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PRESS ARTICLE

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EU HELP FOR SMALL BUSINESS

Business Secretary Peter Mandelson has announced that the Government will make available £1 billion through a Small Business Finance Scheme to help struggling firms. It seems that at last the significant contribution of small business to the UK economy has been recognised. Small and medium sized businesses comprise 99% of all UK businesses, employ 60% of our labour force and contribute 52% of private sector GDP. Let us hope that the New Labour leopards have changed their spots and that this will not be yet another example of Mandelson spin combined with the complex maze of restrictive bureaucratic regulations which Gordon Brown is so fond of creating.

Fortunately for small business there is another less complicated source of new loans. The European Investment Bank has provided £650 million additional funding for UK small business which can be accessed through HBOS (now part of Lloyds Banking Group), the Royal Bank of Scotland and Barclays Bank and will be available in the very near future. My advice to business is to get down to these banks as fast as your legs can carry you. Experience teaches us that when asking for help from this Labour Government the devil will be in the detail. Negotiating an EU loan must be less complicated, mustn't it?

In addition, the European Parliament is currently considering new measures to help improve conditions for small business. The European Commission consulted widely with trade and labour organisations throughout Europe and in June of last year adopted proposals for a Small Business Act (SBA). This proposed legislation is currently under consideration by the Industry, Research and Energy Committee of the European Parliament. The Committee is expected to complete its deliberations and vote on its Report this month and will forward proposal amendments for a final vote in the Parliament's March Plenary Session.

This Small Business Act for Europe is aimed at many of those issues which seriously hinder the development of small and medium sized businesses (SMEs). The Act will focus upon cutting bureaucracy and red tape, facilitating access to EU research and public procurement programmes, and improving access to finance and favourable tax rates.

The need to comply with a host of Government regulations as well as to provide data to numerous Government departments places an ever increasing administrative burden on small business. The time taken to satisfy these demands is affecting the competitiveness of companies. The Small Business Act contains measures which, it is anticipated, will reduce by 25% this administrative burden. Not before time, one might say.

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Conservatives in the European Parliament

The Act will make recommendations to cut Government demands on companies for statistical data and also information which is already held in various forms within the system. As regards environmental legislation, for example, consideration is being given to introduce a more risk based regulatory approach where companies, instead of following existing complicated procedures, will be allowed to simply notify authorities of any environmental risks involved in their activity and the measures they will take to address them. It is also proposed that it be mandatory for all EU Member State Governments to carry out an impact assessment on small business for all new regulations and reduce existing regulatory and administrative burdens.

A significant barrier to the growth and development of SMEs are the current difficulties encountered in negotiating finance. The Act contains many recommendations to improve this situation, including the establishment by EU Member State Governments and the European Commission of credit guarantee schemes to underwrite high risk loans and the setting up of a European market for risk capital in order to increase SME access to venture capital. Additionally, it will be incumbent upon EU Member State Governments to work together to cap interest rates that banks charge to SMEs at an appropriate level and to encourage the increase of lending to small business by financial institutions that are not banks. Let me give credit to Lord Mandelson for attempting to do this.

The European Union is not empowered to regulate the tax rules of its Member States. Nonetheless, within the Act are recommendations which could do much to reduce the tax burden on small business. This burden is not simply due to the level of direct and indirect taxes imposed by the Government but is a result of the complicated way in which they are administered. The time spent by SMEs in understanding the complicated business tax system and completing the paperwork, is time that needs to be freed to carry out business.

The Small Business Act also identified the need for EU Member State Governments to introduce lower tax rates for SMEs for limited periods when warranted by unfavourable economic conditions, and measures for transferring losses to future tax years. The Act considers that capitalisation rules need to be reformed so that equity financing is treated in the same way as debt financing. Above all, it recommends that European banks, business and industry work together to bring transparency and an open exchange of information to improve conditions for SME investment.

There is a limit to how far this Small Business Act will be able, in the short term, to influence changes in issues of tax and government procurement policies, for example, for their solution rests outside the legal remit of the European Union. Although currently small businesses in general do not trade across international boundaries, there is a challenge for them to exploit the opportunities of the single European Market. The Small Business Act should provide the necessary stimulus for change to make this happen. It would be good to have some positive action to back up all the positive rhetoric we hear at EU level.



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