

Comments on the Consultation Document on State Aid for Innovation

UEAPME, the European Association of Crafts, Trade and SMEs represents around 11 million Enterprise (with more than 50 million employees) from all European Countries (Member States and Candidate Countries).

UEAPME welcomes the public consultation by the European Commission on this important issue and asks the European Commission to take the consolidated view of our member organisations into consideration for the next steps on this dossier.

General Comments

UEAPME welcomes the broader definition for innovation taken by the Commission in its new approach towards state aid for innovation. Innovation entails more than simply R&D and this is particularly true for most smaller businesses, including crafts and trades. Furthermore, innovation in SMEs is not a linear but an ongoing process, which is carried out together with suppliers and costumers or within networks and clusters.¹

A state aid policy, which aims to target the main problems of small companies and start-ups with regard to innovation, has to include:

- Specific R&D programmes for SMEs, which use a flexible bottom-up approach and which are easily accessible
- Support to improve access to existing technologies for SMEs
- Instruments, which aim to improve access to finance for SMEs, especially for projects with higher risks (start-ups, innovative projects) and which include, not only equity, but also credit and loan financing
- Instruments, which increase the availability of high qualification (research, engineering, management, marketing)
- Support for the development of clusters and networks

¹ UEAPME: Towards an Innovation Policy for Crafts, Trades and SMEs, 2004
(http://www.ueapme.com/docs/pos_papers/2004/041027_Innovation_final.doc)

UEAPME welcomes that the Commission approach is based on market failures and aims to provide compensation where they occur. The general analyses about market failures and SMEs, as well as the reduced danger of market distortion by state aid for SMEs, are shared by UEAPME and confirmed by empirical evidence (SME observatory, DG Enterprise).

UEAPME supports the idea not to create a separate state aid framework for innovation, but to use the reforms of the existing guidelines and block exemptions to implement the different instruments, which could be used to focus state aid towards innovation.

UEAPME will not comment on the questions dealing with state aid for large companies.

Specific comments on the questions asked in the consultation document

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?

Due to the difficulties in finding a legal definition for innovation, it is appropriate to deal with the different aspects of innovation under the existing and forthcoming frameworks.

The new conditions target selected innovation-related activities, however not all to the necessary extent.

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?

The five problems identified in the document are relevant but do not represent all the existing problems. In continental Europe, SMEs (not only start-ups, but also existing companies) play a much more important role than in the Anglo-Saxon economy. These companies traditionally have a limited involvement in R&D and not generally part of the high-tech sector. For them, innovation is not a linear process, but an ongoing process of developing new products and services and of implementing new production processes. Therefore, they need access to existing know-how and technology, well-qualified workers for cooperating with suppliers and costumers and the necessary support services. In addition, they should be integrated in networks and clusters. The main shortcomings for SMEs, which hamper their propensity for being innovative, are access to finance, availability of support services, access to training and know-how.

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?

In general it seems to be a good idea to provide Member States with certain rules or criteria about which kind of aid is likely to be approved. This would be very helpful for national and regional authorities and service providers when they elaborate their programmes and actions. However, supporting innovation is an improving policy area and therefore it could also be helpful to ensure

that future programmes, which are not fully in line with such criteria, will not be automatically refused and that other programmes will also be analysed and approved, if they are in line with the legal framework.

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.

It is difficult for us to provide you with empirical evidence but non-technical innovation is a very important part of innovation for many SMEs. Therefore, state aid to support the development of new marketing strategies and service offers, based on new technologies should not be automatically prohibited.

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?

From UEAPME's point of view, regional bonuses are not necessary if the Commission uses a cumulative approach, which means state aid for innovation can be given additionally to regional aid.

Question 7) Are some types of aid more suited to specific situations and specific innovation activities (ex: tax rebates, secured loans, repayable advances)?

In principle UEAPME support an neutral approach regarding the types of aid, but it has to be considered that start-ups and very innovative companies very often do not make profits and therefore, tax rebates will not make the job.

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?

UEAPME can agree with the definition of start-ups, the approach regarding eligible costs, the amount and the cumulation rules, however for some sectors (such as biotech), with long

productions cycles, 5 years may not be a sufficient time frame. 8 to 10 years would take better account of market realities.

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].

There is clear market evidence that start-ups and other more risky projects (including innovation) have more and more difficulties to get access to finance. Therefore, state aid in form of credit guarantees is needed also for normal start-ups and for innovative projects during the normal lifecycle of companies.

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, guarantee schemes for credit and loans and advance business support services provided by intermediaries like management and marketing support, the provision of office space etc.

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?

Launching new innovative products is a difficult phase in an innovation process, especially for small enterprises; therefore the proposed measures would be very helpful and would make a difference. Regarding the intensity of aid, UEAPME is not sure if 15% will provide a sufficient incentive for small enterprises (costs for applying may be too high) or if it would mainly produce windfall profits for medium-sized enterprises.

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 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?

From our experience there is a justification to allow also investment aid for such joint ventures (laboratories, etc.), which may be the only possibility for achieving a critical mass within a cluster. If there are concerns regarding market distortion by some of the users of such investments, state aid should be controlled when such services are to be used by companies. At

this stage, the eligibility of the user for state aid and their own contribution to the investment has to be taken into consideration.

In general, most of these intermediaries are organised or supported by the public sector. If the Commission wants to forbid state aid for intermediaries, in order to create and to encourage more private activities in this field, it will risk reducing their activities dramatically. UEAPME sees the problem that more and more intermediaries are forced to provide their services on the market and not only to targets groups, which are eligible for state aid. UEAPME acknowledges that this may create unfair competition with non-supported providers of the same services.

In UEAPME's view this problem is similar to the well-known problem, which providers of services of general economic interest have, when they provide services on the normal market. For this reason, the same approach could be used by the Commission (definition of public obligation, transparency between public and private service provision, etc.).

Question 14) Is there evidence that the recruitment by SMEs of other types of highly skilled personnel should be also aided?

Apart from high-qualified researchers and engineers, many innovative SMEs also need management support for the implementation of new ideas. Therefore, the recruitment or the provision of such management for specific purposes should be also covered.

Furthermore, practical experience shows that an intensity of 50% (not 35) is necessary to provide the necessary incentives.

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?

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?

From our understanding clusters are a group or network of companies (large, small and start-ups) and clustering activities may be special activities, which support the development of clusters. Some of the latter may be intermediaries (training and research centres, laboratories, incubators, etc.), some may be provision of infrastructure.

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?

If the Commission takes the market failure approach seriously, it must accept that such centres of excellence have positive external effects, which justifies giving state aid to compensate for them.

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 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.)?

The existence of high-quality infrastructure (energy, transport, ITC, training centres, public research centres) is one of the most important preconditions for innovation and the development of clusters. As long as such infrastructure is provided to all companies at the same conditions it cannot be seen as state aid but as a service of general interest.

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?

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UEAPME has 78 member organisations, which represent crafts and SMEs across the whole of Europe, covering over 11 million enterprises with nearly 50 million employees.

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