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NOTE

From:	Presidency
To:	Permanent Representatives Committee/Council
Subject:	Supporting SME competitiveness in Europe: Contribution to the preparation of the European Council of 24-25 October 2013 - Policy debate
	- Note from the Presidency

In view of the meeting of the Council (Competitiveness) on 26-27 September 2013, agenda item 4., delegations will find attached a note from the Presidency.

Supporting SME competitiveness in Europe: Contribution to the preparation of the European Council of 24-25 October 2013

SMEs - a key source for new economic growth and jobs

Notwithstanding the severe economic crisis which is still confronting many European Member States, small and medium size enterprises (SMEs) have retained their position as the backbone of the European economy. More than 20 million SMEs account for more than 98% of European enterprises and generate about 58 % of the EU's gross value added, and account for 67% of total employment. The overwhelming majority (92%) are micro- enterprises, defined as those with fewer than ten employees. Throughout the past five years, the total number of SMEs has remained relatively high in the EU, although it experienced some fluctuations during the crisis. At the same time, SMEs in the EU continue to struggle to recover to pre-crisis levels of value added and employment. The total employment in the EU's SMEs dropped from 88.3 million to less than 86 million between 2008 and 2012. Hence, in total more than two million jobs were lost. This is an alarming trend, especially since it also reflects a decline in the total output by EU SMEs (total value-added by the EU Member States dropped from some €3.6 trillion in 2008 to less than 3.4 trillion in 2012).

Small Business Act – a milestone in SME-policy development

The Small Business Act (SBA) was launched by the European Commission and endorsed by the European Council in 2008. It contains a set of common principles in ten different areas to make policies more SME friendly. The SBA proposes a genuine political partnership between the EU and the Member States reflecting the political willingness to recognise the central role of SMEs in the EU economy and to put in place a comprehensive policy framework for the EU and its Member States. At the heart of the SBA is the objective to achieve the best possible framework conditions for SMEs based on the application of the “Think Small First” principle. The SBA review in 2011 selected four priority areas: access to finance, access to markets, smart regulation/cutting red tape and entrepreneurship. The Member States and Commission have made substantial efforts to implement the SBA and various other reforms which address the needs of small businesses. The Network of SME Envoys established in 2011 provides more visibility for SMEs issues and allows for an exchange of views and practices on the implementation of SBA measures.

Nevertheless, SMEs are still facing disproportionately high (comparing with large companies) compliance costs due to burdensome EU and different national regulations and administrative procedures. These costs prevent SMEs from conquering new markets in other Member States, in particular in the services sector, where cross-border trade remains low. These remaining barriers are also hampering the development of e-commerce, an area with a high growth potential and especially important for SMEs which do not have a local presence in several EU countries. Therefore, the Competitiveness Council should take resolute actions to improve framework conditions for SMEs in the Single Market by reducing obstacles for cross-border activities, fostering access to finance, stimulating innovation, reducing regulatory and administrative burdens and improve access to distant international markets.

Regulatory environment becomes an increasingly important factor to determine competitiveness of SMEs and their ability to grow in a globalized world. Rapid technological developments, open and expanding global markets and ever-increasing access to information mean that regulation has to be kept under constant review and adapted to keep pace with the fast moving world and to facilitate innovation processes to occur in Europe. More importantly, high-tech sectors, in which innovative SMEs excel (as do large R&D driven companies) suffer from poor adaptation of regulation to the characteristics of the new technologies.

Further simplifying Europe's regulations, reducing unnecessary costs and adapting them to the needs of new technologies (such as bio-technologies, nano-technologies, 3D manufacturing etc.) should be at the core of economic recovery and future growth given its potential to stimulate innovation and economic performance through higher productivity.

In order to guide the rapid implementation of the Compact for Growth and Jobs,¹ the European Council will have over the coming month thematic debates on crucial aspects which are key to economic growth, European competitiveness and the Europe 2020 strategy. In the October summit, the European Council will address Innovation, the Digital Single Market and Services. It has called for preparatory work to be conducted giving priority to these issues.

The five-year SBA anniversary offers an ideal opportunity to give a new incentive to the development of SMEs as the growth engine of the European economy.

¹ European Council, Compact for Growth and Jobs, Annex to the Conclusions of 29 June 2012, doc. EUCO 76/12

The way forward

The SBA is based on a genuine political partnership between the EU and the Member States endorsing the crucial role that the SMEs play in the European economy. The future SME policy needs to maintain and further strengthen this partnership by stepping up the governance of the SBA. This requires joint involvement and cooperation of the Member States and all stakeholders. The implementation of the SBA could be monitored in the framework of the European Semester and by regular debates at the Competitiveness Council. The Network of SME Envoys could play a particular role providing the input for the debates and prioritising the SBA principles annually. Furthermore, the SME Envoys could regularly present an annual report on the implementation of the SBA to the Competitiveness Council taking place during the second half of the year. The Council could then make the appropriate recommendations on the progress achieved in implementing the SBA in the Member States.

Question: Could the SBA be better enforced by monitoring it in the framework of the European Semester? How could the consistency between the work of the Network of SME Envoys and the SME related agenda of Competitiveness Council be improved?

The new SME policy should focus on strengthening the political partnership between the Commission and the Member States, and to take action to tackle the remaining obstacles in the key priority areas identified earlier: fostering access to finance, facilitating access to markets both within the EU and beyond its borders, reducing regulatory burden, creating a consistent legal framework and promoting growth. Specific policy areas which are instrumental in promoting growth include the Internal Market for Services, the Digital Single Market and Innovation. There is still a huge untapped potential for economic growth in the services sector, in particular to the benefit of SMEs (only 8% of which do business cross-border, while in the services sector of the EU even 95% of service providers are micro-enterprises). Economic gains could add-up to an additional 330 billion EUR if the Member States urgently strengthen reform efforts within the current scope of the Services Directive.

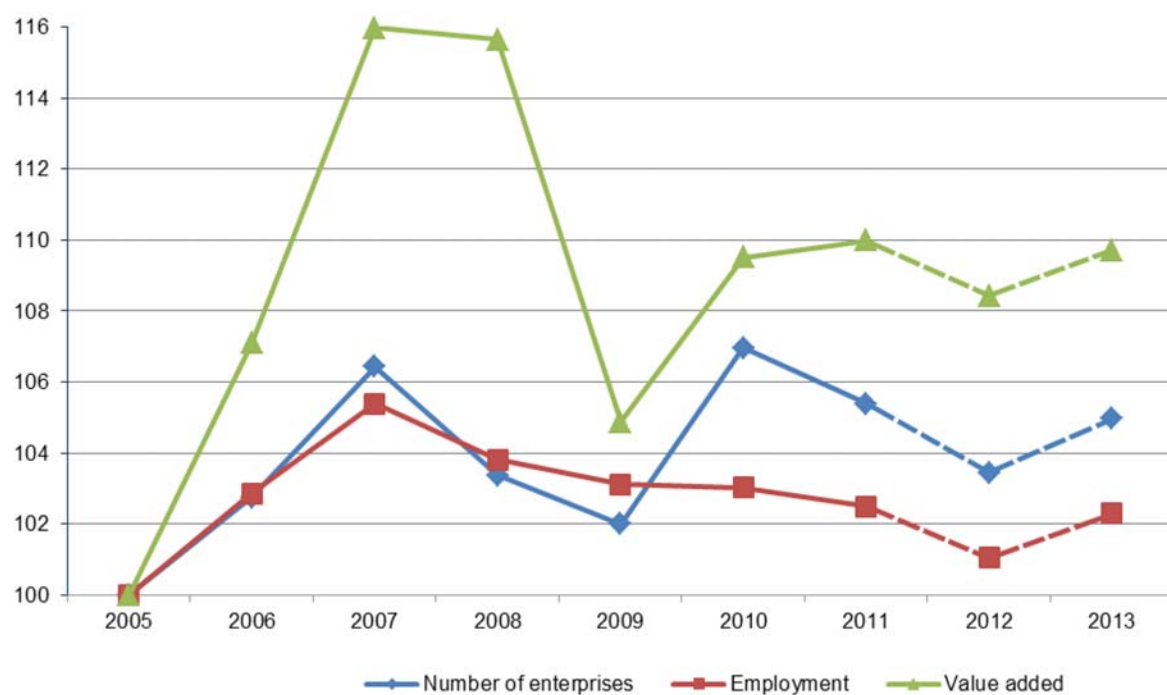
Unleashing this potential is very much linked to yet another source of growth - digital Single Market. Today, many barriers remain which inhibit the ability of business to trade online across the EU, be it B-to-C or B-to-B operations. It is important to ensure that European companies, especially SMEs, have both online access to the EU Single Market and no obstacles “offline” for their online operations.

Question: What concrete measures under the current framework could tackle the existing and newly emerging disproportionate restrictions on service providers and consumers in both online and offline operations? When taking these measures, is there a need to prioritize among the services sectors most relevant for SMEs cross-border operations, especially online, what these sectors could be (like for example, business services, retail, tourism...), and what actions could be completed by mid-2014 with regard to them?

Many efforts have been made to improve and simplify the EU regulatory environment. However, generally rigid and complex nature of the EU regulations and their implementation by Member States result in accumulation of regulatory burden and indicates that there is still a lot of work to do. The conditions within which SMEs and start-up companies operate require new EU regulatory approach with wider application of alternative regulation (such as voluntary self-regulation) and employment of tailor-made methods adjusted to the specific needs of innovative SMEs.

Question: How to adjust current EU regulatory approach to facilitate growth of innovative SMEs? Can the EU rely on traditional approaches based on simplification of legislation and reduction of regulatory burden or should we consider specifically designed approaches that are more adapted to innovative SMEs and start-ups? Which specific measures could be the most appropriate in this context?

**Number of SMEs, employment in SMEs and value added of SMEs
(2005=100)**



Source: Eurostat Structural Business Statistics Database

Note: Data from 2011 onwards represent estimates.