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"Less and better state aid for growth and jobs – the new rules on research, development and innovation, and risk capital"

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Let me start by thanking you, Martin, and the Austrian Presidency, for so warmly welcoming us here in Graz. You are right to have launched a debate on what is probably the most topical – and pressing – issue on Europe's political agenda: the opportunity of globalization.

Europe has a choice to make: we can either embrace the challenges of globalization – globalization as opportunity. Or we can try to avoid global competition – globalization as a poor excuse for postponing the necessary economic reforms and closing ourselves off from competition.

Protectionism is a dangerous road. It may deliver short term political gain. But in the medium term it is companies that face strong competition at home that are more likely to become successful on a global scale.

State aid is a tool that can be put to good and bad uses. State aid can be used to embrace globalization by better targeting public funds towards growth and jobs in open and competitive markets – supporting economic reform to deliver long-term competitiveness. But State aid can also be abused to protect national players, keep inefficient firms afloat, distort competition and artificially maintain costly, fragmented markets. The Spring European Council has reaffirmed our joint commitment to choosing the right track for State aids policy: making Europe attractive for future investment, while maintaining the aim of less and better targeted aid.

What does this mean for your policy choices? You can – and I think, should - invest more in R&D and Innovation and Risk Capital as a percentage of your total State aid budgets. You can - and I think, should - use more economics to target State aid on the right projects. The objective of the new State aid rules for R&D and Innovation and Risk Capital is just that: to help you reach these two objectives.

Globalisation

In research and development, innovation and risk capital, the EU has structural deficiencies compared to its main trading partners. Only 1.9% of Europe's GDP is spent on R&D. That compares to 2.5% in the US and 3% in Japan. There are only 3 European universities among the world's top 50 (40 are in the US). We only produce 5.7 researchers per 1000 workers. In the US it's 8, in Japan over 9. And what is worse is that the researchers we do develop are often quickly attracted to migrate elsewhere, on the other side of the Atlantic.

EU risk capital is 3 times lower than in the US. NASDAQ lists far more companies and has a higher market capitalisation than Euronext[1]. Only 6 EU Member States rank among the top 20 in the growth Competitiveness Index of the World Economic Forum.

I could go on, but you know the story as well as I…

We also all know that State aid can not replace the structural reforms Europe badly needs – and it should certainly not delay them. All studies show that investment location decisions – including R&D investments - are primarily based on structural factors. We should not therefore waste our hopes on State aid as some sort of 'magic wand' to attract investments.

[1] approximately 3,200 companies with a combined market capitalisation of US$3.6 trillion for Nasdaq, against barely around 1400 companies and less than US$ 2 trillion for Euronext.

Take the example of Israel, which allegedly uses State aid to steal 'our' investments. Israel spends 4.8% of its GDP on R&D. Last year it invested 1.3 billion in risk capital - more than any EU Member State. There is a clear lesson to be learned here.

The EU must tackle structural deficiencies first. Above all, that means completing our internal market, removing the remaining cross-border barriers to trade. Liberalisation of European markets in sectors such as transport and financial services has helped strengthen our competitiveness, by bringing prices down and promoting enterprising and efficient economic activity. That process needs to continue.

But we also need to tackle other structural deficiencies. I'm thinking of higher education; the quality of universities; R&D infrastructures; the protection of Intellectual Property Rights; and the general business environment, which means better regulation.

Finally, I am aware that risk-taking is difficult and business failure sometimes still carries an often undeserved stigma. This means that we also need to change our mindsets – we need to develop a mentality which allows and encourages young entrepreneurs to take managed risks, otherwise we will be simply unable to release the enormous potential that is out there.

The State aid package

But as part of a comprehensive structural innovation policy, State aid can be a good complement to address those market failures which prevent the Union from reaching its full potential.

The new rules on Research, Development and Innovation (which we have sent to your experts yesterday) seek just that. They maintain the very high aid intensities for fundamental and industrial research. There will be a new category of experimental development, substantially broadened to include innovation activities.

The bonus system will be simplified, with more incentives for collaboration, and better rules will be introduced for public-private partnerships and not-for-profit research institutes. All this should help SMEs – like our Austrian hosts, we truly 'think small first'! – but also large companies too. It'll help them to invest more in research and development, unleash their full potential and face competition in a global economy.

As for Risk Capital, we propose a new safe-harbour threshold of 1.5 M€ per target SME, a 50% increase compared to today. But we will need to ensure that such funds respect a market logic. Private investors should take part, and investment decisions should aim at maximising investors' profits.

Most importantly, there will be ground-breaking new rules on support for innovation. I cannot present them all here. They include:

- aid for young innovative start-ups;
- aid to SMEs for advisory and support services, or for the loan of qualified personnel;
- aid for process and organisational innovation in services; and
- last, but not least, aid for innovation clusters.

Of course, we all know that clusters cannot be 'built', and that it is difficult to make them work from scratch. But a small State aid boost may go a long way to make companies large or small, public and private universities and research institutes group together, collaborate, interact and network. So this is what we propose.

In drawing up these proposals, we have for the first time applied the refined economic approach set out in the State Aid Action Plan, to explain the foundation of our proposals. We've applied this to defining the market failures our proposals address; the incentives they provide; but also the distortions of competition and trade they seek to avoid. This will also serve to improve the Commission's scrutiny, and help us focus on the most distortive cases, as requested by several European Councils.

This does not mean that our rules will be unpredictable, overly burdensome or needlessly bureaucratic. We want to broaden the existing Block Exemption to some State aid measures for R&D, and possibly innovation activities. Standard cases will be subject to standard assessment. And high aid amounts or otherwise problematic cases subject to detailed assessment, on the basis of criteria spelled out in our draft to ensure full transparency and predictability of our analysis.

The data required will be easily available – the very studies any well-run company would carry out before embarking on a large R&D or Innovation project. All this will ensure speedy case assessment and guarantee the necessary flexibility of our rules to adapt to ever changing realities**.**

Conclusion

Ministers, dear friends,

Globalization is an opportunity. We need to embrace this opportunity head on, by taking the necessary structural measures to create the right innovation climate in Europe. In this context, the new package of State aid rules for R&D and Innovation and Risk capital will allow you to use State aid - not as a defensive tool to protect national players or failing firms - but as a complementary weapon in your arsenal for growth and jobs.

In keeping with our firm commitment to our joint partnership for growth and jobs, the Commission wants to design the best and most appropriate framework conditions. We now hope for your input – and your support. But even more than that, we hope that you will use this new framework to best effect, for the benefit of European competitiveness on the global market.

Thank you.