses, and applies to both products and services. Restaurants serve locally-produced food.

In the **health & care sector**:

- Support the development of a **highly innovative care sector**, especially exploring the potential of ICT and e-health:
 - o IFREMMONT is a centre of excellence in mountain medicine created in 2005 in the Mont-Blanc area with the support of Rhône-Alpes Region (France) and the EU. Four poles have been developed, serving local people and mountain professionals. <http://www.ifremmont.com/>
 - o Several projects have looked at e-health, such as IMMODI (www.interreg-immodi.net) and RESATER (<http://www.observatorioresater.eu/>) : they demonstrated that development in e-health increases the attractiveness of health care professions in mountain areas and is likely to create jobs, with positive impacts on migration trends. In Aragon (Spain), 108 jobs have been maintained or created thanks to such an initiative (funded by INTERREG IVB SUDOE).

Finally, mountains are the ideal place to support eco-innovation and development of related businesses: supporting SME development in the field of renewable energies and life sciences for example will contribute greatly to EU objectives (see priorities 4 to 6).

More ideas on competitiveness of mountain SMEs:

- [PADIMA good practices on economic diversification](#)
- Euromontana [position paper on mountain farming](#)
- EuroMARC [policy recommendations, guidelines](#) and [brochures](#)
- Euromontana study on [forestry supply chains](#)
- Euromontana [recommendations on sustainable tourism](#)