

The Future of Europe

The scenario of Crafts and SMEs

The 60th Anniversary of the Treaties of Rome, but also the decision of the people from the United Kingdom to leave the European Union, motivated a comprehensive debate about the Future of Europe. Next to the European Council declarations from Bratislava and Rome, which provide a more general orientation for the problems to be tackled together, the White Paper from the European Commission on the Future of Europe and a series of reflection papers have been the main contributions to the debate so far. In the White Paper the European Commission puts forward a compact analysis of the achievements so far and the challenges ahead as well as a description of 5 possible scenarios for the future development of the European Union.

With this document, UEAPME¹⁾ wants to contribute to this debate from the point of view of 23 million small and medium sized enterprises, with an overwhelming majority of micro enterprises (92%). SMEs cover 99.8% of all companies, provide 2/3 of all private jobs and count for close to 60% of added value in the European Union. Based on an overview of the main achievements the European integration has brought for Crafts and SMEs, the challenges ahead and a first assessment of the White Paper and the reflection paper, the document describes the needs and expectations of SMEs as regards the Future of Europe, and presents a scenario for the Future of Europe from a Crafts and SME perspective.

1. 60 Years of European Integration – a success for Crafts and SMEs

Even if SME policy only appeared on the EU agenda in the run-up to the creation of a single market, it is obvious that SMEs have profited from the European integration process from the very beginning. Stabilising the political landscape after the 2nd World War and **granting peace** as an important factor allowing businesses of all sizes to prosper, to grow, to employ and to create welfare for European citizens.

Establishing Europe as a **political entity** in 1987 not only laid down the legal basis for the creation of the European Single Market in 1992, but made Europe a relevant global player as the largest trading block and the biggest trading partner for 80 countries all over the world. Speaking with one voice or at least with coordinated voices, Europe has increased its influence in trade policy, financial market regulation, standards and climate policy.

The **Single Market** allows SMEs to have access to a market with about 500 million potential consumers and provides common standards and regulations instead of 28 different rules and mutual recognition where different standards still exist. In addition, it provides SMEs with a joint protection of intellectual property rights and joint defence against unfair competition and subsidies.

¹⁾ UEAPME subscribes to the European Commission's Register of Interest Representatives and to the related code of conduct as requested by the European Transparency Initiative. Our ID number is [55820581197-35](#).

The **European Monetary Union** laid down by the Maastricht Treaty in 1992 and achieved in 1999 created the second largest global currency. The Euro reduced the transaction costs for SMEs sourcing and selling cross-border within the Euro zone and exchange rate risks have been abolished within the EMU. Both have significantly increased trading within the Euro zone.

Finally, the European **cohesion policy** has reduced disparities between regions in the European Union. The so-called convergence regions have shown higher growth rates and more job creation over the last 15 years than the EU average. Significant investments in infrastructure and qualification, but also direct support for SMEs and start-ups have pushed economic development in these regions and increased welfare for millions of people in Europe.

However, there are more and more Crafts and SMEs complaining about unfair competition within the internal market and from the global market. Others suffer from the consequences of increasing imbalances within the European Union and especially within the Euro zone. This rising share of Europe's population with a negative perception of the European Union must not be ignored, since this development started to become dangerous for the future of the European Union and the stability of our political and social system.

This is why a debate about the future of Europe is needed and the next chapter will describe the challenges ahead from an SME point of view.

2. What are the challenges ahead

The position and role of Europe / the European Union in a global context is changing: The European share of GDP has decreased to 22% (-4% since 2004); the share of world population fell to 6% in 2015 (25% in 1900) and both developments will continue.

Despite of the fact that Europe encompasses the most equal societies in the world, we observe a debate about growing inequalities within Europe and a request for related policy responses including a European Pillar of Social Rights.

At the same time, the single market is under pressure from complaints about unfair competition, caused by unlevelled playing fields as well as different levels of implementation of EU legislation, which particularly create tensions between Member States in the East and the West.

Other imbalances can be observed as a consequence of the still not fully solved economic and financial crises and the deficits as regards governance of the European Monetary Union. While unsolved issues in the banking sector are blocking the finalisation of the Banking Union and limiting the capacities of banks to lend to SMEs.

In parallel to the raising criticism of the single market, globalisation is also being questioned more and more by arguing that the benefits of globalisation are unequally distributed. This criticism exists, even if the reduction of barriers to trade in goods and services has contributed significantly to increasing the prosperity and competitiveness of the EU in general, including SMEs and the citizens.

As the most obvious consequence of the increasingly negative perception of European Integration, a tight majority in the United Kingdom voted to leave the European Union. However, strong anti-European movements can be observed in other countries too.

Finally, due to the high number of refugees and migrants since 2015, Member States are confronted with enormous challenges as regards the integration of immigrants and the control of the external border of the European Union to manage the arrival of asylum seekers and of legal migrants, while reducing illegal migration.

UEAPME welcomed the start of a debate about the Future of Europe by the Head of States and Governments, based on the White Paper on the Future of Europe and its reflection papers presented by the European Commission in spring 2017 as an appropriate way to discuss these challenges and to come forward with new answers for the future.

3. Short assessment of the most relevant reflection papers

In its White Paper from 1 March 2017, the European Commission presented quite a fair overview of the achievements of the last 60 years of European integration and the drivers and challenges for Europe's future. This analysis is followed by five possible scenarios for Europe by 2025 with an invitation to Member States and stakeholders to discuss the most appropriate way forward and come to a common vision by the end of 2017. As additional input for this debate, the European Commission published a series of reflection papers on (1) a social dimension, (2) harnessing globalisation, (3) deepening the Monetary Union, (4) the future of Europe's defence and (5) the future of EU finance.

The five scenarios presented in the White Paper² can be seen as provocative debate theses for a discussion on the future development of European integration, but are not really providing practically and applicable solutions for the underlying challenges.

Out of the five **reflection papers**, the most relevant for SMEs are:

The future of the **"Social Dimension of Europe"**: Here the Commission also presents three possible options without providing an orientation for the future development. Those are: (1) **limiting the social dimension to free movement**, but without EU minimum standards for health/safety, working and rest time, as well as maternity or parental leave; (2) **some do more in the social field**, e.g. within the Euro area to avoid abrupt adjustments in living standards and social unrest or (3) **EU27 deepens the social dimension together**, by introducing common standards, increased financial solidarity and in-depth cooperation.

The **"Harnessing Globalisation"** reflection paper is more concrete and invites to discuss two aspects: (1) As regards the **external relation** about the need for a stronger rule based global order (OECD, G20, WTO), resolute actions against unfair practice (tax evasion, subsidies, unlevelled playing fields) with stronger trade defence measures and a multilateral investment court. (2) As regards the **domestic dimension** about improvements in education and training, robust social measures to accompany restructuring, fair distribution of wealth, but also increase in competitiveness.

The **"Deepening the European Monetary Union"** reflection paper proposes to do some preliminary steps until 2019 like completing the banking union (deposit guarantee system, non-performing loans, etc.) and

² https://ec.europa.eu/commission/sites/beta-political/files/white_paper_on_the_future_of_europe_en.pdf

deepening cooperation, including a better dialogue with Parliament. Even the more controversial ideas for 2020-2025 are not going further than those from the 5 Presidents Report, like linking structural funds to EU priorities and structural reforms to allow some kind of risk sharing (i.e. Eurobonds) and to create a Euro Finance Minister with a Euro zone budget for solidarity measures in case of future external shocks. .

The “**Future of EU Finances**” reflection paper offers five scenarios: (1) the EU27 carry on as before and pursue incremental reforms; (2) an EU budget which finances essential functions needed for the single market; (3) the EU27 allows a group of member states to do more together in specific areas; (4) the EU27 focuses on delivering more and faster in selected policy areas, while doing less elsewhere; and (5) all Member States agree to do much more together across all policy areas. With regard to revenues, the reflexion paper also proposes to introduce EU own taxes, instead of relying on national contributions. Possible sources of revenue are a CO2 levy, an electricity tax, an EU corporate tax and a financial transactions tax.

Already when the White Paper was presented, UEAPME argued that such a discussion about the Future of Europe was strongly needed and was highly relevant, also for Crafts and SMEs. Therefore, this discussion should not happen between the national governments alone, but should also involve social partners, business organisations and the civil society.

With this document, UEAPME would like to put forward the ideas and visions of the 23 million small and medium sized enterprises on the Future of the European Union. However, before presenting a “**Craft and SME scenario**”, we summarise the needs and expectations of SMEs for the Future of Europe.

4. What do SMEs need / expect for the Future of Europe

Crafts and SMEs in general have a positive outlook as regards the future development of the European Union and its further integration, but SME owners have to be recognised as those who take risks in our society and contribute to the creation of welfare. SMEs see a well-functioning European Union as the precondition for a positive development of the European countries, its economy and the well-being of its people.

Therefore, SMEs, of which an overwhelming majority are micro enterprises, expect that the debate on the Future of Europe is aiming for progress as regards three dimensions: (1) improving the conditions for growth and job creation; (2) improving fairness for doing business within the single market, in a global context and for companies of all sizes and (3) ensuring a stable political and societal environment.

To achieve these aims a future Europe has to be able to deliver better on the following:

Make Europe more competitive and more attractive for private investments, by

- reducing barriers within the Single Market that hinder SMEs to grow (i.e. complicated taxation rules, IPR protection, technical standards, etc.);
- reducing unnecessary bureaucratic burdens and simplifying compliance with EU rules for SMEs;

- focusing on regulations with a clear European added value and ensuring a proper implementation and enforcement;
- making Member States aware of the importance to improve their business environment (i.e. skills, infrastructure, access to finance, efficiency of public services, administrative procedures, etc.);
- ensuring a fair balance between SMEs and other stakeholders interests and particularly taking into account the freedom to conduct business;
- helping businesses benefit from digitalisation, the Single Market, globalisation and a greening economy (i.e. support programmes, advisory services).
- including the implementation of jointly agreed SME policies (i.e. Small Business Act) into the European Semester Process;
- listening more closely to the needs, assessments and concerns of SMEs and their representatives in the consultation and the decision-making process and applying the Think Small First and better regulation principles.

Ensure a fair distribution of positive effects from globalisation and technological developments, by

- implementing the proposals made in the reflection paper as regards the external relations: (1) stronger rule based global order within OECD, G20 and WTO; (2) resolute action against unfair practices like tax evasion, subsidies, counterfeiting and unlevelled playing fields on labour markets, including a better access for SMEs to those actions;
- improving the framework conditions for internationally active SMEs through trade agreements and affordable investment protection measures;
- improving skills and qualification to ensure adaptability / employability and modernising the national social protection systems with the aim to provide support in transition periods, to activate work force, to make work pay, and to allow access to social protection for self-employed and business owners.

Guarantee openness and fairness within the single market, by

- finding a balance between access to markets, which allows companies to profit from competitive advantages, and fair competition by creating level playing fields. The current difficulties as regards posting of workers, freedom of establishment and platform economies, create social and political tensions, which may provoke unilateral measures endangering the Single Market and the European project as such.
- In a first step, Member States have ensure implementation and enforcement of the current legal framework, especially as regards posting of workers and its implementation directive. This also has to include full cooperation between all Member States in cross-border enforcement of judgements and fines.
- In a second step and based on better awareness about the risks of current tensions, both sides have to work on a fair solution to allow market access without endangering social stability, while keeping in mind that a well-functioning single market brings benefits for enterprises in all Member States.

Allow a better functioning of economic governance and improve the stability of the Euro zone, by

- further reducing the risk-legacy from the crisis in the banking sector in order to allow a completion of the Banking Union;
- fiscal rules for public finance, which are also targeted towards the quality of spending and composition of revenues and do not only look at quantitative data;
- focusing public spending more on investments in future growth less on current consumption;
- avoiding the danger of moral hazard via mutualisation of risks, if a fiscal stabilisation function, which has to be conditional to the implementation of jointly agreed reforms, is introduced;
- strengthening the competitiveness of Member States by implementing structural reforms and creating a stable economic framework;
- reaching sufficient economic and social convergence among Member States, which is a necessary condition for deepening the Economic Union.

Supporting the interests of SMEs in the next Multiannual Financial Framework by

- concentrating on areas where a European added value is to be expected: competitiveness (COSME), research and development (FP9), cross-border programmes and projects;
- rejecting any additional financial burden for companies, like new and additional EU taxes;
- reflecting the economic strength in the contribution of Member States to the EU .

Tackle the challenges of refugees and migration, by

- rationalising legal migration schemes in coherence with labour market needs;
- better protecting the external borders of the European Union in order to avoid illegal migration and keep borders within the Schengen area open;
- speeding up asylum procedures to reach clarity about legal status of refugees and fostering integration measures for those allowed to stay;
- helping third countries where the majority of refugees come from to improve their economic situation and political stability.

5. A Craft and SME scenario for the Future of Europe

Based on the expectations and needs of Crafts and SMEs for the Future of Europe, it becomes clear that not one particular scenario included in the White Paper of the European Commission will be able to deliver what our entrepreneurs expect from a Future Europe. Thus, UEAPME proposes a 6th scenario, which is a combination of different elements from the White Paper scenarios. There is no reason to choose one of these scenarios and not to combine different ones.

Therefore, UEAPME would like to contribute to the ongoing debate about the Future of Europe with a specific **“Craft and SME scenario”**, which could be summarised as a **scenario for growth, jobs and welfare in a stable economic, social and political environment**.

The main elements of such a “Craft and SME scenario” are:

- **Carry on**, in areas where the European Union already successfully works without excluding incremental improvements when necessary.

This is the case for example with support programmes targeted to SMEs (COSME), investments (EFSI), the so-called European Structural and Investment Funds and the Education Programme Erasmus+.

- **Doing less**, in areas with no or only little impact on cross border activities and in areas where national solutions are preferable. The principle of subsidiarity must be respected and unnecessary bureaucracy needs to be avoided.

- **Doing more together**, in areas where it creates real European added value and where Member States cannot act alone, because of interdependences between countries or at global level or because unilateral measures would have a negative impact on the Single Market.

This is the case for example with improving the implementation and enforcement of common rules to further strengthen the single market (i.e. by simplified taxation rules) or when it is about international trade, economic relations or efforts to fight climate change at global level. Additional European added value could also be created in the area of Research and Innovation as well as by upgrading of ICT infrastructure. Furthermore, it would be needed to deal with migration and security issues.

- **Some go ahead**, in areas where a group of Member States want to do more. This is already a reality in some areas like Schengen, the EMU and the enhanced cooperation according to art. 20 TEU. However, it should have no negative impact on other Member States, does not create new barriers for the Single Market. It has to avoid a distortion of competition and to ensure a level playing field. Furthermore, such enhanced cooperation has to be open for all Member States wanting to participate.

This is the case for example when some Member States want to create common rules in certain areas (i.e. taxation, social policy, education and qualification, etc.), if the above mentioned conditions are taken into account. Furthermore, it could open new possibilities in the area of European defence and defence business.

With this contribution, UEAPME wants to invite all European Institutions and other stakeholders interested in moving Europe and the European Integration forward to a debate about the best way forward aiming for a better future of citizens in Europe.

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For further information on this position paper, please contact:

Gerhard Huemer
Director Economic and Fiscal Policy
g.huemer@ueapme.com