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NOTE FOR THE ATTENTION OF MR. A. ALEXIS,
HEAD OF UNIT I-1, DG COMP

Subject: **Consultation on State Aid for Innovation** HT 349

In view of the Consultation on State Aid for Innovation launched by DG COMP, we wish to express our interest and satisfaction for such a very good document. Furthermore, we would like to give our contribution and to show you our ideas and concerns, since in the framework of the "Intelligent Cars" Initiative launched by DG INFSO we are planning to establish an incentive plan and it's in our interest to have the situation considered in the new rules.

The background of the ongoing action is the following one:

- i2010 is a strategy for modernising and deploying all EU policy instruments to encourage the development of the digital economy. The "Intelligent Car" is one of three i2010 "flagship initiatives" aiming to accelerate the take-up and use of advanced in-vehicle and co-operative systems based on Information and Communication Technologies (ICT) that make road transport safer and cleaner, by raising user awareness of such systems and their benefits, and by facilitating their deployment. Activities under this initiative will therefore include actions to support the initial phase of market penetration of mature technologies and systems.

- Intelligent Vehicle Safety Systems (IVSSs) contribute to solve key societal challenges by increasing road safety, the overall efficiency of the transport systems and by contributing to a more efficient use of fuels. The areas addressed by IVSSs fulfil the EU objectives set by the EC in the White Paper on European Transport[1].

- The potential socio-economic impact of IVSSs in road vehicles was preliminarily estimated for a certain number of cases.

[1] The improvement of the road safety (halve the number of road deaths by 2010, increase the use of new technologies for safe new vehicles) is one of the priorities of the White Paper "European Transport Policy for 2010: Time to Decide" adopted on 2001.

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- The SeiSS study[2], estimated that if all vehicles were equipped with eCall (emergency called automatically triggered by the vehicle in case of an accident) by 2010 a reduction in fatalities between 5% and 10% could be achieved in the EU. Moreover, it could reduce congestion times between 10% and 20% with cost savings of between 2 to 4 billion €. The same study estimated that Autonomous Cruise Control (ACC) that performs longitudinal control thus avoiding rear-end collisions, could save up to 4.000 accidents in 2010 if only 3% of the vehicles were equipped. In the case of Lateral Support (lane departure warning and lane change assistant) 1.500 accidents could be avoided in 2010 given a penetration rate of only 0.6%, while a penetration rate of 7% in 2020 would lead to 14.000 fewer accidents.

- AWAKE, a project that developed a Driver hypovigilance system, estimated that a warning to the driver in case of drowsiness could play an important role in avoiding 30% of fatal crashes on motorways and 9% of all fatal accidents.

- The SMART NETS project demonstrated that improved software and real-time traffic data in urban traffic control centres could lead to better traffic management and achieve a reduction of up to 40% in traffic standstill and congestion, thus resulting in considerable energy savings.

- Also concerning fuel savings, an AVV (Dutch ministry of Transport) study estimated that a 21% decrease in accidents would translate into a reduction in fuel consumption and CO_2 emissions of 11%, while NO_2 emissions would be reduced even more, by 15%.

In the last years, the research supported by the Framework Program delivered a wide range of interesting and effective IVSS prototypes and technologies ready to be embedded in the products addressed to the market: next phase is the preliminary introduction into the EU market. On the other hand, the likelihood of a market failure to happen is high since consumers did not recognise still a higher value to products offering safer, more energy efficient and less polluting vehicles capable of reduce the congestion on European roads, offered at higher price.
A preliminary study surveying different kind of incentives possibly fitting to the introduction to IVSS into the EU market[3] was prepared some months ago within our Unit and we strongly believe that a strategy of financial or fiscal incentive should be discussed among all the stakeholders in order to prepare a plan for incentives to the IVSS deployment supporting the first phase of introduction into the market.

The points raised in the Consultation are highly relevant to some of the actions to be undertaken in the "Intelligent Cars" initiative and actually this document represents an opportunity to ease its implementation. Our major remark concerns the definition of innovation, especially when the objective is the achievement of medium-long term ambitious objectives for European economy and society through innovation.
Paragraph (5) refers to the Environmental Technologies Action Plan, contributing both to sustain competitiveness and growth objectives and to contribute to environmental

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[2] Exploratory Study on the potential socio-economic impact of the introduction of Intelligent Safety Systems in Road Vehicles: SeiSS final report.

[3] "Incentives Schemes applied by the Member States in the Transportation Sector: towards the design of a strategy to support the adoption of eSafety"

protection, underlining how market prices reflect the direct economic costs and not indirect costs such as health care costs for urban air pollution. In this case economic incentives can help the take-up of environmental technologies aiming at wider socio-economical objectives.
The development and adoption of Environmental Technologies and, similarly, IVSSs, require a definition of innovation ranging from earlier stages of research to the introduction into the market: this last stage represents a crucial moment of the innovation process and it is important not to underestimate the importance of incentives as transitive instrument to turn a new market into a mature one, raising awareness and contributing to the wide spreading of information about new technologies.

As specified in the definition of the footnote at pag.9, *a technological product innovation is the implementation/commercialisation of a product with improved performance characteristics such as to deliver objectively new or improved services to the consumer.* Nevertheless we think that cases referring to innovation aiming at socio-economical objectives like in the case of IVSSs should be specifically addressed and pointed out in the new rules, giving the right weight to the commercialisation part as well. If it's right that the risks of distortion to the competition are higher for a limited period, the transitory situation can bring enormous benefits for the society in the long-term, as said before.

We would appreciate if situations like the one described above, presenting strong analogies with the cited Environmental Technologies Action Plan, are taken into consideration in the new rules.
In the annex to this document you will find a list of targeted answers to the questions asked in the text of the Consultation.
We remain at your disposal for any additional clarification and we encourage you not to hesitate to contact us for any discussion or further updates of the situation of State aid for innovation.

Yours sincerely,

André Vits

Cc: R. Zobel, E. Ouzounis, A. Carrotta

ANNEX

1. *Question 1) Do you think that it is appropriate not to create a separate Framework for Innovation and that the new possibilities for State aid target selected innovation-related activities?*
   A separate framework to support State aid for innovation is strongly desirable. It could represent a preferential lane to undertake any actions aiming at supporting the innovation, limiting red tape (no dedicate decision should be taken to approve the State aid) and therefore reducing the time for the implementation.

2. *Question 2) Do you think that the problems presented in Annex and the market failures identified by the Commission as hampering the innovation process are accurate? If so, why? If not, why not?*
   Although the different problems addressed were well selected, we feel that the situation addressing the results of research stuck just before the market due to a higher risk for the innovator, were not considered. The commercialisation phase should be specifically appointed among the other issues, since it represents a main concern when the expected positive impact of the technology at socio-economical level is high and the market is not still ready to accept it spontaneously.

3. *Question 3) The measures described in this Communication provide ex-ante criteria on the basis of which State aid for innovation would be approved. Do you think that such an approach is adequate?*
   Current regulation is defining some specific exceptions to State aid prohibition aiming at specific targets of interest of the EU. Since innovation is a key issue for the EU, we think that the definition of ex-ante rules dedicated to the formalisation of the conditions under which specific exceptions to current State aid regulation can be accepted is adequate.

4. *Question 4) Stakeholders are invited to provide empirical evidence about the appropriateness of authorising State aid to large companies, in particular in connection with the objective of developing clusters around poles of excellence in the EU.*
   The IVSS case presented above is a clear example of innovation involving large companies as well (such as car manufacturers) that requires specific incentives actions in the market-penetration phase.
   Do you think that the Commission should develop ex-ante rules allowing State aid for Innovation to the benefit of large companies, or that such type of aid should always be subject to a case-by-case stricter analysis on the basis of a notification to the Commission? As far as support to innovation (or other state aid) is concerned, would it be appropriate to distinguish between different categories of large companies? If so, on the basis of which criteria? And for which purpose?
   As described in paragraph (2) of the document, innovation is the drive for growth and job creation, and is also appointing wider socio-economical objectives like in the case of Environmental Technologies Action Plan. Therefore, when State aid is the only instrument to ease, support and speed-up the innovation process in view of the achievement of the cited long-term objectives, it should be allowed, aiming the specific stages (from research to commercialisation) and the actors (large companies or SMEs) concerned.

5. *Question 5) Stakeholders are invited to provide empirical evidence about the appropriateness of authorising State aid to non-technological innovation, notably in services sectors*
   No comment.

6. *Question 6) Should the rules on State aid for innovation include regional bonuses for cohesion purposes? Should they differ according to the geographical situation of the region, irrespective of cohesion issues?*
   No comment.

7. *Question 7) Are some types of aid more suited to specific situations and specific innovation activities (ex: tax rebates, secured loans, repayable advances)?*
   Our unit prepared a survey[4] of the different aids suitable to support the adoption of IVSSs. We think that detaxation schemes are a good instrument to ease the penetration of the market and other actions can be undertaken in the following phases to consolidate the use of the new technology.

8. *Question 8) Do you agree with the proposed criteria to define innovative start-ups, with the approach of not defining eligible costs, with the amounts of aid and cumulation rules? Do you think that different eligibility criteria should be established for high-tech sectors like biotech and pharmaceuticals which have long time-to-market and product development cycles?*
   No comment.

9. *Question 9) Beyond the proposed rules, empirical arguments are welcomed that demonstrate the need for State aid: i) for start-ups independently of the innovativeness criterion, and ii) for innovative SMEs established for more than [5 years].*
   No comment.

10. *Question 10) Do you think that other types of State aid apart from those currently granted in respect of risk capital are required in order to help European SMEs grow beyond the start-up phase? If so, which ones?*
    No comment.

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[4] "Incentives Schemes applied by the Member States in the Transportation Sector: towards the design of a strategy to support the adoption of eSafety"

11. *Question 11) Do you think that these provisions would produce the expected effects in terms of encouraging SMEs to launch innovative products in the market? If not, what changes should be made to these rules?*
No comment.

12. *Question 12) Is there evidence that these provisions should be extended to large companies? Do you think that notification should be required for measures granting substantial amounts of aid to individual firms or individual sectors? If yes, above what amount? What empirical evidence should then be requested by the Commission?*
Please refer to question 4.

13. *Question 13) How would you regard specific support for innovation intermediaries which merge or develop a joint venture to reach critical mass in a technological field of specialisation? Should investment aid be permitted in this context? If so, on what conditions? What other measures could be envisaged?*
No comment.

14. *Question 14) Is there evidence that the recruitment by SMEs of other types of highly skilled personnel should be also aided?*
No comment.

15. *Question 15) Should the Commission adopt specific rules for cases where a researcher chooses not to return to his/her home university or where the university no longer intends to hire him/her back?*
No comment.

16. *Question 16) What definition of cluster/clustering activities should be followed and what criteria should be used to distinguish clusters from the broader category of innovation intermediaries?*
No comment.

17. *Question 17) Do you think that State aid should be allowed to promote European centres of excellence? If so, what type of State aid, for what reasons, and subject to what conditions? What other, possibly better, measures could be envisaged?*
No comment.

18. *Question 18) Are additional criteria needed to avoid State aid being fragmented and to encourage the concentration of resources in a limited number of poles of excellence?*
No comment.

19. *Question 19) What are your views more generally about the need for additional provisions for infrastructure that supports innovation (e.g. in the field of energy, transport etc.)?*
See infrastructure as part of the transportation safety. Safety Systems interact with infrastructure and are included in the general considerations of this note.

20. *Question 20) Do you think that large firms should be entitled to State aid, e.g. to establish research facilities in a European pole of excellence? Should the Commission try and develop specific criteria to control such State aid? What type of economic evidence should be requested to analyse the necessity of such State aid?*
No comment.