

Opinion of the European Economic and Social Committee on the Proposal for a Decision of the European Parliament and of the Council on the participation by the Community in a research and development programme aimed at supporting research and development performing SMEs undertaken by several Member States

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On 11 October 2007 the Council decided to consult the European Economic and Social Committee, under Article 172 of the Treaty establishing the European Community, on the

Proposal for a Decision of the European Parliament and of the Council on the participation by the Community in a research and development programme aimed at supporting research and development performing SMEs undertaken by several Member States

On 25 September 2007 the Committee Bureau instructed the Section for Single Market, Production and Consumption to prepare the Committee's work on the subject.

Given the urgent nature of the work, the European Economic and Social Committee appointed Mr Cappellini as rapporteur-general at its 445th plenary session, held on 28 and 29 May 2008 (meeting of 29 May 2008), and adopted the following opinion unanimously.

1. Conclusions and recommendation

1.1 The European Economic and Social Committee (EESC), which supports the objectives of the Eurostars Joint Programme, stresses the need to take account of the different categories, sizes and sectors of SMEs when adopting new EU Research & Development and Innovation policies and programmes geared and reoriented towards SMEs' real innovation needs.

1.2 The EESC welcomes the Member States' proposal for the adoption of the Eurostars Joint Programme to support the so called 'R&D performing SMEs' and notes that it should be open to all SMEs from the countries joining the program and willing to participate in innovation processes.

1.3 The EESC underlines the necessity to identify tools in order to involve in the programme all EUREKA Member States not included in the Eurostars Joint Programme.

1.4 The EESC has concerns in relation to the Eurostars Joint Programme eligibility criterion, ⁽¹⁾ which limits participation to R&D performing SMEs that, 'invest 10 % or more of full-time equivalent or annual turnover in research activities'. Even if the limitation is applied only to the R&D performing SME that proposes the project (project leader), this definition for R&D-performing SME, is based on codified indicators, ignoring all the various kinds of 'non-codified knowledge' ⁽²⁾, whilst often,

highly innovative processes are strongly characterised by 'tacit knowledge' ⁽³⁾.

1.5 Therefore, the EESC reaffirms the principle that for a fair competition on project proposals the projects should be selected on the basis of excellence of their content, managerial expertise on R&D and coherence with the goals of the programme, without excluding a large proportion of the innovative SMEs willing to apply to the Eurostars programme. Furthermore, funding should be allowed for training programs aiming to prepare expert managers dealing on effective technologies transfer from research into marketable products.

1.6 In this regard, the EESC requests that, in accordance with the appropriate procedures of the Eurostars Joint Programme, a specific budget line be established for trans-national initiatives conducted by Member States in collaboration with SME organisations willing to support the dissemination of SME-friendly information on the results of Eurostars projects to a wider audience of SMEs. Another way of giving all SMEs interested in the success of the Eurostars programme more 'ownership' would be for a common data base and multilingual sector web platforms to be set up and promoted by SME organisations and the social partners.

1.7 The EESC highlights its concern regarding the criteria for setting SMEs' contribution to the total project costs related to R&D activities. It is important to clarify that, as things stand, under the Eurostars Joint Programme, SMEs would be required to contribute, collectively, at least 50 % of the R&D related project costs. Since this criterion will exclude many market-based SMEs, consideration should be given to the possibility of lowering this barrier to 25 % during the interim evaluation of the Eurostars programme ⁽⁴⁾.

⁽¹⁾ <http://www.eurostars-eureka.eu/>.

⁽²⁾ Hartmut Hirsch-Kreinsen, 'Low-Tech' Innovations, Industry and Innovation, 2.2008.

⁽³⁾ Pilot Project: <http://www.pilot-project.org>.

⁽⁴⁾ A6-0064/2008 (amendment to the proposal), European Parliament, Committee on Industry, Research and Energy, 2008.

1.8 Later on, the concerns expressed by EU and national SME organisations and other research stakeholders should be taken into consideration by the interested member States and EU National Authorities during the different phases of impact monitoring and result dissemination. A regular check by the EU's Advisory Group on SMEs and R&D could become a permanent tool of technical consultation for the Member States and other authorities at EU/national level. In this regard, the EESC's Internal Market Observatory in collaboration with SMEs Category could also serve as a consultative member on the Advisory Group during the monitoring, implementation and dissemination phases.

1.9 The EESC underlines that the Eurostars Joint Programme should be implemented in a transparent and non bureaucratic way, so as to make it easier for SMEs to receive information, take part and, in particular, get involved in follow-up activities with related, interested R&D institutions. Accordingly, the projects funding should be made by lump sum payments and where a lump sum payment is not compatible with the national programmes, there should be a flat rate payment.

1.10 With a view to effective implementation of the Eurostars programme, regional innovation networks should be strengthened to enable them to provide one-stop-shop services in support of innovative SMEs, giving them effective access to European R&D funding. For instance, in order to increase awareness of the specific funding programmes for R&D performing SMEs, the links between EUREKA networks, other existing public/private bodies and EU/national/regional SME organisations should be tightened and better coordinated. A set of events through SMEs representative organisations should be funded in order to make aware the SMEs and the interested organisations of the meaning and importance of innovation and the role that innovation will play in the future of EU.

1.11 The outcome of the project selection by SME sectors in the framework of the Eurostars programme ⁽⁶⁾ should be made public in the Internet by the Eureka network. Furthermore, a short list of eligible projects with a high innovative content but which have not been funded should be made available. This list would indicate national public/private investors if further funding would be necessary to the programme.

1.12 Effective coordination between the national authorities in charge of SMEs and R&D policies and EUREKA must be consistent and must match the needs expressed by SME organisations and wider stakeholders (including, amongst others, private and public research bodies). The EESC calls upon interested European Institutions, the Member States and the Slovenian and French EU Presidencies to ensure that coordination is conducted in accordance with SMEs' expectations and programme objectives.

1.13 The EESC urges that, in connection with SMEs' participation in R&D funding programmes and the Eurostars Joint Programme, the long period from submission of a proposal to approval by the EU be shortened, so as to encourage SMEs to submit projects.

⁽⁷⁾ http://ec.europa.eu/research/sme-techweb/index_en.cfm?pg=results.

1.14 The EESC stresses that, in order to improve and increase SMEs' take up of R&D funding, the EC needs to explore the possibility of shifting the unused resources available for SMEs under the 'Cooperation' chapter of FP7 (representing 15 % of the 'Thematic Priority' budget in PF6) to the 'Capacities' Programme (CRAFT, etc.) which targets SMEs more effectively.

1.15 The EESC asks that more attention be given to the disproportionate regulatory burden on SMEs, which can be up to ten times higher than the burden on large companies ⁽⁶⁾. A reduction of management costs and a simplification of submission procedures for SMEs that venture into R&D programmes with other European and international partners are also desirable. The EESC would also like to see a solution to the issue of Intellectual Property Rights (IPR) and European Patents ⁽⁷⁾, where the current situation hinders competitiveness and innovation in Europe. Furthermore, accessible patenting and IPR ⁽⁸⁾ may also count as important non-monetary assets when it comes to consolidating partnerships between enterprises participating in international projects.

2. Background to the opinion

2.1 In the European Charter for Small Enterprises approved by EU leaders in 2000, it was agreed that small enterprises must be considered as a main driver for innovation, and employment as well as for social and local integration in Europe ⁽⁹⁾. In addition, in October 2007, the EC announced the preparation of a 'Small Business Act for Europe' (SBA) ⁽¹⁰⁾, which will define a set of measures aimed at promoting entrepreneurship, a culture of enterprise and access to competences ⁽¹¹⁾. In the course of 2008, the Commission will also examine a range of initiatives with regard to SMEs ⁽¹²⁾ in order to increase their participation in EU programmes.

2.2 From these foundations has come a proposal for a specific Eurostars Joint Programme. The programme, which comes under Article 169 of the EC Treaty and is designed to complement and target the 'Research for the benefit of SMEs' activity under the Seventh Research Framework Programme (FP7), is managed by EUREKA and was initiated jointly by 22 Member States and five other EUREKA countries (Iceland, Israel, Norway, Switzerland and Turkey). Currently the Eurostars

⁽⁶⁾ Models to reduce the disproportionate regulatory burden on SMEs, European Commission, May 2007, DG Enterprise and Industry.

⁽⁷⁾ The Cost Factor in Patent Systems, Université Libre de Bruxelles Working Paper WP-CEB 06-002, Brussels 2006, see from p. 17.

⁽⁸⁾ Enhancing the patent system in Europe: COM(2007) 165.

⁽⁹⁾ European Charter for Small Enterprises, Feira European Council on 19-20 June 2000.

⁽¹⁰⁾ Small and medium-sized enterprises — Key for delivering more growth and jobs. A midterm review of Modern SME policy. COM (2007) 592 final, 4.10.2007.

⁽¹¹⁾ Luc Hendrickx, 'UEAPME expectations on the proposal for a European Small Business Act', 14.12.2007.

⁽¹²⁾ http://ec.europa.eu/enterprise/entrepreneurship/sba_en.htm.

programme counts 30 member states: Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Latvia, Lithuania, Luxembourg, the Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom.

2.3 FP 7 adopts many of the measures suggested during the review of FP6 ⁽¹³⁾ with a view to bridging the gap in policies in favour of SMEs. FP7 includes a strategy towards SMEs, incorporating both qualitative and quantitative measures to stimulate action at both national and regional levels. Its aim is to create clusters and networks of businesses, to improve pan-European cooperation between small enterprises using information technology, to disseminate best practices on cooperation agreements and to support cooperation between small businesses ⁽¹⁴⁾.

2.4 The 23 million SMEs registered in the EU account for 99 % of all enterprises and for two thirds of Europe's turnover and they are also which supports the key players in sustainable development ⁽¹⁵⁾. Yet, to become more competitive, these enterprises need to be rationalised and regrouped to form a coherent whole with a critical mass, so that they can take advantage of the development of specific risk-capital funds, science parks, incubators and regional innovation policies ⁽¹⁶⁾.

2.5 Moreover, the 'Flash Eurobarometer report' underlines that SMEs' growth may be hindered by the risk-averse nature of Europeans, who lack entrepreneurial spirit ⁽¹⁷⁾. It is therefore particularly important to take action to enhance the professional image of entrepreneurs and to raise public awareness of their key role in innovation, economic progress and prosperity in general. The Lisbon goals can be achieved only through responsible, energetic and imaginative entrepreneurship that is able to develop freely ⁽¹⁸⁾.

2.6 However, the specific measures which Member States adopt to support SMEs do not always encourage and support trans-national research cooperation and technology transfer. In view of the changes in markets and the internationalisation of value-chains, European SMEs now have to adapt to strong global competition by engaging in permanent innovative processes in an even broader international context. The Eurostars Joint Programme should reward those SMEs and public

and/or private research institutions which make specific efforts to support R&D projects, disseminate their results, and transfer and help to give access to knowledge. In particular, it should reward projects involving institutions and groups and/or single SMEs which normally participate less in or have difficulty in accessing such programmes. The EESC emphasises the importance of the enlargement of the contribution to the Eurostars joint programme to all the EUREKA Member States, especially for those that recently joined the EU and that can benefit of the trans-national approach.

2.7 The Eurostars Joint Programme targets R&D performing SMEs, with an emphasis on market-oriented R&D projects and multi-partner trans-national projects (with at least two independent participants from different participating States). An important aspect of the programme is the bottom-up approach, which empowers 'R&D performing SMEs' for ownership and strategic business innovation. In such circumstances, SMEs are in control and able to influence the outcomes of ongoing research in line with commercial opportunities.

3. Objectives of the Eurostars Joint Programme

3.1 The participation in research and development programmes pursuant to Article 169 of the Treaty implies that the participating EU Member States integrate their national research programmes by committing themselves to a joint research programme. The Commission, under the legal basis of Article 169, has identified four potential initiatives. One of those is Eurostars, a joint research programme for SMEs and their partners.

3.2 The Eurostars programme consists of projects proposed by one or more SMEs that are established in the participating States and are actively involved in R&D. Projects can be implemented in any field of science and technology (but must have a civilian purpose). Projects must be collaborative, and must involve at least two participants from two different Eurostars participating countries which are involved in various activities in connection with research, technological development, demonstration, training and the dissemination of related information. In line with the nature of SMEs, the project life cycle is a short one. A project must have a maximum duration of three years, and within two years of project completion, the product of the research should be ready for launch onto the market.

3.3 The Eurostars Joint Programme can provide significant leverage for Community funding: the Member States and five other EUREKA countries (Iceland, Israel, Norway, Switzerland and Turkey) will contribute with EUR 300 million. The Community will top up with further one third of the Member States contribution, resulting in a programme budget of EUR 400 million of public funding. Assuming project funding rates in the

⁽¹³⁾ OJ C 234 of 22.9.2005, p. 14, UEAPME Position Paper on a successor to the 6th Framework Programme for R&D, 01/2005.

⁽¹⁴⁾ A midterm review of Modern SME policy, COM(2007) 592, 4.10.2007.

⁽¹⁵⁾ Implementing the Community Lisbon Programme: Financing SME growth adding European Value, COM(2006) 349, 29.6.2006.

⁽¹⁶⁾ Science and technology, the key to Europe's future, COM(2004) 353, 16.06.2004.

⁽¹⁷⁾ Observatory of European SMEs, Flash Eurobarometer 196, May 2007.

⁽¹⁸⁾ Investment in Knowledge and Innovation, OJ C 256 of 27.10.2007, p. 8

range of 50 %-75 %, 'EUROSTARS' could mobilise between EUR 133 and 400 million of additional private funding for the duration of the Programme (leverage effect). The expected participation is calculated assuming an average cost of EUR 1.4 million for each Eurostars project. With an average funding rate of 50 %, a public funding rate of EUR 0.7 per project and an overall programme budget of about EUR 400 million, 565 projects can be funded.

3.4 The Community contribution therefore fills a gap in funding at an early stage of R&D when innovative activities are relatively high risk and may fail to attract solely private investors⁽¹⁹⁾. The Community's intervention with public investment in favour of the Eurostars programme will encourage more R&D performing SMEs to seek private investment to develop innovative products or services.

3.5 In relation to funding, consideration should be given to establishing tax breaks for R&D investments in member States which would be attractive to investors even in a worst case scenario, as at the very least they could benefit from these relieves. The benefit to the SME is an alternative form of funding.

3.6 However, there are concerns that a large proportion of SMEs may be prevented from participating in the EU's initiative for competitive innovation. Under the Eurostars programme, the eligibility criterion for research-performing SMEs is that the SME proposing the project dedicates at least 10 % of their turnover or full-time equivalent to research activities. Even if this limitation is applied to the pilot partner of the project, this still may prevent many small enterprises from proposing innovative projects. As a result, the programme may only attract already consolidated high-tech enterprises that could access other more appropriate forms of financing.

3.7 Furthermore, in some EU countries, R&D costs are very often integrated with other operational costs and can therefore not be identified separately⁽²⁰⁾. Therefore the definition of R&D indicators used by the OECD shows some inadequacies when applied to innovative small enterprises, because they fail to account for the part of activities characterised as non-codified knowledge, which is difficult to quantify⁽²¹⁾.

3.8 Also according to the OECD, the 'High-Tech Sector' is defined as industries with an R&D share in turnover of more than 4 %. This sector accounts, even in highly developed economies, for about 3 % of GDP, meaning that 97 % of all economic activities and most of the innovative processes happened in

sectors defined by the OECD as 'Mid-Tech' or 'Low-Tech'⁽²²⁾. The figures indicate that a large proportion of innovating enterprises would be excluded if the access to the funding programme is limited by a 10 % R&D threshold, failing to trigger a positive attitude for innovation at the base of the European initiative.

3.9 Therefore the EESC's view is that the projects should be selected on the basis of excellence and compliance with the programme's objectives and that the 10 % R&D threshold should be removed.

3.10 Another requirement of the Eurostars programme is that the participating R&D performing SMEs should be able to carry out the major part of the R&D work. Collaboration with other partners, which can be other SMEs, local clusters, large enterprises willing to share programme objectives, research institutions or universities, should not be excluded. Furthermore, the term cluster should also include the need for locating R&D based SME's on University/3rd Level Institutions Campus to increase the interaction between the two on a mutually beneficial basis.

3.11 With regard to the respective contributions of the innovating SMEs taking part in the Eurostars programme it is important to clarify that it is the R&D performing SMEs which must collectively meet at least 50 % of R&D costs within the project. Nonetheless, this criterion may still exclude many market-based SMEs and the possibility of lowering this barrier to 25 % during the interim evaluation of the Eurostars program should therefore be considered⁽²³⁾.

3.12 The relationship with other financial instruments covered by the CIP (Framework Programme for Competitiveness and Innovation) still needs further clarification. The funding programme also needs to be made more flexible and adapted to the needs of SMEs, while taking into consideration positive experiences with guarantee funds for research and development, in order to allow enterprises to take a longer business perspective.

3.13 A better regulatory framework, with the systematic consultation of representative SME organisations and wider stakeholders, will lower operational costs and risks, raise returns, increase the flow of venture capital and improve the functioning of venture capital markets. This will particularly benefit innovative SMEs. This funding will complement the public support for the very early (pre-seed) stages of turning research outputs into a commercial proposition.

⁽¹⁹⁾ 'Annual Survey of Pan-European Private Equity & Venture Capital Activity' 2004.

⁽²⁰⁾ The 2007 EU R&D Investment Scoreboard p. 20, by the Joint Research Centre (JRC) and Directorate General Research (DG RTD).

⁽²¹⁾ H. Hirsch-Kreinsen, 'Low-Technology': A forgotten sector in innovation policy, Faculty for Economics and Social Sciences, University of Dortmund, 15.03.2006; UAPME, 'Towards an Innovation Policy for Crafts, Trades and SMEs', 27.10.04.

⁽²²⁾ Towards an Innovation Policy for Crafts, Trades and SMEs, UEAPME, 27.10.2004.

⁽²³⁾ European Parliament, Committee on Industry, Research and Energy, A6-0064/2008.

3.14 The Commission has made a commitment to promote measures for more cross-border investment by venture capital funds ⁽²⁴⁾. In Europe, the venture capital market is fragmented, currently comprising 27 different operating environments. This adversely affects both fundraising and investing.

3.15 There is therefore a need for a better environment for risk capital investment and for Member States to create incentives for private investors to engage in collaborative international research ⁽²⁵⁾ and to promote the involvement of business support services for SMEs, aimed at supporting enterprises that pass successfully through the start-up stage.

4. Improving the coordination of the Eurostars Joint Programme

4.1 The Eurostars programme aims to help SMEs in any technology or industrial, legal and organisational framework necessary for large-scale European cooperation among the Member States in the field of applied research and innovation. Consequently it will increase the capability of R&D performing SMEs to bring to market new and competitive products, processes and services.

4.2 The internationalisation of the project may avoid the duplication of efforts towards innovation and should be an opportunity to adopt common policies and to introduce fast track action to reduce the administrative burden ⁽²⁶⁾. With the

help of the Eurostars programme, many SMEs may be encouraged to take advantage of international collaboration, providing that they are able to propose and directly manage a project. However, the involvement in integrated projects and the network of excellence should be carefully planned, in order to avoid imbalances in project participation.

4.3 As well as support for R&D, we must also consider ways in which governments can support innovation more directly through the provision of the right infrastructure. There is a very large community of research 'institutions', some of which may be associations or research companies, whose task is to support innovation, particularly by SMEs. There are also science parks and science shops, incubators, regional and local government bodies and knowledge transfer organisations. These provide important support for young high-tech SMEs and even for more traditional ones that are contemplating transferring to innovation-based strategies. The Slovenian Presidency of the EU and the following French Presidency should monitor how the coordination of the Eurostar programme at EU and national levels could be deployed, steering it to optimal levels and avoiding any duplication of functions and risk of confusion among existing SME agencies.

4.4 The EESC has also recommended on several occasions that a much greater part of the resources of the EU's Structural Funds be used for the development of joint scientific infrastructures and specifically tailor made for SMEs. The use of funding from the European Investment Bank for this purpose could also be highly beneficial ⁽²⁷⁾.

Brussels, 29 May 2008.

The President
of the European Economic and Social Committee
Dimitris DIMITRIADIS

⁽²⁴⁾ Commission proposes measures for more cross-border investment by venture capital funds IP/08/15, 7.1.2008.

⁽²⁵⁾ Financing SME Growth — Adding European Value, COM(2006) 349, 29.6.2006.

⁽²⁶⁾ European Commission proposals for administrative burden reductions in 2008, MEMO/08/152 10.03.2008.

⁽²⁷⁾ (OJ C 65, 17.3.2006), OJ C 256, 27.10.2007, p. 17.