Charlie McCreevy

European Commissioner for Internal Market and Services

Growth and Opportunity in an enlarged EU – What's in it for Small-and-Medium-sized Enterprises

The 2007 Innovation and Entrepreneurship Day – The Lisbon Council

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Good afternoon ladies and gentlemen.

It is truly a pleasure for me to be here today among entrepreneurs – the innovators, the risk takers, the creators of employment, growth and wealth - the people who drive the European economy.

The single market is an ambitious project for ambitious people and there is no group of people more ambitious than entrepreneurs.

Entrepreneurship is something to be celebrated and this European Commission has, from the outset, been determined to promote and stimulate it. In fact, I set myself a goal or two – that by the end of my term as Commissioner for Internal Market and Services;

- There will be visible, tangible evidence of opening markets that were closed to business
- And that red tape will be slashed within an inch of its life.

We've come some distance and the Single Market Review, which is expected on the 20th of this month, will highlight what has worked well and what has not and where there is more to be done.

The Commission already presented a midterm review of Modern SME policy last month. It sets out what has been achieved in the two years since the launch of the modernised SME.

It touches on the key areas, such as taking important steps to create a more friendly regulatory environment for SMEs. It also highlights other tangible benefits, such as:

- The revision of the Community state aid rules to increase the de minimis threshold under which aid need not be reported to €200,000
- A proposal for a Council Directive to allow Member States to exempt from VAT, businesses with an annual turnover of less than €100,000. And further, to introduce a VAT one-stop-shop system to simplify VAT obligations. This is to be adopted by the end of the year.
- A Better Regulation Agenda which sets a target of reducing by 25% the administrative burden arising from Community legislation in a number of priority areas by the year 2012.
- In promoting entrepreneurship and skills, a one-stop-shop or equivalent arrangement for setting up a company has been introduced. Registration times have improved and in many Member States and regions it is now possible to register a company within one week.

In outlining how we intend to nurture and further benefit SMEs, there are a few areas on which I would like to concentrate.

I would like to start with the Services Directive. It sets out to remove barriers, improve legal certainty and reduce considerably the administrative burden for businesses – particularly SMEs.

Administrative barriers to service companies wanting to set up their business or to provide services in another Member State are burdensome – even for large companies with plenty of finance and access to Legal Advice. For Small and Medium Size Enterprises – which constitute 98% of all providers of services in Europe – the cost and general off-putting nature of such red tape has meant that many abandon the idea of testing new markets or opening new branches in other Member States.
In future, Member States will be banned from certain particularly restrictive and discriminatory requirements imposed on businesses such as - "economic needs tests" - where the provider is obliged to prove an economic need of market demand for his service in order to obtain authorisation or nationality or residence requirements are imposed on the provider or his staff.

National requirements may only be applied to incoming service providers if they are non-discriminatory, proportionate and justified for reasons of public policy, public security, public health or the protection of the environment. For example, by removing the requirement to establish – and the investment of time and money that goes with it – it will be possible for providers to offer services on a temporary and occasional basis.

The Services Directive applies to a large number of services - including most regulated professions, craftsmen, distributive trades, tourism services, construction services and many others. While it excludes, for example, financial services, transport services or electronic communication services - all companies will be covered by it, either as service providers or (if their services are not included in the Services Directive), as recipients of services.

In essence, it requires Member States to simplify and modernise administrative procedures by introducing Points of single contact by the end of 2009. These will ensure that service providers can easily complete all procedures and formalities through a single interlocutor, without having to contact several different authorities. The points of single contact are a concrete, maybe the most concrete and most "visible", example of the practical benefits brought by the Services Directive to the main "users" of the internal market. They will be open to all service providers including those resident or established in other Member States.

Further, service providers will have to be able to complete all procedures and formalities by electronic means at a distance.

Basically Member States are required to "clean up their house" and take a critical look at their existing regulatory framework and get rid of unjustified complications and red tape. By making it considerably easier to provide services and to establish permanent operations in another Member State, the Services Directive should create new business opportunities throughout the EU.

Public Procurement was another area of difficulty for smaller companies. One of the most common problems of SMEs when participating in public procurement procedures, is that the size of the contract is perceived to be too large in relation to the company size. The public procurement directives allow the contracting authority to sub-divide the contract into lots. These smaller units correspond better to production capacity and specialised SMEs are in a better position to bid for the lot which corresponds to their specific activity.

The new public procurement directives also introduce the possibility of using electronic means of communication. It is expected that it will lead to many new business opportunities for SMEs and that the government purchases on the whole will become more transparent, more competitive and have shorter procedures and less red tape. The aim is to make public purchasing easier for both public buyers and private suppliers.
In addition to replacing paper transactions, electronic means open up possibilities for new innovative purchasing techniques such as e-auctions or e-catalogues. In order to counter ‘e-barriers’ and to encourage use of the new opportunities, the Commission adopted an Action Plan for e-procurement in December 2004. It makes clear recommendations on how best to use electronic procedures in a secure and non-discriminatory way and how to give businesses the confidence to participate in these. My services are currently evaluating the results of the Action Plan, and what more can be done. Meanwhile, a number of initiatives are being carried out to improve SMEs’ access to public procurement markets. A new Directive which is about to be adopted by Council and Parliament, will enable companies that think their rights have been violated to have public procurement procedures reviewed more efficiently.

Payments are the lifeblood of the economy, and without an efficient payments system, it is not possible to have an efficient internal market. Cross-border payments are often a problem for SMEs and hinder them from participating fully in the Single Market. I have no doubt many of you have personal experience of problems with delayed payments or transactions that have gone missing temporarily in cyberspace. I know I have.

The Single Euro Payments Area – or SEPA for short – will change all that. It will make all electronic payments in the euro area as easy as cash payments are now. It will mean that you can make fast and secure transfers between bank accounts anywhere in the euro area.

It will also make possible for the first time, certain cross-border payment transactions such as direct debits, which do not currently exist and which are an efficient way of collecting money for businesses. The pan-European payment instruments that SEPA will create should reduce costs for SMEs by facilitating greater use of cross-border direct debits.

Banks will start to upgrade their systems to make this happen in January next and are aiming to make SEPA a reality for everyone by the end of 2010.

Despite all efforts to break down trade barriers, there are still difficulties on the ground. So what do you do if you face problems or feel treated unfairly when trying to set up business in another EU Member State?

SOLVIT is a network, created by the Commission and the member states, with the aim of solving problems that arise for individual citizens and businesses from the misapplication of internal market law. All EU member states as well as Norway, Iceland and Liechtenstein, have created a SOLVIT centre, in most cases within their ministry of foreign or economic affairs. These centres cooperate directly via an online database to solve problems rapidly and pragmatically.

Businesses submit less cases to SOLVIT than citizens. Just like in previous years, in 2006 citizens at 69% have submitted more cases to SOLVIT than businesses at 31%. It is not clear why businesses submit fewer cases than citizens. It may be that business users have other established channels through which they address problems caused by incorrect application of EU law. Other suggestions are that when larger sums of money are involved, businesses prefer to seek paid legal aid or work around the problem - for example, by accepting to submit a product to further national tests even though this is not in line with EU law - rather than complain to a governmental body. Some SOLVIT centres have reported that enterprises are reluctant to complain about authorities in other member states because they fear negative consequences for their business.
Yet, the network solved 75% of all business problems submitted - only slightly less than the SOLVIT average of 82%. It is a practical tool at your disposal and I would urge you to use it.

Here are a couple of examples of SOLVIT at work.

- A Polish citizen wanted to set up a company in Germany but was refused by the competent German authority based on the argument that the entrepreneur did not speak German. Regarding the company he wanted to establish, this language requirement was considered disproportionate and therefore a restriction of the freedom of establishment and infringement of EC law. After SOLVIT Germany contacted the German competent authority, they promised to admit the client. The client contacted the authority once again and received his business registration within the same day. The problem was solved in a day.

- Another example is where a British hairdresser with over 10 years of experience running a salon in the United Kingdom wanted to open a similar business in Germany. The German authorities rejected his application for a permit because his certificate of experience had allegedly not been issued by the correct UK authority. SOLVIT Germany intervened to argue that, in accordance with EU rules, the Chamber of Commerce had to accept the certificate. As a result, the hairdresser received his permit to start a business. It took just one week to solve the problem.

A lot is being done to promote entrepreneurship across Europe. Yes, the challenges are formidable – but so to are the opportunities that an enlarged European market of 500 million people opens up. But as entrepreneurs, I know you relish a challenge. And I am determined that in so far as it is possible, by the end of the work of this Commission, unnecessary regulations which hold you back will no longer get in the way of your success.

Thank you very much.