

Consultation State aid for Innovation – comments from VINNOVA, the Swedish Agency for Innovation Systems

The Commission has welcomed comments on the Communication Consultation document on State aid for innovation.

VINNOVA – is the Swedish Agency for Innovation Systems. VINNOVA is working to achieve sustainable growth by developing efficient innovation systems and financing problem-oriented research. By problem-oriented research VINNOVA means research based on explicit needs in business and the public sector, as well as needs in new areas with growth potential, conducted in interaction between the actors who perform the research and the actors who need the results and the skills.

To accomplish our mission, we have about 160 employees, an annual budget of approximately SEK 1 billion, a board of directors and programme councils made up of representatives of the research community, business, and policy/public sector.

The Swedish government will later give a full answer to these questions. In waiting for the common Swedish answer VINNOVA wants to comment on some of the posed questions.

In short – a summary of VINNOVA's comments

VINNOVA very much welcomes the Commission's ideas on State aid to innovation activities and the aim to reduce "red tape" in this consultation – for example through the idea of a super block exemption.

VINNOVA promotes support to large enterprises indirectly by granting State aid to universities that actively cooperate with large enterprises (and SMEs). It's knowledge exchange that both parties benefit from. There should be a block exemption regarding such indirect State aid to enterprises.

VINNOVA also promotes tax rebates to enterprises for research projects.

The definition of start-ups is not enough for biotech start-ups; their way to the market is significantly longer than in other sectors. Otherwise, the definition seems to work well and without a lot of "red tape". The possibility of granting EUR 1 million to SMEs is a great opportunity to support start-ups with seed capital and to stimulate growth through programmes similar to the SBIR programme in the US. VINNOVA is also in favour of an experimental development stage.

The system of intermediaries is very fragmented in Sweden. Support to intermediaries should go directly to the intermediaries to be able to create critical mass in a technological field of specialisation.

Comments to some of the questions

A super block exemption (question at the multilateral meeting December 7, 2005)

VINNOVA very much favours the idea of a super block exemption. Apart from the fact that it should be easier to find relevant rules it will be easier to see the common goal of the different areas.

State aid to large enterprises? (question 4)

The State aid that VINNOVA grants does not primarily go to large enterprises. We support large enterprises indirectly by granting State aid to universities that actively cooperate with large enterprises (and SMEs). The enterprises do not get any grants, but of course the cooperation with universities is advantageous for both industry and universities. It is knowledge exchange that both parties benefit from. These centres of excellence are distinguished by the strategic and multidisciplinary research conducted and the active participation by the enterprises. There is a group exemption for agreements on research and development within the competition law. There should be a corresponding block exemption regarding such indirect State aid to large enterprises that is mentioned above.

VINNOVA also finds that State aid directly to large enterprises is appropriate to support a process that enables start-ups based on ideas emanating from the same large enterprises.

Are some types of aid more suited for specific situations and specific innovation activities (ex: tax rebates, secured loans, repayable advances)? (question 7)

In practice VINNOVA nearly only grants subsidies. VINNOVA has the legal possibilities to grant loans etc but for administrative reasons we generally don't. We find that we generally can fulfill our mission with subsidies.

VINNOVA promotes tax rebates. When it comes to direct State aid in the form of subsidies to enterprises for research projects you can argue that it is a better way to use tax rebates. When we grant subsidies to universities we know that the research results will be published and spread. Enterprises might have reasons to keep the results as secret as possible. There is a lot of administration to follow up on the result and what we do is to ensure that the application is reviewed and verified concerning the quality in every possible way. Therefore it might be a

more suitable way to use tax rebates for research projects within enterprises that are authorized by a national financier of research.

Definition of innovative start-ups (5 year max, less than 50 employees, evidence on innovativeness or R&D expenses minimum 15 percent) (question 8)

VINNOVA thinks that this is a definition that could work, except for the criteria concerning less than five years of existence. These criteria will exclude the important start-ups within biotech and pharmaceuticals that require up to 7- 10 years before reaching the market. But a separate rule for those start-ups will bring more administration concerning who will qualify for an extended rule. It might be better to solve the problem by adding a criterion that will exclude start-ups that have reached the market.

Exemption of tax (50 per cent) and EUR 1 million grant

VINNOVA welcomes this possibility and finds that this will be a great opportunity to – without “red tape” – support start-ups with seed capital and to stimulate growth through programmes similar to the SBIR programme in the US which aims to increase demand for the results of research from universities and research institutes.

A fourth R&D stage for SME - experimental development stage (15 per cent) (question 11)

As we understand it – even if this stage is incorporated in the third last stage for R&D (precompetitive activities) there will in fact be another stage since the level of aid intensity is lower (15 per cent). You have to separate these activities when calculating the support.

VINNOVA welcomes the possibility to support these activities but would prefer that it have the same level of support as precompetitive activities.

Support for innovation intermediaries (entities providing infrastructure and services to undertakings involved in innovative activities) (question 13)

VINNOVA has found that these kinds of innovation activities are of high importance. But as VINNOVA understands it, the State aid for supporting activities by innovation intermediaries will go through the SME by “innovation services voucher” according to the consultation document.

This could function when it comes to activities that are directed for SMEs such as business advisory services and provision of facilities such as office space etc. But it is not suitable for support to innovation activities concerning the universities third stream mission such as outreach work (systematically seeking people out to

give them help and support) concerning researchers and research within universities and licensing of university research to existing industry.

In Sweden the outreach work and the licensing is done by the universities or organisations close to them. It's not totally clear when these activities might be looked upon as non-market activities in the public interest and qualify for 100 Per cent State funding. There's a need to support both the universities and commercial (even though they might not yet make a net profit) actors close to the universities' for innovation activities such as outreach work and licensing.

Another problem with the voucher to SME is that it might not give incentives to create critical mass in a technological field of specialisation. In Sweden the system is very fragmented and the use of a voucher would definitely not be an incentive to make it less fragmented.

State aid to promote European centres of excellence – conditions? (question 17)

VINNOVA favours State aid to European centres of excellence and refers to what has been said under question 4.