



FEDERATION OF SMALL BUSINESSES (FSB)
RESPONSE

TO THE EUROPEAN COMMISSION CONSULTATION
ON

THE STATE AID ACTION PLAN

FEDERATION OF SMALL BUSINESSES

The Federation of Small Businesses (FSB) is the UK's leading non-party political lobby organisation. It exists to promote and protect the interests of all who own and/or manage their own businesses in the UK. With over 190,000 members, the FSB is also the largest group representing the interests of UK small businesses and the self-employed.

The FSB welcomes the opportunity to respond to the Commission consultation on the State Aid Action Plan. We hope that you will find our comments useful and that they will be taken into account.

I General Comments

The FSB considers that the state aid action plan document reads like a policy document, with little suggestion from the Commission as to what direction the state aid policy should take. This is a concern because state aids constitute a large policy area. The general tone of the paper makes it difficult to pinpoint the most important issues.

The FSB believes that the state aid regime needs simplicity and clarity. In its current form, it is complicated and multifarious. The regime should be flexible, but there must be safeguards to ensure that competition amongst business is not distorted; for example, looking at the economic impact of state aids.

The FSB considers that there needs to be clearer definition between a subsidy that distorts competition and a payment to foster/amend certain behaviour. We would welcome guidance from the Commission on this area of public subsidies in particular.

II A modernised state aid policy in the context of the Lisbon Strategy for growth and jobs

We appreciate that the Commission wants state aid policy to be more user-friendly and predictable. The Commission notes in the policy document that legal uncertainty and the administrative burden must be reduced for the

Commission and for Member States. This is true, but legal uncertainty and the administrative burden must also be resolved for business, in particular SMEs. Opportunities to receive subsidies should be transparent and well-publicised, possibly being cascaded through Regional Development Agencies in each Member State.

The FSB agrees that the reform package discussed by the Commission seems appropriate. In particular, we would welcome a greater emphasis on refined economic growth and more effective procedures. We would also welcome more information on how the Commission and Member States could share responsibility for reform of state aids and whether this would extend to any co-operation between Member States?

III: Focussing on the key priorities

On the issue of R&D the FSB notes the conclusions of the European Research Advisory Board (EURAB) report of 2004, "SME's and ERA", in particular the assertion that "...higher SME spending on research in Europe, if achievable, could play a key role in helping to achieve the Barcelona 3% target. In the United States the Small Business Innovation Research (SBIR) Programme has played a key role in stimulating the emergence and growth of high-technology innovative businesses. The FSB believes the Commission should institute SBIR-like state aid measures in this area.

The FSB concurs that there is a need to improve the business climate in the EU and to encourage further new start-up businesses. However, whilst it is important to focus on start-ups and young, innovative SMEs, the Commission should not dismiss established, successful small businesses that are innovative and always seeking ways to improve and strategise. The FSB considers that established businesses risk being overlooked under this strategy.

On the De Minimis aid threshold and regional aid, the FSB is concerned that raising the De Minimis threshold may be problematic for reasons of competition distortion. SMEs are predominantly comprised of sole traders and micro businesses (eg: the self-employed operating alone or businesses employing under ten people). A grant of 100,000 euros over three years has the potential to make an enormous difference to an SME, raising the threshold risks the

possibility of distortion further. Indeed, more than 90% of FSB members have a turnover of 2 million Euros or less,¹

De Minimis aid could be viewed differently and connected directly with “regional aid” or “specialist aid”.

Regional aid in its current form can be problematic because it limits aid to assisted areas only. This can distort competition because regional aid puts certain areas at a comparative disadvantage with other areas. It may be more appropriate to foster better mechanisms for bloc exemptions for public subsidies to SMEs where there is a cultural, social or environmental benefit. This type of subsidy changes behaviours and benefits the wider community, whilst not actually distorting competition.

Emphasising specialist aid could be preferable to the current De Minimis system because aid will be tangible. If an SME got a De Minimis grant for investment in electronic equipment, this would be a visible subsidy. Focussing on specific projects and reducing the three-year cumulation period to a one year period would make tracking the grant and analysis of its effect much simpler. A reduction in the administrative burden would be achieved for government organisations administering such grants.

IV. Modernising the practices and procedures of state aids

The FSB recognises that EU state aid policy is more generous than UK state aid policy. This in turn, creates higher administrative burdens. We concur with the Commission’s suggestion that there should be more predictable timelines; clear intermediary steps in procedure and increased transparency using electronic means. Any information available online must be user-friendly and easily accessible.

Finally, the Commission’s suggested idea of independent authorities enforcing state aid rules would depend on who the authorities were. Enforcement and ensuring parity of enforcement are difficult issues. We would welcome more

¹ “*Lifting the Barriers to Growth*”, The FSB Biennial Membership Survey 2004, p43.

information on how this may work, but ultimately the FSB should like to see enforcement remaining with the current enforcers, with proper guidance and advice issued to all businesses so that they know of their requirements.

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