



# Position Paper

December 2014

## Response to the European Commission's consultation on the Small Business Act

EUROCHAMBRES reiterates its strong support for the Small Business Act (SBA). The EU institutions and the member states acknowledge the primary role that SMEs play in the economy and efforts – to varying degrees of effect - have accordingly been made to respond better to the needs of these businesses. While progress has been made and some of it can be attributed to the SBA, there is still considerable scope for further improvement of the conditions in which the EU's SMEs operate.

According to the latest EUROCHAMBRES Economic Survey (EES)<sup>1</sup>, 2015 is set to be a better year for businesses than 2014. However, entrepreneurs still face low domestic demand and unfavourable general economic conditions. This continues a pattern from last year of tentative recovery, undermined by a lack of confidence and that translates into caution. **European SMEs therefore call for ambitious reforms and coordinated action at EU level to boost the real economy.**

Within this context, **the SBA must act as a powerful catalyst**, contributing to reviving economic growth and placing SMEs, which account for more than 98% of all EU businesses, at the heart of the European policy-making process. The SBA has to some extent been instrumental in delivering reforms at national level as well. Yet, businesses lament not only the slow pace of policy response to the needs of the real economy but also the frequent disparity between the adoption and implementation of SME friendly measures.

EUROCHAMBRES welcomes the Commission's decision to maintain the four priority areas<sup>2</sup> of the SBA Review and add skills as a fifth pillar. The pursuit of these priorities should be underpinned by the horizontal application of the "Think Small First" principle. EUROCHAMBRES regrets that this principle is still not applied by default. In spite of some improvement, SMEs' input and interests are not sufficiently taken into account, partly because consultation processes and tools are not sufficiently adapted to SMEs, although they frequently constitute the largest group of businesses affected by new policy.

SMEs must be central to the policy making process at EU level. In this context, the SME Envoy Network is a potentially powerful tool. The SME voice too often goes unheard in the Competitiveness Council, which should be considered as its natural ministerial interlocutor given the enormous importance of SMEs to the EU's ability to compete globally. The annual presentation of the SME Envoy Network's activities to the Competitiveness Council is a step in the right direction, which should lead to more consistency between the topics discussed by the SME Envoys and the agenda of the Competitiveness Council. The European

<sup>1</sup> <http://www.eurochambres.eu/content/default.asp?PageID=1&DocID=6739>

<sup>2</sup> Access to markets, better regulation, access to finance and entrepreneurship

Commission's new structure, based on teams coordinated by a Vice-President, should also contribute to a more coordinated approach to SME policy.

The aim of the SBA is to provide a coherent framework for effective action. To do so, any future intervention should follow the two following guiding principles. First of all, the Commission should prioritise areas in which EU level intervention brings added value, leaving to the member states matters which are better dealt with at national level. Such an approach should encourage the exchange of good practices and synergies between various national policies currently in place in support of SMEs, as well as bringing a new impetus to key areas.

Secondly, continuity must be ensured: the measures which have been listed in the SBA (2008) and in the SBA Review (2011) should not be forgotten. A scoreboard should be established by the Commission and annually published to check objectively whether the SBA and SBA Review measures have been implemented and are functioning effectively. This would allow the tracking of progress in the implementation of the SBA, providing information on their impact on the ground. The revised Directive on Late Payments – one of only five EU legislative elements contained in the original SBA - is a clear example of pro-SME legislation being poorly implemented. Such implementation shortfalls undermine the effectiveness of the SBA package and emphasize the importance of rigorous monitoring and follow-up.

Having already provided detailed input to the Commission on how to further develop the EU's SME policy in September 2013<sup>3</sup>, EUROCHAMBRES outlines in this paper concrete measures which should feature in the SBA 2.0 and initiatives which should not.

Among the various areas of interventions proposed in the Commission's consultation paper, EUROCHAMBRES has identified:

- i. measures that **we support**
- ii. measures that **we oppose** or on which **we ask for further clarification/ reflection**
- iii. measures which in our view are **missing**

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<sup>3</sup> EUROCHAMBRES' recommendations for a new policy following the 5-year anniversary of the SBA:  
<http://www.eurochambres.eu/content/default.asp?PageID=1&DocID=5601>

## i. Measures that EUROCHAMBRES supports

With regards to the specific proposals included in the Commission's consultation paper, **EUROCHAMBRES strongly supports the measures below**, which must be prioritised by the EU institutions:

- **Ensuring the systematic application of the SME test both at EU and national levels:** the "SME test" should become mandatory in all the EU countries, as it is an essential tool to guarantee simple and proportionate legislation without imposing excessive and unnecessary burdens on SMEs. The Commission should also provide guarantees that it will preserve the SME test in its new impact assessment guidelines and commit to strengthen its application.
- **Minimizing regulatory burdens:** efforts to reduce the regulatory burden should be continued and a more targeted approach should be adopted. For instance, identifying bottlenecks in the labour market regulations would relieve entrepreneurs from a heavy load in their daily management. Furthermore, improving consultation at an early stage would give a more rapid and effective instrument to find ways for preventing burdensome legislation before it impacts negatively on businesses.
- **Simplification of administrative burdens:** streamlining SMEs' administrative requirements should remain a top priority. Although many actions have been endorsed, companies still need 11.2 days<sup>4</sup> to start a business within the EU, with an enormous variation in timing across the member states. Simplifying tax procedures for start-ups would allow entrepreneurs to focus on the development of their business. SMEs still encounter swathes of procedural obstacles in attempting to provide services across borders. The Points of Single Contact must genuinely mitigate the impact of these obstacles on service providers' ability to trade within the EU and ideally be broadened to simplify cross-border processes in other areas. In parallel, additional administrative burdens must be avoided at all costs. For example, new EU VAT regulations on digital service providers that come into effect on 1 January<sup>5</sup> seem set to impose considerable additional requirements on SMEs that will have to adjust offers and invoices to reflect VAT rates in the countries where clients are based.
- **Further developing and spreading alternative sources of finance:** entrepreneurs increasingly struggle to acquire adequate and timely financing via traditional debt-based routes. They are looking with increased interest at new financing options, such as crowdfunding, venture capital and business angels. Lack of investment is one of the reasons why European recovery is still lagging behind, and, according to the 2015 EUROCHAMBRES Economic Survey, European businesses are expected to maintain cautious levels of investment next year. The new SBA should seek to facilitate the development of a range of alternative sources of finance, removing obstacles, increasing awareness and sharing good practices.
- **Developing an integrated Commission strategy on SME internationalisation with the objective to increase up to 20% the share of SMEs accessing third country markets by 2020:** providing assistance and knowledge on opportunities in international markets, sharing information and best practices and raising awareness should not just be part of an integrated Commission strategy, but of an overall vision on European Economic Diplomacy, which would lend the strategy greater coherence and legitimacy. The principles of subsidiarity, complementarity and additionality are of crucial importance to the effectiveness of such a strategy given the diverse range of existing internationalisation support measures already in place in different member states. Moreover, an overarching vision on European Economic Diplomacy should consider trade policy and trade promotion as two sides of the same coin and establish better communication between all

<sup>4</sup> World bank, Doing Business project. <http://databank.worldbank.org/data/views/reports/tableview.aspx#>

<sup>5</sup> EUROCHAMBRES has raised this issue with DG GROW and is also awaiting clarification from DG TAXUD

actors involved in different areas of business support, such as advocacy and visibility, market intelligence and market access support.

- *(continuing from the previous point)* **Ensure better coherence and consistency between the Enterprise Europe Network and the EU SME Centres**, with a concerted effort to increase their efficiency and to avoid the proliferation of new platforms dealing with the overlapping tasks.
- **Reinforcing data gathering and monitoring of business transfer activity to obtain concrete evidence in support of relevant national and European decision-making:** business transfer remains a priority as it helps to ensure the continuation of viable, established companies. Priority should be given at EU level to gathering data on business transfers in order to draw more accurate quantitative comparisons and facilitate the development of effective support measures.
- **Boosting skills development:** many businesses still encounter difficulties in identifying staff with the right skills-set, even in the current climate of high unemployment. During the October 2014 European Parliament for Enterprises, entrepreneurs almost unanimously called for a stronger EU engagement in enhancing skills and training of workers. It is important that the skills issue is addressed at EU level from not only an education and employment perspective, but also from an economic one, factoring in especially the needs of SMEs, the main work creators. The inclusion of skills in the new SBA is an important step in this direction and should focus particularly on improvements in vocational training and work based learning. Entrepreneurship education is another aspect of the skills agenda that must be strengthened and integral to the SBA process.

## ii. **Measures that EUROCHAMBRES opposes or asks for further clarification**

EUROCHAMBRES **asks for further clarification** or **clearly opposes certain measures** presented in the Commission's consultation paper:

- **Look carefully at the proliferation of EU level platforms and EU-wide campaigns:** EUROCHAMBRES in general urges careful reflection on the establishment of new platforms (for instance the EU-wide Early Warning Platform, the online platform for women entrepreneurs, or the EU-wide campaign to cut red tape). Their implementation at EU level should bring significant added value and a multitude of such initiatives – even if individually each has merits – can cumulatively prove counter-productive and confusing. Experience within the Chamber network shows that the most relevant and efficient promotion towards SMEs needs to be delivered locally and nationally. The role of the Commission should in many cases be to support national/local communication approaches by providing standard material which can be adapted according to the country specificities and needs. Furthermore, EUROCHAMBRES believes that the national SME Envoys should be entrusted with the task of communicating on the SBA each time a measure designed to improve the business environment is transposed into national law or processes.
- **Default SME or micro-enterprise exemptions from EU obligations:** EUROCHAMBRES believes that exempting the majority of the EU business community from EU obligations by default is a heavy-handed and misguided approach. Not only does it contradict the “Think Small First” principle, but exemptions also lead to unintended consequences in the long term – i.e. creating disincentives for company growth, increasing regulatory complexity and damaging the internal market by inviting the possibility of extra national obligations. EUROCHAMBRES readily acknowledges that there are sometimes valid arguments for exempting certain categories and size of business from regulatory requirements, especially in relation to the existing acquis. However, this should be considered, along with other mitigating measures, on a case-by-case basis as a result of proper impact assessment and SME testing.

- Although a coherent Commission strategy to support SME internationalisation is advocated, EUROCHAMBRES underlines the importance of carefully assessing **the balance between the various EU initiatives**, such as the SME Centres and other European structures – including the Enterprise Europe Network Business Cooperation Centres. In any future discussion on new ways to support SME internationalisation, existing platforms should be monitored, their efficiency improved and their financing carefully developed, avoiding the risk of creating and supporting parallel networks and structures. Moreover, SMEs should be better prepared, through training and assistance “at home”, before they engage in international activities.
- **Targeting policy measures on mid-range companies:** while fully acknowledging the importance of mid-range companies to the EU’s competitiveness and of measures to support them, EUROCHAMBRES believes that they should not be included in the SBA, which is aimed at SMEs and should remain so.
- **Helping some 100 less advanced cluster organisations to develop customised support services for SMEs through twinning schemes with advanced cluster organizations - by 2020:** in isolation, this proposed action seems arbitrary and questionable and requires further clarification (why ‘some 100’? In what way and for what reason are they ‘less advanced’? Would twinning them with ‘advanced cluster organizations’ help them?....).

### iii. Omitted measures

EUROCHAMBRES believes the following measures are **missing** from the measures listed in the Commission’s consultation paper:

- **Initiate an objective discussion on the process of implementation of EU legislation at national level** with a view to investigate possible ways to reduce the overall regulatory burden: simplification and burden reduction provisions are not always used by member states, which sometimes either add extra requirements when transposing an EU directive into national law or implement it ineffectively. These issues should be tackled since it is an important source of burdens for businesses.
- **Revitalise bank-to-business relation:** while alternative forms of finance should be developed in Europe, the majority of SMEs still rely on traditional financial intermediaries to obtain the funds they need for their survival and growth. EUROCHAMBRES believes that the confidence gap between the two actors needs to be bridged. Where communication between the two is unsatisfactory, intermediary organisations such as Chambers can play a key role in providing banks with a reliable analysis of the financial state of companies on the one side, and in providing information, advice and mentoring during the application process to companies on the other side. This would lead to an increased awareness and confidence in the system and a better match of supply and demand. Such a scheme is already implemented in Andalusia, through the project *Aprende a financiarte*<sup>6</sup>, which targets businesses in need of finance.
- **Skills forecasting:** a key element in being able to address the skills mismatch is having accurate data on future skills needs across the EU. This can be best ensured through surveying the business community in a regular and interoperable manner on their short-medium-long term human resource requirements. Chambers are involved in such exercises in certain member states, but EUROCHAMBRES recommends a pan-European approach and believes that this should be explored further within the framework of SBA 2.0.

<sup>6</sup> <http://www.aprendeafinanciarte.com/>

- **Greater attention to the Internal Market:** The SBA consultation has surprisingly little focus on internal market issues. SBA 2.0 should in particular include practical measures to complete the single market for services, an area where there is still huge untapped potential and where SMEs play a prominent role. Trade integration for services stands at only 5%, compared to 22% for goods. To ensure quick wins, a sector specific approach should be adopted. The focus should be on service sub-sectors where the potential gains and political support is highest, such as construction, e-commerce and business services. Reflecting the priorities of the new Commission, the SBA should attach a high priority to ensuring that the internal market is fit for the digital era and takes into account the growing number of micro businesses that trade and collaborate across borders.
- **Structured dialogue between policy makers and SME representative bodies:** all policy initiatives and significant new implementation developments in the framework of the new SBA should be subject to structured, transparent and timely dialogue with intermediary organisations at the relevant level. Participation in the Network of SME Envoys is a welcome example of such EU level dialogue on a macro level, but it is not always reflected in relation to specific dossiers. Two specific examples of where this reinforced dialogue should be ensured are:
  - Governance of the Enterprise Europe Network – co-owned and co-funded by the host organisations, many of which are Chambers - is one such example of where SME representative bodies should play a far more central role in strategic decision making.
  - In relation to initiatives beyond the borders of the EU internal market, EU diplomats and other officials working on foreign affairs issues should also engage in frequent structured dialogue with SME representative bodies, both in third countries and in Brussels. Chambers in particular have access to information and boast capacities to organise activities which add value to the policy work of diplomats and officials.

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*EUROCHAMBRES – The Association of European Chambers of Commerce and Industry represents over 20 million enterprises in Europe – 93% of which are SMEs – through members in 44 countries and a European network of 2000 regional and local Chambers.*

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