

Comments on the Consultation Document on State Aid for Innovation, Commission of the European Communities

The changes proposed in the Consultation Document are to be welcomed. Those who have been directly involved in working with innovative SMEs have found that State Aids issues are a continuing problem because:

- The existing rules prohibit some very reasonable actions
- Uncertainty about the rules inhibits entrepreneurs and those who wish to help them
- Obtaining clearance for reasonable new schemes causes unnecessary delay

State Aid for Innovation

We agree with the statements in the Consultation Document, that State Aid for Innovation should be treated differently and much more favourably, than all other types of State Aid.

As regards **Consultation question 5**, we believe that State Aid for Innovation should be restricted to industrial sectors in which there is a high research intensity. Sources such as the UK R&D Scoreboard www.innovation.gov.uk/rd_scoreboard indicate the industrial sectors where R&D intensity is high. While other sectors may be innovative in design of products or business processes, we consider that it is reasonable to restrict State Aid for Innovation to technological sectors, defined widely to include some “service sector” activities such as software development.

Types of Companies for which State Aid for Innovation is appropriate

We do not believe that there is a strong case for State Aid for Innovation being extended to large companies. Such companies are much better able to access commercial sources of funds through banks, stock markets and other means. We believe that there is no strong evidence that there is a market failure in such instances. Our response to **Consultation question 12** is that the proposed provisions should not be extended to large companies.

Innovation Intermediaries

We support the proposals in Section 4.1 (Encouraging innovation intermediaries). However, we believe that in defining Innovation Intermediaries who provide innovation services, Para 57b should not be defined such that Intermediaries who do not provide any physical facilities or accommodation are excluded. We know of a number of good examples of “virtual incubators”, where an effective range of support services are provided, but physical incubation accommodation or facilities are not.

Clusters

Clusters of high-technology businesses do emerge, and such clusters are of significant benefit to local and regional economies. However, we do believe that artificial efforts to create clusters through special types of State Aid will introduce inefficient geographical distortions, which may work against the ideal clustering. We also believe that in time, efficient methods of electronic and physical communications will

mean that geographical clustering becomes of less importance. While there may be exceptions (e.g. clustering related to extremely expensive technical facilities) we are not convinced that in most sectors state or EU action to encourage large companies that might form the centre of clusters, or designation of “poles of excellence” will be a good use of such funds. This is of relevance to **Consultation questions 17 to 20**.

General

National governments have adopted a wide range of schemes for supporting innovation in SMEs. It is not yet clear which of these schemes are the most cost effective. There is thus great merit in the State Aid rules being broadly permissive, rather than attempting to achieve an excessive level of precision on which types of aid should or should not be permitted, as this may prevent useful experimentation. We would suggest that the rules that are adopted will be permissive of such experimentation. For example, in respect of **Consultation questions 14 and 15**, such actions should be permitted, and few if any specific rules should be adopted by the Commission.

We would support any action which encouraged the transfer of knowledge from public research organisations to companies. This is significantly hindered at the moment by the current rules on State Aid, to the detriment of European competitiveness.

We would propose also that consideration be given to the difficulties many SMEs face in meeting the costs of patenting in Europe. The current regime results in them being uncompetitive against companies of similar size from the USA. Again, this is to the detriment of European competitiveness, and unnecessarily so. In Europe it is essential that mechanical processes such as filing patents be streamlined wherever possible to enable Europe to compete and to stay abreast of development in the rest of the world.

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November 3rd, 2005