## Basic information

| | |
|---|---|
| **2006/2044(INI)**<br>INI - Own-initiative procedure | Procedure completed |
| Aid for innovation: sectoral aspects of the state aid action plan<br>**Subject**<br>2.60.03 State aids and interventions | |

## Key players

### European Parliament

| Committee responsible | Rapporteur | Appointed |
|---|---|---|
| ECON Economic and Monetary Affairs | IN 'T VELD Sophia (ALDE) | 15/11/2005 |

| Committee for opinion | Rapporteur for opinion | Appointed |
|---|---|---|
| EMPL Employment and Social Affairs | The committee decided not to give an opinion. | 05/10/2005 |
| ITRE Industry, Research and Energy | PANZERI Pier Antonio (PSE) | 26/01/2006 |
| IMCO Internal Market and Consumer Protection | The committee decided not to give an opinion. | |
| TRAN Transport and Tourism | The committee decided not to give an opinion. | |
| REGI Regional Development | The committee decided not to give an opinion. | |

### European Commission

| Commission DG | Commissioner |
|---|---|
| Competition | |

## Key events

| Date | Event | Reference | Summary |
|---|---|---|---|
| 21/09/2005 | Non-legislative basic document published | COM(2005)0436 | Summary |
| 16/02/2006 | Committee referral announced in Parliament | | |

| | | | |
|---|---|---|---|
| 21/03/2006 | Vote in committee | | Summary |
| 04/04/2006 | Committee report tabled for plenary | A6-0073/2006 | |
| 26/04/2006 | Debate in Parliament | | |
| 27/04/2006 | Decision by Parliament | T6-0182/2006 | Summary |
| 27/04/2006 | Results of vote in Parliament | | |
| 27/04/2006 | End of procedure in Parliament | | |

## Technical information

| | |
|---|---|
| **Procedure reference** | 2006/2044(INI) |
| **Procedure type** | INI - Own-initiative procedure |
| **Procedure subtype** | Initiative |
| **Legal basis** | Rules of Procedure EP 55 |
| **Stage reached in procedure** | Procedure completed |
| **Committee dossier** | ECON/6/31941 |

## Documentation gateway

**European Parliament**

| Document type | Committee | Reference | Date | Summary |
|---|---|---|---|---|
| Committee draft report | | PE368.093 | 06/02/2006 | |
| Amendments tabled in committee | | PE370.172 | 01/03/2006 | |
| Committee opinion | ITRE | PE369.862 | 20/03/2006 | |
| Committee report tabled for plenary, single reading | | A6-0073/2006 | 04/04/2006 | |
| Text adopted by Parliament, single reading | | T6-0182/2006 | 27/04/2006 | Summary |

**European Commission**

| Document type | Reference | Date | Summary |
|---|---|---|---|
| Non-legislative basic document | COM(2005)0436 | 21/09/2005 | Summary |

**Other institutions and bodies**

| Institution/body | Document type | Reference | Date | Summary |
|---|---|---|---|---|
| EESC | Economic and Social Committee: opinion, report | CES1498/2005<br>OJ C 065 17.03.2006, p. 0086-0092 | 15/12/2005 | |

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

2006/2044(INI) - 21/09/2005 - Non-legislative basic document

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 problem of 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.

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

2006/2044(INI) - 27/04/2006 - Text adopted by Parliament, single reading

The European Parliament adopted a resolution based on the own-initiative report drafted by Sophia in't **VELD** (ALDE, NL) in response to the Commission's consultation document on state aid for innovation. (Please see the summary dated 21/03/2006.)

**General remarks:** Parliament said that state aid should remain the exception: an instrument to correct imbalances that could not be addressed by regular policy instruments. 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. Parliament stressed 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. The objective of innovation was multidimensional and complex and very restrictive definitions and arrangements should be avoided. Parliament recommended an interim deadline for revising the framework in the event of the need for improvement. It also asked 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.

**Principles governing control of state aid for innovation:**Parliament welcomed the economic approach to State aid for innovation and would welcome the introduction of ex ante rules, if these were transparent, non-discriminatory, practicable, and provide for legal certainty. 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. 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. 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. State aid should also take into account 'remoteness from the market', in other words, the non-commercial phase of the innovation process. The increasing importance of innovation must not be a pretext for granting State aid to companies. Innovation is an integral part of all business activities. Parliament stressed that rules and criteria must clarify that innovative processes per se do not merit State aid. 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.

SMEs, which, by their nature, had only limited funds at their disposal, should be allocated a higher proportion of the aid available. Parliament pointed out that SMEs were 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. It stressed 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.

**Supporting risk taking and experimentation:**Parliament agreed 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. It proposed that the existence period requirement for companies with a longer R&D cycle be extended to eight years. It supported the proposal that financial support should be given by means of risk capital not only for the seed and start-up phase, but also for the post-seed phase. However, this solution was not optimal and any aid should be of a short-term character and complementary to primarily private investments.

Parliament realised that innovative SMEs' access to risk capital is currently considerably limited, primarily in the first phases of their development. It supported 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.

**A supportive business environment for innovation:** Parliament recommended that universities and their research centres should take part in or cooperate closely with regional public-private partnerships as 'innovation intermediaries'. 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. It asked for further clarification on how the State aid rules apply to universities and research establishments when they are engaged in economic activities. Parliament questioned the appropriateness of allowing State aid to SMEs for hiring highly qualified staff, since SMEs might have access to specialist knowledge and skills through the services of intermediaries and experts.

Finally, Parliament stated 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.