

# COMMISSION OF THE EUROPEAN COMMUNITIES

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## COMMUNICATION FROM THE COMMISSION TO THE PARLIAMENT/S

COMPLEMENT TO THE ADDRESS BY MR DAVIGNON,  
MEMBER OF THE COMMISSION, TO PARLIAMENT,  
GIVEN ON 16 FEBRUARY 1978, ON THE OCCASION  
OF PARLIAMENT'S EXAMINATION OF THE PROPOSAL  
FOR A RESOLUTION ON QUESTIONS RELATING TO  
SMALL AND MEDIUM-SIZED ENTERPRISES IN THE  
COMMUNITY

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## INTRODUCTION

Parliament's report on the problems facing small and medium-sized enterprises in the Community (Doc. 518/77) is of outstanding quality, both in respect of its content and of the method adopted.

Accordingly, the Commission fully endorses the main lines of the resulting Resolution. The Commission's only reservation concerns the way in which concerted discussion with the representatives of small and medium-sized enterprises should be organized.

This memorandum summarizes the Commission's main observations on the Resolution. It begins by outlining the objectives and the principles which the Commission intends to follow in this field and then comments on the main points raised in the Resolution.

### I. OBJECTIVES AND PRINCIPLES

#### 1. OBJECTIVES

There are small and medium-sized enterprises (SMEs) in all sectors of industry, commerce and services. It is estimated that outside agriculture and Government service about two-thirds of the working population work in these firms. The SMEs are therefore "typical" firms and in no way exceptions to the general rule.

It is the SMEs - those already operating or those being set up - which give that flexibility which is essential to an economic system if it is to be able to meet as well as possible the needs of our society, which are varied, complex and constantly changing.

Specific measures to help the SMEs will never get to the root of the problems the SMEs have to contend with if the general framework does not encourage the establishment and expansion of these firms.

The Commission's first objective is therefore to ensure that the economic, legal, tax and social framework enables existing firms to develop and adapt constantly to changes and allows of the establishment and growth of new firms.

Because of their limited size . . . a large number of SMEs have special problems preventing them from playing effectively their proper role in the economic system.

The Commission's second fundamental objective will therefore be to help the SMEs to overcome these problems by the most appropriate means.

## 2. BASIC PRINCIPLES

In the pursuit of these two fundamental objectives, the Commission's measures will be guided by the following basic principles:

### (i) Integration of the SMEs and the "artisanat" in all the policies

The SMEs and the artisan or craft sector are influenced by a very wide range of policies and specific programmes. Each Community policy and programme liable to affect the SMEs or the artisan sector must therefore be established and examined with due regard to the SMEs' special features and needs so as to ensure that they are not harmed, whether directly or indirectly, or merely because the implications of planned measures have not been properly thought out.

### (ii) Adoption of a multifacet approach

The SMEs are very diverse in nature and have special problems owing to their limited size.

Some of these problems are common to all the SMEs, for example the burden of administrative formalities and procedures, and social security costs.

Other problems arise for only certain categories, for example finance may represent a problem for a new firm growing rapidly but not for a stable firm or a declining firm; assistance in export marketing is of interest to only a small number of these firms.

The Commission therefore proposes to take the initiative in a number of fields in a way ensuring that its action covers the greatest possible number of the problems with which the SMEs have to contend.

The measures would be adapted and differentiated to ensure that individual firms can benefit from specific measures according to their real and current needs.

(iii) The complementarity of national measures and Community measures

Most SMEs operate within relatively narrow geographical limits, i.e. within local or regional boundaries. A minority of these firms operates at national, or even international level. A great deal of work has already been done at local, regional and national level, either by semi-public agencies or by private bodies to help the SMEs to overcome their particular problems.

Community action, wherever possible, will therefore take the form of complementary measures, designed to strengthen or coordinate measures taken at levels nearer the SMEs.

Moreover, specific measures adopted by the Commission, as, for example, in the fields of financing and exports, will be implemented, wherever possible, through existing national and/or Community bodies, whether private or semi-public.

(iv) The Commission will endeavour to keep its action to the strict necessary minimum

The SMEs have often complained - and rightly so - that the frequency of State intervention, the complexity of the regulations and the resulting paper-work constitute a burden too heavy for them to shoulder.

The existence of an additional level above the local, regional and national levels could well increase in number and render even more complex the interventions and regulations.

The Commission will therefore do everything it can to keep its action down to a minimum and will endeavour to simplify as far as possible the presentation of texts and the resulting formalities.

## II. OBSERVATIONS ON THE MAIN POINTS RAISED IN THE RESOLUTION

### 1. DEFINITIONS

The definition of an SME varies widely in the Community, by country, by industry, by policy, and by specific programme, as was shown clearly in the Commission's "Definitions" document (Doc. 413/III/76), published in 1976.

The wide range of criteria can of course raise problems in the way of establishing a homogeneous policy and action programme for industrial, commercial, artisan and services SMEs at Community level.

Accordingly, although the Commission feels that providing a solution to the problem of the definition of the SMEs is not a priority matter, it is prepared, if necessary, to review the question in the light of the SMEs' needs, and to set up a working party for this purpose.

## 2. STATISTICS

The lack of homogeneous and detailed statistics on the SMEs at Community level obviously does not facilitate the development of Community policies and actions to assist these firms. Consequently, the SME/Artisanat Division has just prepared a document on the basis of available national statistics which will show - especially for industrial firms - the quantitative importance of SMEs in the Member States, and recent changes. After consultation of the Government departments, this document will be circulated.

The situation will improve in the near future, since the Statistical Office of the European Communities (SOEC) has begun annual coordinated surveys in the member countries on industrial activity, firms employing less than twenty persons being included at intervals not exceeding five years.

## 3. ECONOMIC POLICY

The Commission fully shares the Parliament's view that an economic policy giving top priority to full employment and stability is of the greatest importance for the maintenance and expansion of the SMEs.

These are in fact the main objectives of the fourth medium-term economic policy programme, published in 1977, a document which explicitly acknowledges the need to promote the profitability of the SMEs in the interests of economic and social equilibrium, of the vitality of the economy and of the maintenance of competition.

## 4. SOCIAL POLICY

(a) The Commission, recognising the importance of providing social security coverage for the entire population, prepared a draft recommendation on the subject in 1976 which was endorsed by Parliament and the Economic and Social Committee (Doc. COM(76)295 final, 16 June 1976).

- (b) The Commission is well aware that since 1960 labour costs have increased proportionately faster than the costs of using capital, one reason being the gradual increase in indirect wage costs.

The Commission has just raised this problem in its contribution to the 1978 Tripartite Conference (Doc. II/795/77 - "Investment and Employment").

## 5. TRAINING

The training of SME managements is one of the problems common to all the countries and all the industries. In the main, it is an area for the representative associations and the national authorities.

Nevertheless, the Commission proposes:

- (i) to organize a systematic comparison of the measures recently adopted in the Member States, with a view to determining which are the most effective and could be also used in the other Member States;
- (ii) to provide, through the Social Fund, financial assistance for managerial training courses for the SMEs. A pilot project has just been chosen;
- (iii) to examine ways and means of encouraging, again through the Social Fund, managerial consultancy services for the SMEs as a method of training SME managers.

## 6. INFORMATION

Access to the information they need is a special problem for the SMEs. Accordingly, further to an examination of the matter by its ad hoc working party on information for industry, the Commission organized at the end of 1977 a Workshop during which special emphasis was laid on methods and means of channeling information to the SMEs.

It is hoped that these initiatives will in the near future yield valuable lessons.

The establishment of the European EURONET network, soon to become operational, will place scientific, technical and socio-economic data at the disposal of firms, including the SMEs.

## 7. FINANCING

The Commission is well aware of the financial problems the SMEs have to contend with, and it is doing everything it can to help them to overcome these problems.

Generally speaking, the five main Community sources of finance are available to the SMEs as well as to big companies. To make these funds more effective and to adapt them also to the SMEs' needs, several improvements have been recently made or proposed. For example:

- (a) the total amount of "global" loans (i.e. consolidated EIB loans to be on-lent to small businesses by national agencies) rose from 61.2 m u.a. in 1976 to 91.3 m u.a. in 1977, an increase of nearly 50%.

On the basis of a contract signed with the United Kingdom Government, this Government will guarantee borrowers, against payment of a small commission, against the effects of exchange rate fluctuations. The Irish Government has announced in a recent budget that it will also normally bear the burden of exchange risks;

- (b) guidelines for the administration of the Social Fund in 1977 give top level priority to applications from the SMEs or groups of SMEs for operations relating to adaptation to technical progress;
- (c) with regard to the Regional Fund, the new proposals laid before the Council in June 1977 take account of two points made by the SMEs, namely:



- (i) the SMEs requested that there be opportunities for interest rebates, to be granted by the Fund on loans made to firms by the EIB and by the other Community funds. One of the qualifying categories is in fact the SMEs;
- (ii) the SMEs requested the introduction of more flexible criteria and conditions for the granting of assistance from the Fund for the artisan and tourism sectors and services in general (the possibility of submitting consolidated applications).

Ways and means of making these sources even more easily accessible to the SMEs are now being studied.

With regard to financing in general, the working party on SME/Artisanat, which is manned by national officials, has begun its examination of the problem of the SMEs' equity capital.

For this purpose, the members have drafted reports on the situations in their own countries' (Doc. 1204/III/75).

The Commission has also received the results of a study on venture capital needs in Europe, a subject of special relevance to the SMEs.

On the basis of this work and of work carried out recently by other bodies (e.g. a recently published UNICE study on the financing of the SMEs), the Commission staff, working with the relevant bodies and the government experts, will carry out an in-depth study with a view to working out what practical steps can be taken in this field.

## 8. TAXATION

- (a) The Commission is well aware of the fact that the administrative obligations arising from taxation are relatively heavier for the SMEs than for big companies and that they may in fact entail excessive costs for the smaller firms.

Simplification of procedures and administrative formalities is therefore desirable. Something has already been done to achieve this in the sixth VAT directive.

Other efforts will be made in the field of trade between the Member States. Measures to simplify controls and formalities at intra-Community frontiers are now being studied. This work will continue.

- (b) The Commission is also well aware of the fact that the continuity of family firms can be hampered by certain tax requirements, including, of course, heavy death duties. One suggestion meriting further study in this connection is that heirs of small businesses should be given more time to pay.

## 9. COOPERATION

The Commission has taken measures at three levels to encourage cooperation:

- (a) by permitting certain exemptions from the competition rules. The Commission adopted two major measures at the end of 1977 widening still further the opportunities available to the SMEs;
- (i) the relative threshold for total turnover established in 1970 by the communication on minor agreements has been increased from 15 m u.a. to 50 m u.a.;
- (ii) the threshold for the share of the total market which may be held by firms signing certain categories of specialization agreements has been raised from 10 to 15% of the market, and the total turnover permissible has been raised from 150 m u.a. to 300 m u.a.

In 1978, the Commission will press forward further work on measures in this field. It will give its backing to the SMEs with regard to questions of sub-contracting, of block exemption for certain patent licensing agreements and certain exclusive dealing agreements, and with regard to exemption from the prior authorization requirement under Article 66 of the ECSC Treaty with regard to mergers.

- (b) by proposing an appropriate legal form of business association, i.e. the European Cooperation Grouping.

Following the opinions from Parliament and the Economic and Social Committee, an amended proposal will be transmitted by the Commission to the Council;

- (c) by setting up, at operational level, the Business Cooperation Centre.

On the basis of experience in starting up the BCC, the Commission decided in July 1977 to improve the orientation of its work by authorizing it to:

- (i) concentrate on certain priority sectors;
- (ii) take the initiative itself in matters of inter-firm cooperation;
- (iii) to include firms from certain non-member countries in its work, on certain conditions.

#### 10. EXPORTS

Major incentives to the SMEs to export their products are already being made in the Member States. None the less, there is evidence that the SMEs do not export as much as they could.

The Commission staff is therefore now considering various ways and means of stimulating SME exports to countries outside the Community. Possibilities include:

- (i) starting-up aid for export groups;
- (ii) financial support for SMEs taking part in fairs and exhibitions;
- (iii) the organization of visits of prospective customers from non-member countries;
- (iv) the extension of the export advisers system already used in certain Member States.

#### 11. SIMPLIFICATION OF ADMINISTRATIVE FORMALITIES

Work to simplify administrative formalities, which has already begun in the taxation area, as noted at paragraph 8 above, should be extended to other fields.

The Commission will regularly remind the Member Governments of the importance - psychological as well as economic - of the problem of "red tape", and will make recommendations for simplifying the administrative procedures as much as possible.

The Commission is about to proceed to an examination of ways and means of applying in the Community - as has already been done in Canada - the maximum response burden criterion for the SMEs with regard to the administrative formalities that can reasonably be required of them.

#### 12. PUBLIC PROCUREMENT

To encourage the SMEs to submit tenders at Community level, the Commission will consider the possibility of circulating a monthly notice listing the public contracts published in the Official Journal of the European Communities to all the organizations representing the various branches of economic activity both at Community level and at national levels. It is proposing to organize an information campaign for the organizations representing the SMEs to explain Community machinery and procedures to be followed and to encourage the SMEs to submit tenders.

It will also consider with the public authorities how public contracts could be made more easily accessible to the SMEs.

#### 13. SUB-CONTRACTING

With a view to dealing with what seem to be the main problems arising in this field, namely the problem of bringing sub-contractors and principals into contact, the relations between the two parties (ethics), and terminology,

The Commission has:

- (i) published a list of bodies dealing on a permanent or semi-permanent basis with sub-contracting (Doc. 601/III/76);
- (ii) instructed the Business Cooperation Centre to carry out certain coordination tasks between these agencies. This has led to the preparation of a draft terminology of sub-contracting work, facilities and products which is intended for use as a basis for a census of sub-contracting firms carried out by national or regional sub-contracting bodies. The publication of harmonized catalogues will improve market transparency with regard to the supply of sub-contracting work.

However, it must be acknowledged that in matters of establishing contact between sub-contractors and principals, the main responsibility lies with the two parties. Some assistance can be accorded by the trade organizations (e.g. by the bourses and more particularly by fairs and exhibitions). Because of the fluidity of commercial relations and the need to act quickly, a Community bourse would have no valid role to play.

#### 14. RESEARCH AND DEVELOPMENT

Its 1972 proposal for a regulation concerning the introduction of Community development contracts having been dropped, the Commission proposed a Council decision concerning the promotion of R&D projects of industrial interest as part of its communication to the Council of 30 June 1977 on "Common policy for science and technology" (Doc. COM(77)283 final). One aim of this proposal was to promote the cooperation of the SMEs in research and development.

This proposal was strongly endorsed both by the Economic and Social Committee and by Parliament. Although aware of the importance of support for industrial innovation, especially among the SMEs, most of the Member States were still not yet in a position to approve the proposal in its present form. In this connection, the Commission has been asked to study the matter further during 1978. It is now working out a new position in the light of experience obtained and information received in the course of its contacts with those working in the relevant fields.

The Council Decision of 14 February 1977 (OJ No L 61 of 5 March 1977) concerning a technological research programme for footwear industry is one of the measures bearing witness to the Commission's sustained interest in research problems as they concern the SMEs.

15. MEASURES RELATING TO INDUSTRIAL SECTORS

The SMEs have an important role in many industrial sectors.

When operations to assist specific sectors are being undertaken, the Commission will therefore ensure that measures that can help the SMEs to adapt to necessary change are in fact taken.

All available facilities will be deployed for this objective.

16. CONCERTED MEETINGS BETWEEN THE BODIES REPRESENTING THE SMEs AND THE COMMISSION

In order to strengthen the participation of those working for and with the SMEs in the Community's decision-making process, the Commission's services will invite in the course of time the various SME organizations to attend discussions on the problems which arise, the aim being to reach by joint action solutions to these problems in a more concerted way than in the past.

The Commission feels that this procedure is better adapted to the real needs of the SMEs and of the artisan sector than would be the establishment of a consultative committee.

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