

Safeguarding European products by protecting European micro, Small and Medium size and Middle-sized enterprises from abrupt regulatory changes – transitional realism

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Having regard to

- the European Green Deal
- the Proposal for a Directive of the European Parliament and of the Council on Corporate Sustainability Due Diligence and amending Directive (EU) 2019/1937
- the EU taxonomy
- the small business Act for Europe
- Regulation (EU) No 1287/2013 of the European Parliament and of the Council establishing a Programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises (COSME)
- The Single Market Act II
- The evaluation of the Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium- sized enterprises (2003/361/EC)
- The European Commission's Final Report on the Study to map, measure and portray the EU-midcap landscape
- the Corporate Sustainability Reporting Directive (CSRD)

Recognising that

- Private initiatives, such as businesses and enterprises are central to economic growth and prosperity, as they create jobs, they demonstrate elements of a healthy economy, and they constitute examples of innovation and creativity.
- Small and medium-sized enterprises (SMEs) are often referred to as the backbone of the European economy, providing a potential source for jobs and economic growth.
- Micro enterprises are defined as employing **less than 10 persons**, small enterprises **10-49**, medium-sized 50-249, SMEs **less than 250 persons**. They should also have an annual turnover of up to EUR 50 million, or a balance sheet total of no more than EUR 43 million.
- Micro, small and medium-sized enterprises (SMEs) constitute 99% of companies in the EU. They provide two-thirds of private sector jobs and contribute to more than half of the total added value created by businesses in the EU¹.
- There were estimated to be approximately 23.1 million small and medium-sized enterprises (SMEs) in the European Union in 2022, with the vast majority of these enterprises micro-sized firms which only employed fewer than nine people. A further 1.35 million enterprises were

¹ <https://www.europarl.europa.eu/factsheets/en/sheet/63/small-and-medium-sized-enterprises>

small firms with between 10 and 49 employees and approximately 206,592 were medium-sized firms that had 50 to 249 employers².

- The EU Single Market favoured the development of middle-sized enterprises (or mid-caps) that lie between SMEs and large corporations. Mid-caps as enterprises with 250 or more, but less than 1,500 employees that account for more than 13% of overall employment in the European business sector. It is estimated that, in absolute terms, there are around 31,000 small mid-caps firms and another 18,000 large mid-caps in the European Union³.
- Mid-caps are established firms that often used to be an SME and survived the 'up or out' stage of early firms, are still frequently family-owned, and are mostly active on the Single Market but also active on markets outside the EU.

Acknowledging that

- Micro, small and medium-sized enterprises can be perceived as the guarantors of family income, as they usually either constitute family-owned entities or – given their small size – they tend to employ long-term staff, leading to the development of a familial environment amongst the employees. In addition, these enterprises tend to especially engage with activities, services and products that are bound to certain traditions, especially if they operate in rural or less cosmopolitan areas.
- Small and medium-sized enterprises, as well as mid-caps, report as major challenges and significant regulatory burden the differences in legislation across Member States, as well as ever increasing requirements from environmental and sustainability regulation whilst access to finance remains challenging.
- Small and medium-sized enterprises, as well as mid-caps, report significant difficulties as their size often does not allow them to engage fully in areas such as innovation funding, sustainability or access to finance. As a matter of fact, regulation and administrative burden, followed by the requirements from environmental regulation, and trade/customs-related requirements and accounting standards enhance their difficulty towards a smooth transition.
- Given the complexity of contemporary challenges in the EU, as well as the technological progress that demands constant business adaptation, it is a fact that micro, small and medium-sized enterprises and mid-caps are the ones which face the most significant difficulties in their way to transition. Green and digital transition often require vast and costly adjustments, with which low-resourced companies cannot afford.
- Traditional European products are mainly manufactured or produced by Europe's smaller and mid-sized companies. European legislation increasingly loses sight of the small and mid-sized companies and the Commission often underestimates the impact of legislative proposals on these companies.
- In certain niche markets, or for traditional European products, small and medium-sized companies as well as mid-caps can thrive and evolve into market leaders, by becoming hidden 'European innovation champions'.
- At the same time these companies are treated the same as large European and non-European multinational companies. Proposed legislation is often a topic-driven and parochial, not fully

² <https://www.statista.com/statistics/878412/number-of-smes-in-europe-by-size/>

³ European Commission's Final Report on the Study to map, measure and portray the EU-midcap landscape

83 appreciating the real combined impact of a myriad of proposed measures that were
84 developed in silo (e.g. new environmental legislation combined with new due diligence
85 legislation or sector specific legislation).

- 86 ● By having survived the ‘up or out’ stage of early firms, midcaps are not automatically
87 transformed into multinational entities, ready to take over costly and abrupt administrative
88 changes and regulatory transitions.
- 89 ● This trend of overlooking the interest of these key European enterprises, with legislation
90 developed for large multinationals applying equally for European micro, small and medium-
91 sized and mid-caps companies, is limiting their economic chances, their workforce and in the
92 end threatening traditional European products and as such our own heritage.
- 93 ● This is especially worrying in today’s Europe where more young people want to become
94 entrepreneurs by launching a start-up. From the start they see their efforts thwarted by
95 unsurmountable market entry thresholds due to – many times – complex European
96 legislation. Even if in the beginning their goals are subjected to certain ‘SME exemptions’,
97 growing beyond this size within the EU, automatically means compliance with much more
98 legislation, which might end up demotivating many to even start. Young people do not look
99 for opportunities only at the local, regional or national market level, they see a European
100 market, a Europe in which they have been born in.
- 101 ● In its own Recommendation of 6 May 2003, the Commission recognized that “there is a
102 distinct call for a tailor-made definition fitting companies that have outgrown the SME
103 definition ceilings. It could be useful to look into the challenges that companies meet once
104 they have ‘outgrown’ the SME-phase and analyse whether any policy gaps could be
105 addressed”.⁴

107 **YEPP Calls on**

- 109 ● The European Commission to assess and take into account the objective financial and resource
110 differences between micro, SMEs and mid-caps on the one hand and multinational
111 corporations on the other hand when setting ambitious regulatory goals.
- 112 ● The EU to consider additional tailor-made measures for micro, small and medium-size
113 enterprises and mid-caps to support them in their green, digital and sustainable transition
114 process.
- 115 ● The EU to evaluate and monitor how existing regulations benefit SMEs and mid-caps
116 companies or not and adapt these as necessary, focusing on supporting their scaling-up.
- 117 ● The EU to introduce a more systematic and wider application of the definition of mid-cap firms
118 in evaluating the business environment and policy evaluation.
- 119 ● The EU to ensure any new regulatory requirement for micro, SMEs and mid-caps companies
120 is accompanied by measures that counterbalance the potential extra burden by enhancing the
121 access of these companies to financing.

⁴ The Evaluation of the Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises (2003/361/EC)