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Report

drawn up on behalf of the Committee on Economic and Monetary Affairs

on questions relating to small and medium-sized undertakings in the Community

Rapporteur: Mr H. NOTENBOOM

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English Edition

PE 49.357/fin.

In connection with the resolution¹ adopted on 11 May 1976 the European Parliament instructed the Committee on Economic and Monetary Affairs to draw up a report on questions relating to small and medium-sized undertakings.

On 21 May 1976 the Committee on Economic and Monetary Affairs appointed Mr Notenboom rapporteur.

It discussed this subject at its meetings of 14/15 February 1977, 23/24 June 1977, 29/30 September 1977, 21/22 December 1977 and 24/25 January 1978.

On 25 January 1978 the Committee on Economic and Monetary Affairs adopted the motion for a resolution and explanatory statement unanimously with one abstention.

Present: Mr Glinne, chairman; Mr Notenboom, vice-chairman and rapporteur; Sir Brandon Rhys Williams, vice-chairman; Mr Leonardi, vice-chairman; Lord Ardwick, Lord Bruce of Donington, Mr Brugha, Mr Carpentier, Mr de Keersmaecker, Mr Deschamps, Mr Ripamonti and Mr Stetter.

¹ see Annex IV

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The Committee on Economic and Monetary Affairs hereby submits to the European Parliament the following motion for a resolution together with explanatory statement:

MOTION FOR A RESOLUTION

on questions relating to small and medium-sized undertakings in the Community

The European Parliament,

- having regard to the mandate given by Parliament on 11 May 1976 to the Committee on Economic and Monetary Affairs¹,
- having regard to the report of the Committee on Economic and Monetary Affairs (Doc. 518/77),
- considering that strong and healthy small and medium-sized undertakings are essential for the proper functioning of a modern economy because they:
 - (a) help to spread power, responsibility, ownership and risk, and also keep competition alive;
 - (b) are in general labour-intensive businesses in which some 30 million citizens of the European Community are employed;
 - (c) can relatively easily reorientate their activities, which is a great asset in an economy facing the difficult task of restructuring;
 - (d) offer the opportunity to work in a small group, which is in line with the desire for the humanization of work;
 - (e) play an important part in supplying the consumer with products and services, both as regards the quality of the service rendered and the distribution of suppliers;
 - (f) offer the individual entrepreneur the opportunity to develop his specific qualities,
- considering that in a modern economy, small and medium-sized undertakings have at least as important a part to play as large companies and that this is now being generally recognized,
- aware that the definition of small and medium-sized undertakings is unclear and differs from country to country,

¹ OJ No. C 125, 8.6.1976, p. 13

1. Is convinced that the development prospects for SMU, especially in certain sectors such as subcontracting, repairs and maintenance, are favourable provided that the policy pursued by the Member States and the Community offers such undertakings development opportunities equal to those offered to large public and private firms;
- (a) Integration policy
2. Considers that the Member States and the Community institutions must pursue a policy which is not directed at artificially favouring the SMU nor at maintaining uneconomic businesses but at creating equal chances and enabling SMU to overcome the specific handicaps which they have to contend with;
3. Feels that this implies first and foremost that an integration policy must be pursued at national and Community level, i.e. that the SMU dimension must be incorporated into the economic policy and the various specific areas of policy, to take account of the special nature of SMU;
4. Is of the opinion that in the first instance, SMU policy must remain a national policy insofar as there is no suitable Community policy in the economic sector in general, and in the fields of company law, competition, taxation, financing, consumer and environmental protection, which are increasingly influencing the conditions in which SMU operate;
5. Notes with satisfaction, therefore, the Commission's intention of publishing at an early date a policy memorandum concerning SMU and hopes that this document will include not only specific proposals but also an overall assessment of the place of SMU in our society;
6. Urges the Commission of the European Communities to consult with organizations representing SMU at national and Community level with a view to the creation of a consultative committee for small and medium-sized undertakings which the Commission can treat as a fully-fledged advisory partner;
7. Considers it desirable that the idea put forward some time ago by the Commission to encourage innovation in small and medium-sized undertakings through Community development contracts should be given further consideration, and requests the Commission to take the necessary steps to that end;
- (b) Statistics
8. Points out that policy must be based on a thorough knowledge of the actual situation and, therefore, regrets that no recent comparative data are available at present on trends in the SMU share in the Community labour market and the gross domestic product, with at least a breakdown into industry, trade and services, or on the 'birth and death rate' of SMU, and calls on the Commission to remedy this situation;

(c) Social and economic policy

9. Is convinced that the most valuable contribution which the governments of the Member States and Community institutions can make to the maintenance and development of SMU is an economic policy consistently directed at stability and combating unemployment;
10. Asks the Commission to consider whether the burden of social charges could not be distributed more evenly among the undertakings by shifting, to a given extent, the basis of assessment for social security contributions from the labour factor, for example, to the 'added value' generated by undertakings;
11. Considers it essential, in accordance with the Recommendation submitted by the Commission in 1976¹, to provide for the self-employed a package of basic measures to cover health services, old-age or invalidity pensions and the payment of child allowances for all categories of people exercising a gainful activity on the understanding that the benefits and obligations should be comparable with those provided for wage-earners;
12. Urges that until the measures set out in the previous paragraph come into effect, fiscal or other measures should be taken to enable the independent entrepreneur to cover himself to some extent against the major risks;

(d) Training and information

13. Notes that inadequate further training, retraining and information for the independent entrepreneur is a major problem for SMU; notes, however, that improvements here should not be made in the first instance at Community level but rather at national or even regional level, although the European Centre for the Development of Vocational Training in Berlin has been assigned tasks in this sphere, especially as regards the exchange of experience between the bodies concerned in the Member States;

(e) Financing

14. Points out that many SMU have to contend with financing problems not only because the capital market is not usually directly accessible to them but even more so because the small businessman often does not know what opportunities are open to him nor how to present his credit requirements in a manner acceptable to the banks;

¹ Doc. 300/76

15. Considers that when banks do however meet the needs of SMU the latter are frequently offered less favourable conditions than those which a large company can obtain and therefore calls for the system of government-guaranteed loans for SMU to be extended;
16. Points out that the 'global loans' granted by the European Investment Bank have a remarkable yield where employment is concerned;
17. Notes that in the past few years global loans from the European Investment Bank, which are granted mainly in favour of SMU, accounted on average for no more than 17% of the total loans granted by this Bank to industry and services and that this percentage must be considered too small;
18. Requests the Commission to ensure that the figures shown in future annual reports of the European Investment Bank make clear what proportion of global loans actually go to SMU;
19. Feels that, in order to encourage the rapid application of new techniques, the European Investment Bank should judge projects submitted to it on their intrinsic value and not so much on the size of the company applying for a loan;
20. Suggests further that it should be possible for the EIB to delegate the decision to grant loans to the intermediary national institutions at least for smaller amounts, and that this should enable the present excessively high credit threshold (100,000 u.a.) to be lowered;
21. Considers that SMU should be allowed to submit combined applications for support from the European Regional Development Fund so that more SMU could meet the criterion of creating or maintaining at least 10 jobs;
22. Hopes that the proposals to amend and supplement the Regulation establishing a European Regional Development Fund¹ submitted recently by the Commission will enable the SMU to receive a larger proportion of the resources allocated by the Fund, and in this context recalls its resolution of 13 October 1977 on the regional policy².

¹ OJ No. C 161, 9.7.1977, p. 11

² Resolution embodying the opinion of the European Parliament on the communication from the Commission of the European Communities to the Council concerning guidelines for Community regional policy, paragraph 21 (OJ No. C 266, 7.11.1977)

(f) Fiscal policy

23. Points out that the administrative burden of dealing with taxation is usually very heavy for small undertakings and calls on the national authorities concerned and the Community institutions to simplify procedures wherever possible;
24. Considers that the Member States should encourage the continuity assured by succession of small and medium-sized undertakings and amend any fiscal measures which stand in the way of such transfers;

(g) Competition and cooperation

25. Considers that action against misuse of dominant positions and excessive concentration is not only in the general interest but also a condition for the survival of SMU and therefore urges the Council once more in this context to adopt at an early date the proposal for a regulation¹ on the control of concentrations between undertakings as amended by Parliament;
26. Considers that the European Commission should be flexible in its approach to the various forms of cooperation between small and medium-sized undertakings;
27. Supports the Commission's idea of increasing the effectiveness of the Business Cooperation Centre by concentrating on a small number of sectors, providing greater support for undertakings which wish to co-operate and expanding its activities to third countries;
28. Considers that the Commission and the Centre should also publish a document setting out for SMU the problems and potentials of transfrontier cooperation;

(h) Export promotion

29. Points out that export promotion measures principally benefit large companies and requests the Commission to investigate practical ways of supporting SMU efforts to open up markets in third countries;

(i) Company law

30. Hopes that the Council will shortly adopt, in the form proposed by Parliament, the draft regulation on a European Cooperation Grouping, which will be of great value to SMU;

¹ OJ No. C 92, 31.10.1973

31. Feels also that a European limited liability company would be an eminently suitable legal form for cooperation between SMU on a basis of equality;

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32. Instructs its President to forward this resolution and report to the Council and Commission of the European Communities and to the parliaments and governments of the Member States.

EXPLANATORY STATEMENTIntroduction

1. On being asked to draw up a draft report on questions relating to small and medium-sized undertakings (SMU) in the Community¹, your rapporteur sent out a questionnaire to a number of representative SMU organizations at both national and European level. The replies to these questions are summarized in PE 47.339, which was circulated as a 'notice to members.' Extensive use has been made in this report of the reactions received.

2. SMU are a heterogeneous group of companies - not to say a motley collection if the Commission's broad definition is adopted: companies with not more than 500 employees.

This means that it is difficult to make firm pronouncements or trace out general policy lines since there is a constant danger of drawing conclusions which may not be valid for each and every type of SMU in all the Member States.

3. In 1974 the Economic and Social Committee made a study² of questions relating to SMU in the Community. This body continued to examine the subject and in November 1977 published its 'opinion on small and medium-sized undertakings'.³ Your rapporteur has tried to avoid any duplication of work between the European Parliament and the Economic and Social Committee and so has concentrated in this draft report on general social and economic aspects. The more technical questions, which the Economic and Social Committee is eminently qualified to deal with, have advisedly received more summary attention.

¹ In consequence of an oral question (Doc. 75/76) by Mr Cousté, Mr Kaspereit, Mr Normanton and Mr Bangemann

² Doc. CES 714/74

³ Doc. CES 1158/77

I. The place of SMU in our society

The importance of healthy SMU

Strong and healthy SMU are essential for the proper functioning of a modern economy. The importance of SMU for our society can scarcely be overestimated. But while the great utility of these undertakings is being recognized more and more in our Member States and at Community level, this recognition is still inadequately reflected in policy. This report is an attempt to help accelerate the translation into policy measures of the realization of how very valuable SMU are to our society.

SMU are essential for the maintenance of the economic order not only because they help to spread economic power, risk, responsibility and ownership, especially ownership of the means of production but also because they keep competition alive: the 'irritating small fry', who are often more interested in modernizing than are the large companies, prevent the giants from resting on their laurels. They play a useful role in spurring on the large companies; where SMU are well developed, dominant positions are not so likely to arise.

SMU have long shown themselves to be more flexible than large undertakings. They can reorientate their activities more easily and that is a great asset in an economy which is facing the difficult task of restructuring. The industrialization of the developing countries, the rise in raw material prices and increasing competition from Eastern Bloc countries will in the years to come require of the Community a measure of adaptability which as a rule is found to a greater extent in SMU than in large companies.

The economic order is in danger when there is an imbalance in the structure of undertakings; this means that SMU must be present in sufficient numbers in industry.

By definition SMU offer an opportunity for working in a small group and for independent professional activity. Many people still prefer to work in an SMU rather than in a large company. According to a recent inquiry¹, one third of the working population of our Member States would prefer to work in a company with not more than 50 employees. Only a fifth preferred companies with more than 500 employees. A very large majority of employees thus prefer to work for an SMU (here meaning any company with less than 500 employees). This is understandable because each person's duties are less clear-cut in a small company, so the work is usually more varied and independent. Work is more geared to the individual in SMU than in the large companies. For many people these advantages clearly outweigh the usually less extensive career prospects. For this reason alone SMU are of great value for the employees.

¹ VWD, February 1977

Yet there is another, more important reason for this: SMU are in general, labour-intensive. Now that there are almost 6 million unemployed in the Community, SMU ought to receive more attention than they have been getting, in view of the contribution they could make to the solution of the unemployment problem¹. This is particularly true when one considers that the primary need of SMU is for qualified people.

It is of great importance to the consumer that SMU be strongly represented in the last links of the economic chain. The supply of products and services to the consumer still leaves much to be desired in the Member States both as regards the quality of the services rendered (in all our countries it has become difficult to find a craftsman to undertake house repairs and to repair consumer durables) and the distribution of suppliers (the corner grocer is being replaced by the supermarket, so the consumer has to travel greater distances).

SMU provide a flexible and varied selection of goods and services and this benefits the consumer and, more generally, the quality of life in our society.

Finally there is the entrepreneur himself. Society ought to be so structured that the individual has the opportunity to develop his specific qualities. Some people have the qualities of the small entrepreneur, appreciating his special way of life. A society which has no place for these people is selling both its citizens and itself short.

Definition of SMU

The role which SMU play in the economics of the Member States can be eloquently expressed in figures. However, the data supplied by each of the Member States are not susceptible of comparison at Community level, for the problem remains of defining the SMU concept. The Community has not yet managed to define it nor have any of the Member States produced an official definition. SMU are defined differently according to the area of government policy concerned - even in the same Member State. However, an official definition of an artisanal business does exist in the Federal Republic of Germany, France, Italy and Belgium².

¹ Mr Cousté made a speech to this effect at the symposium organized by EUROPMI on 27.10.1976 in Lyons.

² 'Définition des petites et moyennes entreprises et de l'artisanat,' Commission Doc. 413/III/76, April 1976.

In practice the Commission considers any independent undertaking with no more than 500 employees to be a SMU. This criterion is open to criticism: is the number of employees the most suitable yardstick? Is not 500 far too high a figure, considering that an undertaking with 500 employees in certain markets must be regarded as a large company? Are not SMU, if defined as undertakings with a maximum of 500 employees a farrago of economic units having few points of interest in common. These objections are all valid; yet the fact remains that any definition is bound to be more or less arbitrary.

The Community statistics are decidedly inadequate. The Statistical Office has made a start with an annual investigation in the Member States into the industrial activities and investments of companies with at least twenty employees; the smaller companies will be included in the statistics only once every five years. The Office will also collect data on the wholesale and retail trades and, possibly, the hotel and catering industry¹. It is not clear whether the data published will be broken down according to size of undertaking, this being essential if the figures are to be of real use.

With the reserve imposed by this lack of statistical data, it can be stated that approximately 50% of the working population is employed in SMU (taking the definition of no more than 500 employees). The number of employees in SMU is stable or is dropping off slightly, while the average number of employees per SMU appears to be gradually increasing.

A policy must be based on knowledge of the subject of that policy. Recent comparable data on trends in SMU's share of the Community labour market and the gross domestic product, in which at least a breakdown according to industry, trade and services is needed, as also data on the 'births and deaths' of SMU and the reasons for them, must be considered a minimum requirement.

It would not, however, be right to delay all action on the pretext that insufficient statistical data was available. For SMU have a number of features connected with small-scale production which offer a sufficient basis for a Community policy, the content of which can later be refined when more is known about SMU.

¹ Note on the study by the Economic and Social Committee on the 'situation of the small and medium-size undertakings in the European Community,' Doc. 1225/III/75.

Characteristics of SMU

What are the typical characteristics of SMU? Assuming that the number of employees per company can be taken as one criterion, it is nevertheless clear that this by no means defines the special nature of SMU. The following are the most characteristic features of SMU:

- (1) SMU are often run by independent entrepreneurs¹, who are usually personally involved in the various stages of the production process.
- (2) SMU are to be found chiefly where there is a differentiated demand: as a rule SMU serve small markets and supply a specialized product. They are particularly numerous in the final links of the economic chain;
- (3) SMU are consequently mostly labour-intensive since they have fewer opportunities of raising productivity by mass production or by substitution of production factors².
- (4) SMU usually do not have direct access to the capital market.

Future of SMU

In a few Member States research has been carried out into the medium-term prospects for SMU³. Perhaps too much importance ought not to be attached to the conclusions of these reports. There are too many factors at play, sometimes working in opposite directions, whose importance it is difficult to assess.

What is, however, certain is that the belief that the large companies will progressively oust the small ones has been shown to be false. It is also certain that the need for products and services from companies geared to a small local market will continue to exist and that economic growth directed more towards quality together with the differentiated needs which this implies holds out good prospects for SMU. This trend is resulting in the formation of a large number of smaller markets, each with its specific demand, and the strength of SMU is precisely its ability to

¹ SMU policy cannot, however, be equated with policy on the self-employed, since there are many self-employed working outside SMU and conversely there are many entrepreneurs in SMU who have the status of employee.

² 'Het KMB in de Nederlandse economie in 1980,' p. 38.

³ See for example 'Analyse und Prognose der Unternehmensgrößenstruktur' for Germany (1975), the report 'KMB in de Nederlandse economie in 1980' for the Netherlands (1976), the study by the 'Anglo-German Foundation for the Study of Industrial Society' (1976) and the report 'Prospective de la PME' drawn up by a working party of the French Commissariat Général du Plan (1974).

produce a product to meet a specific demand. SMU can also raise their productivity considerably by transferring certain parts of the entrepreneurial function (administration, joint advertising and procurement). The prospects for SMU are moreover favourable in the sub-contracting sector and in the repairs and maintenance sectors. There is great potential for the SMU in repairs and maintenance: producer goods and consumer durables are becoming more and more complicated and this is prompting companies and private owners to farm out repairs and maintenance. Then there is the fact that 'large-scale' production has definite disadvantages and the call for the humanization of production benefits SMU.

Set against this is the fact that the optimal business size in many sectors is still increasing; and also that the levelling of incomes and the probable low growth of freely disposable income in the years to come will hinder the individualization of demand and will not work to the advantage of SMU.

A very important factor in the development of SMU in the Community will also be the policy of the Community and the Member States towards these undertakings. It is important that they create the social and economic conditions to make further development of SMU possible.

II. Integration policy and specific measures to benefit SMU

Nobody, not even SMU themselves, wish for artificial advantages for SMU. An SMU policy must be designed

- (a) to ensure that SMU have equal development opportunities i.e. government policy must not lean towards the large companies, nor must it contain any built-in incentive towards concentration. Although apparently neutral towards the size of undertakings government policy is frequently more orientated towards the large undertakings. This has again been clearly shown during the recession: when a large undertaking finds itself in difficulties, the government rushes to its aid because it cannot afford to allow jobs to be lost. A small undertaking, on the other hand, can rarely expect such aid. Social and economic policy and legislation are never completely neutral but they must approach the ideal of neutrality as closely as possible - which is not the situation at present in our Member States. There must therefore be a policy of integration.

- (b) to enable SMU to overcome the handicap peculiar to these undertakings: what is needed here is basically 'Hilfe zur Selbsthilfe'. It is obviously not being recommended that the burdens borne by SMU should be lightened by relieving this category of undertakings from their social obligations, e.g. in the field of labour legislation. Such a policy would not only be unacceptable for social reasons but could have an opposite effect to that desired in that SMU might then ultimately become the 'slum areas of industry'¹.

Integration policy

A good SMU policy must first and foremost be an integration policy. This means a policy directed towards incorporating the SMU dimension far more than has been the case hitherto into social and economic policy and the various specific areas of policy (fiscal policy, social policy, company law, competition).

This is not being done adequately at the moment in our Member States or at Community level. There are differences from country to country; and these differences are apparent even where objectives are concerned. The objectives of SMU policy have been formulated most clearly in the Federal Republic of Germany². The Netherlands, Belgium and, to a lesser extent, the United Kingdom also have clearly formulated objectives. However, the objectives do not necessarily correspond to the policy as implemented; action does not always follow the formulation of objectives.

Policy bodies responsible for SMU in the Member States also differ in structure within the Community.

If SMU have missed out where integration policy is concerned, this is partly because as a group it has not always been able to defend its interests strongly enough, which again is due to SMU's heterogeneous character.

As a result, both advisory and representative organizations are too much inclined to take as their starting-point the needs of large companies. Until recently large companies enjoyed a certain preference and SMU were all too frequently neglected to some extent without being consciously discriminated against. A gradual change is now taking place. Integration policy must hitch on to this change in mentality and aim at giving SMU the equal standing they are entitled to.

¹ Sir Harold Lever in the Financial Times, 27 October 1977.

² In particular, in 'Grundsätze einer Strukturpolitik für kleine und mittelgrosse Unternehmen' Bundestagsdrucksache VI/1966.

It follows from the above that this report does not advocate a separate Community policy to favour SMU nor a shifting of powers to the Community. SMU policy can, for the time being, remain principally a national policy since SMU activity is mostly confined within national frontiers.

The influence of the Community, however, is becoming increasingly noticeable in respect of SMU, which have played a major part in the considerable expansion of intra-Community trade, and Community legislation in the field of taxation, competition, company law, regional and social policy and customs procedures affects SMU directly.

These Community institutions, as well as the national governments, have sometimes failed, in preparing their legislation in these fields, to take sufficient account of the specific nature of SMU. Customs legislation is complicated and the deposit which has to be paid in Community transit trade, for example, can raise problems for SMU. The VAT arrangements made for SMU are not very favourable and insufficient account was taken of SMU interests when company law was harmonized. SMU must therefore receive greater attention in future at Community level, especially as the Community's influence on the circumstances in which SMU operate will probably continue to increase considerably. It would therefore seem desirable for the Commission to draw up an action programme which would sketch out a picture of the SMU's function in our economic system and the general policy lines deriving from this conception. Such a programme should also indicate in what areas the Community should have a role and what measures the Commission is considering taking.

The action programme could form part of the medium-term economic policy programme. However, this document devotes little attention to SMU. What the fourth medium-term economic policy programme has to say on them is not incorrect but just extremely meagre¹, as Mr Schwörer pointed out in the report on this programme by the Committee on Economic and Monetary Affairs². Preferably, then, the Commission should draw up a special document on which Parliament should be consulted.

Specific measures

SMU have to contend with a number of difficulties specifically linked to their size. These difficulties have to do with the further training of the entrepreneurs, who often continue to work with outdated management techniques, and also company management's insufficient knowledge of the market structure and particularly of opportunities for cooperation. There are in addition specific problems in the field of financing, where SMU do not have access to external funds on the same conditions as large companies.

¹ OJ No. L 101 of 25.4.1977

² Resolution, OJ No. C 83 of 4.4.1977

It is not always possible to draw a clear line between integration policy and specific measures. Yet the line is worth drawing because it makes it clear that SMU are hardly asking for special treatment but chiefly for account to be taken, in various policy sectors, of the interests and the individual character of SMU.

III. Social and economic policy

The most valuable contributions which the governments of the Member States and Community institutions can make to the maintenance and continued development of small and medium-sized undertakings is an economic policy which is consistently aimed at stability and combating unemployment.

Wage increases and price policy

Stability is needed because the labour-intensive SMU are especially sensitive to the effects of income inflation. Labour costs rise faster than the other elements of the cost price. Labour costs per unit product have risen sharply between 1973 and 1975 in the Community, extremely sharply in some Member States: between 25% in the Federal Republic of Germany and 83% in Italy. The rise has probably been even greater for SMU because the latter - particularly in the retail trade - have a large number of relatively low-paid employees¹ and the lower wages in particular have risen sharply in the various Member States since 1970.

SMU have relatively little influence on central wage negotiations or on government wage policy². One of the consequences of this is that rises in productivity are usually taken as the starting-point in industry for wage-increase negotiations; this is unfavourable for SMU as their increase in productivity is usually below the average.

This, added to the fact that wage increases in industry have for many years exceeded rises in productivity, has resulted in a rise in labour costs which threatens to be catastrophic for SMU in a number of Member States. In future the labour-intensive SMU must acquire more influence on wage movements than at present. Wage trends will have to be geared more towards the possibilities of each sector of industry.

The price policy pursued in a number of Member States usually takes too little account of the state of affairs in SMU and particularly the requirement that efficiently managed firms should be able to derive at least a basic profit from their invested capital. This is not to call in question price policy as such but its insufficiently differentiated character. The governments of the Member States will have to bear in mind that profit trends of small companies, including the retail trade, differ considerably from one to another. Any price measures that may prove necessary must therefore be

¹ This does not mean that SMU pay badly but that they employ a relatively high number of young people and part-time staff.

² 'Ontwikkelingen in de Arbeidsverhoudingen: bedreiging of kans?'. Prof. H. ter Heide, Kroniek van het Ambacht/KMB, No. 5, 1976.

differentiated: what one sector can absorb without trouble puts others, even well-managed firms, irrevocably into the red.

Financing of social security

Although social security in the Community is financed in different ways from one country to another¹, in general the burden of contributions falls relatively heavily on the labour production factor. This was perhaps reasonable at a time when social security was concerned almost exclusively with benefits to employees. Today, however, an important part of social security expenditure is no longer linked to the position of the wage-earner. Payments to non-workers form an element of labour costs, so it is no longer a matter of course that contributions should be raised exclusively from labour, particularly as this leads to a continuing rise in labour costs and hence the replacement of labour by capital, of men by machines. Investment and technology are artificially directed by this method of financing towards the introduction of labour-saving production processes². Conversely, capital enjoys additional benefits through depreciation facilities.

Now that the Community has almost 6 million unemployed and the prospects for the years to come are not at all encouraging, a partial reform of the system might be considered. Such a reform could consist in shifting in a given measure the basis of assessment for social security contributions from the labour factor to added value so as to achieve a more balanced spread among companies. This means that the amount to be collected from a company in social charges should be calculated not only on the basis of the wage bill but also partly on the basis of the added value of those companies. The advantages of this are that:

- (a) contributions to the financing of the collective sector would be more closely matched to the financial strength of the individual branch of industry;
- (b) the relationship between the various factors of production is changed so that the use of labour becomes relatively more attractive for the entrepreneur, the result being that he is not so inclined to 'replace men by machines'; encouragement of investment will then give a strong boost to employment and hardly or not at all lead to the use of production methods that dispense with labour;
- (c) resistance to excessive wage increases in capital-intensive firms would become greater³;

¹ See Annex I

² Prof. Dr. N. H. Douben, 'Vermogende arbeid', Tegelen 1975; and 'Sociale premiedruk; een gevarieerde last', Sociaal Maandblad Arbeid, No. 7/8, 1976

³ Nowadays large capital-intensive firms more often prefer to give in to wage demands rather than run the risk of a temporary shut-down of expensive production equipment since that would involve the greater loss.

(d) such a measure would mean an improvement for the labour-intensive SMU.

Two objections can be made against this proposal. In the first place it may be considered undesirable State interference. But that would be to place a false complexion on the matter. For it is in reality an attempt to put to rights a systematically distorted situation by spreading social charges more evenly over the business sector. A more serious objection to the proposal is that companies under this system would have less incentive to modernize and increase productivity. That objection cannot be dismissed, but it must probably be given less weight than the boost to employment resulting from this proposal. In a Community with almost 6 million unemployed this last consideration is of great importance.

These are drastic proposals. Therefore the implementation of radical changes in the short term cannot be contemplated. However, it is possible and, indeed, necessary to set in train discussion of this matter in the Community so as to try and achieve a certain consensus in the Community and gradually reorientate policy accordingly¹. At national level there have been instances, notably in France and the Netherlands, where it has already been contended that the costs of social security bear unreasonably on labour-intensive undertakings².

Needless to say, the purpose of this proposal is not to keep less profitable enterprises in business but solely to change the cost structure of the business sector so as to create more jobs - an important secondary objective being to encourage in this way the development of labour-intensive industries, many of which are to be found in the SMU sector.

Social security for SMU entrepreneurs

In cases where the taxable company and the natural person of the entrepreneur are one and the same, there is the problem that the latter has to finance his own insurance against certain fundamental risks while the employees are covered by social security provisions.

This discrimination, which exists in all our Member States, ought to be phased out. Apart from the specific employees' risk of dismissal and unemployment, in the present distribution of both income and risks, there is no longer any justification to be found for this discrimination. Ownership of a company is not generally a sufficient social security basis for the owner; a basic package of social security provisions must therefore be

¹ Mr Schwörer put forward some suggestions to this effect during Parliament's plenary sitting of 16.12.1976.

² See also the article by Mr Cousté in Le Monde of 5.11.1976 and in the Netherlands the 'Midden- en kleinbedrijf' report by the CDA, 1976

introduced for the self-employed in all Member States. An attempt must be made to introduce a system whereby the employee and the self-employed person enjoy equal social security in return for equal contributions¹.

There are provisions in all Member States which partly cover the fundamental social risks of the self-employed. There are sizable differences between them. Denmark, for example, has reached a very advanced level in this field while other Member States lag behind as regards the provision of what can be regarded as an acceptable minimum. They all have regulations providing old-age pensions for the self-employed although the actual amount varies. The same is true of sickness benefit insurance. Benefits during long illnesses to compensate for lost income are still very inadequate in most Member States, if they exist at all.

No discrimination is made between the self-employed and employees as regards family allowances, except in Italy and to a lesser extent in Belgium and the Netherlands. Of the Community countries, only Denmark and Luxembourg pay out unemployment benefits to the self-employed.

All Member States have an indexing system. True, in Ireland there is no legal obligation to make periodic cost-of-living adjustments, but in practice they are effected at prescribed intervals. However, the methods used differ widely, ranging from partial to complete adjustment of benefits to the increase in prices.

Although this does not seem a propitious time for new proposals in this field, the Commission nevertheless ventured in June 1976 to present proposals concerning 'the progressive extension of social protection to categories of persons not covered by existing schemes or inadequately protected'².

The Commission's proposals take the non-binding legal form of a Recommendation, a fact about which Parliament has expressed its regret³. If the Member States follow this Recommendation, cover will be provided, by 31 December 1980, at the latest, against the contingencies of sickness, old age and invalidity and family benefits will be given to all categories of persons engaged in gainful employment or self-employment, including periods when such employment or self-employment is involuntarily interrupted⁴. Incidentally, it is remarkable that the Commission's Recommendation does not make it clear whether the aim is to guarantee benefits equal to those provided for wage earners.

¹ However, the self-employed person has to pay a higher premium than the employee in that he must pay both the employer's and the employee's contribution. Where the Government pays the employee's contribution on his behalf, such contributions should also benefit the self-employed.

² Recommendation of the Commission, COM(76) 295 final of 16.6.1976, Working Document 300/76.

³ Resolution, OJ No. C 30, 7.2.1977, p. 23.

⁴ Doc. 300/76, para. 6.

The introduction of a basic social security package to cover the self-employed against social risks is undoubtedly the best solution. However, as long as the self-employed have a less favourable position in this area than employees, supplementary measures could be retained or introduced in the tax sphere to enable the small or medium-size entrepreneur to cover himself to some extent against these contingencies. Here the system used in the Netherlands is worth mentioning whereby the entrepreneur is allowed to set aside, tax-free, a certain percentage of taxable profits as a fiscal old-age reserve, it being understood that tax will be levied if ownership of the firm is transferred or if it is put into liquidation.

The Commission has in addition put forward the idea¹ of introducing a minimum income for the self-employed and others who have had to give up work. Although this suggestion cannot be dismissed out of hand, the first priority is to do something about the circumstances which cause so many small entrepreneurs to close down their businesses, so that aid to these self-employed people becomes no longer necessary.

Innovation

Only by constantly seeking to renew itself can European industry remain competitive on the world's markets. 'Thus European industry's capacity for innovation and a technological advance must be developed as a matter of priority'². SME can make an extremely valuable contribution to this since in terms of turnover they create more new products and patents than large undertakings and avail themselves of a larger proportion of the patents granted. The Council states that 'firms whose work lies in the development of new ideas' should be entitled to special arrangements³ but this has not prevented the Council from failing to take action on a proposal for a regulation - dating back to 1972 - on the introduction of Community contracts, the purpose of which was to promote the development of new production techniques and intra-Community cooperation in this field. Parliament had given its approval for this proposal⁴. The Commission, which has since withdrawn its proposal, is requested to submit a new one.

At national level too, governments can take initiatives to encourage innovation in industry and create new export opportunities. They can lay down stricter requirements in areas such as safety and energy conservation. This would constitute an incentive to industry to develop new processes and products (e.g. insulating materials for houses) which would give them a lead over foreign competitors. If a consistent policy were pursued along these lines in our countries, our overall competitiveness and SME, which are particularly suited to filling gaps in the market arising in this way, would benefit.

¹ 'Nota over de studie van het Economisch en Sociaal Comité over de situatie van het midden- en kleinbedrijf in de Europese Gemeenschap', Doc. 1225/III/75.

² 'Fourth programme on medium-term economic policy', OJ No. L 101, 25.4.1977, point 119.

³ Idem, point 100

⁴ OJ No. C 26, 30.4.1973, p. 28

SMU as consultation partners

At Community level SMU are able to make their views known through the opinions of the Economic and Social Committee, in the positions taken by the Union of Industries of the European Community (UNICE) through the intermediary of the Committee for small and medium-sized industrial enterprises in the EEC (EUROPMI), the European Union for Trade and other organizations. SMU can thus make their voices heard in the Community but those voices would be louder if there was less dispersion of effort than at present. This shortcoming is undoubtedly connected with the heterogeneous character of SMU. However, it does seem worth while - by analogy with the Consumers' Consultative Committee - to consider setting up a consultative committee for small and medium-sized undertakings. The Commission reacted with reserve, though not dismissively, to a suggestion to this effect made by Mr Cousté¹. It is true that the formation of interest groups is really a matter for those directly concerned but in the case of a heterogeneous category such as this it may be necessary for Community institutions to take the initiative.

The 'rediscovery' of SMU will have consequences for Community policy. It therefore seems important particularly now that Community action affecting SMU should be continuously subjected to the critical appraisal of representatives of these undertakings. A consultative committee would seem to be the most suitable body to perform this function.

IV. Specific measures on behalf of SMU

SMU do not wish to be given preferential treatment, nor are they asking for measures to keep unprofitable undertakings afloat. SMU wish merely for their specific characteristics to be taken into account when overall economic policy and policy in individual sectors is being formulated, that is to say legislation and policy should not be tailored exclusively to the needs of the large concerns but equal development opportunities should be offered to enterprises of widely varying sizes.

That is why an integration policy has also been advocated above i.e. a policy which establishes a suitable framework in which both large and small and medium-sized undertakings may develop without the latter being given any privileges. This approach means that specific measures on behalf of SMU would be necessary only in a few cases. SMU do have to contend with certain handicaps which can be overcome only with public aid. These relate mainly to further training, information and financing. Obviously this aid must not be allowed to create distortion of competition.

¹ Answer to Written Question No. 717/76, OJ No. C 70, 21.3.1977, p. 9

Training and information

Probably the biggest problem of SMU is how to keep their senior executives abreast of developments in management techniques and market trends. While SMU often find it difficult to attract capital, this is not their most urgent problem and is secondary to that of the further training and information of the entrepreneur. The fourth medium-term economic policy programme rightly lays emphasis on this¹.

This problem is duly recognized in most Member States. In general SMU in the Member States are able to enlist numerous consultancy services (which may or may not be specialized in their particular line of business) to enable them to make up for the natural disadvantage they have in this field vis-à-vis large companies.

There are inadequate retraining opportunities for SMU entrepreneurs wishing to switch to another line of business or wanting to acquaint themselves with new techniques. While this aspect is of the greatest importance, arrangements should not be made in the first instance at Community level but at national or even regional level.

The Commission has already done a certain amount to appraise entrepreneurs of the new opportunities which the common market offers many SMU. Mention can be made here of the 'communication on the interpretation of the rules on competition'², a seminar organized by the Commission to acquaint SMU with the opportunities offered by the various Community funds, and the Community Business Cooperation Centre.

The purpose of this Centre, set up in 1973, is:

- to provide companies, especially SMU, with information on the economic, legal, fiscal and administrative aspects of cooperation and concentration across frontiers;
- to establish contacts between companies seeking closer relations;
- to bring to the attention of Community bodies the difficulties which stand in the way of closer cross-frontier relations between companies.

¹ OJ No. L 101, 25.4.1977, para. 100

² See section VII below

The Centre performs useful work, it provides companies with information on company law, fiscal and currency rules, investment regulations and the law on the establishment of undertakings. Between May 1973 and November 1976 the Centre answered 2,000 applications for information. The number of cooperation agreements concluded through the offices of this body has, however, remained quite small. During the abovementioned period the Centre dealt with 350 applications for cooperation which led to 50 agreements being signed between undertakings. It has become evident that the Centre must not only help interested undertakings during the initial contact but must continue to perform its role of intermediary since a certain amount of mistrust often exists between undertakings from different countries when it comes to negotiations.

It would be interesting to know to what extent the objection - often heard in the past - that the few agreements concluded with the aid of the Centre usually took the form of financial participation of a large company in a small company, is still valid today.

The Centre could operate more effectively if it could itself take the initiative to establish contacts between undertakings. To achieve this it would probably be necessary for it to concentrate on specific sectors of industry; in this way it would become familiar with the opportunities existing in those sectors. The Commission is considering the possibility of revising the tasks of the Centre along these lines.

The Commission - and in particular the Community Business Cooperation Centre - should publish a booklet for the use of SMU explaining in easily understandable language the various forms which cooperation can take in the European Community and the rules which have to be observed. There is certainly a need for such a publication.

In February 1975 the Council adopted a regulation¹ establishing a European Centre for the Development of Vocational Training. The aim of this Centre is to promote vocational training and further training at Community level.

It was intended that one section of the Centre should deal specifically with the problems of SMU. It would seem that this objective has since been dropped. The Commission is requested to provide further details on this matter.

The Centre, which only recently began operations - the composition of the Centre's Management Board was announced as late as February 1977 -

¹ OJ No. L 39, 13.2.1975, p. 1

will, as far as the SMU are concerned, encourage the exchange of information and experience between EEC countries on the existing systems of basic vocational training, retraining and complementary training for SMU entrepreneurs.

Financing

SMU often have to contend with financing problems, not only because the capital market is not usually accessible to them but also because the small businessman often does not know what opportunities are open to him nor does he know how to present his credit requirements in a manner acceptable to the bank.

The whole financing process is something with which the small businessman is quite unfamiliar. This is not surprising: in a small company the need for external financing does not often occur. Small independent businessmen are often people with special qualities in the technical and/or commercial sphere, but they are usually less well-versed in financial affairs. This is at the root of many SMU problems. Anyway, the existing financing opportunities are generally considered to be adequate by the representative organizations.

It is impossible to make general pronouncements about the capital structure of SMU. The German 'Mittelstandsbericht' rightly pointed out that the often heard claim that SMU usually had relatively less own capital than larger companies is scarcely borne out by the facts¹.

In general, banks in the Community meet the financing needs of SMU to a reasonable extent although they are usually offered less favourable conditions than the larger companies. The credit conditions are less favourable because the risk of insolvency decreases as company size increases and, moreover, the general costs attaching to loans bear less heavily on large transactions.

In order to place SMU on the same terms of competition where the acquisition of capital is concerned, it has proved necessary for governments to give some sort of aid, e.g. credit guarantees or interest subsidies. In some Member States an important role is played by participation and financing companies especially set up for the purpose. In these bodies, governments often work together with private banks and institutional investors. In France there are the 'Sociétés de Développement Régional' which grant loans with government guarantees. The aim of these organizations is to promote

¹ 'Bericht der Bundesregierung über Lage und Entwicklung der kleinen und mittleren Unternehmen', Bundestagsdrucksache 7/5248 of 21.5.1976, p. 15.

regional development by encouraging private companies to invest in backward areas. In addition there is the 'Institut de Développement Industriel', which participates in companies with the aim of strengthening the country's industrial structure. Participation is withdrawn after 7-10 years. The government and financial institutions work together in the IDI on a fifty-fifty basis. The 'Crédit Hôtelier' provides loans for a period of 8-15 years with interest subsidies. In May 1977 the French Government decided to expand considerably the financial facilities open to SMU.

The British 'Industrial and Commercial Finance Corporation' provides capital for small and medium-size firms.

In Italy SMU can apply in particular to the 'Istituto Mobiliare', which extends medium-term credit at market interest rates or below. There are also a number of regional financing institutes in Italy which are of importance for SMU.

In Belgium the 'Nationale Investeringsmaatschappij' does much to assist medium-sized undertakings. The NIM, which can only work with 'sociétés anonymes', is of no significance to small undertakings. SMU are aided with credit guarantees and interest subsidies in other countries as well.

There are considerable differences between Member States as regards the financing facilities offered to SMU¹. This may, in certain cases, lead to a distortion of competition. Not too much importance need be attached to this, however. Most SMU serve a local or, at most, a national market and so harmonization of financing facilities at Community level does not seem a pressing matter. The Commission must, however, ensure that the overall effect of the facilities offered does not differ too widely from country to country. The Commission recently published a document comparing the various systems².

It is extremely important for the healthy development of SMU that not only existing companies should be able to obtain capital on reasonable terms but also that capital should be made available to worthwhile projects whose purpose is to get new companies off the ground. If the constellation of undertakings is not to become fossilized, new companies must be allowed to arise all the time. In this respect the situation in Europe differs from that in the United States. The banks there seem much more inclined than those in our Member States to judge an investment project on its intrinsic merits and not so much by the reputation of the company applying for credit³. Given

¹ See Annex II

² 'Rapports nationaux sur les problèmes du financement des capitaux propres des PME', Commission Doc. 1204/III/75, February 1976.

³ Report on the symposium organized by EUROPMI on 27.10.1976 in Lyons and 'The Economist' of 23.10.1976.

that banks in our countries do not seem willing to do this, the financial guarantee scheme, as practised in the UK, might be useful. This proposal implies that the British Government would give a guarantee in respect of bank loans for risky but interesting projects for which bank loans cannot be obtained without guarantees.

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It has already been stated that SMU policy is in the first instance the responsibility of Member States. However, in a number of respects Community policy already has a direct influence on the environment in which SMU operate. This is particularly so as regards the funds which the Community can make available and certain sections of tax law, competition policy and company law. Each of these subjects will be treated in a separate section below.

Export promotion

Measures taken by Member States' governments to promote exports principally benefit the larger undertakings. In some countries, however, specific arrangements are now being made in this area to assist SMU. In France, for instance, there is now the 'Comexport' system whereby SMU jointly explore a foreign market and jointly cover financial export risks. In addition, in 1977 the French Government placed FF 2,500 million at the disposal of exporting SMU.

In the United Kingdom there is the Market Entry Guarantee Scheme (MEGS), an arrangement which enables industrial SMU to obtain credit for up to 50% of the costs involved in initiating export activities. Interest is paid on such loans at the normal market rate but full reimbursement of the loan is required only if the export drive is successful.

The granting of aid to SMU desiring to operate on foreign markets is primarily a matter for the national authorities. Nevertheless, the Commission should respond positively to requests from SMU in the various Member States for aid for joint participation in industrial fairs taking place in third countries etc.

V. European Community Funds and the European Investment Bank

The Community makes funds available to industry through its various Funds and the European Investment Bank (EIB) and some of them benefit SMU. Too little use is made of these opportunities.

EIB

The EIB created the instrument of 'global loans' in order to help with the financing of projects which are too small to be considered for direct financing by the EIB but whose objectives correspond with those of the Bank.

The criteria used in granting aid from global loans are - in addition to the general requirements that the investment project concerned must be compatible with the objectives fixed for the EIB by the Treaty - that the EIB loan may be used only to finance investment and that such investment must contribute to regional development¹. Global loans are extended by the EIB to intermediary national institutions, which then allocate smaller amounts - varying from 100,000 to 2,000,000 u.a. with an average of 500,000 u.a. - to projects of modest dimensions in industry, agriculture and the tertiary sector. In practice 90% of global loans go to industrial projects, almost always in underdeveloped areas of the Community. Of total projects partly financed from global loans in the period 1969 - 1975, half were situated in Italy and one-third in France.

The national intermediary body examines the loan applications and submits proposals to the EIB for each individual appropriation; the EIB takes the final decision. The loans run for a period of 7 to 12 years. Interest is identical to that on direct EIB loans.

Global loans up to and including 1976 amounted to 260,000 u.a. and provided assistance for 554 projects². There has been much criticism in recent years about EIB lending policy towards SMU. This criticism was directed in the first place at SMU's share of the total loans granted by the EIB. This share, although fluctuating considerably, remains on average below 10%; the picture becomes somewhat more favourable if one leaves out of account loans for infrastructure projects, which form a very important part of the EIB's work but in which the SMU play no role; the share then rises to an average of 17% for the period 1970-1976.

It should be noted that global loans are made in favour of what the EIB calls small and medium-sized ventures. They are mainly, but not always, the subject of SMU investments. A large company which launches a small project in a backward area can also profit from global loans. The figures shown in the EIB annual report ought to make clear what proportion of global loans are now actually going to SMU. It is not enough for the Commission to have agreed with the EIB that 'small and medium-sized enterprises should be the main beneficiaries of global loans' and that the vast majority of ventures for which allocations are made should be carried out by small and medium-sized enterprises³.

¹ Answer to Written Question No. 393/77 by Mr Guerlin, OJ No. C 259, 27.10.1977, p. 23

² For further details see Annex III

³ Answer to Written Question No. 692/26 by Mr Cousté. OJ No. C 70, 21.3.1977 p. 7

Global loans have a remarkable yield where employment is concerned: 'in 1975, for instance, the capital outlay for each job created by ventures financed through global loans was only about 23,000 u.a., compared with an average of 98,000 u.a. for larger-scale industrial projects receiving individual loans'¹. This consideration must carry considerable weight in a period of widespread unemployment. The EIB's policy ought to be broad expansion of global loans over the next few years. If this is to be realized, however, a few changes will need to be made to the procedure for granting loans.

SMU interest in global loans fluctuates widely. If capital is scarce and expensive in a country, SMU will stand in line for EIB loans. By contrast, SMU in the Netherlands have so far shown no interest at all in global loans because 'Netherlands firms have generally found that cost considerations make it more attractive to satisfy their financial requirements from the Netherlands' capital market than to have recourse to EIB funds'². This situation might be different if interest rebate on global loans was granted from the Regional Fund, as proposed by the Commission³.

Another disadvantage which SMU associate with the taking up of EIB loans is the exchange risk, for loans are serviced in terms of the currencies actually borrowed. The cost to the borrower in national currency therefore depends on the rates of exchange in force on the date of each payment of interest and capital⁴.

There are certain possibilities at national level to obtain protection from the effects of currency fluctuations. This facility is available, for example, for EIB loans to public-sector borrowers in the United Kingdom, who are eligible to receive cover through the Treasury. In Italy similar cover is provided by the Treasury for loans made through public bodies such as the Cassa per il Mezzogiorno, IMI, etc., for investments in both the public and private sectors. The EIB and Commission ought to examine the possibility of applying such a system throughout the Community. It would appear that the Commission intends to propose that exchange-rate guarantees be given within the framework of the Regional Fund on loans granted by European funds and the EIB to SMU in backward areas. This would be a definite improvement.

¹ EIB Annual Report 1975, p. 23

² Answer by the Netherlands Minister of Economic Affairs to a question on this point by Mr Notenboom, September 1976

³ Proposal for a regulation establishing an interest rebate scheme within the European Regional Development Fund - OJ No. C 161, 9.7.1977, p. 17

⁴ Answer to Written Question No. 499/76 by Mrs Ewing, OJ No. C 305, 27.12.1976, p. 13

Another factor which must be regarded as a disadvantage is that even under the global loan scheme a small or medium-sized enterprise is unable to obtain a loan of less than 100,000 u.a. That is rather a high threshold bearing in mind the fact that the EIB contribution never represents more than 40% - and usually only some 20% - of the total investment. Because of this, many small but not necessarily uninteresting initiatives do not qualify for loans from the EIB. This threshold was fixed so high presumably so that the EIB should not be unduly encumbered with trifling matters. But it ought to be possible for the EIB to delegate the decision for granting loans under a global loan to the intermediary national institutions, at least for the smaller amounts. That would make it possible to lower the credit threshold, which is at present too high.

It would be interesting to learn from the Commission whether the EIB supplies capital under global loans for projects launched by newly established companies or whether it lends only to established firms. We feel that loan applications should be judged on their intrinsic value and not simply on the strength of the reputation which a company has built up over a number of years. We should also like to know how much time on average elapses between the receipt of a loan application by the intermediary institution, or directly by the EIB, and the moment at which an application is granted or rejected. There have been quite a number of complaints that the procedure is too slow.

Finally, the EIB might be requested, wherever possible, to make loans for major infrastructure projects subject to the condition that SMU are duly involved in carrying out the relevant work.

If the policy of the EIB were adjusted to take account of the above proposals SMU might make greater use of the credit facilities offered by that Community institution.

European Regional Development Fund

The European Regional Development Fund can participate in the financing of investments in backward areas involving a sum of at least 50,000 u.a. and by which at least 10 jobs are created or maintained¹. The Fund's contribution to investments in industrial, artisanal or service activities amounts to 20% of the investment cost².

The threshold of 50,000 u.a. is not too high but the criterion of at least 10 jobs rules out many initiatives concerning artisanal and service

¹ Regulation (EEC) No. 724/75 of the Council establishing a European Development Fund, Article 4 - OJ No. L 73, 21.3.1975

² If the Commission's proposals on the reform of the Regional Fund (OJ No. C 161, 9.7.1977) are adopted, this percentage may subsequently be exceeded in the services sector.

activities. The previous Commissioner responsible for regional policy, Mr Thomson, told the European Parliament in December 1976¹ that the Member States showed little inclination to change this criterion. The Commission could possibly consider allowing SMU to submit combined applications, more or less on the analogy of EIB global loans; this would make it easier to meet the criterion of creating or maintaining 10 jobs².

The Commission declared at the time³ that a large part of the resources of the Regional Fund benefited SMU. The view held in EUROPMI circles⁴ is rather different, however. Can the Commission give further details about this? What percentage of the contributions made by the European Regional Development Fund go to artisanal activity and SMU employing up to 500 employees (if possible with a breakdown according to industry, trade and service)?

European Social Fund

SMU's experience of the European Social Fund has in general been very positive. Since the reform of the Fund in 1971, the self-employed may also apply for aid from the Fund for retraining or entry into a new occupational sector. The European Social Fund has shown its usefulness for small self-employed entrepreneurs particularly where the latter have gone over from agriculture to artisanal or industrial activity. This year the Fund has 617 million u.a. at its disposal. The slow processing of applications has in the past impaired the Fund's efficiency in performing its role. It is to be expected that the changes in the operation of the Fund entering into force at the beginning of 1978 will lead to an improvement in this respect.

EAGGF

For the sake of completeness, mention should also be made of the European Agricultural Guidance and Guarantee Fund and the loans from ECSC funds. The Agricultural Fund can be used to finance projects in the field of marketing structure, the Fund's contributions amounting to up to 25% of the investment cost.

ECSC

The resources of the ECSC are drawn upon for both loans and non-returnable aid. The ECSC now also employs the instrument of the framework loan, which

¹ Debates of the European Parliament, 16.12.1976

² In its proposals on the reform of the Regional Fund (OJ No. C 161, 9.7.1977) the Commission has now acceded to this request: if the Council adopts these proposals, various investments which are mutually consistent, as regards the criterion of number of jobs, from the geographical and financial points of view, in the trade and tourism sectors may henceforth be regarded as a single investment.

³ Note No. 1225/III/75 of December 1975, p. 7

⁴ Report on the symposium organized by EUROPMI in Lyons on 27.10.1976

is comparable with the global loan of the EIB. By means of these framework loans the ECSC encourages investment by SMU which develops new activities in regions where ECSC industries predominate. The ECSC makes loans available in similar cases to financial institutions concerned with regional development or conversion which have the necessary experience and facilities for granting loans. Such institutions act as a link between the EEC and the final borrower.

VI. Taxation

In the judgement of the representative organizations consulted, the taxation systems of the Member States do not discriminate against SMU. It is true to say that the administrative burden of dealing with taxation lies more heavily on small companies than on large ones and that, usually for practical reasons, small undertakings are not able to profit from certain tax facilities. Exceptionally it may also happen that small highly profitable firms are obliged, because of their legal form, to pay income tax on their profits and so are taxed at a higher rate than enterprises which pay company tax.

On the other hand a number of Member States have introduced fiscal regulations favouring SMU. These facilities may take the form of a simplified tax (e.g. in Belgium and France), a lower company-tax rate for the first tranche of taxable profit (United Kingdom), the possibility of assigning part of the company profit to a spouse working in that company (Belgium and the Netherlands) or the application of the 'temporary self-employed allowance' and the possibility for SMU to set up a fiscal old-age reserve within the company (the Netherlands).

SMU have on occasion demanded a review of the concept of fiscal profit, on the grounds that the value of durable assets should be corrected to allow for the loss of purchasing power of the company's own capital. At present, tax is levied on profits which, owing to inflation, exist only in monetary - not real - terms. In addition, depreciation is calculated at too low a level, since the historical cost price is taken as its basis. Until a start is made on the harmonization of company and income tax in the Community, these matters will continue to fall primarily within the competence of the national authorities.

In the interests of maintaining healthy SMU, it is also important that the continuity of firms passing from one generation to another should not be excessively jeopardized by fiscal provisions, such as assessment of undisclosed reserves or excessively high death duties.

The recently adopted sixth directive on the introduction of a uniform basis of assessment for value-added tax¹ contains a special scheme for SMU. For small companies - and that is not only the one-man company but also firms with up to ten or twenty employees - the administrative bother of VAT administration does indeed represent a heavy burden, so it is a good thing that this directive makes provision for a simplified scheme. But care must be taken to prevent the situation arising where the simplified tax or tax exemption starts influencing the economic decisions of the entrepreneur. That may happen if facilities are limited to, say, enterprises with not more than two employees and one apprentice (the French system). The result of this has been that some entrepreneurs have had recourse to clandestine labour in order to remain within the terms of this advantageous scheme. It also happens that small companies which pay a flat sum do not declare part of their income simply to remain within the flat-rate tax system in the future. Simplified schemes are necessary, but they must not result in improper motives playing a role in company decisions.

Each Member State can grant exemption to taxable bodies having an annual turnover of up to 5,000 u.a. Arrangements for degressive reduction of tax are allowed to continue providing they are consonant with the VAT system. Exemption does not of course mean that the entrepreneur concerned pays no VAT at all, for he may not deduct VAT on his purchases nor may he enter a VAT charge on his invoices.

Clearly, a single turnover threshold for both firms in the service sector and undertakings producing or selling goods means that discrimination is present to a certain extent since the turnover of firms supplying services consists almost entirely of added value.

However, now that a difficult compromise has recently been reached between the Nine, to which Parliament, despite its numerous objections to the text, has also given its agreement, there is no point in bringing this matter up again.

Your rapporteur merely wishes that, with a view to boosting employment and assisting SMU, the possibility be considered of having a low VAT rate apply as far as possible to certain forms of labour-intensive service sectors.

¹ See Doc. 48/77, art. 24

VII. Competition policy

SMU and competition

Many SMU serve either principally or exclusively a local or regional market. Their activities are seldom connected with intra-Community trade, so they do not run counter to Articles 85 and 86 of the EEC Treaty. However, it should not be concluded from this that the Community's competition policy is of no importance to the SMU - even less that SMU are not of considerable significance to competition in the Community.

Fortunately, this latter fact is being appreciated more and more. The fourth medium-term economic policy programme¹ suggests as one means of controlling the inflationary effects resulting from inadequate competition 'promoting the creation and maintenance of profitable small- and medium-sized enterprises'.

Competition functions properly only if dominant positions on both the supply and demand side remain within reasonable limits. Market power must therefore be contained and the competitiveness of SMU strengthened. Firm action against the misuse of dominant positions and excessive concentration is in the general interest but it also is a condition for the survival of SMU. It is therefore to be regretted that the draft regulation on merger control has still not been adopted by the Council.

The Community must understand that it is often only by means of cooperation that SMU are able to compete with large concerns. The Commission is fully alive to this fact. When presenting the sixth report on competition policy to the press, the Commissioner responsible, Mr Vouel, announced that the Commission intended to give priority in its competition policy to the role of SMU².

The policy pursued so far

Community competition policy has so far not neglected SMU.

Article 85(3) of the EEC Treaty makes it possible for the ban on practices limiting competition to be disregarded where such practices contribute to improving the production or distribution of goods or to promoting technical or economic progress.

The Commission made clear in a communication³ what forms of cooperation between companies did not fall under Article 85(1) (joint market research,

¹ OJ No. L 101, 25.4.1977, para. 96

² VWD of 22.4.1977

³ OJ No. C 75, 29.7.1968, p. 3

joint accounting, joint use of production facilities, common procurement and advertising activities). However, many economically interesting forms of cooperation lie outside these categories, e.g. purchasing associations of small and medium-sized companies.

A further communication¹ exempted from the ban on cartels agreements of minor importance, i.e. cartels which scarcely influence competition and trade between Member States. These conditions are considered to be met when the market share of the products of the companies concerned do not exceed 5% and when the annual turnover of the enterprises taking part in the agreement amount to no more than 50 million u.a.

Another measure on competition which is of interest to SMU is the collective exemption of exclusive dealing arrangements². The measure is more particularly of interest to SMU, which are likely to market their products abroad through an exclusive dealer rather than to a large company which as a rule has its own representative.

Again with the SMU in mind, the exemption from the prohibition on cartels permits specialization agreements, provided that the companies concerned have an annual turnover of no more than 300 million u.a. and a market share (for the products which form the subject of the agreement) of not more than 15%³.

Lastly, at the insistence of the European Parliament, the Commission has submitted to the Council a proposal for a regulation on the control of concentrations⁴ between undertakings. Such control will help to prevent the situation arising where SMU find themselves up against overwhelming competition, though it is true that in practice SMU tend to compete against one another rather than with large undertakings.

Although the Commission has shown in its competition policy that it is concerned to protect the interests of SMU, there is certainly scope for somewhat more generous treatment of cooperation agreements between these companies in the fields of research and development and procurement. The Commission might clarify its policy in this regard in a 'communication' or by collective exemption.

¹ OJ No. C 64, 2.6.1970 and OJ No. C 313, 29.12.1977, p. 3

² OJ No. L 57, 25.3.1967

³ OJ No. L 292, 29.12.1972 and OJ No. L 338, 28.12.1977

⁴ Doc. 170/73

Public contracts

Since 1971 there has been, at least on paper, a common market for public works contracts. The common market for public supply contracts is to come into operation in the middle of 1978¹. Although the new Community directive on supply contracts applies only to transactions of 200,000 u.a. or more, it does afford considerable openings for SMU.

It will, however, be necessary for public bodies as far as possible to subdivide large-scale contracts, as regards both quantity and specialism, so that small tenderers may also have a chance. The directive unfortunately makes no mention of this and in practice it often happens that those who are responsible for government procurement tend to prefer to award the contract to a large undertaking than to divide it up. Moreover, SMU must be enabled to make joint tenders. The Community rules are still very incomplete - certain sectors still fall entirely outside their purview - and adjustments will be necessary in due course. The need should now be urged for an improved directive that facilitates also the participation of SMU. This can only benefit healthy competition.

VIII. Company law

Company law ought to be neutral with regard to company structure. That is to say, legislation must be framed in such a way that the choice of the form of company is not determined by extraneous i.e. non-economic factors. It is the Commission's task to create the conditions in the field of company law that will allow companies of all sizes to develop within and adapt to the common market.

In practice three questions have to be asked here: Has the Community been successful in creating the framework for transfrontier cooperation including that between smaller companies? Is there - by analogy with the

¹ OJ No. L 13, 15.1.1977

draft statute for the European company - a need for a statute for smaller undertakings? And, finally, do the requirements of the draft fourth directive on the harmonization of company law make sufficient allowance for the capabilities of the smaller undertakings?

European Cooperation Grouping (ECG)

Cooperation between SMU is often economically desirable and usually, in terms of competition policy, unexceptionable. This was the reason behind the above-mentioned Commission communication announcing the exemption from the prohibition on cartels for agreements of minor importance and certain types of cooperation¹. It is, however, clear that these texts do not provide a legal framework for cooperation between SMU. At the request of the European Parliament, the Commission has therefore drawn up a proposal for the establishment of a European Cooperation Grouping (ECG).

The European company is a legal form which, when it has entered into force, will be an excellent vehicle for certain forms of international cooperation between undertakings. There is, however, also a call - particularly from SMU - for a simpler legal form that would allow a flexible and provisional pooling of activities of companies from various Member States. Such cooperation is envisaged in the form of e.g. joint sales offices, joint accounting, representation of members for a specific transaction or a specific construction project, joint development of prototypes, etc. The draft regulation on the ECG therefore deserves support. But the draft will need to be improved on a number of points. The Commission's proposal contains the following main provisions. An ECG may be set up by at least two companies amenable to legal systems of different Member States. Natural persons operating an industrial, commercial, artisanal or agricultural undertaking who are amenable to legal systems of different Member States may also join together in an ECG. The purpose of an ECG is to provide services and process goods exclusively for the benefit of its members. The activities of the ECG must be compatible with the economic activity of its members. The ECG will enjoy competence at law. Members of an ECG will be severally liable for the debts of the grouping; the ECG is thus by no means a legal form without risk for the participating companies. The decision-making body of the grouping will be a meeting of members. Members will be taxed on any profits accruing to the ECG.

¹ See section VII above.

As stated above, the proposal needs to be improved on a number of points. For example, it must be brought out more clearly than in the Commission's text that an ECG cannot itself make any profit and may only be used for temporary cooperation between undertakings. The draft regulation, as proposed by the Commission, contains no direct provisions for the protection of the interests of employees of the companies intending to set up an ECG. Parliament has therefore adopted a series of amendments¹ in which the rights of employees are specifically laid down and extended.

The draft regulation provides only for the bare essentials. This means that it will still be frequently necessary to rely on the law of the country in which the ECG has its headquarters. A Member State may also 'draw up original rules'². These could be quite far-reaching. A Member State could, for instance, introduce stringent compulsory publication rules. The draft regulation should set out what the Member States may undertake themselves.

A European limited liability company

In addition to the temporary form of cooperation made possible by the creation of the ECG, there is probably also a need for a permanent form of company amalgamation that is better adapted to the peculiarities of SMU than the statute for the European company, the latter being of little interest to SMU in view of the high level of registered capital required. Moreover, this statute for a European company is reserved for newly established companies (by merger, holding company or joint subsidiaries).

Consideration could therefore be given to the creation of a statute for a European limited liability company. Such a statute ought to be simple. It would provide for a private company with limited liability in the management of which the partners should be directly concerned. A European limited liability company could also be used to convert a company constituted under national law into a European company. As far as the safeguarding of third parties, the validity of obligations, disclosure of the statutes and the appointment of the company's organs are concerned, the provisions of the directive of 9 March 1968 can be maintained. It is obvious that the requirement as regards a company's capital would have to be set at a much lower level than in the statute for European companies.

¹ Resolution of the European Parliament, OJ No. C 163, 11.7.1977

² Doc. 340/73, explanatory memorandum to Article 1

Although a statute for a European limited liability company would be an extremely suitable legal form for the concentration of SMU on equal terms, it is understandable that the Commission shows little enthusiasm at the moment for submitting such a proposal¹. The Commission argues that it is first necessary to ascertain the position of the Member States on the problems which have arisen with the drawing up of the statute for European companies. For a number of the same problems are encountered - such as the question of the participation of employees in decision-making - which would also have to be solved in drawing up a statute for a European limited liability company.

Fourth directive

In the field of company law harmonization the proposal for a fourth directive² is of particular importance to SMU. The aim of this directive is to give shareholders and third parties as reliable and uniform a view as possible of the assets and liabilities, financial position and results of companies in the Member States. The investigation by independent experts which this directive requires is, however, costly and often difficult to effect in small undertakings. The European Parliament has therefore suggested that lower demands be placed on SMU because these undertakings could comply with the directives only at great expense and, in certain cases, at the cost of their own competitive position. For, while the production of large companies is generally highly diversified, SMU limit themselves to a small number of products or even a single one. In that case profit and loss accounts could well furnish the competition with information which the company wishes for good reason to keep confidential.

Although it is possible to agree with the aim of the directive, the Commission ought to have taken greater account of SMU's situation by accepting the threshold values suggested by Parliament or by exempting small undertakings from the obligation to publish their profit and loss accounts.

¹ Answer to Written Question No. 674/76 by Mr Cousté, OJ No. C 50, 28.2.1977, page 14.

² Amended proposal for a fourth Council directive for coordination of national legislation regarding the annual accounts of limited liability companies, COM(74) 191 final; and the report of the Legal Affairs Committee of the European Parliament on the original Commission proposal Doc. 159/72.

	DENMARK	IRELAND	UNITED KINGDOM		NETHERLANDS	
			Rate %	Ceiling	Rate %	Ceiling
Sickness and maternity	Public health service: - Cash benefits: Ee pays 1% of taxable earnings	<u>Health Service</u> £ 0.33 paid by employer on behalf of persons with full eligibility (see Tables IIF); otherwise paid by insured <u>Cash benefits</u> 1. <u>Weekly flat rate contributions</u> covering all social insurance benefits <u>Employees:</u> men £ 2.60 women £ 2.53 <u>Employers:</u> men £ 3.89 women £ 3.84 2. <u>Pay-related contribution</u> <u>Employer:</u> 2% <u>Employee:</u> 1% of earnings up to a ceiling of £ 2 500	14.5 Ee 5.75 Er 8.75 of weekly earnings provided that earnings are £ 13 or more	£ 95 a week	8.2 (a) 2.7 (b) 8.7 (c) Ee 4.1 + 1.25 Er 4.1 + 2.7 + 7.45	(a) Fl 26 260 or Fl 101 a day (b) Fl 35 600 (c) Fl 48 100 or Fl 185 a day
Invalidity	Er: Dkr 31 per employee per year				9.9 Ee 3.05 Er 6.85	Fl 48 100 or Fl 185 a day
Old age; Survivors	1. National pensions: Ee pays 1% of taxable earnings. Supplementary pensions: Dkr 36 per month of which Ee 1/3; Er 2/3				11.9 Ee 10.4 (old age) + 1.5 (survivors)	Fl 35 600
Industrial injuries and occupational diseases	Insurance contribution varies according to the risk, paid by employer				See "Invalidity"	
Unemployment	Ee: Contributions fixed every year corresponding to 2.25 times the maximum rate of daily payment (generally Dkr 184 per day) made by the fund Er: Dkr 135 per year per employee				0.6 (a) + 0.8 (b) Ee: 0.4 + 0.4 Er: 0.4 + 0.4	Fl 48 100 or Fl 185 a day
Family allowance					Er: 3.25	Fl 35 600
NOTES: Ee: - Employee Er: - Employer			Sickness: Benefits in kind are almost entirely financed by general taxation		Sickness: a = benefits in kind b = general insurance against serious risks c = cash benefits (average rate) Unemployment: (a) = interim allowance; average rate (b) = unemployment insurance	

Source: Comparative Tables of the Social Security Systems in the Member States of the European Communities (Situation at 1 July 1976) General System - Commission of the European Communities

Rates and ceiling for employees in industry and commerce

GERMANY		BELGIUM		FRANCE		ITALY		LUXEMBOURG	
Rate %	Ceiling	Rate %	Ceiling	Rate %	Ceiling	Rate %	Ceiling	Rate %	Ceiling
Average: 10.6 Es : 5.3 Er : 5.3	DM 27 900	5.55 (a) 2.90 (b) Es: 1.80 + 1.10 Er: 3.75 + 1.80	(a) - (b) Bfr 543 600	16.95 Es: 4 Er: 12.95 Of this contribution 4% (Es=1.5% Er= 2.5%) is calculated without taking the ceiling into account	FF 37 920	16.27 Es 0.30 Er 15.97	-	8 Es: 4 Er: 4	Lfr 697 056
18						23.77	-	16	-
Es: 9 Er: 9	DM 37 200	14 Es: 6 Er: 8	-	10.75 Es: 3.25 Er: 7.50	FF 37 920	Es: 7.15 Er: 16.62		Es: 8 Er: 8	
Collective rates according to degree of risks in the various occupational branches. Contribution fixed by the trade cooperative association and calculated on the basis of the total gross earnings; low earnings have been brought into line with the earnings of the area Ceiling: DM 36 000; above this depends upon the regulations		Insurance premiums or contributions to employers' joint funds are fixed by contract for industrial injuries. Contribution to the Occupational Diseases Fund (solidarity): 0.70% of the worker's remuneration		Collective individual or mixed rates according to number employed in the concern and degree of risk. Contribution assessed on total of gross earnings with a ceiling of FF 37 920		Collective rates based on degree of risks in the various occupational branches. The rate, varying between 3% and 5% (average: 3.9%) is calculated on total earnings. Also an additional contribution equal to 20% of social security contributions		Collective rates based on a scale of risks. Contribution fixed by the insurance association and calculated on gross total earnings, with a minimum equal to the minimum earnings of an adult manual worker	
3 Es: 1.5 Er: 1.5	DM 37 200	2.90 Es: 1.20% Er: 1.70%	Bfr 328 800	2.40 Es: 0.48 Er: 1.92	FF 151 680	Er: 1.31	-	0.25	-
-	-	Er: 7.75	-	Er: 9	FF 37 920	Er: 6.50	-	Er: 2.50	-
<u>Sickness:</u> The rate varies according to regulations of the fund concerned; the ceiling represents 75% of the pension ceiling for manual workers		<u>Sickness:</u> a - benefits in kind b - cash benefits In addition a 5% contribution is levied on car insurance premiums		<u>Unemployment:</u> System under the collective agreement of 31-12-1958, made generally applicable by the ordinance of 31-7-1967. <u>Sickness:</u> A further contribution of 3% is levied on car insurance premiums		<u>Sickness:</u> incl. 3.50% pensioners' sickness insurance, 2% tuberculosis, 0.5% agricultural solidarity, 0.53% maternity, 1.65% for national hospital fund and 0.01% basic contribution for tuberculosis. <u>Old age:</u> incl. 0.15% for assistance to orphans, 0.10% for the financing of local authority nurseries, 0.11% and 0.01% respectively of basic contributions for old age and assistance to orphans. <u>Family allowances:</u> low contributions for certain types of employers. <u>Unemployment:</u> not inc. 1% in industry for supplementary earnings but inc. 0.01% basic contribution		<u>Family allowances:</u> rate applicable in commerce: 2.10% <u>Unemployment:</u> financing by an unemployment fund which is subsidised by solidarity taxes paid by individuals and various bodies together with local authority contributions <u>Sickness:</u> rate for the National Sickness Insurance Fund for industrial staff	

FINANCING

Special rates and ceilings applicable to
non-industrial staff in Belgium, Italy and Luxembourg
(Otherwise Table II - 1 rates and ceilings apply)

	BELGIUM		ITALY		LUXEMBOURG	
	Rate %	Ceiling	Rate %	Ceiling	Rate %	Ceiling
Sickness and maternity	Benefits in kind: see Table II - 1 Cash benefits		14.27 (1) 14.55 (2) 12.94 (3) Es: 0.30 Er: 13.97 (1) 14.25 (2) 12.64 (3)	-	4 Es: 2 Er: 2	Lfr 39 936 per month
Invalidity	2.50 Es: 0.70 Er: 1.80	Bfr 543 600	See Table II - 1	-	See Table II - 1	Lfr 722 400
Old age; Survivors	14 Es: 6 Er: 8	Bfr 543 600				
Industrial injuries and occupational diseases	Er: 0.60 (4)	-	-	-	See Table II - 1	Lfr 722 400
Family allowances	See Table II - 1	See Table II - 1	See Table II - 1	-	Er: 1.45	Lfr 722 400
Unemployment	See Table II - 1	See Table II - 1	See Table II - 1	-	See Table II - 1	Lfr 722 400

- (1) Industry: including 3.80% pensioners' sickness insurance, 2% tuberculosis, 0.58% agricultural solidarity, 0.53% maternity, 1.65% National hospital fund and 0.01% basic contribution for tuberculosis
(2) Commerce: same as for industry except that the maternity contribution is 0.31%
(3) Credit sector: same as for industry except that the maternity contribution is 0.20%
(4) Occupational diseases only; for industrial injuries see Table II - 1

FINANCING

Public authorities' contribution

	DENMARK	IRELAND	UNITED KINGDOM	NETHERLANDS
Sickness/Maternity Benefits in kind	Financed by local and central Government	State contributes 97% for bene- fits in kind (workers'/employers' contributions represent only 3% of cost)	Government contributes approx. 88%	Fl 974.7 million contribution per year for general insurance (serious risks)
Sickness/Maternity Cash benefits		State contributions: difference between amount of contributions and cost of benefits	Exchequer subsidy of about 18% of total contributions	
Invalidity	Basic pensions: State covers all costs apart from a small part covered by contributions			
Old age; Survivors	Supplementary pensions: No Government participation			Fl 864.3 million contribution for general old-age insurance (1) in 1976
Industrial injuries and occupational diseases	-			
Unemployment	The State pays expenditure not covered by the income from con- tributions			The State pays a sum equal to the total contributions for unemploy- ment insurance and finances unemployment assistance.
Family allowances	Financed by the Government	Financed by the Government	Financed by the Government	Budgetary contribution to uphold the law relating to family benefits for small businesses. Temporary subsidy of Fl 500 million for general family benefits and Fl 600 million for those for the employed.

(1) Also Fl 200 million in funds for invalidity and old-age (in liquidation).

FINANCING

Public authorities' contribution

GERMANY	BELGIUM	FRANCE	ITALY	LUXEMBOURG
-	Specific contributions ("social diseases": 95%; invalidity 75%; funeral expenses grant: 70%)	-	The State covers any deficit by extraordinary subsidies and finances assistance to the aged and non-military invalids. Financing of the national hospital fund by the State and by insurance institutions, etc.	50% of administrative and staff costs (excepting funds operated by firms). The State finances certain benefits prescribed by law (e.g. maternity, certain accidents, mental and congenital illness, tuberculosis, cancer, poliomyelitis, etc.) The National Solidarity Fund intervenes for pensioners.
The Federal Government refunds a lump sum of DM 400 for each maternity grant paid	General contribution: 27% of budget estimates for expenditure on medical care	-	Financing of Social Fund	State and local authorities: all costs for the flat rate part of pensions and they top up the minimum pension State: 50% of administrative costs
Annual Federation subsidies fixed according to variations in the general basic earnings	Annual State subsidies	-		
-	60% of expenditure on silicosis benefit	-	-	1/3 of cost of adapting and adjusting pensions; 50% of administrative costs
The Federal Government covers any insurance deficit and the cost of unemployment assistance	Cover for any deficit	Unemployment assistance financed by the public authorities (State, departments)	Annual State subsidies	Financing by an unemployment fund enhanced by local authority contributions amongst others
Financed by Federal budget	Annual subsidy	-	Annual subsidies	The State finances: - the difference between total amount of family allowances and total contributions; - birth grants; - administrative costs; - allowances for handicapped children

FINANCING

Financing systems applicable to long-term benefits

	DENMARK	IRELAND	UNITED KINGDOM	NETHERLANDS
Invalidity	Pay as you go	Contribution procedure plus Exchequer supplement	Contribution procedure plus Government supplement	Contribution procedure
Old age; Survivors	Pay as you go (Supplementary old-age and sur- vivors pensions: mixed system (pay as you go and capital cover)	Contribution procedure plus Exchequer supplement	Contribution procedure plus Government supplement	Contribution procedure
Industrial injuries and occupational diseases	Mixed system (pay as you go and capital cover)	Contribution procedure	Contribution procedure plus Government supplement	See "Invalidity"

FINANCING

Financing systems applicable to long-term benefits

GERMANY	BELGIUM	FRANCE	ITALY	LUXEMBOURG
Special contribution procedure Formation of reserve	Contribution procedure	Contribution procedure	Contributory pension: mixed system: contribution procedure and capital cover system Social security pension: allocation	Invalidity, old-age and survivors - annual formation of capital to cover pensions due and the rights being acquired by survivors of pension beneficiaries - adjustment of pensions to the cost-of-living index calls for capital cover, but adjustment of pensions to the wage level does not
as for invalidity	Capital cover system	Contribution procedure	As for invalidity	
Contribution procedure Formation of a reserve	Industrial injuries: capitalisation, financing systems of commercial insurance companies Occupational diseases: contribution procedure	Contribution procedure	Mixed system (contribution procedure and capital cover system) Formation of mathematical reserves representing the current values of permanent pensions	Capital cover for pensions granted during a financial year Adjustment of pensions to cost of living and wage level made annually through contributions

	FRG	Belgium	Denmark	France
<u>Financing SMU/ Large companies</u>	-SMU=self-financing -Large companies =associations of capital	SMU:self-financing + professional and artisanal credit	40% of SMU=long-term loans - 30% = short-term loans	-SMU having increasing recourse to short-term credit (43%) -raising capital from shareholders difficult -long-term loans: discrimination by credit institutions against SMU
<u>Sources of external financing of SMU's own capital</u>	-financing by participation (admittance of new associates) -essentially private sources -loans on special terms for investment -admission to quotation on stock exchange on request (virtually only large SA's by recourse to public savings) -source of financing adequate to cover SMU's needs	-participation -setting up of the <u>Société Nationale d'Investissement</u> (1962) Encourages the setting up of private undertakings The S.N.I. has set up a company specializing in the financing of SMU	-SMU:Independent undertakings particularly private companies (participation capital). SMU are very rarely quoted on the stock exchange (min. share capital - DK 1 million) -setting up of an <u>urgent consultation service</u> open to SMU (financial problems often linked to management problems) 1975 -loans on special terms for investment -public guarantees for short-term loans	- <u>Regional Development companies</u> the most suitable intermediaries, obtaining capital for provincial companies, loans on security - <u>Industrial Development Institute</u> acquisition of shares in SMU -risk capital companies (for advanced technology concerns) -broader based financing companies (SOPROMEC, BANEXI) -acquisition of shares -provincial stock exchanges (→assistance with SMU financing) -direct aid from the public sector is exceptional; it is normally indirect (SDR/ Crédit National ...)

Source: European Commission: 'Rapports nationaux sur les problèmes du financement des capitaux propres des PME' - February 1976

ANNEX II

Ireland	Italy	Luxembourg	Netherlands	United Kingdom
<p>Own resources: 35%</p> <p>Subventions: 35%</p> <p>Long-term loans: 30%</p>	<p>-legal provisions enable undertakings desirous of restructuring, converting or reorganizing their production to obtain financing at special rates</p>	<p>-self-financing by amortization and ploughing back of profits</p> <p>-an increasing number of large undertakings are having recourse to the capital market and the SMU to bank loans and loans on mortgage</p>	<p>-SMU do not have access to the money market or the financial market → private capital, bank loans</p> <p>-large undertakings have recourse to the monetary and financial market</p>	<p>SMU: 90% own capital for long-term financing, short-term financing - 70% supplier credit</p>
<p>-Public and private sectors of equal importance, subsidies/Industrial Credit Company provides loan capital</p> <p>-quotation on stock exchange possible under certain conditions (market value: £500,000 - value of the share capital offered to public £200,000 - representing 35% of total capital)</p> <p>-needs of SMU adequately covered</p>	<p>-setting up of a revolving fund with the 'Istituto Mobiliare Italiano' for independent undertakings wishing to reorganize their activities</p>	<p>-SMU have no access to the stock exchange</p> <p>-existing financing opportunities no longer meet the needs of the SMU</p>	<p>-setting up of the 'achtergestelde lening' → to improve the structure of economically weak undertakings</p> <p>-very large contribution by the private sector to the financing of SMU</p> <p>-SMU are not quoted on stock exchanges</p> <p>public guarantees for loans</p>	<p>-individual financing</p> <p>-'Industrial and Commercial Corporation Ltd' provides capital for SMU (from £5,000 to £500,000)</p> <p>-Government assistance: 'National Research and Development Corporation'</p> <p>-raising capital on the stock exchange involves meeting certain conditions</p>

Global loans from the European Investment Bank

EIB lending in the Community in million units of account	1970	1971	1972	1973	1974	1975	1976
A. Total	338.5	469.0	505.9	696.8	849.7	917.5	1,086.0
B. Industrial and services sectors	161.2	249.9	150.4	192.7	247.0	191.0	284.1
C. Global loan allocations for small and medium- scale ventures	6.9	16.6	21.3	24.5	76.0	63.1	47.5
(global loans granted to intermediary institutions)	(21.3)	(22.0)	(33.2)	(109.6)	(132.9)	(10.2)	(61.2)
Number of operations under B	47	72	50	59	208	150	120
Number of operations under C	14	44	36	39	186	129	86
C as a % of B	4.3	6.6	14.2	12.7	30.8	33.0	16.7

Source: Answer to Written Question No. 41/77 - OJ No. C 162/77

Allocations from EIB global loans in 1975 and 1976
(investments within the Community)

1975

	Number	Amount of allocations	
		million u.a.	%
SECTOR			
Agriculture, forestry, fishing	3	1.3	2.1
Mining and quarrying	1	0.6	0.9
Metal production and semi-processing	8	5.6	8.8
Construction materials	12	6.4	10.1
Woodworking	11	4.9	7.8
Glass and ceramics	3	2.2	3.6
Chemicals	7	4.3	6.9
Metalworking and mechanical engineering	24	10.9	17.2
Motor vehicles, transport equipment	7	2.1	3.4
Electrical engineering, electronics	5	3.6	5.7
Foodstuffs	27	14.2	22.5
Textiles and leather	7	1.6	2.5
Paper pulp, paper	3	1.1	1.7
Rubber and plastics processing	8	2.6	4.1
Other industries	3	1.7	2.7
Total	129	63.1	100.0
MEMBER STATE/REGION			
<i>Denmark</i>	5	1.4	2.2
Jutland	5	1.4	2.2
<i>France</i>	46	19.0	30.0
Aquitaine	1	0.3	0.6
Auvergne	2	0.5	0.8
Lower Normandy	1	0.4	0.6
Brittany	11	5.0	8.0
Champagne-Ardenne	1	0.2	0.3
Franche-Comté	1	0.2	0.3
Limousin	1	0.5	0.7
Lorraine	9	3.5	5.6
Midi-Pyrénées	6	2.4	3.7
Nord	2	1.3	2.0
Pays de la Loire	7	2.7	4.3
Picardy	1	0.9	1.4
Poitou-Charentes	2	0.7	1.1
Rhône-Alpes	1	0.4	0.6
<i>Ireland</i>	3	1.7	2.8
<i>Italy</i>	63	36.7	58.2
Abruzzi	5	2.7	4.3
Campania	13	11.4	18.1
Latium	17	10.0	15.9
Molise	1	0.8	1.3
Apulia	9	2.1	3.4
Sardinia	14	6.1	9.7
Sicily	4	3.5	5.5
<i>United Kingdom</i>	12	4.3	6.8
Scotland	5	2.1	3.4
North	4	1.4	2.2
Wales	2	0.5	0.8
Northern Ireland	1	0.3	0.4
Total	129	63.1	100.0

1976

	Number	Amount of allocations	
		million u.s.	%
SECTOR			
Mining and quarrying	3	2.2	4.7
Metal production and semi-processing	11	8.3	17.5
Construction materials	7	3.6	7.5
Woodworking	3	1.4	2.9
Glass and ceramics	1	0.6	1.3
Chemicals	8	4.2	8.9
Metalworking and mechanical engineering	13	6.0	12.7
Motor vehicles, transport equipment	3	2.0	4.2
Electrical engineering, electronics	8	4.6	9.6
Foodstuffs	15	6.0	12.6
Textiles and leather	5	4.4	9.2
Paper and pulp	3	1.3	2.8
Rubber processing	4	2.1	4.6
Other industries	1	0.2	0.3
Building and civil engineering	1	0.6	1.3
Total	86	47.5	100.0
MEMBER STATE/REGION			
<i>Belgium</i>	10	8.3	17.6
Antwerp	1	0.9	1.9
Hainaut	3	2.0	4.2
Liège	2	1.8	3.8
Namur	1	0.8	1.7
Western Flanders	3	2.8	6.0
<i>Denmark</i>	11	5.4	11.3
East of the Great Belt (excluding Copenhagen)	1	0.6	1.3
West of the Great Belt	10	4.8	10.0
<i>Italy</i>	65	33.8	71.1
Abruzzi	12	6.4	13.5
Basilicata	2	1.5	3.1
Calabria	5	1.2	2.5
Campania	8	5.9	12.5
Latium	15	6.6	13.9
The Marches	2	1.9	4.0
Molise	2	1.0	2.1
Apulia	9	3.3	6.9
Sicily	10	6.0	12.6
Total	86	47.5	100.0

Source: Data provided by the Commission, OJ No. C 259,
27.10.1977, p. 15/16

RESOLUTION

on aid to small and medium-sized undertakings¹

The European Parliament,

- having regard to the importance of small undertakings to the Community,
- noting that the Commission does not give sufficient attention to the implications of many of its proposals for small undertakings,

1. Considers that the Commission should pay special attention to the small and medium-sized undertakings in its programme on industrial policy;
2. Thanks the Commission for the steps it has already taken and invites it to investigate the position of small and medium-sized undertakings and to report to Parliament on the results of this investigation;
3. Regrets that the Council has still not taken any decision on the proposals put forward by the Commission and invites it to do so as soon as possible;
4. Instructs its Committee on Economic and Monetary Affairs to follow developments in this field.

¹ Adopted on 11 May 1976, OJ No. C 125, 8.6.1976, p. 13