

## High Level Group (HLG) on the Competitiveness of the Agro-Food Industry

### CIAA contribution to the discussions of the Working Group: “SMEs”

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#### **Background and issue**

Small and Mediums sized Enterprises are the backbone of the food and drink industry, a sector which is extremely fragmented. SMEs represent 99% of all food and drink companies and contribute with 48% to the total turnover of the sector. Yet, the weak competitive position faced by the food and drink sector is in part due to its fragmentation and to the problems faced by its many SMEs. EU policymakers have made significant efforts during the last years and there has been increased SME focus within major EU spending programmes for the period 2007-2013.

However, policies need to be better designed to meet SMEs' requirements. Consultations among CIAA members on the main problems areas SMEs are facing in operations on the internal market have shown that a number of areas are felt as detrimental to their development and have a negative impact on their competitiveness.

SMEs have a permanent lack of resources (time, people and money) to get information that is relevant to them, to find funding or specific training and therefore increase their competences. The fact that many do not join associations because of the cost this entails is also a signal and contributes to the problem, as they are outside the information distribution channels.

#### **CIAA Priority Objectives and Recommendations**

##### **Administrative burden**

The costs of compliance with all the EU rules and legislation are relatively higher for SMEs than for large companies as rightly stressed by the Small Business Act. This must be taken into account when designing EU regulations through appropriate impact assessment and the setting of transitional or lead-in periods and by providing certain flexibilities. Problem areas that are regularly quoted: changes to regulation in general, and particularly frequent and uncoordinated changes to regulation, i.e. labelling legislation, sector specific origin labelling, approval of new ingredients, controls, environment legislation (examples: ETS compliance costs for small emitters, clarity of provisions for a cost effective implementation of IPPC Directive). The burden of EU legislation is felt strongly by SMEs when competing with non-EU products, including on the EU market.

There are however also the numerous non-regulatory compliance costs that arise and which need to be looked at, such as certification schemes, if not required by law, and duplication of controls.

##### **Financial instruments**

SMEs are lacking capital and have considerable need for finance. But their ability to find appropriate funding is difficult, notably due a low return on capital employed. In

general, a global approach to financial instruments for food and drink industries is inappropriate and should be replaced by instruments that are adapted to SMEs needs, which change as they develop. Promoting private-private partnership, i.e. through “business angels” approached could be explored.

### **R&D and innovation**

SMEs have considerably less resources to invest in R&D or to participate in joint research projects. Innovative behaviour is correlated with “input factors”: capacity, availability, performance of R&D facilities of the company and quality and level of the human resources. Knowledge and technology transfers from large research centres to small and medium-sized food and drink SMEs should be facilitated.

- Funding programmes should support SMEs in overcoming existing barriers to applying best management practices and innovative technology, for example in promoting energy and resource efficiency, providing investment facilities, pushing for low carbon innovation and promoting eco-innovation;
- There is a need for systematically designed financial support along the whole innovation process: from the development of the concept to its commercialisation and market introduction;
- National technology platforms should be used more to communicate about financial instruments, financing programmes and procedures.

Of course, as for all business partners, the rapid return of investment is of particular importance to SMEs (see CIAA contribution to the food law issues).

### **Capacities, resources and competences**

SME’s regular problem with lack of time and resources must find appropriate support

- By providing at EU and national level one-stop-shops where SME can easily find information (on setting up a business, on administrative procedures, on regulation, on funding options);
- By making use and supporting the bodies that are closest to them, for example specific sector associations and through which SMEs should be able to receive sector specific information (change in regulation, practical implications on their daily activity).

### **Relationship with retail**

SMEs have little power when negotiating business deals with the retail sector. Long term payments, late payments, grossly unfair practices, oral agreements that are changed or cancelled and non-fulfilment of contractual terms related to promotion and publicity are putting unjust and often unbearable financial pressure on SMEs in many EU countries. There is a need to review and strengthen Directive 35/2000 on late payments in order to improve the business environment for SMEs in the internal market.

### **High costs to enter export markets**

Developing exports is costly and requires important investments and capacities to overcome the regulatory, cultural and other hurdles. Public authorities can provide infrastructure in support of the necessary knowledge and capacities and can offer further support through export promotion schemes. The review of existing EU agriculture export promotion instruments and the development of an ambitious export promotion strategy would facilitate access to global markets for products from EU (food and drink) SMEs. This requires the introduction of: greater flexibility, the simplification of project management, extension of the scope to include value added foods.