

## Access to public procurement for European SMEs, a vital commitment

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On behalf of all the organizers of this conference –AFIC, CGPME, EVCA, MEDEF and SYNTEC INFORMATIQUE–, I am very pleased to welcome you for this session on SMES and public procurement and would like to thank representatives of the European Commission, of SMEs and of Member States, who took some time to be here with us today. Maybe you already saw that we have a very busy schedule this morning, so I suggest that we begin now with a series of short introductions by our key speakers

**Jean Mounet, President, Syntec Informatique**

Madame la Ministre, Mesdames and Messieurs, my name is Jean Mounet. I am the chairman of Syntec Informatique, the French organisation of IT services and software companies. This business is 30 billion euros in revenue in France and globally in Europe nearly 200 billion euros. It is a key business for everybody, it is a key business for every country and for every company. It is a key business for two reasons : growth and employment. Growth to start: it is a key business for the growth by itself because this business is growing by 7 to 8% per year on average in 10 years and it is also a

key business for growth by the impact we have on performance and productivity of all companies. You know that 60% of the gap between the US and the European productivity and GDP are linked to the use of IT services and IT investments. For employment : in France we recently had a survey concerning companies having the intent to hire more than 500 executives in 2006 and there were 37 companies having this intention. Among these 37 companies, 21 were IT services companies, two thirds, it is impressive.

So, in IT business, SMEs have key roles : key role in employment, they contribute a lot to the dynamism of employment, key role for innovation, most of the new technologies, most of the new innovations are coming from these companies and key role for the global growth of this business. And for these companies, the public procurement is very important because first, it is the 20% of the global market in IT, and second because often in the public sector procurement, you have very technologically advanced projects which are very important to develop knowledge and innovation. But this procurement is very difficult. Why is it very difficult ?

First, more and more the government and the public organisations want to reduce the number of suppliers. Less and less suppliers and bigger and bigger suppliers. And really it's a huge wave to reduce the numbers of suppliers in this sort of organisation and in this sort of procurement.

The second point is the growing complexity of the large projects in government and administration. Projects are bigger and bigger and complex and complex and I think that it is very important also to say that the process to get this sort of contract are longer and longer. Now we can mention several contracts and several projects with more than 18 months of negotiation before the decision. So it is very difficult for SMEs to support this sort of contract and to deal inside this sort of project.

I have to mention also the question of information. To bid in this sort of project, it is important to be very well known and it is important that the purchase department knows very well your offering and your skills. So there is simply a lack of information between the SMEs and the public sector to be really competitive.

The cherry on the cake : no risk. What do I mean ? it is very simple: nobody has been fired by choosing IBM. And when you have to decide a large project, in fact at the end of the day, you prefer to take no risk and to chose big competitors because you think it is the security. Perhaps it is more expensive, perhaps it is less innovative but no risk. So it is really more and more difficult to be competitive for small companies.

What do we want to conclude this very small address ? We want revenue and no aid. In fact what we want is fair competition, only the fair competition. Today, that is not a fair competition. You have a dozen of companies really competing in the public sector and we cannot say that it is a fair competition. And the only thing we want is that fair competition has to be implemented in this business. At the end of the day, a fair competition is more growth, is more innovation, is more employment for Europe and finally a more competitive Europe. Thank you.

**Jan Van der Putten, General Director, EFCA**

Minister, ladies and gentlemen, yesterday I was called upon to make a three minutes speech and I can tell you it was quite a challenge to condensate a few ideas into three minutes but anyway I will try and I hope I will be able to live up to it.

In fact I have been asked to reply to two specific questions. The first one would be "why access to public procurement for European SMEs is important ?" and secondly "why support the balancing of the government procurement agreement ?"

But first of all I would like to say a few words about our Federation. EFCA is the sole European Federation representing engineering consultancies. The services that they provide consist of studying, conceiving and supervising the materialisation of works or products for both public and private sector. Their services are in fact strategic as they bear directly upon the competitiveness and the sustainability of installations, works and products. In Europe these professional services impact on roundabout 17 billion euros investments annually in infrastructure, industry, building and the environment. Engineering consultancies in Europe employ some 700 000 highly qualified staff, 2/3 of who are working in SMEs with less than 250 employees.

The development of SMEs and particularly of SME engineering consultancies is hampered by certain practices and legislation which govern public procurement in Europe. For example: compared to large firms, they are in an unequal position to access public contracts tendered through the new competitive dialogue procedure which is used to initiate the PPP contract and which is laid down in the 2004 public procurement directive. SME consultancies are excluded from these markets because the requirements are far too stringent.

The government procurement agreements do not mitigate the unequal position that SMEs are facing to access to public procurement. On the contrary, they tend to favour the large companies to the detriment of SMEs especially in the construction sector. Therefore it would be advisable to consider a balancing of the government procurement agreement with the view of creating equal access conditions for SMEs.

Without any pretention, without any intention to create privileges for SMEs or to install quotas which would be reserved for SMEs in public procurement, one could consider a few suggestions. First one would be to prohibit unjustified requirements which penalise SMEs and in that respect I would be thinking of excessive guarantees, excessive experience requirements and so on. Limit the use of these public procurement procedures which handicap SMEs, and we believe that PPPs, unless they are only used in very limited cases, they will really handicap SMEs. Thirdly, modify these procedures that favoured the dominant position of large firms and especially monitor that SMEs are properly remunerated for their efforts to access public procurement.

And if I refer back to PPPs for example, it would be the consulting engineer or the engineering consultancy that would have to make the upfront investment in order to start a PPP and they are not remunerated. This is what we call an unfair situation. These are only a few ideas, I hope I stuck to my 3 minutes and I thank you for your attention.

**Jean-Francois Roubaud, President, CGPME**

Madame la Ministre, honourable members, ladies and gentlemen. Why should we worry today about SMEs' share in public procurement ?

I see several very convincing reasons. First of all, public procurement is of the outmost importance in the economic field in all countries. For small and medium enterprises, which are the backbone of European economy, better participation to public procurement means more competition, more opportunities to create jobs and more innovation. Secondly, in the competition field, better participation to public procurement favours a more diversified economic environment and an increasing range of participants. It means real competition, it means reducing the risk of hidden agreements and allowing a public procurement policy based on quality.

For several years, French governments have been working on encouraging SMEs participation to public procurement. Several new measures are set up in the last version of the French Public Procurement Code, implementing the 2004 EU directives and will have a positive effect for SMEs only if public contractors play a fair game. I would like to stress out some of these measures. Smaller lots are now the principle, but public contractors could still call for exceptions to this principle as a smaller lot represents an administrative burden to them. The lack of references is not considered as a barrier any more; public contractors must look for and assess companies, technical and professional skills. Requirements must be proportionate to the tender and to its specifications. Within the framework of a restricted call for tenders, public authorities can fix a minimum number of SMEs allowed to submit an offer. An economic observatory for public procurement is set up. Its main task is to produce data and figures on a yearly basis on public procurement awarded to SMEs.

Nevertheless, although the legal environment in France is becoming friendlier for SMEs in spite of international and Europeans barriers, although SMEs are satisfied with the situation in public works and construction sector, we have to say that innovative SMEs are too often evicted from public tender procedures, as contracting authorities estimate their financial capacities too weak. Start up SMEs encounter difficulties in accessing public tender procedures as they lack references. Such an unbalanced economic situation backed by an international agreement is not bearable any more.

European SMEs cannot fight equally with their competitors. For the European authorities to receive well the message, may I remind you that the French SMEs are not asking for a "part réservataire",

quotas or quantitative obligations in awarding public contracts. Such a policy would have negative effects on sectors where SMEs are already well represented in public requirements.

What CGPME wants is that the GPA stops being a tool that endorses unfair competition situations in favour of American SMEs. The GPA must favour the implementation of a friendly environment with clear targets to be reached in terms of participation of innovation SMEs. What we clearly want is that the European Union draws the consequence of the Lisbon strategy and adopts an offensive behaviour within the framework of the GPA. On March 13<sup>th</sup>, did not the Council of minister of the European Union ask for the European Commission to review the rules of practices regarding the public requirements focusing on SMEs specific needs ? Ladies and gentlemen, I want to thank you all for your attention.

**Paul Skehan, Deputy Secretary General, Eurochambres**

Thank you very much Madame la ministre, ladies and gentlemen. First of all I would like to thank the organisers for inviting the Eurochambres to be here. Secondly I would like to thank their bravery and praise their bravery in putting 16 speakers into two hours. I hope it works and I am going to try and help them in that regard. I can be extremely brief. First of all, Eurochambres is the association of European Chambers of Commerce. We represent 45 different countries, 2000 chambers of commerce, about 18.5 million businesses. Most of those 18.5 million member firms are SMEs.

Public procurement concerns them and therefore it has concerned us for some time. We have just recently finished our annual conference last week in Thessalonica. In Thessalonica, one of the items for discussion was access for SMEs to public procurement markets and I can tell you, as a result of that, without having consulted my members on this excellent paper "towards a fair access to public procurement for European SMEs"<sup>1</sup>, so I have not consulted them specifically on this, but I can tell you that Eurochambres would support the call for GPA exemptions but with a couple of riders.

One is, on the final page of this paper, it mentions the three phases and we can support very much the idea that the first step should be to annually measure the exact share of SMEs in public procurement. Excellent, absolutely necessary. Secondly, that there should be objectives set per sectors to be achieved through a variety of means. We fully agree with that also. And the third point we have difficulties with is that if these objectives are not met, the scheme should then become compulsory and so I have to say that on that regard I would reserve the Eurochambres' position. But if I understand it correctly, even to achieve the second step, it requires the exemption of the GPA and therefore I can say that we would support it.

Two final points I will make. One is : we have also in the past, and it might be something to consider in the future, put forward a position which would suggest that part of the way in which public procurement can be made more effective, in particular from the point of view of SMEs, would be to create or to establish independent national authorities to monitor and control public procurement activities in each member state, something along the lines of the competition authorities that exist. We think without that, member states and others will continue to abuse some of the decisions that have been taken.

The final point I would make is that in some regards, SMEs are also disadvantaged through the obligations, in many cases having to put on guarantees and this can be extremely onerous. It might be worth looking at what the European Commission is now proposing for the 7<sup>th</sup> framework program where they are talking about alleviating the pressure on SMEs in the provision of guarantees through a financial fund of its own in the Commission. So, thank you very much.

**Matteo Borsani, EU representation, Confindustria**

Thank you, Madame la ministre, ladies and gentlemen, thank you for giving me the opportunity to address a few words to you here today. I will try to stay in two and a half minutes. Confindustria broadly supports this initiative on reviewing the GPA, so we are with MEDEF and this initiative of the French government. And I would like just to tell you why : for two reasons.

The first one is because we care about SMEs, we care about ourselves : 97% of our Confindustria members are SMEs and the engine of Europe are SMEs. Two days ago, just to give you an example, I was in UNICE Day, the main meeting for business here in Brussels once a year, and the question was

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<sup>1</sup> Document released by the European Federation of high tech SMEs, [moretti@hitech-sme.com](mailto:moretti@hitech-sme.com)

why companies care about Europe. Companies care about Europe and if we are here today, it is because companies care about EU. But the other question is does EU care about companies ? UNICE has made a survey for this special occasion and 50% of the results were that Europe does not care enough about companies.

So we are talking, we are reading newspapers about the Lisbon agenda, growth, competitiveness, strategy and so on. The problem in Lisbon agenda is delivery, is to turn into results. This proposal is something concrete for small business, for ourselves. If we are against this, somehow we are against ourselves. This is the first reason. Second reason we have to create an equally level field with our partners. United States, Canada, and many others among the main partners of EU are already acting in this way. We do not have the same rules. We are in a global economy where it is easier to be competitive for big companies and big associations of companies. But if we do not at least allow SMEs to act with the same rules of the others, it is going to be a problem and again a problem we can see every day in our reality.

After that of course, we have to take into account the technicalities of this new proposal and of this negotiation. It is something very important because before supporting definitely you have take everything into account; but this is something we can discuss even later. Timing is very important and this is maybe one of the first problems we have. That is why I will stop here. I think this was into the three minutes. Thank you.

**Emmanuel Leprince, General Manager, Comité RICHELIEU  
President, European Federation of high tech SMEs**

Thank you very much to all of you. I propose to give you a very short, not ten minutes but five minutes presentation benchmarking situations between Europe, Japan and the United States. You know that USA and Japan have very strong SMEs policies. We talk a lot about the SBA -Small Business Administration- but maybe you do not know that the story in USA began earlier. It began in 1942, during the war, with a public organisation called "Smaller War Plans Cooperation".

Its aim was to increase the participation of American SMEs in defence -it was the war- public procurement. So it did many things such as inventory of SMEs capabilities in the USA. They have even signed prime contracts with the defence agencies in order to subcontract to SMEs by themselves. Then, 11 years later -it was 1953- there were discussions to create a new agency : the Small Business Agency.

They had two ideas : the first one was to extend the scope of what they did in defence to increase the participation of SMEs in all public procurement, not only defence. And the second one was to make loans for SMEs, which was a new dimension in the USA at that time. It is very interesting to compare that with Europe because at that time in 1953 there were no issues, no problems with the first mission -public procurement- in the USA. They thought it was totally natural, they knew that the share of the largest companies, largest suppliers was very high, too high. There was too much concentration and not enough competition. So they released a lot of statements, even philosophical statements, on this saying that in a free market, it is not enough to be the best you also have to be the strongest. This is bad news for new companies because they can be the best but it is difficult for them to be the strongest. So what they say is that if you want to keep a free market you have to protect the newcomers.

On the other hand, they had a lot of problems with the loan mission, bank loans for SMEs. The Association of American Banks was totally opposed to that, saying that it was a discrimination, saying that there was no reason to have different types of loans for small companies and large companies. So there was a lot of discussion on this issue at that time and the result was that the budget of the Small Business Administration was much lower than what they wanted at the beginning and that this SBA was set up as a temporary agency. It did not close actually, but it was supposed to do that. It is interesting to compare that with Europe. Over there it was totally natural to act in the public procurement area but there was a lot of concerns for loans whereas in Europe, there is not a lot of questions about that. Europe and member states are acting a lot to facilitate loans for SMEs.

Now Japan... The Agency in US was set up in 1953. In Japan it was in 1948. Because of the war, the country was destroyed and the aim of this agency was not to fight against unequal competition, not to balance it, it was just to rebuild the country. So they were making loans to SMEs. They were not

talking about public procurement at the beginning. Several years after that, they were very successful. They reached the pre-war economic level again and then they had to face this issue of too much concentration, too much power for the large companies. So they decided in 1966 to work on this issue and to set targets for SMEs in public procurement for each Japanese agency. They said it was to "correct business disadvantages for SMEs" – I quote a Japanese sentence.

So here again it is interesting to compare with the situation in Europe. In Europe, since the Lisbon agenda we are working a lot on innovation and there is a lot of emphasis on this. We try to increase investment in innovative companies, we try to increase loans for innovative companies and we try to increase subsidies for R&D like the European framework programme. In Japan in 1999, so 7 years ago, they decided to totally change their SMEs policy. They organized what they called the SME congress, it lasted one month in December, and out of this congress they made a new SME Law - the first one was in 1948.

This law is totally targeting innovation. They are doing two main things. The first one is one of the things we do here : they try to increase investment in innovative companies. The second one is different : they try to increase R&D public procurement for SMEs.

This is what I wanted to share with you as a kind of general background of the situation. I thank you very much for your attention and am going to call Patrick Seyer, Chairman of AFIC, the French Venture Capital Association, for a round table on this topic. Thank you.

**Patrick Sayer, President, AFIC**

Madame la ministre, ladies and gentlemen, thank you all. I believe I have to some extent to explain why AFIC is here today. What we were told today and what we all understand I believe in this room is that we are dealing with a fair cause. And it is really not a matter of introducing any level of either protectionism, and I know that France is often pictured as protectionist, sometimes potentially rightly, very often wrongly, but we are really dealing with a fair cause. The issue which is at stake is to provide growth into the system. We at AFIC are financing about 4500 companies, 1200 in the venture sector, about 2000 in what we call the development capital sector i.e. less technologically advanced companies. The issue is not to create new companies. As a matter of fact, when we look at the statistics between Europe and the States, the number of new creations of companies per capita or per point of GDP, looks to some extent equivalent. The issue is when you look at a company 5 years from its conception, we are talking of a totally different situation. On average, US companies have a size which can be 5 times more than the French companies. So we as investors, to some extent selfishly, we do see a real interest in introducing more growth into the system. And again we are not here today I believe to go into what could be the solutions and there are elements of solution which have been explained and which are going to be explored in more details.

We are here effectively to try to open this exemption and in order to open this exemption and, given what I understand to some extent a reservation of various commissioners, Madame la ministre you mentioned Mr McGravee early reservations, I believe we have to make the case for what I said it was the fair cause. And so I would like to start maybe with Wouter. If you could in a nut shell explain who you are, what is your company doing and your own experience. Have you to some extent be faced with situations where you have experienced those difficulties ?

**Wouter Deelman, CEO, QELP**

I am happy to do so. We did not set this up but actually I could build upon your story quite easily. I am representing a new company because my previous company was acquired by a US competitor in 2003. And that is actually a story I think which is interesting to mention here, because my previous company was a chips company, a semiconductor hi-tech company, funded by a number of European venture capital companies. 15 million euros of venture capital went into the company, 4 million euros of government funding. In early 2002 we were on the Time magazine listed as one of the fifty most promising technology companies of Europe, including small companies like SAP from Germany. Yet in late 2003 we were acquired by a competitor from USA.

What happened? First of all, there was a huge shake out in the industry going on, in the telecoms industry; markets really collapsed. But why could this US company survive? Well, quite easily the ministry of defence in United States is a huge financer of R&D for technology companies and our competitors had direct access to those contracts. DARPA, which is the agency for R&D funding on

behalf of the ministry of defence, is really able, particularly in the downturn of the semiconductor and telecom industry, to write down checks to those companies they felt were promising and actually allow them to sit out through the winter and the downturn in the industry. So we had some really tangible examples where, although we were quite well funded by European venture capitalists and by government subsidies, the only thing actually that counts are revenues. It is not subsidies, it is not venture capital, it is revenues from customers, that is really what counts.

**Patrick Sayer**

Thank you Wouter. Luc Renouil, you are the CEO of Bertin Technologies and at the same time you are the Vice-Chairman of the Comité Richelieu. Could you provide us with your own experience?

**Luc Renouil, CEO, Bertin Technologies**

Of course. My company is around 40 million euros revenue and basically, without quoting anybody, we have a dream. We have a dream that we could grow, that we could brake the glass ceiling above us, that is basically around 50 million euros, 100 million euros, and that we could win large contracts in the framework of 10 million euros. And along the last two-three years, we have experienced several unsuccesses, competing with larger companies making agreements with SME partners from Europe and not getting any opportunity to prove what we could do on larger contracts.

So we know that we must be better but we know also that a good balance between risk appreciation, innovation and scale savings by procurement organisations would be great for us. The balance between the scale savings, that procurement organisations at large and public procurement organisations specifically have against innovation are really killing us and I guess that is what we are here for today. It is not a march on Brussels, it is rather to cash a check from the Lisbon agenda and that is what we are here today : a fair competition.

**Patrick Sayer**

Before I give the floor to others, we have really to be specific. Could any of you give us a very detailed example in a situation where, either because a procedure was not meant for an SME or because you were faced with the fact that you were not in a position to show that your company would have had the appropriate perennity, you lost one of those contracts, potentially ?

**Luc Renouil**

I can be more specific on my example : basically we tried to sell observation systems to the French ministry of defence and in order to be strong enough, we had an agreement with a German SME which had the right technology to do it and which was already a provider for these systems and we did not manage to have the right figures. In terms of risk, we ended up being defeated by a larger group with the good balance sheet and the good references, while we were in fact a newcomer.

**Patrick Sayer**

Wouter, anything you would like to add?

**Wouter Deelman**

A specific example again. I have been operating in a global telecom environment so I in particular was effected by the situation in USA. I remember being approached by some competitors at some point in time who said to me: "you have an interesting technology, we have a customer, but you are not able to sell to that customer, you can sell through us". Now, this was a competitor for us and we were sort of thinking : "are we going to open up our kimono to this competitor and explain them what kind of technology we have and then hope that indeed they are going to sell on our behalf to, in this case, DARPA, again?". So it is unfair that US companies have this enormous access to budgets in USA. We do not have anything similar here in Europe. And we should be competing on equal footing.

**Patrick Sayer**

Thank you. Senator de Broissia, you are known for being really a proponent of what we are trying to achieve today. You have drafted a very interesting report on the topic and you have been trying to understand the international experience. Could you provide us with your own view on the situation ?

**Louis de Broissia, French Senator (Côte d'Or)**

We in France think, and the French parliament agrees with the SMEs, that the American, Japanese, Korean, Canadian procedures, at least the American one that has now been existing for 50 years, the

small business act - "Small Business Act" is used in French, "Small business Administration" not yet - in any case we thought and the French senate has already deliberated, that it is too late to negotiate within the WTO a Small Business Act because it is part of international agreements. We have an opportunity, and I would like to thank Christine Lagarde, minister of Foreign Trade, as we have a certain amount of time which must be utilized to answer to an observation which was made : 5% of the defence procurement are made with SMEs, this is our first remark.

Our second remark, and we were in Brussels to discuss with the authorities : at the beginning they had a philosophical vision, the Lisbon strategy that we defined as enchanting. We consider that a big step has been made with the 2005 communication and the creation of a SME Envoy whom I met. We consider that there is nowadays a war of figures and of procedures in Europe. Europeans who think that there is nothing left to do say that SMEs already have an easy access to public procurement. That is true for carpenters or electricians. That is less true for the companies which work into security, fund transportation, software, hardware, and we clearly see that at that level there is no balanced situation. That is this unbalanced situation which we must fight. Thank you.

#### **Patrick Sayer**

I will turn to members of other Federations. I would like to start with Martin Smith. Martin, you are the European Advisor for the Forum of Private Business. The UK is a very interesting country as always because, to my knowledge, its position is not yet, Madame la ministre, a position of full support and I do not believe they are in your list of 15 yet, however when you talk to all of my esteemed colleagues, either venture capitalists or professors, or teachers, or people from the administration in the UK, there is the feeling that something exists and when talking to people they are all in fact in favour of moving ahead, so could you give us your own perspective ?

#### **Martin Smith, European Advisor, Forum for Private Business (United Kingdom)**

Yes, thank you very much. I represent the Forum of Private Business here in Brussels. We have 25.000 SMEs in the UK as members so I am going to talk generally about the environment for SMEs. This is very topical for us because yesterday I was in London at a summit, first ever small firm summit organized in the UK by the Forum of Private Business, at which David Cameron, the leader of the main opposition party, the conservative party, set out most of his agenda for small firms for his next election manifesto in which he highlighted the fact that less than 20% of government contracts in the UK go to SMEs and he would like to set aside at least 25% of government contracts to go to SMEs if and when he is elected prime minister.

I was also interested in the remarks of Mr. Mouney who said that they have a saying in France that nobody was ever fired by choosing IBM. I had almost exactly the same saying yesterday from Mr Cameron, talking about his experience at Carlton Communications when he said that nobody was never fired for hiring PWC. I would just like to give you an overview of the problems that SMEs face in the UK. One of the main problems is that there is no satisfactory definition of what actually constitutes a small business. We can only use a definition of less than 50 employees, which is satisfactory in some industries, but not satisfactory in others. In the USA the definition that is used has a lot more criteria such as the fact that the company cannot be dominant in the market in which it operates, it has to be privately owned, as well as filling a number of criteria about employees and turnover.

There are three interlinked issues about the criteria and the process for getting public procurement contracts, the first of which is that small companies and any companies who want to obtain a public contract in the UK have to provide 3 years of audited accounts. If you take that from the point of view of a small business which is a high growth business which has just started off, it might in fact be the very best business for the job, but as it has not been in existence for long enough to get the contract, it cannot get the contract. Our growth of young high growth SMEs projects is hindered by that fact.

The second thing is that there is an entrenched bureaucracy in the whole process, which means that it takes 3 working days, one person working for 3 working days, to fulfil all the tender requirements, which can be spared by a large business, but for a small business, one person working for three days, it can be for example half of your working week, or 25% of your working week even if you employ more than one person.

Another big issue is the fact that the government departments in the UK have a very bad reputation for actually paying their bills. And of course we have a very active media in the UK which will highlight

these things, and actually highlight them to death, and when SMEs look at this whole process they look at the fact that they have to provide 3 years of accounts that they might not have, three working days to get the tender documents and at the end of it all, they might not get paid. It is little wonder that in many cases SMEs do not even start applying with the whole process.

We have been very active on late payments and as an organization we influenced the late payment directive of 2000 and we gave evidence to the European Parliament to produce the order for payment procedure which is going through Plenary next week. When 40% of business insolvencies are caused by late payments, we believe that governments should be actually attempting to address this problem rather than adding and contributing to it.

The final point is a general point about information and transparency. SMEs generally are not aware of public procurement contracts. There are internet portals but they are not known to SMEs. The point has been well made about how important this is for competitiveness and growth. For us as a general interest, from the UK point of view, we know that we have to get the agreement on government procurement changed in the WTO and we also know that this has to be negotiated at EU level by the European Commission and by the European Commissioner for Trade, who we know very well. His name is Peter Mandelson and he used to be a government minister in the UK. So I would just like to say that we would give the message to Mr Mandelson that it is vital for the growth of SMEs and for the competitiveness of our economy that we are allowed to get the same advantages to SMEs as our trading partners around the world are allowed to give and if he would stick up for our small businesses in the WTO than it would do his reputation in his home country a lot of good as well as around Europe. Thanks.

#### **Patrick Sayer**

I believe we are all reassured by your contribution, thank you. Turning to our friend from Luxembourg, Michel Brachmond, given the relative size of your country, how are the relative problems of SMEs dealt with and what is your vision of the problems they face in Luxembourg ?

#### **Michel Brachmond, Deputy Director, Chambre des Métiers du Luxembourg**

Thank you Mr chairman, Madame la ministre, I think in Luxembourg everything is small therefore the situation of the SMEs is, I would say, better apprehended by public procurement authorities. For instance, 99% of the Luxemburgish enterprises are SMEs. We have a big banking sector and one steel industry, and that is all. These SMEs employ 75% of the total employment in Luxembourg, 50% of the growth of GDP is made by public procurement and 2/3 to 3/4 are made by construction industry, infrastructure construction and building.

Because we are small, we have integrated in our legislation a lot of rules favouring SMEs. For instance we have a general rule which says you have to tender by profession and not by general contracting. That is the rule. We have a lot of negotiated procedures. 2/3 of the number of procedures are negotiated with local or even regional SMEs and they do not make up only 25% of the whole value but 2/3 of these tenders are made with SMEs. We have a preference for local tenderers. For instance under certain threshold we have this local preference. If the public authority thinks to use general contracting system, they have to indicate their subcontractors and they have to make a pre-contract with subcontractors. We have the same French protection of the subcontracting and that is the legislative ruling. 15 years ago we started, on the initiative of the Chamber of Skilled Craft, a group of people, of stakeholders of the construction industry, it is called Centre de ressource des technologies de l'information pour le bâtiment. Its mission is to make up the new technologies and to use them in the big building sites. For instance, where a lot of actors are on the sites, to cooperate and coordinate these things we have developed a lot of contracting rules which are very equilibrated and the software we developed is an open source software and it is used by the stakeholders on the construction site.

But I see some dangers coming for the SMEs. The Luxembourg government has financial problems. Recently they got financial problems and they are speaking of PPPs, private and public partnerships. They are very dangerous for SMEs because they cannot be partners of these PPPs. I think that is one of the biggest dangers which is coming up. Luxembourg supports very strongly the proposition of Madame la ministre but I want to bring in two more ideas. The US market and its SBA is one single market. The EU market is an addition of 25 markets and I think we have to reflect on this problem. The second idea I want to bring in is that I think you have to do like we did in Luxembourg and install in the public authorities the reflex of thinking small, of thinking SMEs. Thank you.

**Patrick Sayer**

Thank you because it seems that, to some extent, you have already implemented a few measures so we will not repeat it outside of this room. Turning to my French colleague Stéphane Regnault, you are spokesman of MEDEF. The MEDEF represents obviously SMEs but also larger corporations. Those corporations, and we understand why, are for some of them in the process reducing their costs and therefore globalising their purchases and their procurements. What is the position of the MEDEF, given this apparent contradiction between the positions of some of your members ?

**Stéphane Regnault, Spokesman, MEDEF (France)**

Thank you. First of all I will speak for the MEDEF and I will also speak for the middle sized enterprises because I am running a middle sized enterprise. Most of my speech will be for those SMEs. What we are asking for is really a level playing field. We have no fear of competition we have no fear of anything, but we would like to play on this level playing field. Why? Because, for the time being, the playing field is not leveled. If we compare the situation of the French and European enterprises to the American enterprises, first of all when we have to compete on the American market, we are faced to those small businesses, so we have more difficulties than our competitors, local competitors to get the business.

But it is not the only fact. When we compete on our own market, in European markets, because US SMEs have got those advantages on their own markets, they have the opportunity to cover part of their costs, part of their overheads and so on. So they are able to make better offers than those we can do on our own markets. So it is not only a question of accessibility to those foreign markets but it is also getting a fair competition on our own markets.

An important point as well, Madame la ministre, they called this the risk of inflation that could be brought by this SBAAct we can set up in Europe. I think it is not a right fear. Why? Because competition within Europe is pretty high, so if we all compete on this level playing field, there is no reason to create some inflation due to this protection of small businesses. On top of that, I would say that what we are looking for is not a guarantee of prices, it is really a guarantee of volumes. It is a security, to be sure that our investment, the money we will put in the answers to those tenders will have some payback.

That drives me to another point which is the size of the tenders. That is something of definitive importance. As my colleagues said previously, the size of the tenders are getting bigger and bigger, all around the world but especially in Europe. That is really difficult for the middle size enterprises because it is a loose loose game. I mean if we do not answer to the tenders, we definitely loose the business. But if we answer the tenders and if by luck we win the tender, what happens ? As the tenders are very big, we have to invest a lot to be able to supply, and if we invest a lot we need a long period of time, let us say five or ten years in order to have the chance to make some money out of that. As a matter of fact, after two or three years what happens ? a new tender. And if we loose the business of this new tender, we just have to close the enterprise because we never have the chance to get our money back. So those very big sized tenders are a real trap for all of our SMEs.

I just want to add on top of that that from the European Union point of view, we really have the unique chance to do something right now. It is the right timing to put a foot in the door. If we do not try to convince our colleagues within the European Union that it is the right timing to set up something in order to allow us one of these days to set up something like the SBAAct, it is finished for a couple of years. So I think we all have to go together to give us this chance to have the authorisation to set up something in the coming years.

The last thing, as a manager of company, I would like to give you just an example of what happens right now in the US market. I am selling some medical devices and I think we have a very unique product performing very successfully on the market. Recently I got the opportunity to equip about 4000 ambulances in the United States. We got the best product, and they said it, we got the best price. The only thing we prevented us from winning : we are not American. So when I am listening to all those fears about protection, about what we can do and what we cannot do... Jesus, they are really protecting their own market. So it is really time to do something. Thank you.

**Patrick Sayer**

Thank you. Dr Gunnar Zillman, I understand you are here in Brussels representing Germany by the EU. We have very often seen in the past that when France and Germany tried to move things together without arrogance, they can effectively be followed by a lot of others with the help of all our friends. Where does your country stand in this situation?

**Gunnar Zillmann, Permanent Representation of Germany to the EU**

Thank you very much. Well, where does our country stand ? SMEs also play a very important role in the German economy, as you may know; and the support of SMEs is a very high political priority in Germany too. Therefore the German government supports very strongly the French idea that SMEs must have better access to public contracts and I think the statements we just heard today added very good reasons to this idea.

As the supports to SMEs have very high political priority in Germany, we have taken some measures already under the existing procurement law that help SMEs with public contracts. Of course, there are for example provisions to promote the splitting of contracts into small lots and to accept bidding consortium and I think that, in Germany, we have a very decentralized procurement and that helps SMEs too. So we have made very good experiences with these measures but of course that does not prevent us to think about how to further improve the situation of SMEs in public procurement.

We cannot have such a discussion if the GPA prevents us from this; so we very strongly support the idea of having a clause into the GPA that allows some kind of preferential measures. We would prefer I think preferential measures for SMEs as a whole and not especially for European SMEs because we feel that there are also countries that do not have preferential measures and if we invent preferential measures for European SMEs, we fear that they would demand compensation. But I think that preferential measures for SMEs as a whole would also help SMEs very much. The next step, if we have this possibility in the GPA, would be to discuss about measures in the European Public Procurement law and there we also share the flexible French approach that we could there create optional measures that allow the support of SMEs. Thank you very much.

**Patrick Sayer**

I would like to turn now, last but not least, to Javier Echarri, who to some extent is my colleague, but with a wider perspective, because he represents all the venture capital profession in Europe. So to some extent, you do see with a wider perspective what works and what does not work in some of the European countries. Could you help us pushing the case ?

**Javier Echarri, Secretary General, EVCA**

Thank you chairman. I will be very brief as we are running out of time and I will give you a very simple perspective. I am not going to repeat what my distinguished colleagues have already said. I will give you the perspective of the investor, that is risking money and effort into companies that are risking much more, which are SMEs. European private venture capital invests 88% of its investments in SMEs on the European definition. That is 7000 companies per year. And this is about 70 billions specifically in hi-tech companies, that is above 4000 companies every year that are hi-tech. That is what we do. Now, we do this for these companies to grow and to become world competitors, world leaders if possible. This is in energy, this is in environment, this is in security, software, life science or ICT. That is what we do every day.

Now the biggest problem we have, the biggest problem our companies have is to become global competitors. Everybody complains about the fragmentation of the European market, we all know that. If I may give a historical perspective of what we see, there has been a historical effort from the public authorities in Europe to produce the best research, the best education, the best technologies in Europe. We have done that. That technology exists. What we do not manage to do is to build sufficient highly competitive world leading companies. That is our biggest problem. The market fragmentation does not help in Europe. It is extremely complicated. Let me tell you that the market fragmentation in public markets in Europe is even more complicated than the pure market fragmentation. Let us not repeat what has already been said, let me just remind you that the analysis done by very clever people and by the Commission officials is this one: we put a lot of effort in supply of technology, we have not put any effort in the demand of technology. The Esko Aho report, Esko Aho is the former prime minister of Finland, pointed out very clearly that Europe has to work on demand of technology. Demand of technology is also part of the 10 priorities for the European Commission for Innovation and

Competitiveness. I am not saying anything new when I am saying that the public procurement is demand.

That demand is fragmented as the markets. But that demand is fragmented plus it has got hurdles; bureaucratic hurdles or guarantee hurdles, etc... Now I am not underestimating the task of our policy officials and politicians to renegotiate outside contracts; what I am saying is that there are two things to do here. There is an outside work to be done at WTO, a lot has been said on it this morning. There is also a homework to be done. And that is the bureaucracy, the hurdles and the guarantees and the hiring of those PriceWaterhouseCoopers or Siemens instead of SMEs. So the two messages are the homework and the outside negotiation with all the international partners who do have a better framework in place. Thank you.

**Emmanuel Leprince**

Patrick, let us try to listen a testimony on the phone directly from London, from Tom Wills-Sandford, Deputy Director General of Intellect UK, the British association for Information and Communication Technologies. Tom, are you with us ?

**Tom Wills-Sandford, Deputy Director General, Intellect (United Kingdom)**

Yes, I can hear you and I heard most of the discussion. Intellect has about 800 members. We are a hi-tech trade body and I am going to address this issue from a hi-tech standpoint. I was at IBM fifteen years ago, I then worked in a start up funded by venture capital and I have lived in the US for 10 years, so I hope I can have a reasonable perspective on it. And more than that, in January I was in Washington for three very busy days to investigate how this works in Washington. I went to the Senate and then to the Council to the small business administration committee. I went to the Department of Defence, to the SBA. I saw large companies and small companies, so I also have a reasonable understanding of how the US work.

I believe that there is an ecosystem in the States that supports hi-tech SMEs, I mean there are a lot of visible signs of that, you know, clusters around Washington, Boston and most famously the Silicon Valley. I am absolutely certain that the set-aside program that they have contributes immeasurably to the vibrancy and health of the hi-tech SMEs sector. You do not need me to remind you of all the companies in the last five years, Google is the most famous example. It is extraordinary that this ecosystem can continue to produce these companies, what the European system has significantly failed to do.

I am not saying that everything in the States is marvellous so we adopt everything, but there are some lessons that we can learn. They have a lot of minority policies. We can just adopt a much more simple system that favours SMEs only. Martin Smith will know that this government if it wants to do anything and intervene, it usually strikes market failure and I am actually certain that what we have here is a market failure. The US recognise this and recognised it. I heard, I think, a reasonable amount of what was said earlier about history, and the US recognised that and I absolutely fail to understand how we in Europe cannot understand this is a market failure.

I could go on with a number of simplifications and so on. I find it very interesting and very heartening that something can be done about it and I fail to understand why we in Europe cannot do something simpler and more streamlined and I think more effective than what they have in the States. I will be delighted to answer some questions.

**Patrick Sayer**

Thank you very much. I would like to thank the participants of this round table and am honoured to welcome a speech by Mrs. Christine Lagarde, French Minister for External Trade.



### **Christine Lagarde, French Minister for Foreign Trade**

Thank you very much. I am going to ask for your indulgence, I am going to ask each of you not to report me back to my President, because I have decided to address this session in English language, but I will reserve a small quick French translation of the whole thing afterwards. And I am speaking to everyone in the room, the teeny tiny, the small, the medium size and the not so big. We are still talking about the threshold of 250 million euros, that's where we are at the moment. I think it would be overly ambitious to try to kill two birds with one stone. We are not in a killing session, we are in a pleading session, so far.

Before I get into a subject that I will address very briefly because I think that the speakers at both round tables have really covered the issues beautifully, I would like to thank a few people. I would like to first of all thank the representatives of member states who are present in the room and I know that some of them are in the room, and I am delighted that they are attending as well as indeed my colleague from Germany, who is the permanent representative.

I would also like to thank the representatives of the Commission, present in the room, for internal market in particular and public procurement. I think it is delightful to have you with us. I think it is wonderful that you can learn directly from grassroot level, where things actually happen, where people are employed, where value is created, what issues are being encountered. So you are more that welcome and we are delighted to share that intelligence with you. It demonstrates the transparency of the process in any event.

I would also like to point to you that beautiful document that you have all received, because it will save me the time of addressing each and every of the logo owners to thank them for having organized this session. But I would like to particularly thank Patrick Sayer and Emmanuel Leprince, both of whom have beautifully monitored and facilitated that debate. It takes courage, guts, stamina and certainly a lot of energy on your part to have restrained your desire to speak yourself because you cover the subject beautifully and to have given the floor to other speakers, who are themselves also thanked here. We are all gratified that you have been willing to share your experience and that you have come from so many corners of Europe.

I must say here that I almost feel like not speaking on behalf of France and from my government. I feel very much a European and a member of a community here, because we have all managed to come from all corners of our respective places and I do not want to use the word "nations", "member states"

or anything like that, because to summarise it very very quickly and much too quickly, I would limit my speech, but I will probably not limit it because I have already caught the disease that politicians have, which is to talk too much to say little. But if I was to summarise it I would say that SMEs are good for Europe. What we need to do is to actually restore a level playing field for countries and for parties.

So SMEs are good for Europe; we need to restore a level playing field for countries and for parties. I will explain briefly what I mean to say by restoring a level playing field amongst countries. You have heard this morning, beautifully explained, how other nations in the world, the USA, Canada, South Korea, Japan and others, essentially a large majority of the OECD countries, have in fact put in place a system who facilitates access for their SMEs to public procurement.

To the extent that they have done so and that, I believe, like many others, my German colleagues, my Italian colleagues, many other colleagues from member states in Europe, a good number of about 15 of them, we fear, and I think we have good reasons to fear that we will not get the USA, get Canada, get South Korea, get Japan, to remove those provisions from their respective bodies of laws, because as you said they started a long time ago, they find it useful, it helps them especially when the economy is tough because then they can get a little bit of breathing space. We will not get them to remove that, so we might as well restore the level playing field. We are not talking here about protection, hell not, God forbid... I would not want to use that word personally. We are trying to restore a level playing field, so that everybody is equipped with the same tools and the same instruments. That is as far as restoring the level playing field at the country level.

Restoring the level playing field for the parties, to me, means making sure that in a given market, everybody can fight at a leveled way. In other words we want the light weight, ten employees is fine, two hundred are ok too, but we want the light weight to be properly equipped to compete with the heavy weight. And it is fine being a heavy weight. Small is beautiful yes, but everybody has to be able to play. So what I am suggesting here is that the light weight, given the public procurement market size in Europe, 1500 billion euros, given the tendency of clients and owners and purchases, to reduce the size of their suppliers, and given that public procurements are generally bigger and bigger, than certainly given those marked constraints, we need to restore the level playing field for the parties. That is as simple as that.

In terms of process, what we need to do is to unlock the WTO lock and that is all I am suggesting. I do not think that we should collectively, for the good of Europe, already today, start drafting, proposing, organising and instrumenting changes, because we are not sure exactly of what we want. I think we all sort of agreed that we do not want quotas, but we are not exactly sure of what kind of facilitations, for what scope and how it should be organized. It is premature to organise ourselves on that front. What is not premature, and what is of essence, is that we make sure that we not stuck, not for two years, for a decade, that we will not stuck for a decade because simply we would not have unlocked now the WTO lock. I do not think it is fair that, today, we be prevented for the next ten years from adopting a measure that would simply restore a level playing field with competitors around the world.

That's all I am suggesting. That is the reason why I am fighting. That is the reason why the French government will certainly continue to support that cause and I am delighted to see we are not the only one and my Italian colleague said to me recently: "That is not a French proposal, it is a Franco-Italian proposal". I think it could very well be a Franco-Italian-German and so on... there is a whole list of colleagues certainly who have expressed interest and support for the general principle and the concept and I would simply finish with the quote by wonderful Winston Churchill. Tom I hope you are still listening to me...

**Tom Wills-Sandford**

I surely am !

**Christine Lagarde**

I think it was him who used to say that success is never final, that failure is never fatal, but that what counts is the courage to continue and certainly with you being here together, I have the courage to continue and I hope we all do have the courage to continue and to convince around our own respective circles in government, outside government, in a very good cooperative way, we have the courage to continue to support a cause which is a fair and valid cause, a one that should not be lost. Thank you very much.