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Press Release

IMMEDIATE ISSUE

State aid must promote innovative businesses, not industrial dinosaurs

Brussels, 17 November 2005 Redirecting state aid from unproductive national champions to the promotion of innovation in small businesses is a key step towards addressing the market failures in European economies UEAPME, the European small and medium business organisation, stated at a Commission Colloquium on State Aid and Innovation today (Thursday).

“Channelling state aid away from uncompetitive industrial monoliths and towards promoting entrepreneurship and innovation in SMEs is a key step to putting the EU economy back on track. State aid in the EU must be targeted towards resolving the market failures that prevent innovation in small firms,” said **Gerhard Huemer, UEAPME Director of Economic and Fiscal Policy**.

UEAPME has welcomed the general approach to reforming state aid rules, outlined by Competition Commissioner Nellie Kroes in September, which favours focusing state aid on stimulating innovation from SMEs, rather than creating a separate state aid framework for SMEs. However, the proposed system needs some fine-tuning to make it more relevant for small firms.

- The proposed state aid ‘intensity’ limit of 15% (for prototypes etc.) would be prohibitive for many small businesses, as the costs of applying for such funding would, in many cases, outweigh the benefits.
- A timeframe of 5 years for start-ups and new projects could be too short for certain sectors, like biotechnology, in which the fruits of innovation cannot be reaped right away.

“It is important that the new state aid rules reflect the realities of innovation for small firms, for which it is a broad concept by which they develop their capacities, ideas, products and markets. Innovation does not just mean R&D and does not merely take place in the high tech sector, which accounts for no more than 4% of economic activity,” continued Mr Huemer.

SMEs are faced with multiple market failures, which prevent them from realising their innovative potential. Difficulties in accessing capital and technologies are compounded by other problems, such as the lack of available high-qualified workers. To resolve this, state aid should:

- Provide compensation for high risks (access to finance, SME-specific R&D programmes etc);
- Improve the capacity to innovate (qualifications, networks and clusters, etc);
- Support the implementation of new ideas (management support, intermediaries, etc); and
- Improve access to patents and certification (high costs, market abuses by dominant players).

“To be a success, the new state aid regime must not just prevent governments propping up national dinosaurs, it must target aid to removing the obstacles to innovation,” ended Mr Huemer.

***** End *****

EDITORS’ NOTE: UEAPME is the employer’s organisation representing the interests of crafts, trades and SMEs from the EU and accession countries at European level. UEAPME has 78 member organisations, which represent crafts and SMEs across the whole of Europe, covering over 11 million enterprises with nearly 50 million employees. UEAPME is a European Social Partner.

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