

COMMENTS AND SUGGESTIONS
of the Research and Development Council of the Czech Republic regarding the
Communication from the Commission: Consultation Document on State aid for
Innovation, Com (2005) 436 of 21 September 2005

REPLIES TO THE QUESTIONS IN THE DOCUMENT

Introductory section

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?

'Innovation' as a term is too broad and complex and covers a wide range of diverse activities. The Framework for Innovation as a whole would be too extensive and it would not be possible to define the individual possibilities sufficiently specifically and clearly. Such a Framework would result in numerous disputes.

We recommend modifying the possibility for aid specifically and clearly for selected innovation-related activities.

Specific sections

Regional dimension

Question 2): Do you think that the problems presented in the Annex and the market failures identified by the Commission as hampering the innovation process are accurate? If so, why? If not, why not?

Yes, the defined problems correspond to the current situation in the Czech Republic. The number and labelling of the market failure categories in the annex to the consultation document are accurate and correct. However, in several lines of the text they are characterized too loosely. The characteristics should be more detailed and more specific. This is particularly relevant for category (4) Insufficient policy coordination and for category (5) General – systemic 'inefficiencies'. Here the characteristics – especially from the aspect of the new EU Member States – should be more specific.

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?

If no framework for innovation is published as a whole, this would essentially be the only effective and sensible approach. Ex-ante rules are the only ones possible.

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?

We recommend permitting support for innovation to large companies. There is evidence that clusters managed by a large company (as a rule with global operations) can be a significant stimulating factor for the whole sector. Examples would be the MEDEA+ and ITEA clusters in the Eureka international initiative, which have made significant contributions in their field in establishing a leading position worldwide, including SME growth in the area concerned. This is one of the few ways of maintaining the position of industrial production in Europe. This measure is of exceptional significance in the new EU Member States, where the industrial map is still being intensively shaped.

Ex-ante rules specific for large (non-SME) undertakings would be fitting. The variant proposed by the Commission, in which the same ex-ante rules would apply both to SMEs and large companies, but where aid for large companies would be subject to a case-by-case stricter analysis, seems to be rather unclear at the moment and could create a situation where different yardsticks are applied. The only solution would be to create ex-ante explicit definitions on what 'stricter' entails.

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?

There is good sense in favouring aid for innovation in selected regions; the current form of preference (the bonus system) is satisfactory. The amount of these bonuses should continue to be governed by fixed, coherently formulated rules defined in the cohesion policy. Regional bonuses should be taken into account primarily in relation to the higher potential effects of State aid in less developed regions.

Question 7): Are some types of aid more suited to specific situations and specific innovation activities (ex: tax rebates, secured loans, repayable advances)? Plurality of the possible types of aid is desirable. A suitable type needs to be chosen with consideration for the specific activity being supported and the life (existential) phase of the entity. For example, tax rebates will not help undertakings in the initial stages of their existence because, as a rule, they do not generate a profit.

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?

We agree with the proposed criteria – the establishment of an undertaking a maximum of five years before the submission of an aid application and a maximum of 50 employees. In the biotech and pharmaceuticals sectors, we recommend considering extending the time as of establishment of the undertaking to six or seven years. For the high-tech sector, five years is enough.

Because the main customer for the output of pharmaceutical companies is the State (via the health insurance system), the rules of aid for innovation in the pharmaceutical industry should be much more liberal. It is also worth considering a form of guaranteed purchases of an innovated product via the public health system for a period running into several years.

We agree with the approach of not defining eligible costs. Assessments and decisions concerning what is and what is not an eligible cost is administratively demanding; furthermore, they are very rigid, making it difficult to incorporate necessary and useful changes in the cost structure during the implementation of the project. We recommend providing a flat rate which does not exceed a preset upper limit of the share of total costs.

I recommend considering the issue of the cumulation of aid in more detail. If a project for the creation and growth of an innovative start-up were to include large-scale research, we would recommend the cumulation of aid, e.g. from a framework programme of research and from the Structural Funds.

We recommend finding an explicit solution to the issue of spin-offs at universities and public research institutions. Aid should permit the creation of combined grants from the public and private sector. In principle, we agree with the proposed criteria. The rules for the granting of aid (paragraph 39 of the consultation document) should be time-differentiated according to the nature and requirements of innovation technology; it might be worth considering phased financing based on checks of the results of the individual stages of the establishment of an innovative undertaking.

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?

Yes, SMEs will always need extra assistance, e.g. as regards the provision of relevant information, guidance or cooperation with research institutions of an academic type. These and similar forms should be preserved and developed in line with SME requirements. We believe that the range of aid mentioned in the preceding text is sufficient.

The 15% level of support is too low. We recommend considering the possibility of a variable rate of aid depending on the conditions (standard) in the specific regions. We recommend considering the possibility of the cumulation of this aid with regional aid or with other State aid for related activities (the creation of clusters, networking, etc.).

Suitable means of SME support beyond the start-up phase (besides risk capital) are instruments facilitating SME access to loan capital in particular. These instruments, in the form of subsidies for interest, guarantees, etc., facilitate the implementation of costly projects, but unlike pure grants they do not increase the risk of moral hazard.

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?

We believe that the proposed provisions (measures) are sufficient to alleviate the risks connected with the launch of innovative products on the market. Because these are activities very close to the market, we do not recommend an expansion in aid with other provisions.

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?

When the costs of an innovative project are above a certain amount, a large company finds itself in the same situation as a small or medium-sized enterprise. This is why aid should not be limited solely to SMEs. With large companies, aid should be approved in advance and other undertakings should have the right to comment on it. The aid should be transformed into a recoverable commercial loan at a level corresponding to the success of the innovation.

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?

Support for intermediaries could become a significant means of increasing the innovation activities of SMEs in particular. Direct support of intermediaries should be provided for the creation of hard infrastructure for the effective cooperation of companies, universities and scientific and technological institutions.

Encouraging training and mobility

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?

We believe that it would be enough to have a provision stating that these cases (the researcher does not want to return to his/her home university or the university does not want to hire the researcher back) will be handled in the spirit of the document (contract, agreement, etc.) on the original employment or study activities of the researcher with the home university. We do not think further advantages or sanctions are necessary.

Supporting the development of poles of excellence through collaboration and clustering

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?

Clusters represent a different (higher) quality – they do not concern solely innovation intermediaries but are a form of integration into larger units providing new quality. They are of exceptional importance in maintaining production in Europe and must be supported. The existing definition characterizes clusters sufficiently and need not be changed.

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?

Aid should be limited solely to coping with administrative and coordination obstacles during the establishment and start-up (the initial stage of existence) of a European centre of excellence, or to the acquisition of large and costly infrastructure facilities. Aid would be granted based on detailed projects justifying the requirement of State aid. Aid would be granted solely in cases of common European interest. It will be necessary to find a solution to the division of intellectual property rights related to the outcome of research and development.

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?

Suitable set conditions to motivate the establishment of poles of excellence should be a sufficient means of preventing the fragmentation of financial resources and thus the effects of State aid.

Another possible motivation criterion (or factor) worth considering is the possibility of the partial reimbursement of costs connected with the protection of intellectual property and the costs of the renewal of protection. This would apply to undertakings, research institutions and universities, which would become part of a pole of excellence. Nevertheless, in this case it would be necessary to make poles of excellence open to those entities which do not physically operate in the field concerned but could be connected via a quality ICT network (e.g. broadband) in order to prevent the preferential treatment of certain parties due to their geographical situation.

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?

With regard to the reply to Question 17, we believe that large undertakings should not be granted State aid to establish research facilities in a European pole of excellence.

In extreme cases it could be possible to use public funds to cover only extra costs, as opposed to the costs of setting up a top-class centre at the seat of a large company.

FURTHER RECOMMENDATIONS

- (1) If the resultant measures require amendments to legislation, the Czech Republic is prepared to incorporate the resultant measures into Czech legal provisions.
- (2) We recommend emphasizing the role of universities as centres of regional education and development, and sources of a skilled, quality workforce for potential and actual investors in the regions.
- (3) We recommend permitting the granting of aid to large undertakings under specific conditions and in accordance with specific criteria. Large-scale and high-risk projects which could be a subject of common (European) interest may exceed the means of even large companies. Therefore there should be the possibility of granting aid to these undertakings in these specific conditions.

- (4) We recommend holding a broader discussion on the possibilities of State aid for non-technical innovation. The need for, and benefits of, non-technical innovation (innovative methods of management and organization) are significant. State aid with precisely defined rules would be beneficial in the new Member States in particular.
- (5) As regards the problem of encouraging training and mobility (paragraph 59 of the consultation document). The training of workers in research institutions in business-related fields would further the practical application of research results. Educational programmes need to be introduced that focus on research and development workers.
- (6) We recommend implementing further tax relief for innovative enterprises.
- (7) We recommend considering an increase in State development aid from the current 25% of eligible costs in specific cases of SMEs, especially in the field of information and communication technology.