



## Consultation on state aid for innovation

Confartigianato, the Italian organization representing the interests of more than 500,000 craftsmen and small and medium-sized enterprises, welcomes the Commission document on state aid for innovation.

Innovation is a key element to economic growth and lies at the basis of technological change in every sector. Innovation has a particular cultural value as well, since it fosters scientific progress and research at academic and industrial level. For sure innovation plays a major role in the EU strategy for growth and jobs.

In the present economic context scale and efficiency interact in such a particular way that makes it possible for small firms to compete at the same level as big companies. Customers have much more diverse and tailored needs than in the past and to these needs enterprises respond without jeopardizing their productivity. Markets' instability has shortened the product life cycle but, on the other hand, technology has rendered the production process much more flexible.

SMEs, and particularly small and micro-enterprises, enjoy particular benefits when they are part of regional industrial clusters. In this way they can profit from information networks and technological spillovers that make them as efficient as big companies, exactly because the positive externalities stemming from their presence in the cluster substitute for the internalization advantages typical of big enterprises. Together with big enterprises and research bodies they can reach the top level. The advantages of being in these networks are pivotal for all companies, irrespective of their size, that do not want to be driven out of the market as a consequence of the global competition.

The importance of regional clusters and networking for SMEs has been recognized in the economic literature. SMEs are indispensable for the success of these "regions" because of their peculiar relation with the local population and the environment in which they are situated. Shortly, building on these elements can trigger off endogenous growth.

Competition is indeed the most important factor in innovation, since it makes enterprises look for new solutions and methods to pursue their economic objectives.

However, competition at global level is not a synonym for more transparent and fair competition. Evidences of countries financing the activities of companies, directly or indirectly, make clear that a world approach is needed to ensure European companies can compete at a level playing field with their world competitors.

Besides all the reasoning above, which is purely based on economic theory, organizations as Confartigianato face the facts that economic practice is much more complicated.



Innovation is a commonly known phenomenon, but it does not entail the same meaning when this term is applied to small companies. The main differences regard the nature and the scale of innovation. Where innovation means huge investments in R&D for big companies, in small enterprises it means adapting constantly the production process in order to tailor the products offered responding to clients' needs. It means constantly readapting old methods to new requests, it means deepening the relation with the customers, it means finding the best way to combine people and technology in the firm to reach the objectives. This is much more true in services firms.

In practical terms 'innovation' for SMEs may just translate in hiring specialized personnel or computerizing a process. It means also buying new technological products from big companies or engineering one product together with them. Since virtually all European companies are very small, all these innovations cost relatively more than for big companies. The European Commission therefore has to recognize that innovation has this very particular meaning for SMEs.

After this general comment follows a section with the answers to the Commission's questions.

#### 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?*

Confartigianato is in favor of a separate Framework for innovation that targets innovation-oriented activities with state aid. Indeed, state aid given to marginal firms or to big companies in the past has created unfair competition for SMEs. Financing innovative ideas will be crucial for fostering growth and job creation, only as long as small enterprises are provided with special instruments and as long as the "special dimension" of innovation for SMEs is recognized.

The Oslo Manual definition referred to in the Commission document ("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. A technological process innovation is the implementation/adoption of new or significantly improved production or delivery methods. It may involve changes in equipment, human resources, working methods or a combination of these...*") may therefore represent a way to recognize this "special dimension".



#### 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?*

We agree with the Commission's analysis that links the problems and the market failures identified in Annex to Europe's steadily growing innovation gap.

Researchers' mobility is crucial for the diffusion of best practices and for personal and professional growth of researchers. SMEs should be given financial aid to hire very specialized personnel.

Patents are a very powerful instrument for companies to protect the results of their efforts. SMEs should be given the possibility to protect their efforts as well, by means of cutting red tape and by the possibility of presenting the documentation regarding their patents in their national language. European-wide and global respect of patents must be guaranteed.

Financial markets still do not provide enough means to SMEs to finance their innovative activities. Best practices like the Italian Confidi-system should be promoted and more counter-guarantees should be made available to SMEs.

#### 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?*

The method proposed by the Commission, that starts from the individuation of the market failures and advises state aid only in case this is the best and the most proportional instrument, is well-grounded.

#### 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?*



Generally speaking, the elaboration of *ex ante* rules can provide a legal framework for the case-by-case evaluation of aid given to big companies. Only a clear framework that does not leave too big margins for subjective interpretation can guarantee that the economic approach based on market failures is respected.

#### Question 5)

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

The obligation to provide empirical evidence may result in a burden too heavy for SMEs. Special provisions must be provided to SMEs applying for aid to non-technological innovation since aid given to them is very limited and does not have major consequences on competition.

#### 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?*

The role of innovative regions, clusters and poles of excellence has already been highlighted as being pivotal in the world economy. Cohesion policy and state aid have different backgrounds, but they share the common competitiveness objective. Any additional money spent financing networking and innovation diffusion in problematic regions will have positive effects, as long as the decision is well-grounded on economic terms.

#### Question 7)

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

A good idea may be to give SMEs ‘innovation vouchers’ to finance their innovation activities. They could for instance be used to hire qualified personnel or to buy technologically advanced equipment. These vouchers, when deposited in banks, could be used as loan guarantees as well.

The vouchers could also be used to buy services from consulting companies; for instance they could be used to finance the redaction of business plans that, in turn, enterprises can present to banks. This measure reduces particularly the information asymmetry with regard to innovative projects to be financed.



#### 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?*

Confartigianato welcomes the approach tailored to small businesses, since it is an important step in the process of recognizing this category as a particular one, with special needs and peculiarities that distinguish it from medium-sized companies. However, excluding more structured SMEs from the eligibility criteria may be a limitation to Europe's innovative potential. Special measures for small companies are needed, but successful growing companies may not be penalized.

The innovativeness criterion is a big limitation since it introduces a quantitative aspect of innovation and increases the burden for SMEs.

We envisage some problems with the exclusion of firms in difficulty or with the prohibition of aid cumulation and the possibility to receive aid only once.

#### 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].*

It has not been possible to collect the necessary data to answer to question. In general we can state that linking the financing to a mere timeframe may render ineligible innovative projects within high-tech start-ups the financing of which may be well-grounded on economic terms and according to the new state-aid rules. The Commission may therefore leave the possibility for longer financing open, but make this conditional upon a need-assessment at the verge of the fifth year.

#### 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?*

Aid to SMEs in the post-seed phase is important because it happens in a crucial phase of the enterprise life cycle. In these phase support is needed to finance feasibility studies, impact assessments or consultancy; support may be determinant for the continuation or the expansion of the innovative activity. Support given beyond the start-



up phase may be granted in the same way as in the start-up phase (in the case of innovation vouchers).

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 support the merging of the different traditional stages of the innovation process. The activities proposed for as being compatible with state aid rules at point 50 are good and will surely help SMEs to launch new products on the market. Point b), however, when stated as such, seems to exclude from the eligible aid the special dimension of innovation typical for SMEs. Limiting aid intensity to 15% may be too restrictive.

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?*

There is no economic reason that justifies the same kind of aid for big enterprises since they normally have the means they need for research. Nevertheless, when these big enterprises are part of networks with SMEs, aid given to them could become a catalyst for the growth of the whole network. In such cases big companies should be supported, but money may not be redirected from funds originally foreseen for SMEs. Any huge amount of money being granted to one single firm should be well justified and properly notified to the competent authorities.

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?*

We do not agree with the general reasoning that intermediaries should be excluded from aid when they make a minimal profit. On the contrary, the existence of a minimum profit margin will stimulate the setting up of these innovation intermediaries and will trigger off competition between them. Since the profit margin could be decided upon beforehand by the Commission itself, this will leave only the best intermediaries on the market and will result in the end in higher service quality for SMEs and better innovation.



Business organizations representing SMEs already have the know-how and the resources to provide the kind of services outlined by the Commission at point 57. The provision of these activities is not in contrast with all the other business services they provide to member organizations. Business organizations could present reports of their past activities and future projects with regards to innovation and coaching in order to become eligible for aid and for the status of 'innovation intermediary'.

Question 14)

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

This speaks for itself. One of SMEs' biggest problems is the lack of skilled personnel. SMEs do not have the means to offer highly skilled personnel adequate remuneration neither they have the structure that allows highly skilled personnel to build up a career as in multinational enterprises. Since both internal as external rewards cannot be offered to these skilled workers by a single small firm, using the innovation vouchers to hire temporarily highly skilled personnel will surely increase the SMEs' innovation capacity.

It is vital not to restrict the category of eligible workers to engineers and researchers. Innovation within SMEs is most of the time a bottom-up approach: to give an example, an experienced welder may give his employer as important innovative hints as an engineer could do, exactly because he is much more aware of the tricks of the production process.

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?*

Researchers, as any other good qualified employee, are free in their working choices. It is up to the employer to make sure that he hires and keeps the best employees.

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 are not the mere sum of enterprises that settled in one particular area. As recognized in the literature, a peculiar characteristic of clusters is the so-called 'institutional thickness', which implies the presence of overlapping and reciprocally supportive layers of public and private actors. Innovation intermediaries should be part of these layers and ensure with their work high quality innovation.



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?*

Every country has the right to promote regional clustering and concentration of firms in order to create for companies an economic environment where they can prosper. When these clusters manage to become centers of excellence they deserve particular attention. The limits of this sponsoring has to be found in the rules on unfair competition. Aid should be granted to hire highly qualified personnel to finance innovations with the least environmental impact or those which imply the highest job creation. Flanking measures should be possible as well, such like supporting networking between clusters and promoting best practices.

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?*

Additional criteria are not necessarily needed at the very beginning, but this could take place according to the praxis.

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.)?*

In general all the provisions that create economies of scale are positive.

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?*

We support fully the special approach used by the Commission in this consultation document. SMEs do need more support than big enterprises and have the right to have more resources at their disposal since market failures relatively have a much more negative impact on them. However, from an economical point of view, the role of big enterprises as catalysts may not be forgotten, so that some aid should be granted to them as well. Transparent and independent control at European level is surely needed, since if aid is going to be administrated at national or regional level, the process could become highly politicized and bad companies may be financed as it happened in the past. Grants should be made conditional on impact assessments and on evaluations by social partners.