Aid for innovation: sectoral aspects of the state aid action plan

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PURPOSE : to present a consultation document on state aid for innovation.

CONTENT : This document launches a consultationdesigned to gather stakeholders' views on specific improvements in the rules on State aid for innovation, including clarifications of increase legal certainty, new funding possibilities for innovation, the formulation of criteria to target the aid more effectively, and simplification of the regulatory framework.

Innovation is a central issue for the EU to deliver growth and job creation. State aid policy can contribute to a more innovative economy, both by preserving product market competition as a driver of innovation, and by putting forward a framework of rules that facilitates the design of effective State aid for innovation by Member States.

Preserving competition should be the first priority when designing effective systems to foster innovation in the EU. Competition in a functioning market creates incentives for companies to invest in knowledge and innovation, since this helps them generate competitive advantage and profits. Nonetheless, State aid can in some cases effectively and efficiently contribute to foster innovation, when it addresses market failures that hamper the innovation process without excessively distorting competition. The Commission has identified in this document a series of problems for unsatisfactory innovation in Europe. However, many of these problems cannot be solved by State aid and require a more comprehensive policy approach. Furthermore, too much aid in the name of innovation may actually frustrate the innovation process, as it might undermine competition as the most effective stimulant for comparing ideas and for new, innovative market entry. Therefore, State aid policy can only be a limited response to the problemof unsatisfactory innovation in Europe.

For example, the Environmental Technologies Action Planaims at harnessing environmentally-friendly technologies and innovation, which can contribute to environmental protection and at the same time contribute to competitiveness and growth. The development of eco-innovation is essential in order to prepare an environmentally sustainable future, but economic barriers hinder their development. In particular, market prices reflect the direct economic costs and not the costs of environmental pollution (such as health care costs from urban air pollution). This leads to systematic underinvestment in environmental technologies, especially from firms which cannot afford to be charitable in a competitive market. Well-targeted economic incentives can therefore be useful in helping to promote the take-up of environmental technologies.

At this stage, the Commission considers that developing a new separate framework for State aid for innovation on the basis of an abstract definition of innovation is unnecessary and also not in line with the objective of simplifying EC State aid rules. A series of concrete and targeted innovation-related activities, subject to this consultation, were identified, which clearly address the market failures that are

hampering innovation and for which the benefits of State aid are likely to outweigh any possible harm to competition and trade. In doing so, the Commission used a methodology in line with the economic approach defined in the State Aid Action Plan.

The new rules will be integrated mainly in a framework for R&D and Innovation but also in the Risk Capital guidelines, in the Environmental guidelines and in the general Block Exemption (thereby avoiding the notification requirements for Member States).

The following types of innovation-related activities have been selected:

- activities that **support risk-taking and experimentation** and help bridge the gap between technological knowledge and the market;

- activities (business services and infrastructure) which improve the general **business environment for innovation**.

In addition, questions are asked on more specific issues about which the Commission would also like to obtain detailed comments.

The results of the consultation will be used to formulate new clear rules for inclusion in the legal instruments on State aid and which will define the limits within which State aid to innovation may be seen to be compatible with the Common Market. Ultimately, it will be the responsibility of Member States to better target their resources and design effective support measures to foster innovation in the EU.