

ESBA Bulletin of June 1999 – Volume 1 – Number 5



HEADLINES

In this issue:

European Council
Cologne Summit seeks to prove the EU's determination to play in full its role in the international arena. Specific measures announced for SMEs
World Trade Organisation
International finance
Single Market
European Commission suggests ways of improving application of the fundamental principle of mutual recognition
Environmental Integration
Taxation and the environment
EU Commission
Dialogue with Business – http://europa.eu.int/business
News from FSB, United Kingdom
Small firms paying above the minimum wage level
News from PI, France
Alain Guyard met EU Officials to discuss the impact of future WTO negotiations on SMEs
News from SAFE, Sweden
38 % of Swedish voters voted to the European Union Parliament.
ESBA member SAFE questionnaire to politicians in Sweden running campaign to be elected to the EU Parliament.
Sweden – a Tax Paradise for big companies as Volvo

European Council

Cologne Summit seeks to prove the EU's determination to play in full its role in the international arena. Specific measures announced for SMEs

This should have been another summit of employment; but the event ended up by being a summit of affirmation of the European Union's determination to play its role in full on the international scene. The meeting was characterised by:

- the prospect of a settlement in the Kosovo conflict
- the prospect of the conclusion of a Stability Pact for South East Europe

ESBA Bulletin of June 1999 – Volume 1 – Number 5

- important decisions on the common security and defence policy and the appointment of Javier Solana as the first CFSP representative.

Otherwise

- Head of governments decided on another intergovernmental conference with limited scope to reform the EU. It is difficult to say whether one should exult or not. No precise guidelines came out of this meeting regarding the fundamental questions posed by an EU enlarged to 25 or 30.
- Budget discipline: The summit put emphasis on compliance with Stability pact and the objective of balanced budgets
- Objectives for taxation: Heads of Governments reiterated that by the end of the year, agreements must be reached on taxation of savings and on the abolition of counterproductive corporate and energy taxation regimes.

More specifically for SMEs in Europe, The European Council reached the following conclusions

- further development and better implementation of the coordinated employment strategy to improve the efficiency of the labour markets (employability, entrepreneurship, adaptability, and equal opportunities)
- comprehensive structural reform and modernisation to improve the innovation capacity of the labour market
- development of a macro-economic dialogue in which representatives of the Council, Commission, the European Central Bank and the social partners participate is an effective way to implementing the growth-and-stability oriented macro-economic policy forming part of the broad economic policy guidelines. The Council confirms its decision on the European Employment Pact and in this connection welcomes the social partner's statement.
- The European Council welcomed the decision to convene a special meeting of the European Council on Employment in order to review the progress made on employment, economic reform and social cohesion. A forum of representatives of Governments of Member States, the Commission, the European Parliament, the social partners and the ECB will evaluate the results
- Europe needs an investment initiative. The European Council has decided on extra incentives for higher employment and investment (eg an extra 500 million released by the EIB from the current risk-capital budget, so as to double the European Technology Facility)
- The European Council instructs the Commission and the Member States to work together with businesses representatives to identify the obstacles to the speedy development and application of information technology and to work out proposals for solving the problems.
- In so doing, the need for standardisation and deregulation should be kept in mind.

World Trade Organisation

The European Union called on Wednesday 16th June for a panel on the arrangements used by the US to sanction the EU in the banana affair

The US which refused to set up the panel during the previous meeting of the Dispute Settlements Body in May would have to accept this time. The EU considers that the US did not have the right to impose a levy representing 100 % customs duties on products coming under sanctions from 3 March, the date when the WTO had not yet given its stance on how legitimate such sanctions were. It considers that the European exporters have been injured all the more as such levies were on

ESBA Bulletin of June 1999 – Volume 1 – Number 5

sanctions evaluated at US Dollars 520 million by the US, while the amount of sanctions fixed by the WTO on 19 April was 192 million.

International finance

During the European Council in Cologne, the EU heads of state and government approved the report on improvements to be made to the functioning of the international finance

The recent financial crisis in various parts of the world have given rise to a broad debate on how the financial finance systems works. With the introduction of EURO, there is an attempt to set up a joint European vision. In this context a recent Econfin Council report gives the following guidelines:

International circulation of capital

- The Fifteen encourage the Board of Governnors of the International Monetary Funds to resume its work of amending statutes in order to create an appropriate legal role for the IMF in the direction of the liberalisation process
- For countries with sound and well monitored financial systems, prudential measures are generally preferable to capital controls
- The establishment of restrictions on outgoing capital is not a suitable way to effectively fight against massive outflows. Nonetheless the Fifteen acknowledge that the imposition of such restrictions would be justified in acute crisis situations.

Participation of the private sector

The EU15 consider it essential to obtain appropriate participation from the private sector to reduce the burden on the public sector for resolving financial crisis. A flexible framework allowing concerted actions by governements, international financial insitutions and private creditors aiming at re-establishing financial stability could be established. The EU welcome the effort made in view of having the private sector participate more, and come out with the following guidelines:

- more frequent use of collective shareholding clauses in contracts on bonds could play in favour of more ordered participation of the private sector in case of crisis
- observing that different countries are «insured» privately against the effects of sudden reversal of capital flows
- incorporation of renewal clauses in international borrowing ocntracts could be envisaged in the same spirit
- there should be an examination of ways of improving communication between the public and private sectors, while ensuring that uniform conditions are maintained for the players
- Under appropriate conditions, and in exceptional circumstances, the IMF could grant loans to promote effective support to the balance of payments during negotiations with crediotrs that me be drawn out.

The EU15 consider that the IMF's conditional credit line will be a precious instrument for crisis-prevention, further encouraging the countries concerned to adopt strict policies, especially debt management policies and sustainable exchange rate policies.

ESBA Bulletin of June 1999 – Volume 1 – Number 5

Single Market

European Commission suggests ways of improving application of the fundamental principle of mutual recognition

The European Commission recently adopted a communication on the principle of mutual recognition in the Single Market. In practice this well known principle, recognised in the famous «Cassis de Dijon» ruling by the European Court of Justice, aims at ensuring the free movement of goods and services, without requiring the harmonisation of national legislations. It obliges each Member State to accept on its territory products legally manufactured or sold or services provided in other Member States. Recently several Member States or firms have made it known that the principle of mutual recognition is not always working entirely satisfactorily, especially for new technologies or complex products. In this recent communication, the Commission proposes a number of initiatives:

- Better monitoring of the application of mutual recognition
- Making citizens and economic operators more aware of this principle
- Improving application of the principle by national authorities
- Improving case management by Commission departments

Environmental Integration

Commission rings alarm bell in a Report on the progress in mainstreaming the environment

Though the integration of the environment in other policies has made some progress in certain areas, such as those covered by Agenda 2000, much needs to be done in sectors such as transport, energy, industry, internal market and development co-operation. The aim of integration is to ensure that environmental considerations become part of any new initiative in all policy sectors.

Taxation and the environment

Finnish Presidency starting 1st July 1999 to include environmental protection and sustainable development among priorities

With a green-minded minister at the orders of the environment, Finland, which has a philosophy of nature conservation and sustainable exploitation of resources plans to place this subject high on the Community agenda. The integration of environmental aspects in all Union sector-specific policies and Community strategy for combating climate change will be the two priorities of the Finnish Presidency in this field. In particular, the Finnish Presidency has set itself the aim of reaching a Member State agreement on energy taxation according to Mrs Satu Hassi, Finnish Minister for the Environment and Development Co-operation. She said that her government did not wish for tax harmonisation, but the establishment of a minimum tax.

EU Commission

Romano Prodi sets out his intentions over reorganisation of European Commission in front of the European Council in Cologne. No comment so far!

1) Composition of the Commission and the portfolios of the Commissioners

There will still be two Vice Presidents: One will be responsible for managing the reform of the Commission; the other will probably be responsible for relations with the European Parliament. The

ESBA Bulletin of June 1999 – Volume 1 – Number 5

portfolios for external relations will be re-organised and consolidated, probably shared among four Commissioners. Certain portfolios will be «strengthened and consolidated; combined with a corresponding reorganisation of the services. Certain portfolios will remain largely unchanged (regional policy, economic and monetary affairs, employment.

The main outstanding question is how best to structure the portfolios covering competition, enterprises and the single market. Two of three portfolios will have to be structured so as to maximise synergy between areas such as SMEs, research and development, innovation, the information society, the internal market, financial services and taxation. Mr Prodi stressed that «this synergy would be crucial for the development of a new strategy for growth, employment and sustainable development.

This restructuring will result in a «marked reduction of the number of «Directorates Generals»

According to our contacts within DG XXIII, this portfolios and services re-structuration should be finished before 15th July. Mr. Prodi should probably be in Strasbourg for the first plenary session of the New Parliament to make an official presentation of the new Commission.

2) Individual accountability of Commissioners

It seems that one of the recent ESBA press release hits its target!!! Indeed while stating that the notion of collective responsibility is «one of the core strengths of the Commission», Mr. Prodi admitted that Commissioners must be accountable for their actions. He expects each future Commissioner to agree to resign «should I feel obliged to ask him to do so.

3) The role of cabinets and services

Cabinets will be smaller and more multi-national: Each Commissioner will have a cabinet of 6 members including at least 3 nationalities. Commissioners and their cabinets will be housed in the same building as their services.

These proposals for «immediate changes» are only a beginning according to Mr Prodi. He is considering presenting a detailed plan by January or February 2000.

Dialogue with Business – <http://europa.eu.int/business>

The WEBSITE recently launched by the European Commission received 11,000 requests for information every day

ESBA Brussels took part in a Seminar organised jointly by DG XXIII and DG III to present the website «Dialogue with Business». This website already presented to members by ESBA Brussels in a former memo (March 1999) aims at helping firms, especially small and medium-sized enterprises to «win new business in the single market and to overcome potential obstacles». A particular emphasis seems to be put on feedback from companies in an attempt by the European Commission to start on-line consultations.

News from FSB, United Kingdom

Small firms paying above the minimum wage level

ESBA Bulletin of June 1999 – Volume 1 – Number 5

Small firms are paying well over the level of the minimum wage, according to a survey released on Monday 24th May by the Federation of Small Business (FSB).

The survey's findings show that the average hourly rate of pay for the lowest paid full-time member of staff is £4.69 per hour – significantly above the £3.60 main minimum wage.

The survey also reveals the average hourly rate of pay for the lowest paid part-time member of staff is £ 4.26 per hour.

The impact of the minimum wage on firms creating employment varies, with 63 per cent saying the minimum wage has had not impact on the likelihood of their business creating new jobs in the next 12 months, though 33 per cent said it had reduced the likelihood.

The survey is the largest carried out since the minimum wage began on 1 April 1999 and was responded to by 8,618 small businesses.

Other findings include:

- 89 per cent of respondents are employers
- 67 per cent of respondents said it is not likely that they will be creating any new jobs over the 12 months
- of the 14 per cent of respondents who indicated some of their staff were paid less than £ 3.60 per hour, 77 per cent said they would have to raise pay levels to comply with the minimum wage;
- 28 per cent of respondents said the effect of the minimum wage legislation on their business would be negative.

News from PI, France

Alain Guyard met EU Officials to discuss the impact of future WTO negotiations on SMEs

First of all, the meetings recently held in Brussels confirmed that:

- WTO pre-negotiations and negotiations are of great importance to SMEs.
- Representations of big corporations are already lobbying (EURATEX/EU Meeting on June 4th, for example. EURATEX did not talk about the fact that many SMEs are close to bankruptcy, they talked about WTO's textile agenda).
- SMEs are not represented.

The Commission might issue a statement about its philosophy for the coming WTO negotiations as early as July, even though this might be postponed by a few weeks for the new Commission to do it. We already know the main framework:

- Make sure that the agenda is as large as possible (not only agriculture for example)
- Lobby emerging markets to agree on agenda.
- Enlarge the debate to social clauses, environment issues....not only tariffs issues.

The EU has a lot to gain or to lose for the following reasons:

- Import tariffs are among the lowest in the world. It is necessary to press others to lower their tariffs.

ESBA Bulletin of June 1999 – Volume 1 – Number 5

- Low wages in emerging markets penalize our industries. We want to impose minimum social standards (one of France's priorities).
- Alliances between countries are not simple. Some examples: «CAIRNS group» (Australia, U.S, Canada...) will attack the EU farm policy; developed countries support anti-dumping rules which are refused by emerging countries; within the EU the North is much more liberal than the South.....

Alain Guyard

News from SAFE, Sweden

38 % of Swedish voters voted to the European Union Parliament.

Swedish Prime Minister Mr Göran Persson said: "This poor participation in the voting is catastrophic and jeopardises the democracy in Europe"

Many people not voting to the EU Parliament explain that they want to protest against what they feel is the politicians game to increase their own personal income and power. The Swedes seems to be against corruption and economical scandals in Europe. Before the EU Commission jointly resigned there where a little majority among the Swedes for joining the EMU. If a referendum would have taken place after the resign of the Commission a great majority would have voted against joining the EMU. By only 38% of the potential votes, where at least 80 + 85% normally participate in voting, the majority is sending a strong message to the EU Parliament, that all of it's members should take time to give a serious thought. By right analysis, the weakness of the EU Parliament could be changed into strengthen its role in the future.

ESBA member SAFE questionnaire to politicians in Sweden running campaign to be elected to the EU Parliament.

Before the election, SAFE send out a questionnaire to politician in Sweden running campaign to be elected to the EU Parliament. Politicians were asked to answer questions like "Are you prepared to work for less tax burdens an simplify regulations for small businesses?" and "Are you prepared at the EU Parliament to work for tax competition instead of `tax harmonisation`? Specific questions on the labour market situation in Sweden, the so called `Swedish model` where also asked: "Are you ready to work for laws that give small businesses the right to deal directly with their employees on working condition?" and "Would you help small businesses to avoid destruction caused by trade unions blockades, and forbid trade union blockades on small businesses by law or at least open the possibility for small businesses to take trade unions to civil court ?"

Most of the answers where positive to changes for SME in Sweden but the question of Labour Market Laws the politicians where clearly and deeply split into two different parts: One part which is positive to changes for SME and the other part which is against any change of Labour Market Laws in Sweden.

Sweden – a Tax Paradise for big companies as Volvo

Largest Newspaper in Sweden, "Svenska Dagbladet" made a tax research in May showing that only two of Volvos 106 companies in Sweden pays any taxes. 104 companies in the Volvo concern in Sweden where paying zero point zero Swedish Crones to the state. Volvo answered by saying that "it was not interesting how much taxes the individual companies in the concern pays - it is the total tax payment that is interesting to know" and "Volvo pays taxes as all other companies in Sweden." The

ESBA Bulletin of June 1999 – Volume 1 – Number 5

Newspaper research showed that Volvo was at the bottom in Sweden paying total taxes of maximum 12 % when common taxes of both SME and large companies in Sweden can be as high as 53 % of the turnover. After Ford bought Volvo earlier this year, Volvo had to declare profit of 28 billion SEK for which Volvo only wants to pay microscopic tax. The paper did not include Governmental subsidies to Volvo in its research nor whether any SME in Sweden has tax favour à la Volvo!