Small and medium size enterprises (SMEs): competitiveness and business opportunities

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PURPOSE: to propose a new industrial policy with the aim of reinforcing competitiveness.

BACKGROUND: the EU economic recovery from the crisis has been relatively slow and remains fragile. Manufacturing output is now some 14% higher than its trough in early 2009 but still 9% below its peak in early 2008 and jobs in industry and industry-related services are **still 11% below the 2008 peak**.

As part of the Europe 2020 strategy, the Commission launched in 2010 an ambitious new industrial policy that highlighted the actions needed to strengthen the attractiveness of Europe as a place for investment and production, including the commitment to monitor Member States' competitiveness policies. It also outlined a renewed trade policy.

Enhancing the global competitiveness of European industry is essential, as 75% of EU exports come from manufacturing firms, who also do 80% of industry R&D. The Communication has identified the following key areas where the competitiveness of the EU economy could be further strengthened in order to make significant progress towards the Europe 2020 goals:

(1) structural changes in the economy;

(2) the innovativeness of industries;

(3) sustainability and resource efficiency;

(4) business environment;

(5) the single market; and

(6) small and medium-sized enterprises.

This Communication is a new yearly initiative that looks specifically at the competitiveness of the Member States. It will contribute to the evaluation of the Member States under the broader framework of the **European semester** and Europe 2020.

CONTENT: this Communication has argued that to achieve sustainable growth and to kick-start the economy require **coherent and coordinated industrial policies** from the Member States as well as deep structural changes.

A considerable impact can be had by facilitating change, enabling innovation, promoting sustainability, improving the business environment and benefiting from the single market. The implementation of these policies should be a priority in national capitals as it is at the Commission.

A greater coordination of policies at national level can **leverage scarce funds to foster innovation and growth in times of budgetary austerity**. At EU level, the Commission's proposal for the Multiannual Financial Framework has been designed to prioritise these objectives, strengthening the capacity of the EU to invest in industrial innovation by reducing fragmentation, simplifying rules for beneficiaries and increasing the focus on bringing innovation to the market. The Commission will strengthen its support for the Member States' efforts within the context of Europe 2020, based on a coherent approach to monitoring progress over time, and providing the necessary forum for identifying good practices.

The main characteristics of this approach may be summarised as follows:

(1) Industrial change: looking back to the longer-term changes in the industrial structures of the Member States in 1999-2007, industries have followed different paths towards higher technology or higher skills industries that tend to have higher productivity growth and their prices have suffered less from global competition.

1. **In the first group of countries**, the industrial structure is dominated by technologically advanced sectors. A key development in this period has been that the specialisation of this group in technology-driven industries and sectors with high innovation or high education intensity increased further (Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Netherlands, Sweden and the United Kingdom).
2. **The second group** includes countries with industry specialisation in less technologically advanced sectors, despite the presence of some highly competitive industries. The prevalence of labour intensive industries, low innovation and relatively low knowledge intensity lead to fewer high-growth firms, at least compared to the first group of countries (Cyprus, Greece, Italy, Luxembourg, Portugal and Spain).
3. **The third group** comprises countries that are catching up in terms of GDP per capita, and whose trade specialisation is in high-innovation intensity sectors and technology-driven industries. They have achieved a structural change from labour-intensive industries towards technology-driven industries on both production and trade (Czech Republic, Hungary, Malta, Poland, Slovakia and Slovenia).
4. **The fourth group** of countries are those that are catching up, but with trade specialisation in technologically less advanced sectors (Bulgaria, Estonia, Latvia, Lithuania and Romania).

To boost competitiveness it is necessary to move towards innovative, knowledge-based sectors, decisive actions to facilitate change by improving product market regulation, supporting innovation and investing in education and training throughout the lifecycle are necessary.

(2) Innovative industry: although many Members States have taken steps to intensify their support for research and innovation, to ensure the most efficient use of limited resources they should **reduce the fragmentation of support schemes**. Widely used measures include loan schemes for technology investments, access to funding for key enabling technologies and grants for technology upgrading. Some have set up innovation support services and backed the emergence of **clusters.** More specifically, c ompetitiveness would be strengthened by:

- pooling scarce resources to help to achieve critical mass in bringing innovation to the market; and by increasing cooperation in innovation to create large scale demonstration projects and pilot test facilities;
- reducing the fragmentation of innovation support systems, facilitating bringing innovative solutions to the market, and increasing the market focus of research projects. Denmark and Austria have successfully reduced the fragmentation and the United Kingdom has schemes to bring innovative solutions to the market.

(3) Sustainable industry: overall, Member States have made significant progress in defining and implementing consistent national legislative frameworks for stimulating energy efficiency. In spite of the progress made, rising world market prices for energy and national distortions have been reflected in higher prices for enterprises, in particular for SMEs.

Access to non-energy, non-agricultural raw materials is another essential factor for the competitiveness of EU industry. Some Member States lack the experience and the administrative capacity to do this and for these countries the framework legislation at the EU level can provide guidance and support. Competitiveness would be strengthened by:

- favouring energy and raw material efficiency and promoting innovation and deployment of cleaner technologies along value chains with the use of long-term incentives that encourage market creation and facilitate the participation of SMEs in these processes. As outlined above, many Member States have made considerable progress with these issues;
- ensure fair and undistorted pricing of energy, and continue to work on upgrading and interconnecting energy distribution networks.

In addition, in order to improve competitiveness and sustainability of the European industry, favouring and promoting social entrepreneurship in Europe, in particular in enhancing its public profile and its access to public and private finance (especially through Social investment Funds).

(4) Towards a more business-friendly Europe: while all Member States have adopted national targets for **reducing administrative burden**, not all of them have made progress in measuring the current burden or proceeded to cut it. The high quality and availability of **infrastructure** (energy, transport, and broadband) make an important contribution to a business-friendly environment. Given that improving the transport infrastructure is a major challenge especially in the new Member States, significant investments for rebuilding and modernisation should continue, including with the support of Structural Funds and the Connecting Europe Facility.

Businesses need a **modern public administration,** able to deliver efficient and high quality public services. An important area providing scope for improvement is the **taxation** of businesses. While the overall effective corporate tax rate and the balance of taxes on labour as opposed to resource use are issues where further reflection is needed at the EU and Member State levels, the reduction of compliance burden deriving from taxation can greatly improve the business environment. This implies increasing transparency and reducing the complexities of tax codes and compliance regulations, simplifying payment procedures, including through the use of e-government, and ensuring the stability of taxation legislation.

In this context, competitiveness would be strengthened by:

- reducing the administrative burden on businesses by evaluating the current burden (including that due to the tax code) and rapidly reducing burdens to targets. For example, the Netherlands has been a pioneer in measuring and evaluating the reduction of administrative burden and in setting ambitioustargets, resulting in a globally recognised efficiency;
- promoting competition among service providers that use the infrastructures in broadband, energy and transport.

(5) The Single Market: the Commission considers that the Single Market could contribute more to growth if all the European legislation currently in force was fully implemented by all Member States. The goal is to put an end to market fragmentation and to eliminate barriers to the movement of goods, services, innovation and creativity as noted in the Single Market Act. Competitiveness would be strengthened by:

- developing support for innovative services based on measureable outcomes; and by participating in the Innovation Partnerships and in large-scale demonstration projects;
- fully implementing the Single Market legislation, in particular the Services Directive and promoting business services.

(6) SMEs: to fully unleash the potential of SMEs requires coherent actions across the EU in line with the SBA Review Communication. Trade promotion by Member States improves the global presence of European firms and most Member States support the **internationalisation of SMEs,** providing finance, information and support on market access and regulation. Other measures are proposed include:

- facilitating the growth of SMEs by ensuring that regulations do not pose obstacles to expansion; by favouring access to appropriate finance; and by providing support services for accessing new markets, and publicising these;
- ensuring that public administrations reduce payment times and adhere strictly to the Late Payments Directive.

Further steps: the Commission will:

- **strengthen the coordination of Member States' industrial policies** by promoting and monitoring growth-enhancing structural improvements to achieve the targets of the Europe 2020 strategy;
- by first quarter of 2012 provide a **forum** for identifying and discussing good practices in promoting growth through industrial policies.