Micro, petita i mitjana empresa de Catalunya

POST-COVID-19 RECOVERY MEASURES FOR SMEs IN EUROPE

Following the call from SME United to propose measures for a speedy and sound economic recovery in Europe from the Covid-19 Crisis, we hereby make a number of suggestions based on our day-to-day exposure to the actual problems of SMEs, after having dealt with 10,700 enquiries from SMEs and self-employed since March 13.

We also draw on our experience in the previous crisis, when PIMEC proposed a landmark measure to inject liquidity to SMEs, with the 20-billion € *Plan de Pago a Proveedores* (Suppliers' Payment Plan), as described below. Besides, we make a special emphasis on the circulation of people, namely tourism, which is a critical driver of economic growth in South Europe.

Finally, we focus only on key aspects where the EU institutions can add value based on their regulatoryauthority, financial capacity, supranational status and political influence.

1. *Focus EU financial support to Member States on SME liquidity:*

Based on the last Eurogroup agreement, Member States may apply for various financial instruments (e.g. ESM, ECB, SURE) to tackle the effects of the Covid-19 Crisis. We call on EU institutions to make this support to national governments conditional on its priority use to settle the following debts:

a. VAT and other tax refunds to SMEs & self-employed (in particular exporters).

b. Outstanding payables of all public administrations for works, services and goods supplied by SMEs & self-employed.

c. Outstanding subsidies to SMEs & self-employed as a result of grant agreements, concessions or public-private cooperation.

This measure will guarantee that EU "rescue" funds eventually end in the pockets of SMEs. PIMEC estimates that only items *a)* and *b)* above amount to 15 billion € in Spain at the moment.

During the 2008 Crisis, PIMEC and PlataformaMultisectorial contra la Morosidad (PMCM) agreed with the then Spanish Government to use a budget of 20 billion € to settle outstanding debts with private suppliers and contractors. The *Plan de Pago a Proveedores* (Suppliers' Payment Plan) had an unprecedented impact on enterprise liquidity and the economy.

2. *Amend VAT Directive to temporarily exempt certain services:*

We suggest amending the VAT Directive 2006/112 in its Article 132 to temporarilyinclude in the VAT exemption a number of local services provided by SMEs and self-employed, namely:

a) Personal services shut down during the lockdown period (e.g. hairdressing, beauty, etc.).

b) Labour-intensive services, either shut down or severely affected during the Lockdown (e.g. cleaning, gardening, etc.).

c) Travel, hospitality, lodging and catering services.
d) Cultural, sports and entertainment services, shut down during the Covid-19 Crisis and last to reopen.

This full VAT exemption should apply to the above activities, mostly supplied by local SMEs and negatively affected by the lockdown. Besides, in particular activities *c)* and *d)* may still be substantially affected by long-lasting restrictions on room capacity, thus making their businesses less profitable.

We propose this exemption to run from June 1 to December 31, 2020. This would not only limit the impact on public finances, but also trigger an overshooting effect on consumers, who may rush to acquire pre-sold services before 2021. This would raise revenues of small service providers in the second half of 2020 and help them recover from the Lockdown.

3. ***Introduce the European Digital Tax:***

We suggest restoring the European Commission's plan to introduce a Europe-wide digital tax on large providers of e-commerce, video streaming, online gaming, online gambling and other digital services.

After consumption of these services has skyrocketed during the Lockdown, such suppliers will be less socially legitimated to fight the Tax. Besides, the US government is now in a weak position to oppose this measure.

Revenues from the Digital Tax may raise the EU's own resources and help finance an "E-Commerce for all" strategy for SMEs, as proposed by the European social partners.

4. ***Focus unused EU funds on key infrastructure projects:***

The European Commission has earmarked up to 37 billion € of unused EU structural funds which may be applied to underpin the economic recovery. We believe that these funds may be better used in projects with substantial spill-over effects on local economies, such as the completion of key TEN-T infrastructure projects and the deployment of 5 G networks across the EU.

5. ***Develop a "Yellow Pass" in the Schengen Area to restore movement of people:***

Most proposals on the exit strategy from the Lockdown focus on restoring the Single Market for goods. While we value this priority, circulation of people is also another founding pillar of the EU and many South European economies strongly rely on it.

Tourism represents 12% of Spain's GDP, but its share is more than twice in regions like the Balearic and Canary Islands. The spill-over effects on other sectors brings the relevance of tourism close to 50% of GDP in many South European regions.

Even North European economies need to gradually restore circulation of people sooner than later, as this is the basis for their competitive exports, fairs and exhibitions, business and scientific exchanges. We all can't wait for a proven Covid-19 vaccine to restore cross-border movement of people, as it may take 6-9 months more.

We are aware that free movement of people will take longer than movement of goods and that any solution will need to be implemented globally. However, with a weak World Health Organisation (WHO) and an inward-looking United States, the EU must take the lead in providing a reasonable solution to restart circulation of people across borders.

We propose that the European Commission works on the introduction of a "Yellow Pass", an electronic certificate granted to citizens that have recently taken a Covid-19 test in a certified establishment and are thus given permission to travel to another EU country. The "Yellow Pass" would be issued in the following ways:

a) *Schengen Area residents:* Member States would issue the "Yellow Pass" to a citizen based on a negative Covid-19 test taken recently (e.g. 3 days prior to departure) under the instructions and control of an appointed national authority or entity (e.g. Robert Koch Institute in Germany or alike). The "Yellow Pass" would allow for travel into another Schengen Area country and be requested for any travel or accommodation booking.

b) *Third-country residents with visa-free access to Schengen Area:* The EU would certify and appoint a national authority or entity to take the Covid-19 test. Then, this entity would notify the EU prior to the citizen's departure.

c) *Third-country residents with visa requirement:* They would take a certified Covid-19 test prior to departure with a partner airline or cruise. Actually major global airlines have recently started Covid-19 testing on passengers[1]. Test cost would be paid along with the Schengen visa application and the EU would so reimburse partner airlines or cruise lines for this service.

While the risk of contagion cannot be completely removed, it can be substantially reduced with the "Yellow Pass" system, so that people may start moving around the EU and non-EU citizens may gradually be admitted into the Schengen Area. Without a sound system of this type, it will take months, even years to restore people's confidence to travel again. Hence, we request the European Commission to start working on this proposal along with Member States in the Schengen Area as well as the European Centre for Disease Prevention and Control (ECDC).

6. *Establish a massive online EU Covid-19 OSH Benchmarking website:*

Exit strategies may differ by country and sectors,so many best practices can be learned across the EU. Since the activity of the EU institutions has substantially slowed down, we propose to commit the human and IT resources of both the European Commission's Directorate-General for Translation and the European

[1] https://www.emirates.com/media-centre/emirates-becomes-first-airline-to-conduct-on-site-rapid-covid-19-tests-for-passengers/

Agency for Safety and Health at Work (EU-OSHA) to establish a massive online directory of occupational safety and health (OSH) measures against Covid-19 across countries and industries.

Measures across countries and sectors would be accurately compiled and translated into all EU languages to then be made available online for free consultation. Companies from a given sector may so be able to check the measures applied in different countries in their own language.

7. ***Monitor and fight abusive banking practices:***

Most member states have resorted to government-backed loans through the private banking system as a response to the Covid-19 crisis. However, the degree of competition in the national banking markets diverges across countries and a single banking market has yet to be achieved in the EU.

In some countries, the banking market has dramatically concentrated in recent years as a result of the 2008 Crisis and no new entrants have emerged. Therefore, banking oligopolies exert a tremendous market power which can lead to abuses.

In Spain, a first Covid-19 special tranche of 20 billion € with an 80%-collateral from the Spanish Government has already been distributed and major SME organisations in the country - such as PIMEC, UATAE and PIMEM -, have witnessed relevant abuses like the following:

- Requirement of personal collateral from the SME shareholders, in addition to the 80%-guarantee by the Government.
- Cross-sale of other financial products as a requirement for the loan, such as life insurances.
- Dramatic increase in interest rates, in particular when the tranche was close to be exhausted. While the initial rate set by the government coordinating entity ICO was 1.5%, most loans quickly reached 2.5-3% and some contracts were eventually closed at 4-4.5%.
- Replacement of existing loans with the new loans with government guarantee, so that borrowers have actually received no fresh money at all, but banks have instead improved their collateral and minimized lending risk.

PIMEC and other Spanish SME organisations are currently collecting data as the second loan tranche is being rolled out. However, we request the European Commission and the European Banking Authority (EBA) to mandate a <u>comprehensive survey through SME United and their member organisations on the implementation across the EU of Covid-19 related financial instruments for SMEs</u>. The outcome of this study should lead to fines to Member States that have failed to provide access to finance for SMEs in compliance with the Small Business Act (SBA).

8. ***Monitor and enforce suspension of the Stability and Growth Pact:***

European social partners requested in their Statement of March 16 a suspension of the Stability and Growth Pact (SGP) to fight the Covid-19 effects, which eventually happened in the European Council of

March 23. However, implementation of this suspension has not reached all layers of public expenditure, particularly in decentralised countries where local governments play an important spending role and are key for most local SMEs.

In Spain, local government have over 13 billion € allocated in financial institutions, which they cannot spend based on a 2012 national Law on Budget Stability inspirited in the SGP (*Ley Orgánica 2/2012 de Estabilidad Presupuestaria*).

While the central government recently accepted that 20% of it could be spent on social policies, municipalities call on more flexibility to be able to support local companies. For instance, economic recovery at the local level may start with small public works that create jobs immediately and have a quick and strong spill-over effect on communities.

We request the European Commission to issue a Communication for all Member States to immediately roll out the effects of the SGP suspension downstream to all lower administrations, especially local ones which are closer to crafts and SMEs.

9. Amend de minimis threshold on state aid rules:

The recent amendment in the Temporary Framework for State Aid Measures SMEs is yet another fulfilled request of European social partners. While it has taken into account special benefits given to companies in the Covid-19 Crisis, such as tax deferrals or loans, it has left unchanged the general *de minimis* rule.

Remote regions and islands traditionally benefit from transportation subsidies that can easily represent the bulk of the *de minimis* amount. In the aftermath of the Covid-19, such regions will be left with little or no tourists and will need to take advantage of restored trade in goods to recover. Moreover, shipping costs have risen across the board as the Lockdown has restricted the availability of connections.

For this reason, we propose an increase in the *de minimis* threshold to twice its current amount (400,000 € per year) in the following cases:

a) If the beneficiary is based in an island region of a Member State or
b) It is located in a region whose population density is half (or less) that of the Member State's national average.

We define here regions as NUTS 3, which is equivalent to a province in Spain. This rule would apply to three provinces in Spain for case *a)* and 20 regions for case *b),* out of 52 Spanish provinces.

10. Amend thresholds for online sales of microbusinesses:

The Lockdown has had a very positive effect on electronic transactions, of which many non-EU suppliers may have benefitted. However, small stores, farmers, trainers and professionals are increasingly using Internet to sell their goods and services. As we expect a few months of gradual exit from lockdown and

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consumers may have shifted their purchase patterns in favour of Internet, we propose to amend existing rules on E-Commerce taxation to encourage SMEs to go digital.

We suggest amending the VAT thresholds in online sales set out in the EU regulations as follows:

- 50,000 € in annual sales are VAT-free.
- For sales over 50,000 € in a year, the origin Member State VAT rate will apply.
- For cross-border sales exceeding 200,000 € a year, the destination VAT rate will apply.

- The above thresholds will double in the case of companies based in islands or sparsely populated regions of Member States (NUTS 3 regions whose population density is at most half the national average).
- The above thresholds will raise by 1.5 times if the company is engaged in farming & animal husbandry.
- The above threshold will also increase by 1.5 times in the case of companies where the main shareholder or managing director is a woman.

Barcelona, April 19, 2020.