

P6_TA(2006)0182

State aid for innovation

European Parliament resolution on sectoral aspects of the State Aid Action Plan: aid for innovation (2006/2044(INI))

The European Parliament,

- having regard to the Commission Communication of 21 September 2005 entitled, 'Consultation Document on State Aid for Innovation' (COM(2005)0436),
- having regard to the Commission's State aid action plan, Less and better-targeted State aid: a roadmap for State aid reform 2005-2009 of 7 June 2005 (COM(2005)0107),
- having regard to its resolution of 14 February 2006 on State aid reform 2005-2009¹,
- having regard to the draft Commission Communication of 21 December 2005 entitled, 'Guidelines on National Regional Aid for 2007-2013'²,
- having regard to the Community Framework for State aid for Research and Development³,
- having regard to the 2005 EU Industrial R&D Investment Scoreboard⁴,
- having regard to the Commission Communication on State aid and risk capital⁵,
- having regard to the Commission Communication of 12 October 2005 entitled, 'More Research and Innovation - Investing for Growth and Employment: A Common Approach' (COM(2005)0488),
- having regard to Commission Regulation (EC) No 2204/2002 of 5 December 2002 on the application of Articles 87 and 88 of the EC Treaty to State aid for employment⁶,
- having regard to the objectives of the Lisbon Strategy,
- having regard to Articles 2, 5, 81, 82, 87, 88 and 163 of the EC Treaty,
- having regard to Rule 45 of its Rules of Procedure,

¹ *Texts adopted*, P6_TA(2006)0054.

² OJ C 54, 4.3.2006, p. 13.

³ OJ C 45, 17.2.96, p. 5 as last amended by the Commission communication concerning the prolongation of the Community Framework for State Aid for Research and Development, OJ C 310, 8.12.2005, p. 10.

⁴ Published by the Commission on 9.12.2005.

⁵ OJ C 235, 21.8.2001, p. 3.

⁶ OJ L 337, 13.12.2002, p. 3.

- having regard to the report of the Committee on Economic and Monetary Affairs and the opinion of the Committee on Industry, Research and Energy (A6-0073/2006),
- A. whereas the EU aims to reduce the general level of State aid and redeploy it in favour of horizontal objectives,
- B. whereas the level of innovation in the EU is sub-optimal and lags behind its trading partners as regards both R&D investment and productivity growth; whereas the trend of the 'brain drain' and the investment flow from the EU to other parts of the world should be reversed,
- C. whereas in the case of innovation and R&D, horizontal aid exists in a field which is vital to the EU's competitiveness and one in which our competitors provide substantially more State aid than is permitted in the EU,
- D. whereas innovation processes need scope for development and room for experimentation,
- E. whereas the innovation performance gap between the EU and its global competitors is due to factors such as low public and private investment in R&D, an insufficient number of skilled workers, and disincentives inherent in EU rules on patents,
- F. whereas public support ranks very low among the factors influencing investment decisions in R&D; whereas the significance of direct public support varies considerably from one Member State to another and is one of the factors taken into account by enterprises for their investment decisions in R&D, which should not be isolated from an R&D-favourable business environment and should be subject to EC competition rules,
- G. whereas innovation policy in the fields of technology and R&D accounts for a manifestly small proportion of Member States' national budgets and GDP, which is in turn a factor that contributes to the delay in implementing the Lisbon Strategy objectives and achieving the goals of boosting employment and cohesion,
- H. whereas State aid should remain the exception, an instrument to correct imbalances that cannot be addressed by regular policy instruments, and whereas the low level of investment in R&D requires a more comprehensive policy approach,
- I. whereas, in line with the Presidency conclusions of the Luxembourg European Council of 22 and 23 March 2005, State aid should act as a lever for developing research, education and innovation, and should permit a genuine dialogue to take place between interested parties in the public and private sectors,
- J. whereas it is very important to define clearly what is meant by R&D in order to prevent the abuse of the State aid rules,

I. GENERAL REMARKS

1. Recalls that State aid should remain the exception: an instrument to correct imbalances that cannot be addressed by regular policy instruments; underlines the importance of guaranteeing coherence between such measures and those aimed at reducing unnecessary regulation and introducing further deregulation measures, investing in education and

training, providing adequate infrastructure, ensuring that the patent regime is conducive to innovation, ensuring fair competition, facilitating access to risk capital, encouraging an entrepreneurial spirit, removing obstacles to the freedom of movement for workers and researchers within the EU, and adopting a common policy for legal immigration, which enables the EU to attract the best and the brightest;

2. Stresses that further clarification is needed of how the State aid rules will apply to international cross-border economic activities of companies, research establishments, and academic institutions;
3. Considers that State aid for innovation should be complementary to the corresponding uniform Community policies and should import clear, measurable added value for the immediate beneficiaries as well as a secondary impact on the broader local, regional and national economy;
4. Stresses the need to draw conclusions from past cases in which State aid failed to achieve its aims, as well as from those cases in which it proved to be an effective instrument for attaining the desired objectives;
5. Welcomes the Commission's open consultation and encourages the continuation of dialogue in order to clarify all points before finalisation of the new framework, which should be implemented as soon as possible; considers, that the objective of innovation is multidimensional and complex and that very restrictive definitions and arrangements should be avoided; recommends an interim deadline for revising the framework in the event of the need for improvement; notes, moreover, that the revision of the Oslo Manual, which lays down the methodological framework for measuring innovation, should be taken into account;
6. Asks the Commission to provide more detailed information about the possible distortional effects of State aid and to take into account State aid granted by the EU's international competitors, both at sectoral and horizontal level and its possible distortional and incentive effects on a global scale; points out that the effective governance of innovation policy, international benchmarking, trans-national policy learning, monitoring, and conducting impact assessments are the most appropriate responses to the challenges of global competition;

II. PRINCIPLES GOVERNING CONTROL OF STATE AID FOR INNOVATION

7. Welcomes the approach of incorporating new rules, which support concrete and well-identified innovation-related activities, in the existing *acquis communautaire*, provided that this is done in a coherent and transparent way;
8. Welcomes the economic approach to State aid for innovation and would welcome the introduction of *ex ante* rules, where appropriate, if these are transparent, non-discriminatory, practicable, and provide for legal certainty; insists that the Commission, in close cooperation with Parliament, periodically review and evaluate the appropriateness of such rules; it should be emphasised that criteria for granting subsidies for innovation should be conditional on several factors, such as the characteristics of the economic sector, the market structure, and the market power of the company;

9. Insists that the promotion of cross-border cooperation and public-private partnerships in research, the dissemination of the results of the research, and major research programmes, should be fundamental priorities of State aid for R&D;
10. Insists that State aid for innovation should be temporary, granted according to transparent and rational criteria, proportionate, strictly and effectively controlled, and subject to periodic impact assessments through *ex post* analyses conducted by the Member States and the Commission; insists also that State aid should take into account 'remoteness from the market', in other words, the non-commercial phase of the innovation process; stresses that the increasing importance of innovation must not be a pretext for granting State aid to companies;
11. Recalls that innovation is an integral part of all business activities and stresses that rules and criteria must clarify that innovative processes *per se* do not merit State aid; stresses that State aid should be granted only for innovation that cannot be financed by normal commercial means and that contributes to the overall goals of business life and society;
12. Considers the term 'market inefficiency' more appropriate than 'market failure', and asks for a more detailed and operational definition; suggests that the identification of obstacles limiting innovation, as well as the quantification of its effective value, should be subject to further scrutiny;
13. Stresses the need for reliable statistical data both on market and on State aid inefficiencies in the field of innovation, as well as on the effectiveness of State aid for innovation;
14. Recognises that SMEs and start-ups are most affected by market inefficiencies; notes, at the same time, that the effect of State aid is less distorting when granted in favour of activities at a distance from the market or to SMEs and start-ups;
15. Stresses the need to create an innovation-friendly environment for SMEs in order to stimulate their untapped innovation potential;
16. Stresses that the importance in this connection of SMEs, which, by their nature, have only limited funds at their disposal, makes it necessary for them to be allocated a higher proportion of the aid available; to make this possible, a greater role needs to be played by innovation intermediaries once their nature and role has been clarified further and the necessary infrastructure which they should provide has been extended to include IT infrastructure, and networking and link-up to international databases;
17. Points out that SMEs are often not willing to take the high risks associated with technological innovation, even though this could not only bring individual benefits, but could also potentially benefit society as a whole; stresses the need urgently to target State aid at supportive actions that motivate SMEs and diminish the risks linked with technological innovation processes, as well as the need to improve the overall conditions of the business environment;
18. Regards large companies as an essential component of the innovation system; considers, however, that State aid to large companies is appropriate for encouraging cooperation

within innovation clusters and poles of excellence (large companies, SMEs and knowledge centres), provided that they meet the criteria of the *ex ante* rules;

19. Is aware that State aid may be necessary in order to set in motion innovative projects or scientific or technological research projects which are distant from the marketplace;
20. Notes that the incentive effect of different State aid instruments is difficult to demonstrate but may be facilitated by a standardised set of questions; considers that as little use as possible should be made of direct grants;
21. Questions the distinction between technological and non-technological innovation; notes the importance of non-technological innovation, particularly in the acquisition of competitive advantages by SMEs; favours, instead, a definition of innovation distinguishing between the regular day-to-day operations of companies and their activities relating to innovation; proposes that projects eligible for State aid should be those that provide additional or new client benefits, entail risk, are intentional, have transferable benefits, and create positive externalities;
22. Considers that regional aid and State aid for innovation are complementary and should focus on less-developed regions in order to promote economic and social cohesion; considers that otherwise such aid will only promote the growth of more developed regions and countries; considers that regional aid schemes, whenever additional to State aid for innovation, must be compatible with the internal market and the competition rules; considers, moreover, that particular importance should be attached to the definition of and eligibility for State aid for innovation in relation to regional SMEs for which it is vitally important to have access to innovation;
23. Calls on the Commission to make the regional aid schemes more forward-looking, allowing, in particular, support for intangible investments;
24. Calls on the Commission to ensure that EU structural funding will not be regarded as unlawful State aid when combined with co-funding from other sources; further asks that the relevant procedures be modified so that dual notification to the Commission of such funding is avoided;

III. SUPPORTING RISK-TAKING AND EXPERIMENTATION

25. Agrees that State aid should be allocated on the basis of criteria favouring innovative start-ups and SMEs, rather than on the basis of eligible costs; notes that decisions on the grant of State aid should be taken in an efficient manner and within clearly defined time lines;
26. Proposes that the existence period requirement for companies with a longer R&D cycle be extended to eight years;
27. Supports the proposal that financial support is given by means of risk capital not only for the seed and start-up phase, but also for the post-seed phase; stresses, however, that this solution is not optimal and that any aid should be of a short-term character and complementary to primarily private investments;

28. Emphasises that the limits on R&D costs should be carefully monitored;
29. Notes that in regions and countries in which the innovation environment is particularly disadvantaged, a perception by private investors and financial institutions of higher risk may work as a major innovation-inhibiting factor;
30. Realises that innovative SMEs' access to risk capital is currently considerably limited, primarily in the first phases of their development; supports, therefore, the idea of using State aid to attract private capital investment to regional risk-capital funds working as public-private partnerships with higher flexibility of investment tranches for public resources;

IV. A SUPPORTIVE BUSINESS ENVIRONMENT FOR INNOVATION

31. Calls for the further clarification of the legal status of intermediaries in regard to the scope of the services that they provide; supports the voucher system but proposes introducing an element of co-financing, in order to attract more private investment; believes, however, that the reimbursement of 100% might lead to the distortion of competition;
32. Recommends that universities and their research centres should take part in or cooperate closely with regional public-private partnerships as 'innovation intermediaries'; considers that this would create a large synergy effect with better interconnection between the research and innovation activities of universities and the needs of individual innovative SMEs and innovative business clusters;
33. Asks for further clarification on how the State aid rules apply to universities and research establishments when they are engaged in economic activities;
34. Questions the appropriateness of allowing State aid to SMEs for hiring highly qualified staff, since SMEs may have access to specialist knowledge and skills through the services of intermediaries and experts;
35. Is convinced of the need to step up links between businesses and universities, *inter alia* by increasing the mobility of highly qualified personnel of all specialities between universities and businesses, particularly SMEs; considers that aid, particularly via support schemes, should encourage such links; welcomes the Commission's proposal to divide intellectual property rights between the partners (industry and public research organisations) in research and innovation programmes in accordance with each partner's level of participation, considering that this will give a great boost to the creation of poles of excellence; calls on the Commission, therefore, to submit specific proposals to clarify the legal status of intellectual property in these circumstances;
36. Believes that clusters develop organically and should therefore be eligible for State aid only on a temporary basis, during the start-up phase, in order to meet administrative problems and obstacles linked with cooperation;
37. Believes that State aid for infrastructure should fulfil the requirement of technical neutrality and open access, address identified market failures, and enhance innovative potential;

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38. Instructs its President to forward this resolution to the Council and the Commission.