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Chairman of the EU-India Chamber of Commerce
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ROUNDTABLE ON SMES:
LEARNING FROM INTERNATIONAL EXPERIENCE

Excellencies, Ladies and Gentlemen,

It is a great pleasure for me to be back in India – for the first time in Ahmedabad – and in my capacity as Chairman of the EU-India Chamber of Commerce. I want to thank Chief Minister Shri Narendra Modi and the Government of Gujarat for their kind invitation to Vibrant Gujarat -2011 – an event which has become a magnet for business and investors over the past 8 years.

To introduce myself, I have long-standing connections with India. Before I entered politics I was a British Army officer and was most fortunate to be selected to attend the Defence Services Staff College, at Wellington in Tamil Nadu in 1977. With my wife, Fanny – who is convinced she had a previous life in India – I have been coming back very regularly over the years.

I am delighted to be here as a British Conservative MEP. I am particularly proud to represent the East of England in the European Parliament. My constituency has more than 5.5 million people, over 430,000 businesses and generates almost 10% of British Gross Value Added. A key part of my constituency is the County of Essex – with immediate access to London, served by an International airport at London Stansted, and with 3 international seaports – I am delighted that there is a strong team from Essex at Vibrant Gujarat dealing with educational services.

Britain, of course, has a long-standing relationship with India. Although I have sometimes felt, certainly in the 1970's and 1980's, that this relationship was somewhat neglected, I am very pleased that in the UK, our new Conservative Prime Minister, David Cameron, has made Britain's relationship with India one of his top priorities. This is a view that is certainly reflected in many other chancelleries across Europe.

I speak to you today as Chairman of the EU-India Chamber of Commerce. EICC is the premier organisation representing the concerns and views of scores of business and professional communities, companies, and enterprises from India, with an interest in Europe, and from European countries, with an interest in India. Its members are leading entrepreneurs and professionals. Our primary mission is to foster a bilateral dialogue between key business and decision makers, thus encouraging mutually beneficial economic policies in both Europe and India. My own background is not in business – but my son-in-law runs a medium-sized business which manufactures automobile parts in Germany and the United States.

Europe's Common Commercial Policy is under the exclusive competence of the EU which legislates and concludes international agreements in this field. We cannot therefore ignore the EU role in international trade. However, bi-lateral trade relations between countries such as the UK and India continue to be vitally important.

Between 2005 and 2009, India has seen its overall trade with the EU (in both goods and services) grow by the impressive rate of around 7% per year. Over the same period there has also been a substantial growth in Indian investment within Europe, as well as European investment in India. There are now hundreds of European-owned companies providing jobs and opportunities in India. There are 1200 Indian firms operating in the EU (700 have their European headquarters in the UK), while

in Britain alone, Indian companies now employ some 90,000 people. Tata UK Limited is now the largest single manufacturing company in the UK. There is an annual trade of over €30 billion in goods and services each way between the countries that are members of the EU and India.

Despite all this, I have to admit that I was rather shocked when - in the context of the Irish financial crisis - it was pointed out that the UK does more trade with the Republic of Ireland than with Brazil, India, Russia and China combined. The population of the Irish Republic is 4.5 million - the BRIC countries are 2.4 billion and of course, India alone has a population of over 1 billion. If this is true of Britain it will certainly be true of most other European countries. Just 1.3% of trade by EU countries is with India. This, I trust, will change. Of course, some 20% of India's trade is with EU countries.

I have been asked to say something about:

SME POLICY: LEARNING FROM INTERNATIONAL EXPERIENCE

It has become something of a cliché to emphasise the importance of SMEs¹

After all, in most economies, 99% of businesses fall into this category (incl.micro);

There are more than 23 million SMEs in Europe employing just over half the work force.

It is also a truism that SMEs are the engine of growth (providers of employment; source of tech innovation etc); disproportionately productive; essential for a competitive and efficient market, closer to the local community, and particularly important in emerging economies such as India and in developing countries.

¹ 2-9 employees MICRO; 10-50 SMALL less than €10m turnover; 50-250 MEDIUM less than €50m

We can also recognise that the national and local environments in which SMEs operate are very different and so is the nature of SMEs themselves (crafts industries; retail shops; micro-enterprises; family-owned or social enterprises etc).

The downside is that, in Europe 30% of new firms fail by the third year and 50% by the fifth year. This is not untypical although the US does better. And compared with the US, surviving firms in Europe expand employment by 10-20% by the seventh year – in the US it is 60%.

SMEs fail mainly because of undercapitalisation and poor control of operating costs. They succeed through flexibility – the ability to make shifts into different product markets; through recruitment of experienced outside management; and with improved marketing expertise.

They are hit disproportionately by regulatory burdens; by less ability to access finance; by poor public infrastructure and by poor access to public procurement contracts.

One of the good things about the EU – and I hasten to add that I do not agree with many EU policies - has been the promotion of the single market² covering the 30 countries of the EEA. As part of this, there has been a very specific SME focus with initiatives such as the Small Business Act (2008) and the Services Directive (2009).

However, the downside is the increasing burden of social and so-called health and safety legislation – such as the Parental

² Single market comprises a free trade area (for goods) with common policies on product regulation, and freedom of movement of the factors of production (capital and labour) and of enterprise and services. The goal is that the movement of capital, labour, goods, and services between the members is as easy as within them. The physical (borders), technical (standards) and fiscal (taxes) barriers among the member states are removed to the maximum extent possible.

Leave Directive (1996); Working Time Directive; the Temporary Agency Workers Directive³; etc

This raises a very serious question over the driving motive of economic policy at particular times – is it to stimulate growth, trade and competitiveness and create jobs or is it to improve social conditions. Obviously the ideal is to do both but in the real world a balance has to be struck. Is more notice taken of the so-called social partners or of the representatives of business or indeed, of the views of our individual citizens.

And let us not forget the additional EU motive of pushing for further political integration on the back of economic integration – an objective that is rejected by citizens of EU countries whenever they are given the opportunity to express themselves on the subject.

Certain EU countries have been burdened by severe social legislation which they then seek to export to all Member States of the EU in order to remove their competitive advantage. The consequence is that we become increasingly uncompetitive in global terms when the rest of the world may be behaving differently.

It has been calculated that conforming to regulations costs a small business ten times what it costs a large enterprise.

³ after 12 weeks in a given job, an agency worker will be entitled to equal treatment (at least the basic working and employment conditions that would apply to the worker concerned if s/he had been recruited directly by that undertaking to occupy the same job).

So what lessons have been learned?

1. You need to create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded. This means:
 - schools must give children the basic skills they need and positively inculcate appreciation of private enterprise rather than state dependence;
 - special attention needs to be given to new technologies;
2. Only 3 out of 10 SMEs in the EU have indicated that they have new products or income from new products. It is important to integrate SMEs into the research community and to encourage participation in innovative international clusters. SMEs also need to become better at getting the technology they develop to market faster and more efficiently: we can learn from the Americans in this area.
3. SMEs must turn environmental challenges into opportunities. Climate change, scarcity of energy supply and sustainable development are key challenges. Here in India, I know that firms like Abellon Clean Energy Limited, are among the international leaders in the development of clean, renewable power generation (esp. bio fuels, biomass power generation, etc). There are two particular aspects to the environmental challenges:
 - Only 4% of SMEs across Europe have comprehensive energy efficiency systems in place compared with 19% of large enterprises,
 - they should be encouraged to rectify this –

perhaps through tax benefits or through favourable, government-backed loans

- New forms of support are needed for innovative start-ups in the new technologies – in particular the digital agenda and investment in information and communication technologies (ICTs) in eco-technology and energy infrastructure;
4. Make it as easy as possible to set up a business ("one click start-up": easy to use, online registration) - this is especially helpful to SMEs/individual entrepreneurs where the administrative burden is a real disincentive to starting a business. The British Government has, for example, just announced a “New Enterprise Allowance (NEA)” that will help create up to 40,000 new businesses by 2013 by assisting unemployed people in setting up their own businesses;
 5. Get credit flowing – risk aversion often makes investors and banks shy away from small firms in their start-up and expansion stages. SMEs therefore need improved access to finance, in particular to risk capital and micro-credit – and they need help with general cash flow problems, and with problems with late payments of bills, and not just individuals and companies but governments at state and national level are often culprits in this; I am pleased to say that my Conservative-led government in Britain has committed to paying all government suppliers within 30 days
 6. Ensure that honest businessmen who have faced bankruptcy quickly get a second chance. 700,000 SMEs across the EU are affected by bankruptcy every year – the stigma of failure needs to be overcome; the legal procedures for non-fraudulent bankruptcy need to be

accelerated; and re-starters should be treated similarly to new start-ups;

7. Give SMEs better access to public procurement opportunities – these accounts for 16% of GDP across the EU.

8. Reduce the burden of regulation for SMEs.⁴

And finally, and this is why I imagine we are all here:

9. Encourage SMEs to seek opportunities and partners in new markets both in our own countries, in wider regional groupings, and overseas.

An organisation like the EICC - the only pan-European and intercontinental chamber of commerce, can provide advice and information and facilitate such opportunities and partnerships.

I feel sure that the EICC will play an increasingly important role in the coming years in the vital relationship between India and Europe.

END

⁴ • Evaluate the particular impact of new rules on small businesses and systematically include an evaluation of special options for small businesses in impact assessments.
• Exempt small businesses whenever possible. Use partial or at least temporal exemptions if a full exemption would defeat the purpose of the regulation
• Simplify regulatory obligations for small businesses. (Especially where regulation is particularly complex (e.g. taxation), small enterprises should be able to opt for simplified standard procedures (e.g. simplified way of calculating taxable income).
• Give small enterprises enough time to adjust to new regulation.
• Consider reduced fees, faster service and similar forms of privileged treatment for smaller enterprises.