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### **SME CHARTER CONFERENCE 4 – 5 JUNE 2007, BERLIN**

#### **OPENING ADDRESS BY ARNDT G. KIRCHHOFF**

Ladies and Gentlemen,

I am very pleased to have the opportunity at this year's SME Charter conference to contribute to a constructive exchange on efficient ways to ease enterprise creation and help SMEs grow.

I will speak to you in my capacity as Chairman of the BUSINESSEUROPE SME and Entrepreneurship Committee.

But at the same time, I am also an entrepreneur and thus familiar with what it means to run a business and develop it, and the environment in which European companies operate.

Let me briefly outline to you what we believe we have achieved so far and what entrepreneurs expect from the EU and national policy-makers

#### Where do we stand today? What have we achieved?

The European economy is stronger than it has been since the launch of the Lisbon strategy in 2000.

In the EU, average GDP growth is at 3%, investment is growing at an annual rate of 6½ %, inflation is staying close to 2%.

Over the last decade, more than 17 million jobs have been created. In 2006, the EU economy generated around 3 million new jobs, and a similar outcome is predicted for 2007. A majority of these jobs have been created by SMEs.

The EU remains the world's largest exporter, well ahead of the US and Japan. Our share of world exports is around 19 percent and worth 950 billion euros. The EU is also number one in 10 out of 20 of the largest exporting sectors, including pharmaceuticals, electrical circuits, chemicals, furniture, paper, specialised equipment, base metal manufactures, plastics and engines/ motors.



The economic developments since 2000 show that many SMEs have done their homework and been successful in developing their markets and competing in a globalised world. At the same time, 63 percent of European SMEs are active only in their home country. There are different reasons for this, some internal, several more external and linked to a not yet sufficiently friendly business environment.

However, a thriving SME sector is essential for growth, job creation, innovation and social cohesion. Entrepreneurs are agents of change and growth, acting as catalysts for the generation, dissemination and application of innovative ideas.

While we can certainly be pleased about a number of developments, we must not be complacent. We should not underestimate the challenges ahead.

## Where to move from here, what do entrepreneurs expect from the EU and Member States?

In the light of globalisation, increasing competition and demographical developments, it is still high time to refocus certain policies in order to create an environment in which companies can realise their full potential.

The regulatory, administrative, fiscal and financial framework in Europe is not improving sufficiently to allow Europe to surpass or even equal the entrepreneurial potential of competitors elsewhere in the world.

- In terms of GDP growth, the outlook for 2007 and 2008 is much less favourable: productivity growth per hour worked in the EU is expected to stay at a low 1.5 % this and next year, keeping the EU growth potential at a mere 2.5%.
- In the US, firms on average increase their employment by 60% by their 7<sup>th</sup> year, while employment gains amongst firms in Europe are in the order of 10 to 20%. It is generally more difficult for European SMEs to grow than for their US counterparts.

More needs to be done, in order to sustain growth within the EU and improve prospects over longer time horizons. Companies are generally aware of the challenges facing them and ready to try addressing them.

At the same time, entrepreneurs are convinced that the EU and Member States can and need to do more to help them unlock and develop their potential in this increasingly global and fast-changing environment.

We recognise the efforts of the EU and Member States within the framework of the Growth & Jobs strategy. But the degree of commitment to implement national reform programmes varies across policy areas and countries and implementation is slow. We call on Member States to step up efforts and pursue reforms in a coherent manner.

There is, for example, a real need to increase labour market flexibility. Particularly smaller entities need to be able to adapt more rapidly to changing markets and demands.



We note moreover that the integration of the internal market is not yet complete, and remaining obstacles must be removed. In this context, BUSINESSEUROPE also calls on the Commission to propose a European Private Company statute, in order to facilitate and encourage cross-border business of SMEs within the EU.

Tax policies need to be reviewed. SMEs need a more favourable and less obstructive tax environment.

In several countries, difficult access to finance, and particularly innovation finance, remains an obstacle for enterprise creation and development. More generally, small companies often have difficulties to obtain financing.

Progress in the creation of a Community patent and better enforcement of IPR is of high importance for all companies, including innovative SMEs.

It will become increasingly important for a number of SMEs to go international, also beyond the European market. However, the barriers are numerous and often a disincentive for SMEs. Further reduction of regulatory and investment restrictions and tariff and non-tariff barriers is necessary.

The Commission's focus on better regulation, simplification, improved impact assessments and administrative cost reduction by 25% by 2012 is very welcome. However, there is a need to boost the project and to achieve concrete results. European companies, the vast majority of SMEs, have felt no real relief on the ground yet.

When looking at administrative cost reduction, the Commission and Member States should not only consider administrative costs which are narrowly linked to information obligations. Also the more varied and substantially higher compliance costs which cover all the costs of complying with regulation need to be taken into account. If progress is achieved in this sense, it will considerably contribute to freeing potential in SMEs.

More generally, the "thinking small first principle" is still far away from being fully integrated into EU and national policy making (recent example: adoption of the REACH regulation, for example). At the same time, the work of DG Enterprise and Industry to achieve progress in this area is highly appreciated.

Last but not least, the EU needs to become more entrepreneurial. Europeans are still less inclined than US citizens to take the risk of setting up their own business. The integration of entrepreneurship education into school curricula could help stimulate a more entrepreneurial mindset in Europe. Results so far are patchy.

## To conclude:

Entrepreneurs welcome the renewed emphasis the EU and national governments are putting on improving the business environment for SMEs and fostering entrepreneurship, through a variety of actions, which move in the right direction.



The integration of objectives of the SME Charter into the Growth & Jobs strategy and the related reporting process are the right way forward, and will certainly bear fruit. Needed are not only specific SME measures, but integrated policies and coherent reforms for sustainable growth.

Europe's economic future will to a large extent depend on the innovation and growth potential of European SMEs and on further concrete progress made in the priority areas for action highlighted. We urge the Commission and Member States to step up efforts in their areas of responsibilities and help release a new entrepreneurial dynamism in Europe.

**Let us “think big” for Europe and European SMEs!**