on revising the regulations on state aid for R&D&I in the EU’s community framework

Dear Madam/Sir

Our comments regarding the regulations on state aid for R&D&I in the EU’s community framework are mainly focused on chapter 1.3 (Definitions), number 15 (w). It seems very important for this consultation and following regulation activities to implement and use a differentiated terminology regarding company sectors.

Attached you will find an extensive position paper containing the reasons for our request. We are convinced that widening the look at the very narrow used definitions and classifications of companies regardless of the sector they belong to could substantially improve R&D&I in Europe:

The idea behind R&D&I policy instruments is to create incentives for more R&D&I in companies in order to reduce the risks involved in R&D projects and to offset market failure and the sector-specific disadvantages faced by small and medium-sized enterprises (SMEs).

Innovative companies should be regarded as a special case. They have to overcome the greatest obstacles in order to enter the market. At the same time, it is precisely these firms that drive structural change and form the European corporate landscape of the future. Hence, they merit special support. Furthermore, they set the tempo and direction for their supplier chain, thus playing a very important role and facing significant risk, and deserve special attention.

Because of their size and, in some cases also because of their corporate culture, innovative pharmaceutical intermediate-sized enterprises (ISE) often have to overcome obstacles in order to gain access to and collaborate with research institutes.

Innovative ISEs in the pharmaceutical industry often find that their access to the capital market is blocked. Overcoming financing difficulties in the phase between development and market entry (the “valley of death”) is often a particularly serious problem for these firms.

In view of this fact, it is necessary and justified to address R&D&I support for innovative pharmaceutical ISE in a special way in the R&D&I community framework.

Incentives are not only created via support for start-ups. The same applies to established, innovative companies, which often have to set the tempo and direction for their (smaller) suppliers and thus have to bear the largest share of the technological and economic risk of investing in a new technology.
Pharmaceutical ISEs often do not qualify for national or European R&D funding programmes because of the sector’s special structure, as described above. Although the sector is clearly characterised by SMEs as regards the number of employees in companies, the firms’ annual turnovers can be in the range of double or triple-digit millions of euros thanks to their (successful) history. For example, an average member company in our association BPI, which represents the German pharmaceutical sector, employs around 330 people. However, compared with the size distribution of companies in the pharmaceutical industry, which is dominated by large firms with tens of thousands of employees, there can be no doubt that these firms are small enterprises.

The European Commission’s recommendation of 2003 (2003/361/EC) on defining an SME (as having up to 250 employees and an annual turnover not exceeding €50 million) fails to meet the aim of facilitating the flow of innovations from companies smaller than “BigPharma”. Neither the number of employees nor the size of annual turnover has been adapted to inflation rates or sector-specific factors in the past ten years. In the case of the pharmaceutical industry, developments that could improve patient care are thus indirectly being withheld from the citizens of the European Union.

A broad ISE segment is essential to a functioning market economy. Experience has shown that ISEs can compete because they are flexible. They can also hold their own against large companies. However, ISEs are at a disadvantage as regards their larger competitors, since increases in company size often lead to benefits concerning procurement, production and sales.

On the other hand, an advantage of ISEs is that they fund R&D costs themselves without venture capital financing and have the necessary expertise and market knowledge. However, they do not have the same research budgets as large firms.

Yours sincerely,

Dr. Pablo Serrano
Head Research & Innovation

Matthias Heck
Head of Brussels Office