

General Block Exemption Regulation for State aid promoting the green and digital transitions & resilience of EU Single Market

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POSITION OF SME**4**SPACE

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Review of EU Competition rules to stimulate Risk Finance in the EU: making them fit for purpose for the SME ecosystem in Europe's space industry.

SME4SPACE is the representative Association of European (both ESA and European Union Member States) Space SMEs. SME4SPACE aims at creating a Space SMEs friendly environment, voicing Space SMEs' viewpoint, interests and needs and facilitating the access of SMEs to space activities. SME4SPACE gathers more than 650 Space SMEs in 25 European Countries with 21 Working Members and 31 Individual Company Members.

The specific challenges of SMEs in the European space industry: highly capital intensive with low profitability.

As an introduction to SME4SPACE's contribution in the Review we want to underline one particular weakness of the SME community: SMEs have a weak profitability. An in-depth SME4SPACE study of the financial data of more than 1500 SMEs (<https://www.sme4space.org/study-on-space-smes-importance-2021>) in Europe's space industry indicated that the profitability was in 2019 only 3,1% (return of assets), which is even considerably lower than the figure in 2015 (4,5%).

The same study indicated that the need for capital in our community is very high.

The combination of these two elements lead to a very difficult situation for SMEs trying to finance themselves of the private capital markets, and this difficulty offers sufficient grounds to request a well-defined intervention of the European public authorities. We, therefore, welcome the proposed review but also want to add this contribution to it. We do so by asking for some further changes.

A) STREAMLINING CONTENT AND ALIGNING DEFINITIONS: the current scope of the Regulation is too restrictive, not allowing SMEs that operate in our industry to benefit from it. Therefore, the definition of innovative enterprise in the Regulation needs to be broadened to include all Horizon Europe initiatives, including the CASSINI initiative (EU space entrepreneurship initiative), thus enabling also the SMEs that participate to EU Horizon Europe funded space projects to benefit from Risk Finance aid. The new Risk Finance Guidelines and related provisions of the Regulation are complementary: the definition of innovative mid-caps in section 2.2 of the Guidelines, is mirroring the definition of the innovative enterprise of the Regulation (par.80). This change is essential.

B) FUNDING INNOVATIVE SME'S AND INNOVATIVE MID-CAPS IN RDI FRAMEWORK AND GBER:

The current State aid rules do not provide adequate possibilities for risk funding to innovative SMEs and innovative mid-caps. To address this challenge, the following amendments would be necessary:

- Increase aid ceilings and notification threshold under the Regulation for risk financing (equity and hybrid financing) of early stages of a company's life cycle (start-ups and scale-ups) for digital innovations and critical technologies (including AI, robotics, semi-conductors, cybersecurity, aerospace, defense, energy storage, quantum and nuclear technologies as well as nanotechnologies and biotechnologies). Such a category should also have a higher notification threshold (e.g. €50 million) than the current thresholds for aid for risk financing or research and development, set at 15 M€. The latter €15 M cap in article 21 of the Regulation was an obstacle in initial and subsequent investments in start-up tech companies, as the demand for equity can be very high due to the high burn rate, especially in the early stages of a company's life cycle in raising capitals notably in the aerospace ecosystem. The latter is capital intensive and perceived as high risk by Venture capitalists and banks.
- More flexibility in the definition for 'repayable advances' to provide hybrid financing which is not solely dependent on the result of the project: changes in article 5 of Regulation.
- Broaden the scope of article 22(3)(c) of Regulation to include the possibility of direct grant covering small (innovative) midcaps with the same conditions as for SMEs.

C) EXEMPTION OF SMES FOR PARTICIPATION IN IMPORTANT PROJECTS OF COMMON EUROPEAN INTERESTS (IPCEIS): To facilitate access for SMEs and the Member States less familiar with the process, it is suggested to include SMEs and innovative mid-caps on the basis of the Council's enabling regulation in the context of the revision of the GBER Regulation (GBER).

D) UNDERTAKING IN DIFFICULTY: The definition of 'undertaking in difficulty' in State aid rules is problematic for start-ups and scale-ups. Under the current definition, many start-ups in their early stages, particularly in high-technology sectors, are excluded from State aid measures due to a low equity ratio in the short-term, even if they could be considered viable in the mid- and long-term. In the definition of 'undertaking in difficulty', innovative SME's and innovative mid-caps should also be excluded within the 10 years of their first commercial sale, even when not eligible for risk financing under the GBER. If a new aid category for risk financing for innovative SME's and innovative mid-caps is introduced, the definition could refer to eligibility under that new article 21 of the GBER.