

11. Juli 2024

VCI POSITION

SMEs and the EU: Win-win?!

The success story of European integration is closely linked to the economic success of industrial chemical and pharmaceutical SMEs. SMEs are at home in the EU and in some cases have been rooted in their home regions for centuries. The common understanding of values and law, democracy, peace and stability as well as political co-operation and, at its core, the single market form the framework for success.

Germany is the world's third largest producer of chemicals and pharmaceuticals and ranks number one in Europe. Chemicals and pharmaceuticals are among the largest sectors of the German economy and make a decisive contribution to competitiveness and job creation in Germany. The term "Mittelstand" is a characteristic in the German-speaking world. In addition to the size of the company, the unity of ownership and management often plays a role. Risk, liability and the function of the entrepreneur/owner are interlinked. The chemical SME sector, especially the numerous family-run companies, is rooted in Germany. They have branches and production facilities abroad, but the main focus of production lies in Germany and exports are made from here.

The EU is facing major domestic and foreign policy challenges (e.g. the war in Ukraine, geopolitical tensions between the USA and China, migration, transformation and international competitiveness). Coordinated and joint action by the EU is urgently needed here.

Strong domestic market

The EU internal market is the most important trading area for industrial chemical and pharmaceutical SMEs. Maintaining and expanding it is therefore important for a stable European market environment.

We are concerned about the trend towards protectionism within the EU member states. National regulations, such as the exit tax in Germany, hinder the free flow of goods and capital. The free movement of persons is also de facto hindered by the A1 certificate, for example.

Trade policy

Gaining access to new sales markets and procurement markets in order to secure the supply of high-quality products and raw materials forms the basis for successful entrepreneurial activity. The EU is in favour of open markets and fair competition. Concluding new bilateral trade agreements (e.g. Mercosur, India, Indonesia, USA) help SMEs to grow. The EU should resist protectionism to minimise the costs of new trade

barriers. Bureaucratic instruments such as CBAM are not helpful. SMEs urgently need support with its implementation (CBAM self-assessment tool for SMEs).

Funding programmes

The EU has set up numerous funding programmes specifically for SMEs or with an SME component to support their research and innovation activities and competitiveness: e.g. Eurostars, Horizon Europe, COSME or ESIF (European Structural and Investment Funds).

The European funding landscape is not suitable for German industrial SMEs, as German SMEs are generally too large for the narrow EU definition.

As a result, in Germany, these programmes have so far been underused. This is also due to the German funding landscape on the one hand (although size criteria and bureaucracy are also problematic here) and the European SME definition, which is problematic for German industrial SMEs. YET, European funding is likely to gain in importance due to the looming reduction in national funding. However, many EU funding programmes are heavily oversubscribed and too bureaucratic to apply for.

Cutting red tape

SMEs need time and space to be able to concentrate on their core business activities. The right approaches to provide concrete relief for SMEs must be consistently pursued, e.g. the SME strategy (2020) and the SME relief package (2023).

In the meantime, the situation is so dramatic that without any noticeable reduction in bureaucracy, many SMEs will exit the market. The person who will hold the new post of SME Envoy of the European Commission will have the important task of ensuring that new legislation passes the SME test ("think small first") and does not restrict international competitiveness, particularly in the areas of climate, environmental and foreign trade policy. The SME Envoy must receive sufficient support within the Commission and ensure stringent coordination of EU SME policy.

Other concrete starting points are:

- The Better Regulation agenda must be taken seriously by all EU institutions and the "one-in-one-out rule" in the EU must be further developed into an effective regulatory burden freeze. Efforts to date have been completely inadequate.
- Impact assessments should be applied throughout the entire legislative process, always analysing the impact on competitiveness. The early involvement of industry - from recognising problems to testing the feasibility of implementation - is important in order to realistically assess the practical impact of laws and regulations. Specifically, it is important to scrutinise whether the methods and instruments are actually suitable for achieving the objectives. So far, the impact assessments have not passed the reality check.

- SMEs suffer primarily from excessive documentation and reporting obligations, such as the A1 certificate, sustainability reporting, the Industrial Emissions Directive, the Network and Information Security Directive or the Supply Chain Act. Instead of cross-border work, investment and market development, they often result in standstill or relocation because the requirements cannot be met by many small and medium-sized companies. As the implementation of many Green Deal measures will only reach companies in the next few years, the EU Commission should take care not to impose any new burdens on SMEs, generally ensure that they are applied proportionately. The EU should furthermore actually reduce the existing reporting obligations by the self-imposed 25 per cent.
- In order to reduce red tape for SMEs, double, contradictory and/or inconsistent reporting obligations must be abolished, particularly in connection with the Green Deal, standards and regulations harmonised, regulatory procedures streamlined, and digital solutions made possible.
- A bureaucracy cost index, which shows the development of costs over time and records all bureaucracy costs at EU level, would also create more transparency and facilitate starting points for an effective and efficient cutting of red tape.
- In addition, under the leadership of the newly elected EU Commission, unnecessary bureaucratic regulations could be reduced in a large package of measures ("omnibus"). The European Commission should scrutinise existing legislation - or legislation that is about to come into force - for inconsistencies and shortcomings in promoting the competitiveness and resilience of European industry. This initial review and assessment should result in a major package of measures, i.e. a series of separate legislative or regulatory proposals.

SME definition

According to the EU Commission's current definition, SMEs are companies with fewer than 250 employees and an annual turnover of up to 50 million euros or a balance sheet total of no more than 43 million euros.

A reform of the SME definition is necessary for several reasons:

- The financial thresholds have remained unchanged since 2005. Inflation and drastic cost increases (e.g. energy, raw materials) alone have caused many companies to fall outside the scope of the European SME definition.
- In particular, the EU SME definition does not do justice to the special features of the German "SME landscape". The threshold value of 249 employees does not go far enough. SMEs can quickly exceed this threshold, especially in labour-intensive manufacturing, and are thus excluded from funding programmes or burdened with bureaucracy. Industrial, often family-run SMEs must be considered in the further development of the EU SME definition so that they can benefit from specific simplifications.

- The definition is structurally based on quantitative criteria. However, qualitative criteria should also be included - for example regarding ownership, management and control - in order to live up to the special role of SMEs.
- VCI welcomes that the EU Commission has announced in the SME relief package that it also intends to consider "small mid-caps" as a category and to take them into account in selected EU policy areas. Starting points would be environmental, climate or foreign trade policy in order to relieve the burden on small companies through higher thresholds.

Contact: Katharina Mayer

SME Policy Coordinator

Berlin Office

P +49 (69) 2556-1762 | **E** mayer@vci.de

German Chemical Industry Association

Mainzer Landstrasse 55

60329 Frankfurt, Germany

www.vci.de | www.ihre-chemie.de | www.chemiehoch3.de

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- The VCI is registered with registration no. R000476 in the Lobbying Register for the Representation of Special Interests vis-à-vis the German Bundestag and the Federal Government.

The VCI and its sector associations represent the interests of around 2,300 companies from the chemical-pharmaceutical industry and areas related to chemistry vis-à-vis politicians, public authorities, other industries, science and media. In 2023, the VCI member companies realised sales of ca. 245 billion euros and employed over 560,000 staff.