

# EUROCHAMBRES Position Paper 2005

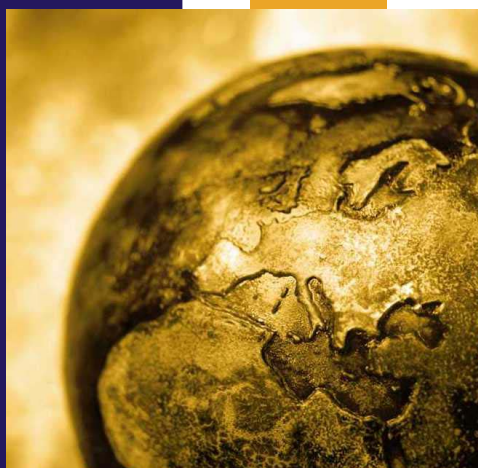
EUROCHAMBRES

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*The European Chamber Network*

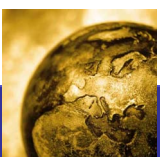
**WORKING FOR EUROPEAN BUSINESS**

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# **EUROCHAMBRES' POSITION ON STATE AID AND INNOVATION**

*November 2005*



## Introduction

Innovation is key for improving and securing Europe's economic competitiveness. Innovation does not only entail producing knowledge, it is at least equally important to transform knowledge into innovative products, procedures *and* services. Moreover, it is not limited to technical innovation resulting from research. New forms of collaboration and organisations of companies (eg. clusters, centres of excellence) can equally contribute to innovation.

To be innovative firms above all need a business friendly environment conducive to competition, entrepreneurship and risk taking. Also for innovation the market is the most efficient way of resource allocation. State aid can not replace a good business environment and the market. Its role can only be limited.

It is against this background and with these general considerations in mind that European Chambers formulated their comments on the European Commission's (EC) communication on state aid and innovation.

## General remarks regarding state aid and/or innovation

Chambers stress that state aid can and should form only a limited response to the problem of insufficient innovation. Member States must, parallel to using state aid, take other measures which lead to good framework conditions for innovation and entrepreneurship (eg. low tax levels, flexible labour market, access to finance etc.). *Good framework conditions* form the real core of innovation policies.

State aid for innovation, as state aid in general, is an "*instrument of last resort*", must (allowing for some defined exceptions) be temporal, proportionate and strictly controlled. Control should be efficient and effective, not leading to unnecessary bureaucracy. State aid control should be quick and predictable.

State aid, national or European, should be accessible, not hampered by unnecessary bureaucracy. Apart from reforming the state aid rules for innovation, the EC should increase and simplify access to and management of existing European programmes for R&D and innovation. Especially access and chances of success of SMEs in these programmes must be increased.

Several of the measures proposed by the EC would fall under the "*de minimis*" rule. As suggested in the EC State Aid Action Plan, Chambers argue that raising the threshold for "*de minimis* aid" would be understandable, as long as the aid remains of a marginal volume.

The *scope of innovation* in the communication is not fully clear. For this reason it is difficult to really judge if the six suggested innovation measures are really the right ones and to measure if they reach the intended effects. Against this background, the EC is recommended to plan a review of the new state aid rules on innovation after a short period of being in force. As described above Chambers support a "*wider*" scope of innovation (please also refer to the comments made in the introduction).

## Key issues raised by the Communication

### *The need for a new framework*

Due to the nature and its impact state aid should be used sparingly. Clear, restrictive rules should apply for all state aid and control should be effective. Under these conditions and in view of simplification of European state aid regulations European Chambers do not favour creating a separate framework for innovation. Rules for state aid on innovation can be integrated in existing state aid regulations mentioned, like rules for R&D and innovation, and Environmental and Risk Capital guidelines as long as they fulfil the conditions of restrictiveness and effective control.



#### *The approach of using ex ante criteria*

Using ex ante rules is supported for smaller amounts during short periods and mainly for technological innovation. Clear rules increase transparency, non-discrimination and lead to rapid and predictable decision making. Ex ante rules might be less appropriate in case of “non technological innovation activities” that are close to the market. The approach should nevertheless not result in suffocating rigidity. In exceptional circumstances, after thorough scrutiny by the EC, the possibility should remain open to provide aid in cases not completely fitting the criteria.

#### *State aid for innovation to large(r) companies*

Special care must be taken when providing aid to large(r) companies, but it should nevertheless be considered to allow aid to companies up to 500 employees. This argument results from the reasoning that the SME definition of 250 employees is quite restrictive. Companies up to 500 employees are from a point of innovation often confronted with the same problems as those of less than 250 employees. Aid to large(r) companies defined in this way should be subject to a strict case-by-case analysis and authorisation by the EC taking into account the type of company, the particular activity it will engage in (basic research) and the possible spin-off effect of aid on large(r) firms on SMEs and clusters. Justification of aid must be reviewed regularly.

#### *State aids for non-technical innovation*

Technical innovation represents only part of the innovation potential and specifically in the service sector innovation also requires developing new business models, methods and tools. Moreover, many SMEs and micro enterprises in particular are mainly engaged in non technical innovation. Consequently, Chambers strongly stress the importance of non technical innovation, but repeat that ex ante rules for activities close to the market could be less appropriate.

#### *Which type/form of aid in which specific situation*

Naturally the type / form of aid should be adjusted to the situation and goals for which it is given. Consequently, tax exemptions are not always an appropriate instrument to support innovation. For companies in an expansion or start up phase tax exemptions do often not lead to (a sufficient) lower burden. Such firms often already have a (very) low tax burden due to the characteristics of these companies and/or the phase they find themselves in. Moreover, Chambers stress that tax exemptions can not replace the general need to lower the taxation levels of companies. Grants, secured loans, repayable advances are preferred instruments. Secured loans do not seem appropriate for encouraging innovation intermediaries.

#### *Innovative start-ups*

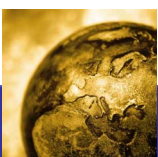
Chambers support the idea that especially new and innovative companies experience large problems in the start-up phase. Eligibility criteria should be cross sectoral, but it should be checked if the maximum age of 5 years for new innovative companies could be extended in sectors in which product- and innovation-cycles are longer. Furthermore, Chambers again stress the “non- technical” element of innovation when looking at and defining innovation and innovating companies.

#### *Risk capital*

The EC proposals are general and difficult to comment on. Generally however, more flexibility of the current rules in the start-up phases and expansion phases of innovation projects and introducing specific provisions for post-seed stages, is supported. The EC rightly stresses the need for a proportionate maximum amount and timeframe. However, the threshold of state shareholding in capital funds should not be increased.

#### *Technological experimentation and launching innovative products*

Introducing activities for SMEs in the last phases of pre-competitive stages is welcomed. Nevertheless, given to the closeness to the market only limited support can be given and the rules should be reviewed shortly after introduction. Ex ante rules might be less appropriate for activities close to the market. At the same time, the acceptable aid intensity should be a sufficient incentive to participate and the current proposal might have to be looked at again. Only in exceptional circumstances should such aid be allowed to large(r) firms up to 500 companies and then only after approval by the EC (also refer to comments on aid to larger companies, page 3).



### *Innovation intermediaries*

As a general rule aid should directly target final beneficiaries, but a legitimate market of innovation intermediaries exist. This market is often wide and fragmented leading to confusion that might even hamper innovation. A clear structured market with efficient operators is to come about. It must be checked which already existing and effective structures exist. In many EU countries Chambers effectively provide innovation support.

Aid to intermediaries can fall under ex ante rules, must be sector neutral and can only be given to non-profit-organisations providing non-market oriented services. The proposed voucher system is supported, but it must be ensured that vouchers are not used for services which are available for free on the local market. Chambers could also envisage a "co-financing element" in the voucher system.

### *Mobility and training*

Mobility and training can be an effective measure for innovation. The proposals are generally supported, especially as they seem not to be limitative, but regard innovation in a wide sense. Aid intensity and duration are to be limited. Exchange and lending of personnel should also be allowed for research institutions and some flexibility of duration might be considered in line with different product development cycles of sectors. *It must be very clear however that aid should never lead to replacement or destruction of existing jobs.* Specific EC initiated rules for contracts are not necessary - they should be left to the actors involved.

### *Clusters, poles of excellence, IPR and infrastructure*

Clusters and centres of excellence based on bottom up collaboration and with sufficient critical mass can contribute to innovation in Europe. Limited aid to such structures can only be provided for initiation of activities and for a short time. Furthermore, clusters and centres of excellence benefiting should be regularly evaluated in terms of their "excellence" and contribution to innovation and the knowledge society. Only in exceptional circumstances should aid be allowed to firms up to 500 employees, only after approval by the EC (also refer to comments on this point made on page 3).

Chambers support the review of the rules for intellectual property rights (point 68). State aid to infrastructure should only be allowed in case of proven market failure and under the condition of technical neutrality and open access – in this respect the needs of innovating companies are the same as any other modern progressive company. No additional European criteria / rules should exist to avoid aid fragmenting as this is a matter of national policy priorities.

### *Role of Chambers of Commerce and Industry*

European Chambers of Commerce and Industry regard innovation as a key priority for their companies and Europe's competitiveness. In many EU countries Chambers possess a clear competence and year long experience in helping enterprises to innovate. Due to their local and regional base Chambers are close to the companies and well placed to provide a wide range of services either independently and/or in co-operation with other business support structures, often hosted by Chambers themselves.

EUROCHAMBRES is the Brussels based Association of European Chambers of Commerce and Industry, and the sole European body that serves the interests of every sector and every size of European business and the only one so close to business. EUROCHAMBRES has member organisations in 44 countries representing a network of 2,000 regional and local Chambers with over 18 million member companies. Chamber members employ over 120 million employees.

More information on EUROCHAMBRES: [www.eurochambres.be](http://www.eurochambres.be)

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