



## Position Paper

15 July 2020



### Position on the new SME Strategy

**EUROCHAMBRES, the Association of European Chambers of Commerce and Industry welcomes the new SME Strategy for a sustainable and digital Europe intended to create a more favourable regulatory environment for Europe's 25 million small and medium enterprises. The aim to increase Europe's competitiveness, prosperity, economic and technological sovereignty can be achieved with a comprehensive, cross-cutting approach that addresses the needs of all European SMEs. However, we believe that some of the Strategy's measures need further clarification and assessment to achieve their intended purposes. The SME Strategy was introduced by the European Commission in mid-March when COVID-19 mitigation policies were adopted in only a few Member States. The resulting drastic economic downturn fundamentally resets the parameters involved. Europe's SME and industrial policy, for the rest of the 2019-24 parliamentary mandate, will have to be shaped and implemented through the lens of the crisis and recovery process. Chambers remain available to contribute to the successful implementation of the Strategy's initiatives, both at the EU level as well as by working together with businesses and national/regional authorities.**

On 10 March 2020, the European Commission (Commission) published its long-awaited SME Strategy for a sustainable and digital Europe comprised of a long list of legislative and non-legislative initiatives focused on three fundamental pillars:

- Capacity-building and support for the transition to sustainability and digitalisation,
- Reducing regulatory burden and improving market access;
- Improving access to financing.

Since then, the COVID19 crisis morphed into a catastrophe, not only in terms of human loss, but also when it comes to the severe disruption of business activities. The pandemic unravelled 10 years of economic progress for SMEs dwarfing even the peak of the financial crisis. Thus, the EU has a crucial role to play in overcoming the severe socio-economic consequences of the COVID19 pandemic and the SME strategy is one element, among many, that could support Europe's long-lasting economic recovery.

EUROCHAMBRES believes that support to the digital and sustainability transformations remain valid while a new, unexpected dimension arose: the need to increase the resilience of SMEs i.e. their ability to withstand economic disruptions and catastrophic events while hoping to seize opportunities from adversities.

Economically resilient SMEs will guarantee the steady supply and movement of goods and services, while stimulating regional, national and cross-border supply chains and the whole EU economy. SMEs, both front-line and subcontracting, will need to be made aware of and supported to face many challenges at once: recovery, industrial transformation, social and market changes. The European industrial and SME policy will have to be based on incentive programmes and targeted actions promoting cooperation between States, large and small enterprises, universities, laboratories, clusters, etc.

EUROCHAMBRES is aware that the Strategy was published shortly before the pandemic revealed its devastating impact on European businesses. SMEs will not only need both short-term but also long-term support in order to quickly overcome the financial pressures brought by the coronavirus. For this reason, we invite policy makers to:

- Engage in structured dialogue with business representatives, researchers and civil society on how to further accelerate Europe's digital and sustainable transformation;
- Resourcefully reassess the list of measures so that the Strategy becomes a catalyst for change; and
- Reinforce efforts to enshrine a 'think small first', SME-centric approach to policy development and implementation at EU, national and sub-national level;
- Implement a coordinated and innovative Strategy, based on a concrete approach for clear, easily applicable, legible and appropriate measures, in close cooperation with the Chambers of Commerce and Industry. Support for companies will be essential to cope with the needs in all sectors in activity and traditional SMEs will need to be supported more than ever, alongside with the more innovative ones. Chambers are leading partners at the local level to anticipate transformations and possible synergies, as they are in very close contact with the regional business community.

## **Pillar One: Capacity-building and support for the transition to sustainability and digitalisation**

### **1.1. SMEs and the path towards sustainability**

EUROCHAMBRES remains committed to support the Commission's goals on transitioning to a low-carbon, more resource-efficient and sustainable economy, which is a seminal opportunity but brings as well pervasive challenges. The regulatory framework and support structure should ensure that SMEs can reap the benefits of the transition towards a sustainable economy.

Given that the pandemic has severely weakened the economy, we have to make sure that measures and instruments within the Recovery Plan are designed to support European SMEs. Those measures will have to provide the best possible support for companies in the necessary recovery and transformation towards a low-carbon economy. The focus should be on ensuring international competitiveness of European businesses. The Green Deal will only be effective and supported if it is resolutely committed to economic development and oriented towards growth and employment. The cost-efficiency and the medium- and long-term impact on SMEs must therefore be core considerations for any future measure. Two major obstacles for businesses to become more environmentally sustainable are:

- the disruptive effect of changing production mechanisms that are deeply rooted in businesses, and
- the massive investment needed to operate such changes.

The transition entails the risk, which should not be underestimated, that Access to finance for SMEs is likely to become more difficult, as large companies will find it easier to adapt to changes and complex regulations in the transition period. In the long term, however, the lack of appropriate measures and advisory services could lead to a fundamental devaluation of the SME sector, undermining the original intention to take all companies on board. Unbureaucratic access to a broad range of financial services, tailored to the needs of companies, will consequently be crucial for the successful achievement of the objectives set out in the Strategy.

SMEs also encounter several additional hurdles that critically affect their role as market players when it comes to easy and sustainable access to raw materials, cost-effective, clean and secure energy supply, and protection measures against carbon leakage.

- SMEs must be accompanied in their changes as part of a European strategy for growth, competitiveness, and sovereignty. In particular, the EU needs to:
  - Promote actions to improve the energy performance of companies and the use of renewable energies, in particular through self-production and self-consumption,
  - Boost the market by providing relevant information to consumers. The Commission should learn from the lessons of the EU Ecolabel and energy labelling and aim to strengthen and align existing labels. Both for businesses and consumers, labels across the Union must be comparable in terms of requirements and assessment.
  - ✎ Promote circular, low-carbon and local content of products, including through the promotion of socially and environmentally sustainable business models.
- Chambers welcome the appointment of Sustainability Advisors to support the Enterprise Europe Network. However, EUROCHAMBRES invites the Commission to clarify the role and responsibilities of such Advisors and how it plans to avoid national discrepancies or divergences. Chambers are eager to support their work in identifying effective, and more resource-efficient solutions for SMEs, while reducing business pressures on the environment;
- The Green Deal measures foresee specific financial support for investments in breakthrough innovation through the European Innovation Council. Given the lack of resources, knowledge and technical capacity of SMEs, EUROCHAMBRES recommends the Commission to work on additional business acceleration programmes focused on appropriate market-based solutions and supporting the introduction of environmental management systems. These efforts have to be embedded in a framework that encourages SMEs to engage in and shape the sustainable transition and that mitigates the risk of carbon leakage;
- The energy sector and green investments can play a key role in helping SMEs to recover from the crisis. A renovation wave should be an important and necessary stimulus for the economy. Its potential positive effects are highly welcome. It can reinforce an important labour-intensive investment option for public spending, which will create jobs for SMEs and put money back into the local economy. Investments in energy technologies such as hydrogen (particularly but not exclusively from renewable sources), renewable energy or smart grids will be of great importance in order to ensure the achievement of the energy transition and the climate targets. Those investments will also strengthen Europe's competitiveness and will create jobs;
- The Strategy brings forward the idea of SME-friendly public procurement practices, yet e.g. obligatory green public procurement criteria, as mentioned in the new Circular Economy Action Plan, may narrow down SME participation in public tenders even more. The Commission needs to address this "paradox" in order to guarantee legal certainty;
- EUROCHAMBRES strongly encourages the Commission to reflect on a clear definition of start-ups and scale-ups, as a prerequisite to make Europe the most attractive Start-up and Scale-up continent.

## 1.2 Privacy of SMEs and data protection rules

EUROCHAMBRES commends the Commission for having recently announced a European Data Strategy, as data represents a new type of economic asset in which Europe could have a decisive competitive advantage in the years to come. Investments in artificial intelligence, the internet of things, robotics or blockchain will enable the development on innovative products and customised services through enhanced operability and portability.

As better data governance becomes a pre-requisite in the build-up of a European data economy, common European data spaces (e.g. the Business Register Interconnection System (BRIS)) should guarantee that cross-border research and innovation and, in general, the re-use of public sector information do not result on short-term nor long-term harmful practices targeting companies' information.

- Ongoing breakthroughs in artificial intelligence, internet of things, robotics or blockchain combined with increasing data offers both opportunities and risks. In the future it will be even easier to identify or single out a company and her owners, representatives, and employees.
- Companies' data has been made more easily available, using the opportunities offered by the digital single market. By ensuring a high level of digital security, SMEs' legal and personal data will be protected from complex spam strategies, illegal trade or other criminal purposes;
- Member States should consider potential harmful impact on both companies and their owners, representatives and employees. It is important to remind that the negative side-effect of transparency and publishing more data online could result in even less transparency if companies and their owners will decide to look for ways of not being identified or singled out.

### 1.3. Intellectual Property Rights (IPRs)

A sound IPR policy is fundamental for the success of innovative businesses, in particular SMEs and start-ups, in the European single market. IPRs include patents, trademarks, copyright and are an integral part of many SMEs' business strategies.

Chambers believes that more could be done to protect businesses' IPR in terms of industrial property through e.g. the rapid implementation of the European Unitary Patent, theoretically applicable since 1 January 2014, and currently in a state of limbo. The fruition of the European Unitary Patent would add legal certainty and allow SMEs to develop and protect their know-how at a reasonable cost.

On another note, usage of SME-related IPR to identify businesses and persons acting on behalf of that business for commercial purposes is a harmful practice and authorities should monitor closely these transgressions and enforce sanctions, if needed.

- EUROCHAMBRES expects the swift publication of the Intellectual Property Action Plan;
- Implement and enforce the European Unitary Patent;
- In registers other than trade registers the data of SMEs should only be used for innovation and IPR-related matters and not to copy a government register for the same purpose.

### 1.4. Digital Economy

Due to COVID-19, companies that are less experienced with digital tools were forced to digitalise quickly. Thus, they need:

- Hands-on technical support and advice right now in order to ensure a smooth transition that complies with relevant laws, such as GDPR, and respects cybersecurity requirements;
- Vocational training for SME employees and self-employed persons and sharing knowledge on how to digitalise business processes is also necessary;
- Build upon measures taken to limit the spread of the COVID-19 virus through the digitalisation of administrative procedures. Public administrative bodies have proved to be creative in finding ways to reduce physical contact, for example by using online solutions or other electronic means of exchanging information.

In the medium term, Digital Innovation Hubs (DIHs) will play a key role in shaping tomorrow's economy and creating the companies of the future. Often, the fragmentation of companies is one of the main reasons why European companies are less successful than their counterparts in other parts of the world.

- Therefore, Chambers welcome the idea to establish at least one DIH per Member State focusing on Artificial Intelligence (AI) cooperating closely with the planned Centres of Excellence<sup>1</sup>. DIHs for local and regional ecosystems, often established by local or regional Chambers of Commerce and Industry, can enable companies to better exploit their digital potential.<sup>2</sup>

<sup>1</sup> As mentioned in the Commission's [White Paper on AI](#)

<sup>2</sup> More information on this topic can be obtained here: <https://bit.ly/PP-DigitalStrategies>

## 1.5. Skills

Statistics show that the ever-growing shortage of skilled workers is impacting manufacturers and service providers all over Europe. According to the 2020 EUROCHAMBRES Economic Survey, companies reported the lack of skilled workers as the second most problematic issue<sup>3</sup>. Skills shortage is particularly challenging for the SME sector because it hampers small businesses' growth and productivity and more globally the EU economic recovery driven by the green and digital transitions.

Chambers have engaged in concerted efforts with education providers and public authorities to guarantee that skills requirements are matched through appropriate education and training opportunities to young citizens. Usually, countries reporting the least problems with skills supply and unemployment have strong vocational education. Therefore, the upskilling and reskilling of the workforce, regardless of their age and education, need to be a priority. The general education does not prepare graduates for future employment in many sectors, because it slowly adapts to rapidly changing labour market. Modernised vocational education, training opportunities, curricula based on labour market needs, and a stronger culture of lifelong learning are necessary to guarantee workers with the right set of skills to drive the European economy forward is core to the continent's success.

The Commission needs to continue to develop policies and actions that make the validation of qualifications, reskilling and upskilling in Europe more efficient, effective, and prevalent, especially in the digital field. The current speed of change means that a bona fide SME Strategy must be future proof. The European economy is in constant adaptation and the right set of skills is crucial for the good functioning of the Single Market.

- EUROCHAMBRES expects the European Skills Agenda for sustainable competitiveness, social fairness and resilience to aim at modernising vocational education and training to improve adaptability of education and support provision of skills that businesses need
- Pact for Skills, which is said to include a dedicated element for SMEs, needs to assemble relevant business actors of a given sector, including chambers and SMEs, to reflect on ways to ensure the provision of right skills. This initiative must not be limited to pledges but needs to tackle skills gaps comprehensively. However, companies should not carry the financial burden of the Pact, and the public authorities ought to secure the financing.
- EUROCHAMBRES suggests the Commission to include measures targeting:
  - Shared responsibility for up/reskilling of workforce with governments, regions and individuals;
  - Prioritisation of vocational education and training;
  - Effective skills intelligence, influencing schools curricula;
  - Tertiary education supporting the transitions of the labour markets;
  - Continuous training to prepare staff and SMEs to the challenges lying ahead;
  - Provision of basic digital skills to all citizens;
  - Entrepreneurship education at all levels of learning, including VET;
  - Awareness campaigns of reskilling and upskilling opportunities; and
  - A skills-focused immigration procedure.

## Pillar Two: Reducing regulatory burden and improving market access

### 2.1. Regulatory Burdens

As shown by the [EUROCHAMBRES Business Survey](http://www.eurochambres.eu/Content/Default.asp?PageID=1&DocID=8349), SMEs are still subject to considerable bureaucratic burdens. No less than 84,9% of SMEs say that complex administrative burdens are a significant obstacle for them to do business in the EU. The introduction of the Small Business Act in 2008 and a more rigorous application of the "Think Small First" principle were a true breakthrough, but the EU must not rest on its laurels and needs to meet the challenges that lie ahead.

<sup>3</sup> <http://www.eurochambres.eu/Content/Default.asp?PageID=1&DocID=8349>



After the dramatic economic slowdown caused by the Covid19 pandemic, SMEs are evidently struggling to remain profitable. Against this backdrop, the Commission's new "Fit for Future" platform needs to be set up as soon as possible and work on identifying the regulatory burdens that could delay Europe's recovery. SMEs have a reduced capacity to react to obstacles, for operational and financial reasons, and must therefore be supported by a Strategy that removes unnecessary obstacles.

- Gold-plating practices in Member States should be consistently dismantled to:
  - Reduce administrative burdens,
  - Make better use of the existing regulatory framework; and
  - Increase legal certainty cross borders.
- Chambers welcome a more active involvement of the SME Envoy network, oriented towards the effective implementation of SME-friendly principles at the national and regional levels and in close consultation with small businesses. Chambers also expect the EU SME Envoy to take a more active role in the coordinating the Network's activities and emphasise the need to work continuously on detecting redundancies and eliminating burdens. Both are preconditions for the success of the Network;
- The interactions between the Single Market Enforcement Task Force, the SME Envoys and their EU representative, and the Strategic Entrepreneurship Ambassadors need to be clarified. As the main representative of SMEs, Chambers voice important concerns and keep lawmakers aware of what is happening "on the ground". Thus, their involvement in these interactions is of the utmost importance;
- The use of "regulatory sandboxes" to experiment innovative legal solutions is an interesting approach. These could provide empirical evidence for lawmakers to improve impact assessments and allow the acceleration of the legislative process. The set-up of parallel dialogue platforms, in which stakeholders are allowed to exchange views, best practices, toolboxes and perform dry runs will be key for their successful implementation;
- The concept of promoting and implementing best practices at the national, regional, and local levels through the "EU Start-up Nations Standard" can open important opportunities for businesses to expand cross borders. As results may vary, depending on Member States' cooperation and supporting structures, monitoring measures put in place to supervise its implementation could increase the success of this initiative;
- The call for "partnerships among border regions", focused on contributing to the alignment and coordination of procedures in cross-border services, is a valuable initiative that could be expanded to other sectors. The standardisation of processes is an important step towards overcoming market barriers at regional level and may lead to important new business relationships. It might be also worth considering extending this measure to non-contiguous regions;
- Chambers invite the Commission to overhaul the legal framework for cross-border SME transfers, especially in cross-border regions, as there are not only high costs linked to these transactions, but regulations also change substantially from one country to another. The Directive EU 2019/2121 "Cross-border conversions, mergers and divisions" was a first step towards the right direction but its success is dependent on the correction transposition into national law and enforcement;
- SMEs interested in developing future-oriented technologies (e.g. health tech, automotive driving, artificial intelligence) need well-funded EU programmes such as InvestEU and Horizon Europe. The European Innovation Council should also support visionary SMEs interested in playing role in Europe's future. Turning risky, yet innovative ideas into action requires the engagement of several actors: from researchers to scientists, from entrepreneurs to end-users. However, current EU support schemes such as Horizon 2020 are far too complex for some SMEs to apply, even if they would be considered eligible. The Commission should overcome the challenge of not being inclusive enough when it comes to more traditional SMEs and, at the same time, realise that even successful applicants need constant mentoring and support throughout the whole process;
- Chambers believe that the digitisation of all relevant economic procedures, together with their simplification and easier access to relevant information, is extremely important for small businesses.

Member States should implement swiftly the Digital Single Gateway so that citizens and businesses can take full advantage of its services;

- Access of SMEs to public procurement contracts should be incentivised through the implementation of national initiatives focused on small businesses e.g. division of contracts into smaller lots, the digitalisation of processes or the launch of a label of display by public buyers, who adhere to 'SME inclusive' procurement;
- The rules laid down in the Late Payments Directive as regards payments by public administrations to businesses, require stricter enforcement and new remedies need to be envisaged. The swift payment of invoices should be a sine qua non and will of course benefit companies that confronted with pressing cash flow problems.

## 2.2. Benefits of global markets

EU trade policy is an enormous success for the European economy, with almost 36 million jobs depending on EU exports, of which at least 6 million have been created directly by exporting SMEs. However, as the SME Strategy correctly identifies, SMEs tend to be under-represented in global trade due to a series of tariff and non-tariff burdens, heavy upfront investments, considerable informational and transactional costs, and various infrastructure bottlenecks.

International trade stays vital for EU business but needs a stronger underpinning by a global level playing field. It is indispensable that the EU speaks with one voice - and louder than before - on trade issues at global level, as the challenge of building resilient value chains can only be tackled through international cooperation instead of „me first“ approaches.

More needs to be done to ensure that an ever-increasing number of small businesses reap the benefits of globally integrated markets. The wider liberalisation of goods and services and sustained support for trade facilitation will support SMEs to better exploit new opportunities. An increase on the information available to SMEs on new opportunities and the possible linkages and partnerships with larger businesses could enable small firms to develop a stronger position in global supply chains.

The EU needs to show leadership in addressing SME constraints when it comes to internationalisation by advocating for simplified rules of origin, dedicated chapters for SMEs in its free trade agreements with third countries and pushing for an inclusive and ambitious SME agenda at the WTO.

The EU is currently represented in over 140 countries through its delegations and offices around the world. The European Commission seems keen in going ahead with EU delegations providing advice on SMEs and trade-related matters. On the other hand, Chambers abroad are in a unique position as they possess network channels and reliable contacts that support SMEs in their internationalisation process.

- EUROCHAMBRES very much welcomes the extension of the Erasmus for Young Entrepreneurs Global scheme as this initiative promotes the important cross-border transfer of knowledge, experience and entrepreneurial skills;
- The EEN, and other Member States' clusters play an important role in supporting SMEs in their internationalisation path. However, EUROCHAMBRES sees the need for more concerted efforts in the implementation of free trade agreements if SMEs are to benefit from global value chains. Additional investment in digital infrastructures will decrease the cost of access and narrow the gap between European SMEs and global markets;
- Chambers are concerned with the risk of duplicating economic development efforts and the potential lack of a coherent trade strategy. In line with the principle of subsidiarity, EUROCHAMBRES recommends EU delegations to establish strategic dialogue platforms with business networks e.g. Chambers abroad.

## Pillar Three: Improving access to financing

Due to the unpredictable Covid19 pandemic and the devastating effects on small businesses, a quick and unbureaucratic supply of liquidity has become of utmost relevance. Without the appropriate aid, many SMEs will disappear, and thousands of jobs will be lost. The effects of the economic slowdown will be evident for years to come and the Commission should provide Member States with a series of financial measures to reboot the economy as soon as possible.

- The large-scale EU financial liquidity measures already adopted, and any further schemes foreseen in the revised Multiannual Financial Framework should be carefully managed to guarantee that their impact resonates with the numerous struggling SMEs throughout the continent;
- A long-term flexibility for the financial allocation, e.g. involving the EU structural and cohesion funds which represent one third of the EU budget to finance SMEs' working capital, represents a further method to fully exploit resources and should be pursued;
- The latest EU banking regulations (Basel IV) are necessary to provide long-term stability to the banking system, provided that the needs of SMEs are maintained and not restricted. Within the framework of the Sustainable Finance Action Plan planned by the Commission, avoiding additional bureaucratic hurdles for companies will be key, even more in the aftermath of the Covid19 crisis. Additionally, the permanent establishment in the system of credit allocation of an already tested and beneficial instrument such as the "SME support factor" is highly welcomed;
- When it comes to better analysis and data collection on the exploitation of European financial instruments this will become even more important in the context and aftermath of the Covid19 crisis, to ensure rapid and unbureaucratic access to livelihood resources. A corresponding European system of "financial ombudsmen", operating in close cooperation with the banking system, could provide important analysis in this regard and shed light on key aspects such as the difficulties and failure to grant loans to certain companies.

The Commission's announcement in the Strategy about the revision of the EU State aid law by the end of 2021 is perceived with confidence, provided that the financing possibilities of companies are improved with concurrent stimulation of innovation and growth, taking into account the challenges arisen due to the Covid19 pandemic.

- In its assessment of State aid law, the Commission should consider the extent to which the exemptions in the General Block Exemption Regulation (GBER) for the support of SMEs, consultancy services, research, development and innovation and business-related infrastructure are adequate or could be enhanced;
- In the context of the de minimis Regulation, an elevation of the threshold value could be envisaged with reference to the general cost escalation and the growing necessity for support, especially for businesses in innovative industries.

Despite all the programmes available at EU and national level, even in a non-Covid19 scenario, access to finance remains generally difficult for SMEs. Especially in the transition to a sustainable economy, the new SME Strategy should further develop the regulatory framework to ensure sustainable access to a broad range of financial services tailored to the needs of the company. EUROCHAMBRES believes that EU businesses need to diversify its funding sources beyond debt instruments and include more private and public equity. The development of well-functioning EU capital markets will enlarge the scope of funding opportunities to SMEs willing to grow and scale up, spur innovation and growth in the long-term.

- EUROCHAMBRES defends proportionate and simplified rules for companies seeking an IPO of their shares or from issuing bonds on public markets;
- Diversify financial sources as a further priority to increase the share of equity financing/venture capital in Europe and to open the capital market for SMEs; it will be necessary to ensure that these financial instruments are clarified for the beneficiaries, and, above all, that they will be of greater benefit to small businesses;
- Remove red tape and reduce compliance costs and burdens linked to listing;



- Open up suitable tools to support very small projects (common rules on European crowdfunding, common competition rules on venture capital, social economy, commerce, services etc.);
- Enhance SME liquidity and solvency.

SMEs, especially those in the high-tech sector, may be affected and take advantage of alternative opportunities such as non-European risk capital, leading to a loss of growth and jobs in the Union. The new ESCALAR initiative, as a successor to the previous scale-up action, can help to increase the volume of venture capital funds and attract private capital.

- EUROCHAMBRES welcomes this kind of instruments but is wondering to what extend the "first of a kind risk/reward mechanism" announced for the ESCALAR differs from previous actions.

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*EUROCHAMBRES – The Association of European Chambers of Commerce and Industry represents over 20 million enterprises in Europe – 93% of which are SMEs – through members in 43 countries and a European network of 1700 regional and local Chambers.*

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