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From: Hincio [mailto:hincio@skynet.be]

Sent: Friday, September 23, 2005 1:14 PM

To: COMP STATE AID GREFFE

Subject: Consultation state aids to support innovation

Importance: High

Brussels, 23 September 2005

Dear Commissioner Kroes,

I very much welcome your initiative to consult with interested parties in Europe on the question of possible state aids to support innovation. I am sure this initiative will be very well responded. Being myself an entrepreneur I created this summer a firm in Belgium "Hincio". This is a service firm aiming to advice new ventures, existing corporations and regional governments on sustainable energy infrastructures integrating hydrogen and fuel cells. These innovative technologies can respond to the pressing challenges of energy independence, oil price and environmental concerns, and at same time constitute a long term key economic driver for Europe.

These are typically disruptive technologies which have the potential to change the way we produce, distribute and use energy in Europe. They have an impact on the structure of the energy and transport value chains. They necessitate the entry of new market players, which have to be supported by all means by all actors, including governments.

This is what I think typically could be considered as a scope for state aids to support innovation. Allow me to further this proposal.

A. Background

In Europe a fundamental problem resides in the lack of strength and a certain cultural reluctance from the financial community which is unable to play an active intermediary role between universities and scientists (ideas), start-ups (elaborated concepts) and corporations (market enablers): this constitutes a fundamental a market failure which does not exist in countries such as USA, Canada or Japan.

Let me take a concrete case now. As a "business intermediary" with a good experience at advising new entrepreneurs and innovators, I am currently advising a French start-up developing an innovative and very promising system producing renewable energy. I help them consolidate their business plan with critical external eyes, give them access to my industrial network and help them structure their project and team to be more attractive to public and private financing.

My first analysis of their current situation showcases several typical pitfalls, that I have seen many times across Europe:

1. Banks are not interested in financing their seed project and the start-up (they do not have the expertise and the risk profile is not attractive to them)
2. Venture capitalists and large investors do not fund such projects under a certain threshold which typically is in the order of 5-10M€. Often entrepreneurs need in their first round only a few hundred thousands euro to demonstrate the validity of their technology and by doing so reducing the risk for a second or third round of financing with more substantial funding to bring the technology to the market.
3. Research and demonstration instruments at EU level are inadequate for them because they require the production of an extensive dossier with a European consortium of industrial players and typically the process requires 1 year of continued effort between the submission of the interest and the final response. Current financial instruments are also totally inadequate: payment terms generally include cash transactions at the beginning and the end of a period, which in terms of cash flow management for a small venture is inappropriate. On top of that

the financing of such projects by the EU often requires bank guarantees, which are not an issue for large corporations but constitute a major hurdle for start-ups...

4. Large corporations do not have the capacity to follow and take an active role in the hundreds of technology projects that may be relevant to their activities across Europe and will await until projects are more mature and have been filtered by VCs which will play an intermediary role.
5. Fiscal incentives do only affect large companies, not innovative companies and start-ups which typically do not post profits from which they could deduct a tax incentive...
6. Last but not least, the financing of my services as an innovation business intermediary which can help them overcome some of their challenges (while keeping them focused on their technology and the structuring of their enterprise, which should be their priority) is a real issue and no one is willing to finance a external consultant to assist start-ups. This I think is a big mistake and I am very pleased to see that you did capture this point in your communication.

All of this leaves us with few options and a strong interest at supporting your Commission services to structure creative tools that can overcome these hurdles.

B. Proposals and comments

1. Your proposal to launch "innovation checks" is an excellent one which I receive very positively. The suggested amount of €200,000 is in the correct order of magnitude for which no alternative funding is generally available. But a certain degree of flexibility is required.
2. Speed in the process is key: this is the main challenge of innovation and innovators, particularly in a global context in which access to information accelerates knowledge acquisition, and innovation. The establishment of a very lean and efficient application and response process is a pre-requisite which should be embedded as part of the discussion (and solution) from the beginning. This discussion should not be left to a later stage to regional governments or specific agencies, which may destroy all the benefits of such instrument by imposing their own criteria or local administrative complexity. I insist: speed is essential for start-ups and innovators. They typically do not have the time to go through complex administrative processes. Only large firms with structured administrative departments can afford that. For example a light application process could integrate a first phase with a light submission and preliminary evaluation, and a second step with a more detailed submission in case the project matches requirements. This to avoid that all interested entrepreneurs have to go through the structuring of a complete dossier if their project does not match expectations.
3. Criteria and requirements to get access to such innovation state aids should be simple, predictable, broadly applicable and not require advice from legal experts, because of obvious financial reasons. They should also be consistent across Europe: an innovation is an innovation not because it is in a certain region of France or in UK, but precisely because it does not exist elsewhere.
4. Criteria that could be considered include:
 - Evident market failure / no alternative funding available: e.g. in sectors such as hydrogen and fuel cells in which there is not yet a clear short term market demand and projects are not bankable, the financial community is not yet ready to invest while there is a general understanding that these technologies will reach the marketplace in mid term. Innovation state aides intervene in those cases as transitional measures until traditional financing mechanisms start nurturing the new ventures and market demand emerges.
 - Potential impact, technology breakthrough and personal investment from project supporters: to support most innovative and promising projects
 - Company/structure size, structure, age : to ensure that start-ups and innovators are being funded, not spin-off of large industrial players
5. Innovation intermediaries which can provide access to information, industrial networks or act as independent external advisers do have a very important role and should be given the opportunity to benefit from such state aids, directly or indirectly.

I hope these comments are constructive and thank you again for your important initiative.
I look forward to reading the outcome of this process and remain available for further input.

Sincerely yours,
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