



C O M M E N T S
OF
THE CYPRUS CHAMBER OF COMMERCE AND INDUSTRY
AND
THE CYPRUS EURO INFO CENTRE EIC CY-691
ON
THE COMMISSION'S CONSULTATION ON STATE AID FOR INNOVATION

The Cyprus Chamber of Commerce and Industry and the Cyprus Euro Info Centre EIC CY-691 hosted by the Chamber, have gone through the relevant Consultation Document of the Commission and provide herebelow their comments, trying at the same time to provide answers to the questions that are posed in the document:

- We are particularly pleased with the Commission's recognition of the need to improve the state aid rules for innovation, to increase legal certainty, to come up with new funding possibilities, to target aid more effectively and to simplify the regulatory framework, while paying attention to the preservation of competition by addressing related market failures. It must be stressed however, that in the case of innovation and particularly with regard to SMEs the market failures are quite significant and the Commission needs to be quite generous in its approach.
- In our opinion, it is not so important whether a separate Framework for Innovation is created or not, as long as all the dimensions / issues / activities of innovation that deserve State aid are taken into consideration and as long as State-aid is given where it ought to be given. There are hence no objections from our side to integrate the new rules in a framework for R&D and Innovation but also in the Risk Capital guidelines, the Environmental guidelines and the general Block Exemption. The integration in the Block Exemption is considered very important as this will simplify things since Member States will not have to notify the concerned aid to the Commission and further it will create more legal certainty.
- We agree entirely with the reasons provided in the Innovation Vademecum for market failures, as well as the principles set out regarding the scale of market failures, i.e. SMEs being more affected than large firms, newly established enterprises affected more and market failures being greater for activities at a distance from the market (e.g. training). Furthermore, we agree with the problems regarding innovation as these have been identified by the Commission and are presented in the Annex to the Consultation Document. We would also like to particularly stress the Commission's finding that "technological innovation represents only a part of the innovation potential" and that "In particular for the services area, innovation also requires developing new business models, methods and tools".

- We find the ex-ante criteria (on the basis of which State aid for innovation would be approved) approach as constituting the main approach for State aid. This approach adds to openness, transparency, non-discrimination, legal certainty and simplification of procedures and can easily be included in a Block Exemption Regulation. Nevertheless, we should not be rigid and the possibility should be provided in exceptional circumstances for State aid to be approved by the Commission (after extreme scrutiny) even if it doesn't fall entirely within the ex-ante criteria.
- We are not very keen on the idea of providing State aid to large companies and we do not think that such authorisations would be appropriate. If in exceptional circumstances it is deemed necessary to authorise such aid then this should always be subject to a case-by-case stricter analysis on the basis of notification to the Commission and of course the type of large company and the particular activity it will engage in should be taken into consideration.
- As the Commission itself has ascertained (see above), technological innovation represents only a part of the innovation potential and as far as the services sector is particularly concerned, innovation also requires developing new business models, methods and tools. The services sector is the biggest economic sector in the European Union and a large concentration of SMEs and small enterprises in particular can be found in that sector. Furthermore, there are a lot of small enterprises that will not engage in technological innovation (due to a number of technological constraints or their "traditional" nature) but rather in non-technological innovation if properly encouraged to do so. We therefore support strongly the encouragement of non-technological innovation through appropriate State aid measures.
- We are not so sure whether the rules on State aid for innovation should include regional bonuses for cohesion purposes. It makes much more sense in our opinion that in the case of innovation aid, the geographical dimension of market failures is the leading consideration and not the cohesion element.
- As to the question whether some types of aid are more suited to specific situations and specific innovation activities, we think that this is definitely true, e.g. tax rebates in the case of start-ups will not be an ideal method and neither will secured loans be in the case of encouraging innovation intermediaries.
- As far as innovative start-ups are concerned, we would like the innovativeness criterion to read as follows: "proof that the beneficiary will produce products and processes which are new or substantially improved compared to the state of the art in its industry in the Community and which carry a risk of failure" thus disassociating it from the technological element. Furthermore, we find the R&D expenses criterion arbitrary and not necessarily related to innovation. Moreover R&D activities should be able to receive State aid under the R&D Framework. As far as the rules for State aid are concerned, we have a strong preference for a grant aid without specific restrictions on eligible costs, rather than exemptions from contributions and taxes since these differ from country to country. Due consideration should be

given to the eligibility criteria for high-tech sectors and if necessary these may be different from those of the other sectors.

- We have the opinion that start-ups should be able to receive State-aid independently of the innovativeness criterion on the basis of a sound business plan (much more reservedly though) and certainly innovative SMEs established for more than 5 years should be able to receive State aid in case of market failures related to their specific innovative activities.
- We agree almost entirely with the Commission's views on tackling the equity gap to increase the provision of risk capital in the E.U., particularly with the ascertainment of the need for more flexibility, the possibility of block exemption and the possibility for increased State ownership in risk capital funds. Also with the introduction of specific provisions for post-seed stages.
- We believe that the provisions relating to technological experimentation and the risks of launching innovative products would certainly be conducive and would increase the launching of innovative products in the market, certainly improving the present state of affairs. If the level of aid intensity could be increased to say 30% then the effects would be greater.
- The above provisions should as a rule not be extended to large companies. Only in very exceptional situations this should be done and only after notification to and approval by the Commission after stringest examination.
- We definitely support the Commission's intention to extend current State aid policy to intermediaries as well (in addition to final beneficiaries) if these make a minimal profit and carry out non-market oriented activities which are in the public interest. As far as specific support for innovation intermediaries which merge or develop a joint venture to reach critical mass in a technological field of specialisation is concerned, this should not be ruled out as long as the above criteria regarding intermediaries are observed.
- The main criterion for the provision of State aid in relation to the recruitment of staff by SMEs should be whether such staff will engage in research or bring with it "innovation expertise" rather than the discipline from which it originates.
- We don't think that the Commission should adapt specific rules for cases where a researcher does not return to his/her home university. This is a matter that should be dealt with by the contract between the researcher and the university. The same applies in the situation where the university no longer intends to hire him/her back.
- The definition provided in the Consultation Document regarding clusters finds as quite agreeable (i.e. groupings of innovative SMEs and large enterprises as well as universities or research institutions). Clusters should in our opinion be distinguished from innovation intermediaries primarily by the fact that innovation intermediaries provide paid services and infrastructure to the beneficiary SMEs as opposed to clusters where co-operation and intensive interaction is the prominent relationship between the

parties. Furthermore, in the case of clusters, the regional and sectoral elements need to be present while in the case of innovation intermediaries this is not necessarily so.

- We do not see any reason why State aid should not be allowed to promote European centres of excellence as long as the negative impact on competition does not outweigh the benefits of clustering and as long as the main beneficiaries are SMEs. We believe that grants should constitute the main form of State aid for the development / design of innovative applications, processes, products and services and for facilitating their exploitation by businesses.
- If State aid is not to be fragmented and if it is to be concentrated in a limited number of poles of excellence, then the criterion of critical mass needs to be applied. Of course other factors like the size of each region / member state and the R&D and innovation activity taking place in each region / member state need to be taken into consideration. Furthermore, the flexibility should also exist to provide State aid to clusters / poles of excellence of a lesser mass according to the nature and desirability of activities to be pursued by them.
- State aid for infrastructure that supports innovation should only be authorised in the case of proven market failures and only when technological neutrality and open access are guaranteed.
- Extreme caution should be taken when granting State aid to large firms. This should only be allowed when it is the only way to induce them to participate in a cluster / pole of excellence and should always be repayable when the innovative outcome / product is commercially exploited by them.

We trust that the above views and comments will be taken into consideration when finalising the rules concerning State aid for innovation. Our comments are provided in an effort to create an encouraging “framework” for innovation State aid that will result in increasing the innovative activity, primarily of European SMEs and consequently the competitiveness of the European Union, contributing at the same time to the achievement of the goals set by the (revised) Lisbon Strategy.

09/11/2005

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