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DOCUMENT 1-854/81

REPORT

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

on the situation of small and medium-  
sized undertakings in the Community

Rapporteur : Mr G. DELEAU



At its sittings of 20 July 1979, 12 January 1981 and 8 April 1981, the European Parliament, pursuant to Rule 47 of the Rules of Procedure, referred the motion for a resolution tabled by Mr NEWTON DUNN on small and medium-sized firms (Doc. 1-240/79), the motion for a resolution tabled by Mr COMBE on 1982, the year of the craft industry and the small and medium-sized undertakings (Doc. 1-780/80) and the motion for a resolution tabled by Mr DELEAU and others on small and medium-sized undertakings (Doc. 1-20/81/rev.) to the Committee on Economic and Monetary Affairs as the committee responsible.

The Committee on Economic and Monetary Affairs appointed Mr DELEAU rapporteur on the motion for a resolution (Doc. 1-240/79) on 30 October 1979 and on the motion for a resolution (Doc. 1-780/80) on 21 January 1981. At its meeting of 10 November 1981, the Committee on Economic and Monetary Affairs decided that the motion for a resolution (Doc. 1-20/81/rev.), on which Mr SCHNITKER had been appointed rapporteur, would be included in the report by Mr DELEAU.

The Committee on Economic and Monetary Affairs considered the draft report at its meetings of 10 November and 3 December 1981. The committee unanimously adopted the motion for a resolution at its meeting of 3 December 1981.

Present: Mr Moreau, chairman; Mr Macario, vice-chairman; Mr Deleau, vice-chairman and rapporteur; Mr Beazley, Mr Beumer, Mr von Bismarck, Mr Bonaccini, Mr Combe, Mr Delorozoy, Mrs Desouches, Mr Giavazzi, Mr Herman, Mr Marshall (deputizing for Miss Forster), Mrs Nikolaou, Mr Papantoniou, Mr Petronio, Mr Purvis, Sir Brandon Rhys-Williams and Mr Turner (deputizing for Mr Hopper).

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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 the situation of small and medium-sized undertakings in the Community

The European Parliament,

- having regard to the resolution on questions relating to small and medium-sized undertakings in the Community, adopted by the European Parliament in February 1978, and the communication from the Commission of the European Communities to the Council (Doc. COM(80) 726 final),
- having regard to its previous motions for resolutions (Docs. 1-240/79, 1-780/80 and 1-20/81/rev.),
- having regard to the report of the Committee on Economic and Monetary Affairs (Doc. 1-854/81),

1. Is convinced that:

- the maintenance and promotion of the production capacity of these small and medium-sized undertakings is of the greatest importance, not only for the economy and the gainfully employable population but also above all for the development of a free and democratic society in Europe, because of their special role as a central link in the economy;
- the customs union operating chiefly in the agricultural, coal and steel and bulk goods sector must be developed into a dynamic common internal market by the abolition of subsidies which distort competition and the elimination of administrative and technical barriers to trade which place small and medium-sized undertakings at a particular disadvantage;
- the measures to be taken to promote small and medium-sized undertakings must be strengthened or put into operation throughout the Community and must aim, within a free market system, to give aid for self-help and to avoid any unilateral national subsidies which distort the market.

2. Reminds the Council and the Commission that the Community can and, in view of the fact that most new job formation arises in this sector, must contribute to the development of small and medium-sized undertakings and that this will necessitate an authentic Community programme for SMUs, principally in the following areas:

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<sup>1</sup>OJ No. C 63, 13.3.1978, p. 38

- financial promotion of SMUs

3. Considers that the difficulties for SMUs of gaining access to capital markets, especially in the present period of insufficient investment and very high rates of interest, calls for determined action to provide financial promotion for SMUs in the Community in order to meet the following ends:
- . financing for establishing and maintaining SMUs, in particular by EIB loans and the allocation of a special instalment of the NCI; whilst ensuring that the procedures for the granting of financing are simplified and that loans are paid out promptly and on a sufficiently decentralized basis;
  - . financing for innovation in order to stimulate SMU potential in this area, by means of appropriate support measures coordinated at European level, substantial research and development credit in industrial sectors where SMUs are heavily predominant, and by setting up an industrial innovation and development Fund;
  - . export financing by seeking an appropriate solution at Community level to the general problem of exchange rate risk cover, now provided for in different ways in few Member States only;
4. Approves the lines of policy followed by the EIB, which has considerably increased the level of its loans to SMUs in recent years;
- (a) requests in a general way that the level of Community financing for SMUs, whether originating in the EIB, the ECSC, the ERDF, the Social Fund or the NCI should be increased and closely coordinated;
  - (b) considers it essential in this connection for the Community institutions to be able to enter into a dialogue with qualified national counterparts in order to achieve the optimum allocation of Community funds, meet loan conditions and ensure reimbursement; considers it necessary in consequence to ensure that Community funds are distributed promptly and on a sufficiently decentralized basis in the various regions by promoting the setting up in each Member State of financial establishments comprising approved banking organizations and organizations specializing in the financing of SMUs such as the mutual security societies of the type existing in France: indeed, having regard to the size of the borrowing enterprises, a system of mutual risk cover can be expected to provide a total guarantee to lenders;
  - (c) asks the Commission to seek, together with the banking authorities of the Member States and representatives of SMUs in the Community, the improvement and harmonization of financing conditions for SMUs.
  - (d) stresses the need, in the context of modernizing and revitalizing a European stock-exchange system, to develop the role of regional stock exchanges and improve the operation of the unquoted market so as to facilitate issues of SMU securities;

calls on the Commission in this context to promote the setting up of financial institutions, in Member States where they do not yet exist, to provide SMUs with equity capital or share capital on a temporary basis;

- SMU management

5. Stresses the need to promote the training of SMU managers to enable them better to adapt to changing conditions in all aspects of economic life and competitiveness; to this end, asks the Commission to take stock of existing training opportunities and to propose appropriate measures in this field at national and Community level. In the context of the measures for the training of SMU managers and staff, consideration should be given to the financing of possible vocational training schemes organized on a joint basis by groups of small and medium-sized undertakings;
6. Stresses the specific and growing difficulties facing small undertakings as regards vocational training for their workers and recommends, in this respect, an increase in Social Fund appropriations to promote the development of flexible and innovation training schemes for small and medium-sized undertakings and to make it a more important instrument for the creation of jobs for young people in the SMUs;
7. Notes that for lack of adequate information on the economic situation in general and the state of the markets, SMUs are denied valuable opportunities every year; asks the Commission, following its communication on new information technology, to take all necessary measures to facilitate SMU access to data banks and new information technologies by establishing, if necessary, distributional and software services adapted to the specific needs of the SMUs; considers that it also seems appropriate for the Community to promote the organization in various Member States of courses given free or at special rates to enable the management and staff of SMUs to learn how to use this equipment;
8. Considers that the Commission's SMU division should be given the means to enable it to play the coordinating and training role appropriate to it in providing SMUs with information and distributing the results of national experience and statistics relative to SMUs;

- the impact of SMUs

9. Considers it indispensable to promote, at Community level, an effective impact by SMUs on economic and social life by improving and adapting the legal, fiscal and administrative environment, bearing in mind that a prerequisite for these conditions is the elimination of technical barriers to trade and the simplification of frontier formalities and greater moves being made towards effective customs union.

. the legal environment

10. Regrets, in consequence, that the Council has still not adopted the regulation on the establishment of a European Cooperation Grouping; and asks the Commission to prepare a regulation on the establishment of a European limited liability company;
11. Stresses that SMUs have a greater than usual need for real equality of conditions of competition; again deplores the fact that the Council has still not adopted the regulation on preventive control of mergers which could guarantee a sufficient level of competition in certain sectors, thereby making it easier for SMUs to compete. As to the proposed amendment of Regulation No. 67/67 on exclusive dealing agreements, the limitation of its present field of application would hardly be desirable. An SMU is not always in a position to set up branches or affiliates in all the Member States;
12. Calls for tendering for public sector contracts to be organized in such a way in the Community that small and medium-sized undertakings also have a fair chance of taking part and calls on the Commission to draw up an appropriate proposal for a directive; asks the Commission to give special consideration to the particular problems of the SMUs in drawing up its proposals for regulations on selective distribution and exemption agreements by categories of patent licence agreement;

. the fiscal environment

13. Insists on an adequate fiscal policy being applied in the Community based not on penalties but on incentives; therefore recommends in particular:

- significant tax relief on profits reinvested in the undertaking;



- tax relief measures for infant SMUs;
  - possibility of adequate and appropriate amortization calculated on replacement value;
  - systematic and transparent tax relief for research;
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- appropriate tax arrangements where SMU property is inherited or otherwise taken over by persons who keep the undertaking running;

Asks the Commission to give every possible impetus to such developments in the fiscal arrangements applicable to SMUs;

. the administrative environment

14. Asks the Commission to pursue a general policy of simplifying the administrative charges on SMUs, so that they can retain their dynamism and ability to adapt; considers in this connection that the Business Cooperation Centre could, given sufficient funds, actively provide information and help to coordinate the drive for administrative simplification to the benefit of SMUs, for which it could act as a kind of 'ombudsman';
  15. Asks the Commission and the Council to look at the problems of SMUs in the overall context of the Community's economic and social policy so as to take account of the diversity and detail of problems relating to such matters as working hours, industrial cooperation, competition policy, or fiscal or commercial policy;
  16. Has examined the action taken by the Commission and the Council on the debate of February 1978 and welcomes certain measures which have been taken and proposals which have been made, but notes nevertheless that several requests made by Parliament in that resolution have not been fulfilled although the Commission had agreed to do this; requests that the Commission inform Parliament as soon as possible of the steps which it proposes to take in relation to Parliament's earlier requests;
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17. Asks that 1983 should be declared 'the year of the craft industry and the SMUs', as a way of involving public opinion in the renewal of the spirit of enterprise in the Community; to this end urges the Commission, in collaboration with the Council, the European Parliament, and the Economic and Social Committee, to prepare for this event, which could include the organization of festivals, and colloquies, a Council of Ministers responsible for SMUs, the implementation of concrete proposals in the areas outlined above, and the establishment of a European SMU centre;
  18. Instructs its President to forward this resolution to the Council, the Commission and the parliaments of the Member States of the Community.

EXPLANATORY STATEMENTIntroduction

1. The existence of small and medium-sized undertakings is essential to the smooth running of the economy. SMUs in fact cover all sectors of industry, trade and services, and play an irreplaceable role as regards innovation, product and service quality, and diversification; they also employ a large and highly qualified labour force.

However, the very nature of SMUs is such that appropriate legal, fiscal and social measures should be applied to them, taking their special situation into account. Such measures are all the more necessary in that the present economic crisis entails a serious threat to the future of SMUs.

The European Parliament and its Committee on Economic and Monetary Affairs have always shown a lively interest in the situation of the SMUs. In particular, on adoption of the general report by Mr NOTENBOOM on the problems of SMUs in the Community<sup>1</sup>, the European Parliament systematically dealt with most of the questions relating to the existence and development of SMUs in the Community. The situation of SMUs has since been raised on several occasions in the European Parliament.

The Commission of the European Communities has submitted an initial report<sup>2</sup> on this subject containing an inventory of existing national and Community measures to help SMUs and setting out a list of priorities for 1981.

Three years after the adoption of the NOTENBOOM report, it is appropriate for the Committee on Economic and Monetary Affairs to reconsider the overall scope of the measures taken and to be taken to help SMUs, the more so in that three relevant motions for resolutions<sup>3</sup> have been referred to it, pursuant to Rule 47 of the Rules of Procedure, as the committee responsible.

2. The Committee on Economic and Monetary Affairs has decided that this new report on the situation of SMUs should be couched in the most concrete terms possible. It will not therefore contain a new analysis of the nature of the problems encountered by SMUs in general or from a theoretical point of view. Rather, in the light of developments in the situation of SMUs in recent years, and having regard to the changes in the economic situation in the Community, the objective of this report will be to seek and advocate ways in which the Community can and must help in the development of SMUs, and to pinpoint the policies and measures to be used.

<sup>1</sup> NOTENBOOM report (Doc. 518/77)

<sup>2</sup> Commission memorandum on SMUs in the Community (Doc. COM(80) 726 final)

<sup>3</sup> Resolutions by Mr NEWTON DUNN (Doc. 1-240/79), Mr DELEAU (Doc. 1-20/81/rev.) and Mr COMBE (Doc. 1-780/80)

Consideration should be given to action in the following three areas:

- the central question of promoting the financing of SMUs;
- problems of SMU management and measures to facilitate and improve it;
- any measures that can improve the legal, social, fiscal and administrative environment of SMUs in their day to day activities.

The situation of SMUs will therefore be considered from the triple perspective of financial promotion, management improvements, and impact on economic policy as a whole.

## I. Financial promotion of SMUs

### (a) Current difficulties

3. The central problem facing SMUs is certainly the problem of their financing. The capital markets are often less accessible to them in view of their size and the lack of familiarity in many cases of small businessmen, who are not always well versed in financing processes in all their complexity. The difficulties of access to capital markets have now become even more severe for SMUs in the period of recession of the last few years, characterized in particular by inadequacy of investment and very high interest rates.

At the same time the financing needs of SMUs have increased in many sectors owing to technical developments and increased costs. For example a simple digital controlled milling machine can cost between £80,000 and £150,000, a four-colour printing machine will cost around £250,000, and an industrial grinding machine will run to around £120,000.

In addition to these problems of capital investment, there are the problems of social security charges, which can often hit labour-intensive SMUs particularly hard and the fiscal burden which can interfere with their cash flow, while there can be long delays before payments are made in certain countries (in France the average is 89 days).

SMUs do not always benefit in an equivalent way from one Member State to another from appropriate financing systems. In these circumstances, excessive divergences in the financing facilities available to SMUs are liable to cause distortions of competition.

For all these reasons the Community ought to adopt measures for giving effective financial promotion to SMUs to counteract the inadequacies and imperfections of the current situation.

### (b) SMU financing objectives

SMU financing is a huge subject which is every bit as complex as the activities of these firms are varied. The following three fundamental objectives can however be identified, each of them calling for specific financing arrangement:

#### - financing to establish and maintain SMUs

4. The establishment of SMUs, especially in a period of economic recession, is fraught with major difficulties. Inability to obtain the necessary funds, which are considerable as has been shown, or the stringency of the financing conditions that are proposed, can lead many potential heads of undertakings to abandon their projects.

Moreover, it is often difficult to keep an SMU running for the same reasons. There is no better proof of this than the growing number of SMU bankruptcies in recent years. The very size of SMUs makes them particularly vulnerable to the vicissitudes of the economic situation which they are obviously much less well equipped to resist than large undertakings.

In these circumstances if a recovery of SMU activity in the Community is to be taken seriously, it will be necessary to establish adequate financing facilities for the setting up and running of SMUs. The Community could play a not insignificant role in this connection. Such financing could in particular be arranged in the context of the development of Community borrowing and lending mechanisms. A special instalment of the NCI for example could be allocated to this end. This kind of selective financing through national bodies in accordance with criteria to be determined would be made available to SMUs displaying a strong innovatory potential or in the process of modernization, for example.

- innovation financing

5. As distinct from launch financing, support financing or financing allocated to sectors undergoing restructuring for example, innovation financing constitutes a separate area of particular importance. In the changing world economic situation, innovation can meet the Community's dual need for competitiveness and independence. Recent statistics from the major industrialized countries show that in the distribution of 352 major innovations as between three turnover based categories of undertaking, there is a distinct bias in favour of SMUs.

Country	Small undertaking	Medium-sized undertaking	Large undertaking
United States	90	37	129
United Kingdom	8	3	23
Germany	5	2	12
Japan	1	4	20
France	5	4	7

But one of the principal obstacles which innovating SMUs encounter is their lack of financial resources whence the importance of direct aid for innovation, generally allocated on a case by case basis, or general innovation premiums, already in existence in the Member States. However, these aids, which vary from one Member State to another, can introduce distortions of competition between undertakings. By the same token, national aid programmes may overlap each other, or be insufficiently coordinated. Hence the need for more specific Community action. In this connection, the Committee on Economic and Monetary Affairs recently

proposed, on the adoption of its report on industrial cooperation<sup>1</sup>, the establishment of an industrial innovation and development fund; this fund, the establishment and operation of which would have to be determined after real cooperation with the European Parliament, would finance the development of research in new technologies with encouraging prospects, and give every kind of impetus to industrial innovation. SMUs whose innovation potential is known should be the first to benefit from the financing facilities available from such a fund.

In the related area of research and development, mention should be made of the committee's proposal for a second R & D programme in the field of textiles and clothing, together with the draft programme on argillaceous minerals and ceramics technology; in all of these industrial sectors the bulk of activity is carried out by SMUs. This makes the Council's habit of approving the principle of these research and development programmes in sectors with a high concentration of SMUs, while consistently reducing or deleting appropriations entered against relevant items in the budget of the Community all the more deplorable.

- export financing

6. SMUs must be in a position to clear their production on the Community market as on the world market. Whatever the intensity of competition, SMUs are able to rise to the challenge if they are given the financial resources which they need. Here, one of the major problems for SMUs wishing to export is that of exchange rate guarantees. It is quite impossible to expect small and medium-sized undertakings producing essentially for a national market to handle currency arbitrage transactions on borrowings in different currencies. EIB loans for example depend essentially on conditions on the capital markets where the bank draws most of its resources. Global loans by the bank can be wholly or partly in a foreign currency vulnerable to exchange rate fluctuations.

SMU prospects for access to this source of finance are considerable, but generally run up against a major obstacle to which particular attention is drawn below in the hope that a solution will be forthcoming. The problem is that of the consequences of exchange rate fluctuations, which can deter potential borrowers from soliciting a loan that is likely to be paid, in part at least, in a foreign currency.

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<sup>1</sup> Report by Mr DELOROZOY on industrial cooperation (Doc. 1-157/81)

This is then the major problem of exchange rate risk cover in the Member States of the Community.

A solution is available in Italy, the United Kingdom, Ireland and Denmark. One striking example can be mentioned to illustrate the importance of eliminating this obstacle. In 1974 the EIB granted a global loan in Ireland which was not taken up owing to the fall in the parity of the Irish pound, which deterred undertakings from contacting debts in other currencies. The Irish Government then adopted measures to eliminate this obstacle. The implementation of these measures had an immediate effect: three successive global loans led to the implementation of 120 projects in a wide range of industrial sectors that should create some 1,300 jobs<sup>1</sup>.

The European Parliament should insist on a Community solution being found so as to develop the practice of issuing specialized global loans for SMUs adapted to their needs.

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<sup>1</sup> EIB information bulletin No. 17, June 1979. Issue No. 24 of February 1981 also makes the point that is precisely in those countries where governments provide exchange rate risk guarantees, i.e. Italy, Ireland and the United Kingdom, that the global loan formula has been most successful.

c. Methods of financing SMUs

7. Many different methods of financing SMUs are possible; some basic guidelines only are outlined below.

At Community level, an established financing network exists already. Among existing Community institutions and funds, the EIB now certainly plays the essential role, in particular since the recent development of its global loans to SMUs. In fact the EIB has been making global loans to regional or national financial institutions since 1969, the latter re-lending them in minimum units of 25,000 ECU. These global loans have grown considerably in recent years. By the end of 1980 the total number of institutions having received credits on global loans had reached 1,750, compared with 835 at the end of 1978.

Financing in the form of global loans is in principle available for investment relating to the principal duties assigned to the EIB by the Treaty of Rome, in particular:

- regional development,
- modernization or reconversion of an undertaking.

Credits can be granted for up to 50% of the cost of fixed investment. The amount may vary between a maximum of 4 million ECU and a minimum of 25,000 ECU. The present conditions for participation in a global loan are mandatory for SMUs. The EIB standards are three-fold:

- a maximum of 500 employees,
- fixed assets not exceeding 30 million ECU,
- no more than one-third of capital owned by a larger firm.

The ERDF conditions for participation in SMU financing have recently been relaxed and are as follows:

- investment must exceed 50,000 ECU and create or maintain at least 10 jobs,
- the activity must be soundly based and be in receipt of state regional aid.

ERDF aid may also take the form of an interest-rate rebate of 3 points on loans awarded under Article 130 of the Treaty by the EIB.

There is also an ECSC arrangement whereby SMUs are entitled under Article 56 of the ECSC Treaty to global loans with interest-rate rebates for investment creating new job opportunities in coal and steel areas hit by the crisis.



The Social Fund and the EAGGF also grant loans to SMUs as one of their regular functions. We have also referred to the European Parliament's suggestion for the establishment of an industrial innovation and development fund.

The Community's share in SMU financing is growing, in particular as a result of the policy conducted in recent years by the EIB. The recent doubling of EIB capital and the forthcoming adoption by the Council of the regulation establishing the NCI on a permanent basis should enable the Community's share in financing to be increased even further.

8. Hand in hand with this growth in Community financing goes the need to seek optimum and consistent utilization of the possibilities that are created by Community financing instruments. In this connection it would be appropriate to establish or set up as necessary a body of qualified national counterparts to meet the conditions for Community loans (economic nature of the requests, viability of the enterprise), and be responsible for reimbursement. In France in particular it should be possible to establish a society assisted by mutual security societies, SMUs and certain approved banking organizations with the objective of obtaining credit lines from the European Investment Bank and the New Community Instrument to enable SMUs to gain access to Community funds while conforming to the standards and procedures laid down by these financial establishments.

As regards private financing through the banks, different mutual security organizations, and innovation financing institutions, it would be appropriate for the Commission to take the initiative of setting up a round table with their representatives in order to arrive on both sides at a better awareness of the problems and the improvement and harmonization of financing conditions for SMUs in the Community.

Finally it would be necessary to channel a flow of savings towards the SMUs; in fact, recourse to the capital markets is the soundest method of financing SMUs; innovation, like the market, is synonymous with risk, but also with profitability in the event of success. Here, the Committee on Economic and Monetary Affairs, in the recent report by Mr COLLOMB<sup>1</sup>, has asked for the establishment of an authentic European stock exchange, having regard in particular to the opportunities opened up by modern data-processing techniques. In the context of a stock-exchange revival and efforts to attract public savings, the regional stock exchanges would be called on to play an essential role, both at the level of regional development and of SMUs. In this connection improvement in the operation of the unquoted market should be envisaged. Moreover, institutional investors and collective investment undertakings could be expected to play a larger part in investing unquoted SMU securities.

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<sup>1</sup> Report by Mr COLLOMB on the creation of a European stock exchange (Doc. 1-250/81) (resolution paragraph 10)

Institutional investors might even be encouraged, if not required, to devote 1% of their funds to financing particularly innovatory SMUs.

To conclude this chapter it should be pointed out that although sources of financing available to SMUs at Community level are numerous, varied and of considerable size, they are not used as we would wish.

The financing of undertakings in this category remains the keystone of any policy aimed at supporting, maintaining, developing and innovating in their favour.

## II. SMU management

9. We shall leave open the complex question of how to define an SMU. We think it preferable and more realistic to accept the numerous definitions that have been made in all their diversity, ranging from the quantitative criterion of the number of employees (maximum 500) to qualitative criteria such as the type of management and the range of duties and responsibilities incumbent on the head of the undertaking.

Apart from the diversity of situations, it is important to take stock of the specific problems affecting SMU management so as to devise effective countermeasures. The day-to-day running of SMUs presupposes a level of skills and qualifications on the part of their management which not all of them have attained. SMUs suffer an evident handicap in this connection compared with large enterprises.

### a. SMU management and staff training

10. SMU management training appears to be particularly deficient in the areas of marketing, accounting and sales, although needs tend to vary as between Member States<sup>1</sup>. In a general way, familiarization courses on new data processing technologies will become necessary as these technologies gain currency. In addition to courses organized by banks in the Member States and by various private or public institutions, training seminars are organized by international bodies like the ILO (Turin Centre). As a general rule, more extensive training programmes better coordinated between the Member States should be promoted. In this connection the Commission should take stock of training possibilities and courses available, and set out the measures to be taken in this field; this would enable SMU managers to become better informed and better equipped to adapt to the changing conditions of economic life and of competitiveness in all their aspects.

SMU management also complains of being unable to find suitably qualified staff. The foregoing also applies equally to staff training. In this connection it will be necessary to achieve the closest possible cooperation between the undertakings and the different training institutions to ensure that teaching material is closely adapted to the needs of the SMUs.

<sup>1</sup> In France, for example, the banks have developed courses of this kind for SMU management

b. The information problem for SMUs

11. One of the SMUs' major handicaps is the lack of sufficient information, in particular as regards the economic situation within and without the Community and on existing market sectors. Owing to lack of information on the state of markets, the Community's SMUs lose a number of significant business opportunities every year. The Commission<sup>1</sup> publishes in co-operation with national experts, a regular inventory of the different action taken to help SMUs at national level. It has also undertaken a comparative study of national developments in order to encourage the authorities of the Member States to adopt such measures as have shown themselves to be appropriate in certain Member States. This work must be continued and developed.

In its communication on the European company faced with new information technologies<sup>2</sup>, the Commission rightly stressed the need to facilitate SMU access to information. In this connection the EURONET facility, which has been commercially operational since 13 February 1980, certainly constitutes an information mechanism particularly well adapted to SMUs wishing to keep abreast of the most advanced technologies. In a general way round tables with interested parties were organized between 1977 and 1980 to study the needs of SMUs in this area. In particular, it is necessary to set up distribution and software services adapted to the specific needs of SMUs.

It is also certain that the Commission will only be able to play a guiding role in this area if it has a minimum staff component at its disposal; this presupposes enlarging the existing small and medium-sized undertakings division within the Commission and expanding its terms of reference.

With more extensive facilities at its disposal, the Commission could usefully assist the documentation services of professional organizations in drawing up a uniform system for registering sub-contractual activities. This work would also enable the Commission to contribute to improving statistics on SMU growth.

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<sup>1</sup> Reply to Written Question QE 1038/79 by Mr DELEAU (OJ No. C 140, 10.6.1980, p. 5)

<sup>2</sup> COM(79) 650 final

### III. The impact of SMUs

12. If measures to stimulate the management and financial promotion of SMUs are to be fully effective it will be necessary, in a general way, for the Community and the Member States to enhance the impact of SMUs against a favourable legal, fiscal, administrative, economic and social background. Contrary to what the Commission indicates in its draft memorandum<sup>1</sup> Community action should not necessarily be subsidiary and complementary to action taken at national level. On the contrary, in a number of fields the Commission's terms of reference enable it to lay the foundations of a policy that would enable SMUs to make a positive impact on a favourable environment.

#### a. The legal environment

From the legal point of view the Community can help SMUs to make an impact on economic life in two main ways, namely harmonization and the appropriate use of the rules of competition.

#### - harmonization of economic legislation

13. It will be necessary to provide a legal environment favourable to the establishment, growth and financial and technical consolidation of SMUs. Article 100 of the EEC Treaty in particular gives the Commission real power to achieve harmonization of the legal structures where the need is encountered.

Community provisions in the field of company law are thus favourable to the development of SMUs. The Commission has, for example, submitted a proposal for the establishment of a European Cooperation Grouping, a flexible and ad hoc form of association between undertakings in different Member States, which was adopted by the European Parliament in 1970 but is still pending before Council. The principle of a limited liability European company could also be considered, as the NOTENBOOM report has already recommended<sup>2</sup>.

Finally, mention should also be made of the body of work relating to the elimination of technical and administrative barriers to trade, from which SMUs are the first to suffer.

the Committee on Economic and Monetary Affairs keeps careful track of the work done in this field to the extent that this is within its powers.

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<sup>1</sup> Doc. COM(80) 726 final

<sup>2</sup> Doc. 518/77

- appropriate use of the rules of competition

14. SMUs have a greater need than most for authentic equalization of conditions of competition. It is therefore deplorable that the Council has again failed to adopt the regulation on the preventive control of company mergers. Indeed, every year the Commission's report on competition policy stresses the difficulties caused by excessive concentration, whereas the vitality of the economy and the interests of consumers can only be guaranteed if sufficient competition is maintained. The inadequacy of control of company mergers, with the risks of abuse of a dominant position that it implies, is harmful to the development of SMUs, which are prevented from competing on the market for this reason. Equalization of conditions of competition also implies free access for all undertakings, in particular SMUs, to public sector markets. In this connection the Commission should take particular care to secure observation of Community directives and to make further progress so that all small and medium-sized undertakings in the Community will eventually have an equal chance of submitting tenders on public sector markets covering an increasingly wide range of activities. The application of rules of competition to SMUs must take their specific situation into account and, where necessary, be subject to appropriate conditions. The Commission was aware of this problem in its communication on the assessment, having regard to Article 85(1) of the Treaty, of sub-contractual agreements, published on 3 January 1979, which defines contractual clauses justified by a sub-contractual relationship. This communication will strengthen the security of undertakings. There is also good reason to support the nomenclature work undertaken by the Business Cooperation Centre so as to make the sub-contract market more transparent.

As to the proposed amendment of Regulation No. 67/67 on exclusive dealing agreements, the limitation of its present field of application would hardly be desirable. An SMU is not always in a position to set up branches or affiliates in all the Member States. As to the draft regulation on patent licence exoneration by category of agreement, care must be taken to ensure that it does not lead to a reduction in the number of licences issued, as this would have negative repercussions on SMUs. The European Parliament has in fact stressed that the regulation envisaged should guarantee equality of opportunity to SMUs and at the same time make it possible for them to gain access to technology while retaining adequate protection for their patents.

b. The fiscal environment

15. The fiscal environment can exercise an important favourable or unfavourable influence on the development of SMU activities. A fiscal policy favourable to SMUs will therefore entail the abolition of fiscal measures that penalize SMUs and the implementation of a number of incentives.

The continued existence of a fiscal system that penalizes the activities of SMUs can only lead to the phenomena of tax evasion and fraud and the growth of an underground economy. Such activities can seriously disrupt the smooth running of the economy. It is moreover totally inconsistent to overwhelm SMUs with a burden of fiscal charges that bears no relation to their capacities or the risks to which they are exposed, while at the same time praising their job-creating dynamism and capacity for innovation. In a general way, the priority aim of an appropriate fiscal policy in this area should be to stimulate the self-financing which is a characteristic feature of SMUs. Without going into detailed consideration of such fiscal measures, it is nevertheless necessary to recommend the following in particular:

- significant tax relief on profits reinvested in the undertaking, in particular the establishment of an investment reserve enabling tax payments to be deferred;
- possibility of amortization calculated on replacement value;
- systematic and transparent tax relief for research;
- application of a long-term value-added system for patent sales and licence concessions by SMUs;
- relief measures to help infant SMUs for a limited period, together with fiscal measures for investors in SMUs so as to improve the investment available to them;
- finally, appropriate tax arrangements in cases of property transfers to heirs or other persons who maintain the activity of the undertaking, in particular the staggering of death-duty payments.

#### c. The administrative environment

16. The dynamism and flexibility of SMUs call for a simplified administrative environment, the very opposite of a ponderous, not to say paralyzing bureaucracy. There are still too many obstacles to trade, and as the European Parliament has stated, more effective procedures must be initiated to remove them. Similarly, the rules of origin on external trade constitute an excessive burden for SMUs which should be alleviated.

On the fiscal side it must be pointed out that national VAT rules are changed so often that a small businessman cannot even keep up to date. Moreover, VAT refund procedures should be accelerated to prevent funds from being frozen in public channels; here too procedures should be simplified.

As regards the application of Community and national regulations, the Commission should pursue a general policy of simplifying administrative burdens. In this connection the Business Research Bureau could play an essential role. Originally set up to initiate twinning between SMUs in

different Member States of the Community and even third countries, the Bureau has been reorienting these activities in recent years. Although successful in a number of cases, twinning operations between enterprises by the Bureau have been very limited in number and have made a very moderate impact on the development of the Community's economic structures. In these circumstances those responsible for the Bureau have felt that it should concentrate more in future on information and coordination activity to help undertakings, principally SMUs, in a given sector or region. In this way, provided it received sufficient funds, the Bureau could become a kind of Community 'window' for SMUs, or even the SMU 'ombudsman' of the Community, responsible for providing full information and relaxing the grip of national or Community administrative formalities.

However, the Bureau would maintain its twinning operations case by case vis-à-vis Greek SMUs and the future Member States of Portugal and Spain, where structures are often significantly behind those of the Member States of the Community. The Committee on Economic and Monetary Affairs can only welcome this type of orientation of the activities of the Bureau, which will obviously entail strengthening its resources and possibly even its terms of reference.

d. The economic and social environment

17. The problems of SMUs must not be isolated from other Community policies, although if SMUs are to make an impact in terms of Community policies in general, more will be needed than vague expressions of concern when concrete action is called for. SMUs have very specific priority needs which must be taken into consideration in terms of management, financing and the fiscal, legal and economic impact; moreover the perception of the inherent problems of SMUs in all their peculiarity and diversity must be integrated into the overall economic and social policy of the Community. Thus, for example an adequate approach to the financing of social charges or the possibility of reducing working hours undoubtedly calls for a thorough knowledge of the inherent operating conditions of SMUs. The same is true in a general way of all industrial cooperation policy, which must necessarily take SMU participation into account<sup>1</sup>, or of competition and trade policy, as already stated.

e. 1983,<sup>2</sup> the year of the craft industry and the SMUs

18. It will not be possible for the dynamics and specific problems of SMUs to make an impact on the Community's economic and social policy without an awareness of the problems, not only within the narrow circle of professionals but with public opinion in general. The importance of public support must

<sup>1</sup> Report by Mr DELOROZOY on industrial cooperation (Doc. 1-157/81)  
Resolution No. 19

<sup>2</sup> The author of the motion for a resolution has agreed that the date be changed from 1982 to 1983 for technical reasons



not be underestimated; on the contrary it is clear that in the context of the current recession, the effort to support SMUs, whose resistance and vitality are not in doubt, and which in recent years have been the providers of the largest numbers of new jobs and a seedbed of professional training and individual advancement, should receive the widest possible public support. The pressure of public opinion could then help to remove certain obstacles and revive the spirit of enterprise. Thus Mr COMBE's proposal (Doc. 1-780/80 ) that 1983 should be observed as the year of the craft industry and the SMUs should be welcomed unreservedly. The Commission should therefore proceed, in cooperation with the Council, the European Parliament and the Economic and Social Committee, with the necessary arrangements for organizing this year. The following suggestions are offered for celebrating 1983 as the year of the craft industry and the SMU:

- organization of in-depth colloquies on the problems outlined, on the basis of such topics as financing, information and management of SMUs;
- a meeting of a Council of Ministers responsible for SMUs, trade and craft industries;
- concrete initiatives by the Commission in the areas outlined above; in this context the establishment of a European SMU centre.

1983, the year of the SMU and the craft industry, could be concluded with a kind of 'States General' of SMUs in the Community at which the experience accumulated at meetings, councils and colloquies would be used to take stock of the year's events and the prospects for the future.

### Conclusions

19. The promotion of SMUs in the Community thus calls for a much wider and ambitious programme than the priorities fixed by the Commission in its memorandum can allow. We have set out the main outlines: financing, management and a favourable impact for SMUs in relation to Community policies as a whole. The celebration of 1983 as the year of the craft industry and the SMUs should clearly symbolize the renewal of the spirit of enterprise in the Community as an essential social value for the times in which we are now living.

MOTION FOR A RESOLUTION (DOCUMENT 1-240/79)  
tabled by Mr NEWTON DUNN  
on behalf of the European Democratic Group  
pursuant to Rule 25 of the Rules of Procedure  
on small and medium sized firms

The European Parliament,

- having regard to the actual and potential contribution of  
small and medium-sized businesses as seed beds of growth,  
calls upon the Commission at all times to pay special  
attention, when drafting policy proposals, to the economic  
and political importance of small and medium-sized  
businesses and their needs.

MOTION FOR A RESOLUTION (DOCUMENT 1-780/80)  
tabled by Mr COMBE  
pursuant to Rule 25 of the Rules of Procedure  
on 1982, the Year of the Craft Industry and  
the Small and Medium-sized Undertakings

The European Parliament,

- noting the strength and vitality of the craft, industry and the SMUs in an economy undergoing a crisis,
  - having regard to the fact that the craft trades and the SMUs have in recent years created the largest number of new jobs in a European Community hard hit by unemployment,
  - having regard also to the fact that the craft trades and the SMUs provide excellent opportunities for professional training and personal advancement,
  - whereas the craft trades and the SMUs are an essential part of the industrial and commercial structure of our countries,
1. Believes that the craft trades and the SMUs have become essential tools for our economic growth and thus have outstanding prospects for the future;
  2. Proposes that 1982 should be the Year of the Craft Industry and the SMUs;
  3. Requests the President of the European Parliament to forward this resolution to the Council and Commission of the European Communities.

MOTION FOR A RESOLUTION (DOCUMENT 1-20/81/rev.)

tabled by Mr DELEAU, Mr DALAKOURAS, Mr ANSQUER, Mr CLEMENT, Mr CRONIN, Mr COUSTE, Mr DAVERN, Miss de VALERA, Mr DOUBLET, Mrs EWING, Mr FANTON, Mr FLANAGAN, Mrs FOURCADE, Mr GERONIMI, Mr ISRAEL, Mr LALOR, Mr de LIPKOWSKI, Mr de la MALENE, Mr NYBORG, Mr REMILLY, Mr TURCAT, Mr VIE, Mrs WEISS

with request for urgent debate  
pursuant to Rule 14 of the Rules of Procedure  
on small and medium-sized undertakings

The European Parliament,

- whereas the existence of small and medium-sized undertakings is a fundamental condition for the sound functioning of a modern economy,
  - whereas the SMUs cover all sectors of industry, trade and services and employ a large and skilled labour force,
  - whereas they play an important role as regards the quality of products and services and their diversification,
  - whereas, although they are carried out on a national scale, the activities of the SMUs are directly affected by Community legislation,
  - considering the grave threat that the economic crisis presents to the future of small and medium-sized undertakings,
1. Calls for a reduction in the administrative and fiscal charges that discourage initiative and paralyse enterprise;
  2. Feels that more encouragement should be given to cooperation between undertakings by adjusting the rules of competition and creating appropriate structures;
  3. Considers it essential to improve the possibilities available to small and medium-sized undertakings as regards both exports and access to public markets;
  4. Calls for an increase in the sources of Community financing for small and medium-sized undertakings, in the appropriate forms;
  5. Feels that a greater effort should be made by the Community in the training of heads of undertakings and as regards access to economic information;
  6. Calls for further Community harmonization of accounting rules that are adapted to the size of these categories of undertakings and the adoption of a European company statute for small and medium-sized undertakings;
  7. Instructs its President to forward this motion for a resolution to the Commission and Council of the European Communities and to the Governments of the Member States.

Justification

The economic crisis and the problems of unemployment.



