



UNION EUROPEENNE DE L'ARTISANAT ET DES PETITES ET MOYENNES ENTREPRISES
EUROPÄISCHE UNION DES HANDWERKS UND DER KLEIN- UND MITTELBETRIEBE
EUROPEAN ASSOCIATION OF CRAFT, SMALL AND MEDIUM-SIZED ENTERPRISES
UNIONE EUROPEA DELL'ARTIGIANATO E DELLE PICCOLE E MEDIE IMPRESE

European Innovation Policy: Take SMEs on Board too

Meeting of UEAPME's Board of Directors with the President of Finland, Mrs. Tanja Halonen, Helsinki, October 31st, 2006

The Finnish Presidency has put innovation policy prominently on the European Agenda for the second half of 2006 and tries, together with the European Commission, to better integrate innovation into the reformed Lisbon Process. The contribution of the European Commission¹ to the Lahti Summit and the Presidency Conclusions from this Summit show very clearly the deficits of the European Union and of its economy as regards the ability to innovate and give some orientations in order to increase Europe's competitiveness.

Without ignoring the important role of large enterprises and high level research institutes as drivers for innovation, policy makers should not forget that most of innovation in Europe is done and implemented by small and medium-sized enterprises and that, even in the US, less than 5% of GDP comes from the high-tech sector. Therefore, improving the conditions for innovation in the mid-tech and low-tech sectors, for non-technical innovation and for innovation in the service sector is as important for competitiveness, growth and employment as the high-tech and R&D driven innovation. Furthermore, it would better target the real situation of crafts and SMEs in Europe, whose innovation processes are characterised more by on-going permanent processes and less by linear technical-driven inventions.

In order to exploit the innovative potential of crafts and SMEs in Europe, a real innovation policy, be it at European or at national level, must recognise this specific situation of the sector by using an all-encompassing approach towards innovation. This approach should include a whole range of policies, including supply of qualified labour, improvement of the regulatory environment and better access to finance.

UEAPME hopes that the Finnish Presidency, based on the success of Finnish example for modernising its economy and its understanding for future-oriented innovative policy setting, will play an important role to spread such a policy all over Europe.

¹ An innovation-friendly, modern Europe

1. SMEs need better innovation support services to exploit their potential for innovation

So far, innovation policy in Europe has been focusing nearly exclusively on R&D and the High-Tech sector and missed the reality of the majority of innovative SMEs. For them, innovation is a permanent process and they are not engaged in research as officially defined. Even the European Commission used a wider definition of innovation in its latest communications, including also non-technical innovation and all economic sectors. The new approach has to be implemented in different policy areas in order to become effective for SMEs.

UEAPME asks the Finnish Presidency to promote:

- the **access of SMEs to existing technologies** by the support of technology transfer via technology centres and incubators;
- the creation of **incentives** for public research institutes and university **to cooperate with private business**;
- the **support for intermediaries, clusters and networks** within the new State aid framework for R&D and Innovation;
- the provision of means for an **effective participation of SMEs in the European and International Standardisation Process** by the CIP;
- **the full integration of SMEs in the EIT project** by ensuring a significant presence of SMEs' representatives in the Governing board and in the various knowledge-communities.

2. SMEs need the finalisation and a deepening of the Internal Market

For SMEs, especially those working in the services sector, the Internal Market has not yet become a reality. High administrative burdens for cross-border operations and missing European standards hinder small enterprises to profit from a larger market and to use their potential for innovation. Lower growth rates, missed employment opportunities and in general less healthy enterprises are the result.

UEAPME asks the Finnish Presidency:

- to find a final solution for the **Services Directive before the end of 2006**, which is in line with the outcome of the first reading in the European Parliament and the common position found by the Council, aiming to reduce unnecessary administrative burdens effectively and to provide a balance between open markets and fair social, environmental and quality standards and which takes into account the particularities and concerns of SMEs;
- to demand new initiatives for a **Community Patent before the end of 2006**. Such a proposal must focus on the real needs of the business sector instead of being blocked by national egoism. This means in the first place the introduction of reduced fees for SMEs and of the long awaited European patent litigation insurance system for SMEs.

3. Taxation still is a main barrier to the internal market

SMEs in Europe have to face 25 different taxation systems. This situation causes prohibitive compliance costs and creates serious barriers to the internal market. Compliance costs for small companies are up to 200 times higher than for large enterprises.

UEAPME asks the Finnish Presidency:

- to adopt the proposal of a “**One-Stop-Shop**” for VAT compliance **before the end of 2006**,
- to promote the implementation of a pilot project on **Home State Taxation for SMEs** in close cooperation with national Crafts and SME associations until **June 2007**.

4. SMEs need public support to get sufficient access to finance

The European finance market is not able to finance SMEs in a sufficient way. Market failures in the risk capital, in the credit and loan market hinder SMEs, especially start-ups, business transfers and innovative companies that cannot get the necessary financial means. Both result in lower economic growth and less employment in Europe. Due to their high leverage and multiplier effects, risk sharing models (i.e. mutual and public guarantee schemes) have proven to be the most effective instruments to compensate such market failures.

UEAPME asks the Finnish Presidency to promote:

- sufficient **financial means for risk sharing instruments** within the CIP programme and similar instruments managed by the EIF (i.e. JEREMIE), but also with national resources, where necessary;
- **risk sharing models** (guarantee schemes) in the fields of credit and loan financing as well as risk capital financing and to allow their **eligibility for State aid**;
- an implementation of the new **capital requirement directive** (Basel II), which is as transparent as possible for SMEs (rating procedures) and the provision of necessary **support services** to make SMEs able to deal with the new situation.

5. Flexicurity – the key to modernise labour markets

The increasing demand for flexibility both from employers, especially in the services sector (to remain competitive), and from employees to better conciliate work and private life should take place in an adapted way which responds effectively to the changing workers and companies needs.

At the same time the flexibility needs from companies should be better balanced with the expectations from the workforce regarding employment security. Security has to be seen as a precondition for a positive approach towards flexibility.

UEAPME asks the Finnish Presidency:

- to find an agreement on a **Working Time Directive**, which includes the necessary flexibility for companies as regards the reference period, on-call time and opt-out clause;
- to support adaptation to economic change by promoting a concept of “employment security” instead of “job security” and by encouraging members states and social partners on all levels to **jointly define ways to increase the dynamic on the labour market**;
- to promote the provision of the necessary means to **make lifelong learning a reality** for all (employees and entrepreneurs);

- to promote the **recognition and valorisation of vocational education and training and especially alternating training like apprenticeship** as an important tool for developing skills and competences in crafts and small enterprises;
- to encourage member states to modernise social protection systems in order to make work pay and facilitate the necessary transitions from study to work life, during the working life and from work life to retirement

6. Environmental policy should be based on the “think small first” approach and real mutual integration with other policy should take place

Many micro and small business in the EU still do not have a sufficient environmental policy in place. The activities of the EU in the environmental field should always take account of this reality. Moreover, integration of economic, social and environmental considerations should always take place on a mutual basis to be productive and achieve all its potentialities.

UEAPME asks the Finnish Presidency:

- to make sure that the European Commission presents a **Compliance Assistance Programme for SMEs in the environment** according to the VI Environmental Action Programme before the end of the Finnish Presidency;
- to make sure that the **revision of the Waste Framework Directive makes it more compatible with the internal market as well as more environment and business friendly**. This is particular the case for the current definition of waste, which should guarantee a uniform interpretation throughout the EU;
- to make sure that **the approval of the REACH Regulation will guarantee the competitiveness of both SMEs operating in the chemical sector as well as using chemicals to manufacture their own products**, particularly downstream user formulators;

Therefore, SMEs need

- independent decisions (Chemical Agency in Helsinki), on whether requests for opt-out of the OSOR system are legitimate or not;
- to limit the obligation for chemical safety reports/assessments to substances manufactured in quantities from 10 tonnes;
- to limit the obligation to notify substances in articles for substances above 1 tonne.

7. Better regulation – much promised and very little delivered

Small enterprises are much more affected by unnecessary administrative burdens and high compliance costs than large companies. The **impact of legislation** on small business must be an important consideration in determining its form and content. SMEs are urgently waiting for an implementation of the many promises made by the European Commission, the Council and the Member States.

UEAPME asks the Finish Presidency:

- to use the “**think small first**” principle as the guiding principle when reviewing the existing legislation and conceiving new rules;

- to ensure **independent business impact assessments**, including a specific target towards small enterprises of all legislative and regulative proposals (including comitology) from the European Commission **by the end of 2006**;
- to deliver on the most important **simplification projects** affecting small enterprises **till end 2006**;
- to promote a on-time implementation of all directives by Member States;
- to convince the national and regional governments and legislators to start their own **simplification project targeting** regulation, where “**gold-plating**” has happened by implementing European law.

8. Better governance is a key to improve SME policy in Europe

Most policy actors at the national and European level do not know enough about the reality in small enterprises and their real needs. Better and timely involvement of representative Craft and SME associations at all level is a precondition to improve the quality of SME policy in Europe. Strengthening associations of small enterprises is also a key element of the European Charter for Small Enterprises (2000), which is still not sufficient implemented by Member States.

In line with the European Charter for Small Enterprises, UEAPME asks the Finnish Presidency:

- for an urgent review of the minimum standards for consultations, applied by the European Commission, which includes at first an extension of the **minimum consultation time from 8 to 12 weeks**;
- to promote the development of **strong and representative Craft and SME associations**, especially in the new Member States and the candidate countries;
- to **involve representative Craft and SME associations** as important stakeholders in the decision making process at all levels;
- to facilitate the **bipartite social dialogue** on sectoral and national level and to deepen the **tripartite concertation** on national and European level and to ensure an independent representation of SMEs in these dialogues.

UEAPME asks the Finnish Presidency to use the European Council and the different Council formations (Competitiveness, ECOFIN, Employment, Education) for concrete decisions of the most important SME policy dossiers. Europe’s SMEs need these policy actions in order to be able to realise their innovation, growth and employment potential.

For further information on this position paper, contact:

Gerhard Huemer, Director, Economic and Fiscal Policy
 UEAPME,
 Rue Jacques de Lalaing, 4,
 B-1040 Brussels.
 Tel: +32 2 2307599
 E-mail: g.huemer@ueapme.com