

**BANCA INTESA COMMENTS TO THE CONSULTATION DOCUMENT
ON STATE AID FOR INNOVATION**

Banca Intesa is one of the largest Italian banking groups operating in the European banking market. Benefiting from its well established relationship with Italian small, medium and large enterprises, Banca Intesa is committed to foster growth and innovation in Italy. In particular, Banca Intesa has recently launched two products aimed at financing innovative companies:

1. **IntesaNova**, a financing scheme in partnership with the Fondazione Politecnico di Milano to enable SMEs to directly access the most advanced technological research and development structures operating in Italy. In this respect Banca Intesa finances the innovative projects validated by the scientific partners via a specific credit line, without real guarantees and at conditions which are favourable for the company; and
2. **IntesaEurodesk**, aimed at assisting companies interested in financing opportunities offered by European Institutions. Banca Intesa offers both institutional and technological consultancy, thanks to its Evaluation Committee. **IntesaEurodesk** promotes activities of Research & Development in Technology and Innovation by encouraging the cooperation between the academic world, companies and research centres.

Banca Intesa welcomes the constructive dialogue which DG Comp has been pursuing concerning its new policy and legal strategy in the field of State aids for innovation, and would like to contribute with the following comments, which follow the structure of the Commission's paper.

I. GENERAL COMMENTS

Economic Approach: Banca Intesa believes that any exemption should be based on a rigorous economic analysis. To this extent we share the Commission's approach on State aid exemptions. In fact, the legal policy on State aids, especially when it refers to a crucial issue such as innovation, is a very strong driver of the economic development and thus the legal rules should be based on a solid economic analysis.

In this respect, however, we observe that the Commission should **refrain from introducing rigid rules** (e.g. on time limits of exempted aids), as the effect and need of a State aid depend on a number of factors, such as the industry sector,

the geographical environment, the tax regime, the social cost of work and the surrounding infrastructures, so that a fixed framework would not benefit in a comparable and equal manner the different addressees.

Legal Certainty: From our practical experience, we notice that enterprises need to rely on a **crystal clear legal qualification of the State aids** they receive, in order to invest in innovative but very risky products and processes. In other words, enterprises cannot, and do not want to, run the risk that the State aids, which they have received and used to innovate, are later judged not compatible and thus have to be repaid. In fact, in this scenario, they would face not only risks linked to innovation, but also risks linked to funding.

II. ANSWERS TO QUESTIONS

1. Introduction

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?

Question n. 1

Banca Intesa agrees that there should not be a separate Framework for Innovation, and instead the Commission should focus on **targeted innovation-oriented activities**. This approach carries the benefit of clarity, since by identifying the innovation-oriented activities, the Commission has already provided an interpretation and application of the somehow multifaceted concept of innovation.

2. Principles governing control of State aid for innovation

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?

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. 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?

Question 5) Stakeholders are invited to provide empirical evidence about the appropriateness of authorising State aid to non-technological innovation, notably in services sectors

Question n. 3

From the point of view of enterprises, the introduction of ex ante criteria to assess compatible State aid and the consequent introduction of an exemption for the aid matching these criteria constitute a material improvement towards

efficiency, certainty and less red-tape and bureaucracy. Moreover, enterprises would be in the position to use the funds granted to them immediately, without the delay connected to the notification process. This speeding up of the whole subsidy process helps the State intervention keep the pace with innovation.

As a private co-financer we highly appreciate the introduction of block exemptions as they substantially contribute to assess a State aid and do not force the whole funding process to be delayed because of the notification.

Question n. 4

From our experience we observe that from an operational point of view innovative SMEs and large enterprises are closely linked. This connection can occur in several ways, such as:

- SMEs operating in alliance with large companies, for instance developing a component, which is then used by the large company;
- SMEs and large companies sharing the same innovation centres (e.g. laboratories);
- SMEs acting in the slipstream of large companies, for instance further developing a product/technology deployed by the large company;
- SMEs sometimes growing around large companies, which play a role of cohesion pole;
- SMEs being developed as a spin-off from large companies.

In the case of clusters and poles of excellence this connection is even firmer, as both SMEs and large companies are organically present in these centres.

Therefore, we believe that State aid should be granted both to SMEs and large companies, taking into account the important synergies that come from a co-operational perspective.

Alongside with this tight connection, we notice that innovation occurs according to the same rationale both in SMEs and in large companies, where research departments play an important role. This is another argument **to treat in the same manner State aid granted to innovative companies, irrespective of their size.**

If the Commission still believes that State aid granted to large companies can potentially distort competition and therefore needs to be notified, we would suggest to **draw a distinction between the sectors** where these companies operate and thus to provide for an horizontal exemption for State aid granted in certain sectors (e.g. biotechnology). In fact, the distorsive effect of State aid largely depends on market structure and large companies operating in less competition-sensitive sectors should not be bound to notify because of issues arising in other sectors.

Question n. 5

As an opening remark we would like to stress that in our opinion “technological innovation” occurs both in high tech and in **low tech sectors**. Bearing in mind the broad diffusion and importance of low tech products, we believe that the improvement of products and processes in the low tech sectors is vital for the competitiveness of EU economy and for consumers. Furthermore, because of the wide diffusion of low tech manufacturers and the high number of employees in this sector, fostering the growth of this industry is crucial to meet the objectives of the Lisbon agenda. Therefore, we maintain that the Commission should allow exempted State aid also to innovative low tech enterprises.

Traditional sectors such as food and drink and textile are good examples of areas where innovation of low tech products can play a pivotal role in the growth/competitiveness of a district, region or country.

Moreover, in our opinion the definition of **innovation** eligible for exempted State aid should encompass also (i) the **market analysis** on the impact of a potential innovative product and (ii) the **whole production process, which follows the actual implementation of the new product** and is aimed at producing and marketing it. These are crucial steps for the economic success of innovation processes and products and hence exempted State aid should be allowed also in this respect. Also the latest Community Innovation Survey¹ underlines the importance of the final implementation phase of the innovation process and of the actual introduction of the innovation in the product/process.

The Italian industry provides a good example of the link among the various forms of innovation. According to official statistics on the Italian industry, it is in those firms which have introduced technological innovation that the incidence of non-technological innovation is greatest. Please refer for the relevant data to the table below.

Italy: non-technological innovations in firms in industry (a), 1998-2000²		
<i>(% of innovative firms declaring the effect “very important”)</i>		
	Firms	
	innovative (b)	non-innovative (c)
New company strategies	39	14
Innovations in organisation	50	21
Innovations in management	28	10
Innovations in marketing	33	13
Aesthetic improvements (products)	53	25
<i>(a) excluding construction</i>		
<i>(b) of firms that have introduced technological innovation</i>		
<i>(c) of firms that have not introduced technological innovation</i>		

¹ <http://www.cordis.lu/innovation-smes/src/cis.htm>, page 52.

Therefore, we can infer the existence of a certain complementarity among the various forms of innovation.

Whether the definition of “technological innovation” of the Oslo Manual has to be clarified and widened, or a new definition of “non-technological innovation” has to be introduced, is a policy choice for the Commission to make. On the opposite, it is relevant to us that **any definition of innovation eligible for exempted State aid is clear and broad enough to catch also non-purely technological products and processes.**

At any rate, we are **not** convinced that the definition of innovation should embrace **all services**. We would suggest the Commission to apply the State aid exemption rule only to more innovative and technology-sensitive services, such as telecommunications and software. In fact, we observe that only the structure and the cycle of these more technology-oriented services are similar to the ones of industrial products. Furthermore, also the market failure rate and pattern depends on the technological sensitivity of the service and consequently fostering the development of technology-sensitive services is likely to have a domino effect on innovative industrial products and processes.

3. Supporting risk-taking and experimentation

3.1 Supporting the creation and growth of innovative start-ups

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?

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].

Question n. 8

Banca Intesa is convinced that there is **no “one size fits all”** approach in the field of State aid for innovation. In fact, the same aid given to companies with substantial different product cycle would be proportionally more beneficial for the company with the shorter product cycle. For this reason, Banca Intesa would advise the Commission to tailor the concept of “proportionality” of the exempted State aid to the various industrial sectors.

Question n. 9

Banca Intesa attaches **great importance to a quick dimensional growth of innovative start-ups**. As a matter of fact, a dimensional increase has the effect to lower the failure and bankruptcy risk of an enterprise, and eventually to improve its access to private financing. The output of this reasoning is that the

² ISTAT – Community Innovation Survey

State aid policy should encourage a dimensional growth of innovative start-ups, for instance by **prizing successful mergers and acquisitions**. On the opposite, the proposed exemption is likely to lead to a situation where enterprises do not grow and merge at least for the first five years in order not to reach the 250 employee threshold and hence to lose the benefit of State aid. In other words, we believe that these limits are too strict and could be a straightjacket to the growth and development of innovative start-ups.

3.2 Tackling the equity gap to increase the provision of risk capital in the EU

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?

Question n. 10

In our experience one of the most successful types of State aid is the setting up of **guarantee funds** with public money. The establishment of such funds has a number of advantages:

- a large number of enterprises can benefit from a fund, which therefore is a highly effective instrument;
- the functioning of the guarantee fund puts the first liability on the enterprises, so that on a one side it encourages private initiative, and on the other side it lowers the risk of moral hazard on the side of beneficiaries;
- enterprises build a solid relationship with credit institutions, which can then further develop without public interventions;
- thanks to the low management costs, enterprises can benefit from this form of State aid also in relation to small amounts.

Moreover, a greater availability of venture capital and private equity funds would positively impact on the capability of SMEs to conduct high risk-profile research activities, that could otherwise experience difficulties in being financed. Therefore, Banca Intesa welcomes the Commission efforts to tackle the equity gap, stepping up the scope for innovative SMEs to gain access to risk capital.

3.3 Supporting technological experimentation and the risks of launching innovative products

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?

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?

Question n. 11

Generally speaking we agree with the Commission's idea to extend State aid **beyond the first prototype**. This attitude, in fact, can be read as the normative reaction to the changes of the whole research and innovation environment, where the distinction between R&D, industrial research and pre-competitive research is more and more blurring. For a further expansion of this issue please refer to our answer to question n. 5.

Question n. 12

Please refer to our answer under question n. 4.

4. A supportive business environment for innovation**4.1 Innovation intermediaries**

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?

Question n. 13

On a preliminary basis we would invite the Commission to further detail the definition of "innovation intermediary", which is still somehow unclear.

Banca Intesa is convinced that exempted State aid should be granted to enterprises, for instance by way of "**innovation services vouchers**", as pointed out by the Commission. This would enable them to buy the services of these intermediaries, choosing the best one. As a result, all intermediaries would have a market and then would grow, develop and merge like any other enterprise, i.e. on a competitive basis. Therefore, we would not envisage any specific State aid for innovation intermediaries, save when they provide non-market oriented activities.

4.3 Supporting the development of poles of excellence through collaboration and clustering

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?

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?

Question n. 17

According to our experience, we believe that innovative companies enjoy higher chances of success if their business is not isolated, but in turn is surrounded by a cluster devoted to the same business. In fact, the creation of these poles of excellence allows an optimal exploitation of all available resources. In particular,

we believe that it would be important to **concentrate** the granting of State aid on specific sectors characterised by the use of pre-identified technologies (e.g. technologies with a high-risk profile such as biotechnologies), independently from the size of the companies involved.

As already mentioned under the answer to question n.°5, we would like to stress the importance of supporting also low-tech clusters, where they play a pivotal role in the growth/competitiveness of a district, region or country.

Question n. 18

In our view, the concentration of resources in a limited number of poles of excellence could carry – *inter alia* – the benefit of optimizing the effort/result ratio in terms of new patents and inventions. In this respect we very much appreciate the Commission's proposal to amend the existing rules on intellectual property rights in order to introduce a regime more favourable to the private industry. In fact, it is very important that enterprises can more easily become the owner of patents, as patents are one of the most valuable collateral that they can offer to credit institutions on the occasion of the granting of facilities.

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