

27 November 2006

UNICE COMMENTS ON THE COMMISSION'S TEN POINT, PRIORITY ACTION PLAN FOR INNOVATION.

EXECUTIVE SUMMARY

Innovation is the key to competitiveness, creating jobs and growth. A favourable climate for innovation will enable the European Union (EU) to turn the challenges of globalisation into opportunities and encourage innovative companies to stay in Europe.

We believe that enhancing Europe's technological and non-technological innovation capacity can deliver high value-added European products, processes and services that are competitive in open, constantly changing global markets.

The follow up to the informal Heads of State meeting at Lahti, Finland on the 20th October, in this respect has been an encouraging step forward. The Council agrees that innovation is an essential part of the Lisbon Strategy for Growth and Jobs and seems as though it might outline a number of concrete steps to be taken in its support.

A timetable for 2007 with a series of deadlines for innovation friendly actions during which the European institutions and Member States can work jointly towards achieving at the European level would be a positive step. At the December 4th/5th Competitiveness Council meeting and the subsequent European Council Summit it is essential that the EU and its Member States make a clear commitment to such an action plan and resolve in particular, to work promptly towards its implementation.

In this context, UNICE welcomes the Commission's communication "*Putting knowledge into practice: a broad-based innovation strategy for the EU*"¹. We offer what follows as our response to the ten point, priority action plan which the Commission outlined in this communication. In addition to commenting directly on the Commission's ten point, priority actions we offer recommendations for additional action in each of these ten identified priority areas at both the EU and the Member State level which we hope will be taken on board.

We would point out however, that the ten identified action priorities do not address all of the issues. We miss, for instance any proposed action on better regulation, risk financing or innovation in services. We would also like to point out that an efficiently functioning, open Internal Market for goods, services, finance and people is a prerequisite for commercialisation and the uptake of innovation

Of the ten priority actions outlined by the Commission we identify as most urgent now Action 4 (Strengthen research-industry links) and Action 7 (Enhance intellectual property rights protection). Specifically with regard to Action 4 we believe progress towards launching the Joint Technology Initiatives (JTIs) on time is necessary. It is important that there is balance in FP7 between science (the European Research Council) and innovation (the JTIs) and we would ask that a dedicated roadmap for the establishment of the JTIs be outlined.

¹ Putting knowledge into practice: a broad-based innovation strategy for the EU [COM (2006) 502], European Commission, September 2006.

INTRODUCTION

On the 13th September the Commission published its communication “*Putting knowledge into practice: A broad-based innovation strategy for the EU*”. In this communication the Commission proposed “*a 10 point programme for immediate action to make the business environment more innovation-friendly*”².

Innovation, in our opinion, is more important to the European Union than to any other region in the world. In the globalised world that we live in, Europe cannot hope to compete with low wages or protectionist policies. Europe can only compete with high value-added products, processes and services which are competitive in open, constantly changing markets.

Innovation is more than the result of research and development. It is the successful exploitation of new ideas in both the technological and non-technological fields, and transforming them into economic value in the market.

Innovation cannot be fixed by a single policy or set of measures. A range of policies at EU, national and local levels have to be tuned to creating strong incentives for all forms of innovation, including non-technological innovation.

A favourable framework for innovation includes:

- an efficiently functioning, open internal market for goods, services, finance and people;
- open and equal access to global markets;
- better regulation, removing unnecessary bureaucratic obstacles to innovation, innovative procurement and access to markets;
- a workable, competitive IPR regime, of high quality, to protect and reward investments in R&D;
- a strong research and technology base, including more EU-level cooperation as well as increased R&D funding at EU and national levels.
- a high quality of education and training at all levels;
- an environment that is favourable of and encouraging for private-public-partnerships (PPPs) in particular between universities and enterprises, and for public procurement of innovative products and services;
- a well functioning supply of risk financing, in particular for SMEs;
- public stimulation of private R&D-funding and a well functioning supply of risk financing, in particular for SMEs, and;
- environmental policies that enhance innovation without threatening competitiveness.

² Ten priority actions to achieve a broad-based innovation strategy for the European Union (MEMO/06/325), European Commission, Brussels, 13th September 2006.

THE COMMISSION'S TEN POINT, ACTION PLAN

UNICE welcomes the Commission's Communication and broadly supports its contents, even if it does not reflect a view on innovations as broad as outlined above. The ten action priorities as we have already stated do not address all of the issues. In particular market aspects (which we put much emphasis on), better regulation, risk financing, innovation in services and standards are missing.

Of the ten priority actions outlined by the Commission, we would identify as most urgent, and in need of resolution: **Action 7** (Enhance intellectual property rights protection). The Commission's new framework for state aid for R&D and innovation, outlined on the 22nd November reacts to Action 6.

Action 1: ESTABLISH INNOVATION-FRIENDLY EDUCATION AND TRAINING SYSTEMS³

Education and training policy is essential to support innovation. The roadmap suggested in the Commission communication on innovation rightly emphasizes the importance of increasing the share of public expenditure devoted to education. However, in addition to investing more, Europe also needs to invest better. Without an innovation-friendly education and training system, Europe will not be able to compete in a competitive innovative world.

Modernising European universities is clearly a priority. The need to increase the supply of relevant skills clearly exists also for intermediary technical skills in order to deliver high quality and better productivity. Modernisation efforts must therefore also encompass vocational training and be part of broad national life long learning strategies.

UNICE expects the following actions to be addressed with a view to fostering innovation-friendly education, training and entrepreneurial systems:

The EU should in particular:

- ensure that EU initiatives in the field of education and training support the objective of facilitating innovation and that the new EU life long learning programme in particular is tailored to respond to labour market needs;
- promote exchanges of good practices between Member States and with third countries on reforms of universities and other education and training institutions;
- encourage Member States efforts to step up their efforts to increase take up of scientific and technical studies by young women and young men and increase the quality of university curricula to attract foreign students in the context of the Bologna process, and;
- continue to promote the mobility of students, teachers and researchers as a tool to foster innovation throughout Europe.

³ The Commission's September 13th communication described the ten action priorities in somewhat more detail. The precise wording used here is taken from the accompanying Commission memo (Memo/06/325) released the same day.

Member State for their part should:

- ensure that basic education provides young people with the knowledge, skills, values and attitudes necessary to be innovative and entrepreneurial throughout their working lives;
- equip young people in vocational education and training with competences which are relevant to the labour markets, i.e. teach how to use up-to date technologies and working methods at school as well as through work-based learning
- pay the necessary attention to adult learning which plays a key role in up-dating competences and regularly adapt education and training programmes to take account of technological and work organisation progress
- foster greater collaboration between business, education and research institutions such as universities and put into place a governance system ensuring greater autonomy and accountability of universities and other high education and research institutes, and;
- pay special attention to the need to attract students from third countries.

Action 2: ESTABLISH A EUROPEAN INSTITUTE OF TECHNOLOGY

UNICE welcomes the Commission's outlining of its actual proposal for a European Institute of Technology (EIT). This text is the clearest statement to date of what is foreseen for this proposed institute. Nonetheless UNICE agrees with the conclusions of the Education Council of 14th November which highlight that a number of practical details need to be examined in more detail such as the EIT's funding, administration and competence to award degrees.

In particular UNICE is reassured to see that a networking approach has been taken to the proposed institute. In our view this is the correct approach. We are also reassured by the clear, unambiguous linkage to existing community programmes.

In this regard we are in particular supportive of the proposal that whenever EIT overseen activities seek to participate and be funded under Community programmes (such as the Seventh Research Framework (FP7), the Competitiveness and Innovation Programme (CIP), Integrated Life Long Learning etc.) they should do so without preferential treatment and applying the rules of these programmes.

We are also pleased to see the proposal that the Governing Board of the EIT will have half its membership coming from those with industry and business experience. We believe that at the very least this involvement of business/industry expertise and experience is necessary if the institute is really to enhance innovation. UNICE offers its assistance in identifying potential industry and business members for this board.

We are seriously concerned, however, by the lack of linkage between the strategic objectives / thematic priorities and the strategic research agendas of the European Technology Platforms (ETPs) and the Joint Technology Initiatives (JTIs). European industry has invested heavily in the ETPs. They should be used to provide strategic guidance for EIT programmes similar to that which they will provide under FP7.

UNICE expects the EU to address in particular the following issues with regards to the proposed EIT:

- a clear connection needs to be introduced guaranteeing linkage between the strategic objectives / thematic priorities of the EIT and the strategic research agendas of ETPs and with the JTIs. It is not acceptable that the relationship between the ETPs / JTI's and the EIT would cause delays in the decision making process for the ETPs and JTI's.
- clarify in more detail the budgetary aspects of this proposal. There is enough ambiguity in the proposal with regards to the budgetary aspects to cause unease;
- ensure that the EIT is free from any form of political interference. Choices made by the EIT must be based solely on excellence and competition;
- ensure that the EIT's procedures (whether administrative or selection) are as transparent and open as possible;
- clarify the practicalities of EIT supported Knowledge and Innovation Communities (KICs) participating in regular FP7 funded projects as part of the Community's contribution to the EIT's budget;
- clarify the actual status of teams 'seconded' to the EIT from existing universities and businesses, and;
- make an effort to conclude discussion on this proposed institute as quickly and early as possible.

Action 3: WORK TOWARDS AN ATTRACTIVE LABOUR MARKET FOR RESEARCHERS IN EUROPE

Companies carrying out R&D in Europe are dependant on excellent research personnel. The availability of excellent researchers is one of the most prominent factors for companies when deciding whether and where to invest. Enhancing the mobility of researchers and ensuring that Europe is an attractive place to do research for EU citizens as well as for third country nationals is key to innovation but also to growth and prosperity.

Europe cannot be made attractive to researchers or research student, from Europe or any other region, only by specific measures tailored to avoid brain drain or attract researchers from abroad. We should aim make higher education and research good enough and efficient enough to be able to compete with the best in the world and thereby attract the best people the world has to offer. To achieve this EU's ambition to increase the average research investment up to 3% of GDP per 2010 is of key importance.

To broaden the base of scientific and technological knowledge, part of the answer lies in attracting more women to take up and remain within careers in science and engineering.

Many actions necessary to turn Europe into an attractive place to work as a researcher need to be taken by Members States. However, UNICE believes the EU has a central role to play to provide for best practice and, in particular, promote greater cross-border mobility of researchers.

UNICE expects the following actions to be addressed with a view to working towards an attractive and open labour market for researchers:

The EU should in particular:

- further develop the European researchers mobility portal;
- give financial support to mobile researchers through programmes such as the Marie Curie fellowships, and;
- promote both European and wider international networking activities.

Member States for their part should:

- adopt a positive attitude towards innovation and risk taking to ensure an overall climate attractive for researchers;
- ensure that efforts to reduce the difference between total labour costs and net pay for highly skilled workers as opposed to reserving rebates exclusively for low skilled workers as is often the case;
- create the conditions to ensure the availability of public and private financial resources so that researcher have access to means to carry out top class research, and;
- facilitate procedures with regards to the recruitment of young researchers from third countries.

Action 4: STRENGTHEN RESEARCH-INDUSTRY LINKS

Firstly, we assume that when the Commission wants to activate research-industry links, it means links between research and small, medium, large and multi-national business and industry. It is necessary that actions cover all kinds of enterprises.

When addressing the links between public research and industry, it is time to abandon the linear model of innovation as a reference. The issue is not better take-up of publicly-funded research results; it is about a partnership between the public and private resulting in persistent contact, cooperation and integration between all actors from education and research to market. This partnership should cover setting the agenda for education, research and innovation as well its implementation and financing.

We do not see how EU guidelines, other than the state aid rules, can contribute to a more open working relationship between public research and enterprises. The situation and existing legislative frameworks vary in Members States, and all attention should be directed to remove administrative barriers to cooperation, which the Commission rightly identifies as a relevant action.

UNICE expects the following actions to be addressed with a view to strengthening research-industry links in Europe:

The EU should in particular:

- use the ETPs and commit to further JTIs. Both are examples of public-private partnerships and have great potential for successful collaboration and achievement of critical mass. The Presidency has publicly committed to the Artemis JTI. Corresponding commitment to the ETPs and other JTIs (such as hydrogen and fuel cells, aeronautics

and air transport, nanoelectronics and global monitoring for environment and security) is required from the public sector at the EU, the national and the regional level, with a view to sharing risk in striving for European strategic leadership;

- should meet the deadline to outline proposals for the establishment of further JTIs, and;
- ensure that clear linkage is introduced between the strategic objectives / thematic priorities of the EIT and the strategic research agendas of ETPs and with the JTIs.

Member State for their part should:

- promote schemes, such as those that exist in several Member States which allow graduates and PhD students to work on projects defined by business and other research users, and schemes which the government has provided specific funds for universities to develop their capabilities and capacity for engagement with business and the wider community should be encouraged Europe-wide.

Action 5: FOSTER REGIONAL INNOVATION THROUGH THE NEW COHESION POLICY PROGRAMMES

We support the earmarking for knowledge and innovation-enhancing, expenditure from cohesion policy funds seeking to enhance European competitiveness. The aim of such earmarking should be to contribute better to integrating the growth and jobs strategy into national and regional actions.

Clarity of objectives, clear participation rules and an effective coordination amongst the Structural Funds, the Competitiveness and Innovation Programme (CIP), and the Seventh Research Framework Programme (FP7) needs to be ensured at all times.

UNICE expects the following actions to be addressed with a view to fostering regional innovation through the new cohesion policy programmes:

The EU should in particular:

- ensure that the earmarking of funds towards innovation and competitiveness is achieved. In this regard the Commission should, as suggested by the Council, identify the means through which clear measurable targets can be set for research and innovation which is earmarked;
- ensure that in using EU funds, Member States are making definitive progress towards the EU priorities of innovation, competitiveness and job creation. The Commission should act to provide support on using structural funds for promoting innovation by outlining appropriate targets;
- ensure that EU programmes focus on research, ICT, innovation, entrepreneurship, human capital and development of the necessary infrastructure as specified in the Community Strategic Guidelines, and;
- proceed, as outlined by the Commission, to mapping the strengths of national and cross-border clusters in order to stimulate practical business cooperation, exchange of best practices, transfer of

technologies and innovation. The mapping exercise should not be limited just to clusters but should also be extended to larger territories with a high industrial specialisation.

Member State and regions for their part should:

- make certain that innovation is a key guiding objective of their actions, as agreed in the earmarking of funds towards competitiveness in the December 2005 European Council and translate this policy priority into real and effective action;
- ensure that all relevant stakeholders are consulted in the preparation and implementation of programmes co-financed by these funds;
- in a context of limited financial resources, ensure that funding is concentrated so as to reach critical mass and generate a leverage effect;
- ensure that accountability is enhanced now that there is increasing regional responsibility in the management of cohesion policy;
- in aiming to enhance the capacity of local authorities and administrators foresee more training of their staff on business needs, and;
- that the Structural Funds and the Cohesion Fund are used to leverage up investment to a much higher scale than is currently envisaged by public policy-makers. We invite public authorities to make use of the new JASPERS and JEREMIE facilities.

Action 6: REFORM R&D AND INNOVATION STATE AID RULES AND PROVIDE BETTER GUIDANCE FOR R&D TAX INCENTIVES

Member States should be encouraged to spend more in this area to increase the level of R&D and innovation and achieve the Lisbon objective of 3% of GDP investment in research. We are pleased to see the new rules for state aid for R&D outlined on the 22nd November. The changes outlined provide Member States with more opportunities to stimulate companies to undertake R&D and innovation. We are however concerned that they will not resolve all the issues surrounding current under-investment in R&D and innovation.

The EU rules assess aid on the basis of hypothetical divisions in the innovation process that do not correspond fully to the reality (the so called 'linear innovation model' representing R&D as a sequence of activities happening systematically in the following order: fundamental research, industrial research and experimental development). The two categories of 'industrial research' and 'experimental development', which enjoy maximum aid intensities of 50% and 25% respectively, are not separate in practice and should therefore be replaced by a single category 'industrial research and technological development' with a maximum aid intensity of 50%.

Flexibility is needed with respect to the requirement that state aid must persuade companies to pursue research that they might otherwise not pursue. Concretely demonstrating that this requirement has been met has proven to be extremely difficult.

Flexibility is also required when requiring Member States and companies to submit comprehensive economic information about relevant markets and companies' strategies for R&D aid notifications to justify certain specific aid measures. R&D and innovation are general cases where market failures apply and where there is a role for government intervention.

We continue to believe that European companies should not be suffering from a competitive disadvantage vis-à-vis their competitors located outside the EU who are not (or less) affected by subsidies control.

International experience shows that tax incentives for R&D can be an effective instrument to enhance corporate R&D investments as well as support to public R&D. The Commission's proposals outlined on the 22nd November for a more effective use of tax incentives in favour of R&D is a welcome step. In particular we welcome these proposals as guidance for R&D tax incentives is necessary in relation to EU competition rules. We do however believe that in the end, the design of possible incentives must be left to the discretion of each Member State.

UNICE expects the following actions to be addressed with a view to reforming R&D and innovation state aid rules and provide better guidance for R&D tax incentives:

The EU should in particular:

- abolish the linear innovation model as the reference in assessing aid;
- be flexible with respect to assessing the incentive effect of aid, and;
- address the competitive disadvantage EU companies are in vis-à-vis their global competitors who work and live with more relaxed state aid rules.

Member State for their part should:

- make use of opportunities for supporting certain innovation activities and encouraging collaboration between companies and research organisations, and;
- follow-up on the EC recommendations regarding fiscal incentives for R&D.

Action 7: ENHANCE INTELLECTUAL PROPERTY RIGHTS PROTECTION (IPR)

A clearly defined and consistent policy to protect intellectual property is a vital need for Europe's innovation and competitiveness.

We consider it necessary to further improve the current European patent system in terms of costs and legal certainty. Patent costs are extremely high in Europe compared in particular with the USA and Japan, which is due mainly to wide-ranging translation requirements. Those high costs make access to the patent system complex and unappealing, particularly for SMEs. The rapid ratification of the London Agreement reducing translation requirements for patents granted by the EPO is key to address the question of costs. Comprehensive translations of granted European patents are very rarely used while they are a heavy burden for companies seeking to protect their inventions and improve their competitive position.

Progress on the adoption of the European Patent Litigation Agreement (EPLA) is essential. We attach great value to EPLA. EPLA is designed to adapt the European patent system to the needs of companies for legal certainty by setting up a common judicial system for litigating European patents. Currently, European patents are enforced nationally, which can lead to conflicting interpretations by different national courts and increases costs as well as legal uncertainty for companies.

We support the Community Patent, in principle, as a truly unitary instrument for the EU. However, the common political approach of March 2003 cannot constitute the basis for creating a Community Patent that can fully meet the needs of users for quality, cost-effectiveness and legal certainty. Only a truly unitary and cost-effective Community of high quality Patent is going to be attractive to users, in particular SMEs. The use of English-only regarding the language arrangements for the Community Patent is the most cost-effective solution.

UNICE expects the following actions to be addressed with a view to enhancing intellectual property rights protection:

The EU should in particular:

- Develop a clearly defined and consistent policy to protect intellectual property;
- Adopt a Community Patent that fully meets users' needs in terms of quality, cost-effectiveness and legal certainty with the English-only solution regarding the language arrangements;
- should cooperate as closely as necessary to present a mandate enabling the Commission to participate in the negotiations on the European Patent Litigation Agreement, and;
- should respond during the first semester 2007 to proposals that facilitate the creation of a single Europe-wide patent jurisdiction system.

Member State for their part should:

- Ratify the London agreement which would significantly reduce patent costs in Europe by limiting translation requirements for patents granted by the EPO, and;
- Instigate progress towards adoption of EPLA as a means to improve patent enforcement in Europe.

Action 8: DIGITAL PRODUCTS AND SERVICES – INITIATIVE ON COPYRIGHT LEVIES

UNICE is concerned about how copyright levies may affect the functioning of the internal market, but not addressed this issue in any detail.

With this in mind we believe that the EU should in particular:

- consult as widely as possible in the course of its assessment of the impact of copyright levies on the functioning of the Internal Market, prior to coming forward with proposals for improvement.

Action 9: DEVELOP A STRATEGY FOR INNOVATION FRIENDLY “LEAD MARKETS”

It is UNICE’s view that innovation friendly lead markets will emerge naturally in a global, growing economy. European enterprises will take their share of these markets in open competition, if their operational framework is competitive. We are concerned about the dangers of any kind of policy approach with features of “picking the winners”. Instead, every action we take must support the competitiveness of European companies’ vis-à-vis their global competitors.

Standards are important parts of designing markets, to ensure interoperability, safety and high quality as an alternative or complement to regulation. One should approach standardisation with great care, looking out for the risk of stifling innovation instead of supporting it. Developing and setting standards is and must remain in the private, voluntary domain.

There is great demand and potential for innovation in the areas of environmental technologies and efficient use of resources. When designing and implementing such policies, the global competitiveness of both suppliers and users needs to be carefully taken into account. It is important to see the whole global picture and understand business investment potentials and cycles as well as price mechanisms.

UNICE expects the following actions to be addressed with a view to developing a strategy for innovation friendly ‘lead markets’:

The EU should in particular:

- turn more attention (also at the national and regional levels) towards stimulating market demand which in turn can facilitate greater investment in R&D and innovation (the Internal Market plays a vital role in this regard, it must be innovation friendly), and;
- respond to the Council’s invitation to present an initiative on lead markets bearing in mind the fact that industry believes that they can and will emerge naturally through increased competition in the Internal Market. The Commission should consult as widely as possible with industry stakeholders before bringing forward its initiative.

Action 10: STIMULATE INNOVATION THROUGH PROCUREMENT

Public procurement can be a driver for business investment in innovation. Industry however remains firm in its established view of procurement. Competition for the most economically advantageous bid must remain the yardstick for public procurement. This principle allows for procurement of innovative solutions.

In this respect, pre-commercial public procurement could be a particularly interesting mechanism. It is, however of most importance that this instrument does not hollow out the scope of the legislative package of the procurement rules. Pre-commercial procurement must not lead to support to enterprises, which would not have won a competitive, tendering process for a service or a product. Procurement policy must not be used for other purposes than those inherently connected with the work, supply or services itself. Innovation related criteria must be linked to the service or the products being procured.

Public purchasers should engage in more extensive dialogue with private suppliers to develop and share best practice and to also inform suppliers of their procurement policies and procurement plans. Too many procurements are awarded on the lowest up-front price, which seldom delivers the best long-term result. This deep seated problem needs to be addressed. Public purchasers through training need to develop the skills and the know-how of procuring innovation, which will allow them to strive for the most economically advantageous bid whilst taking advantage of the opportunities to promote innovation that public procurement does offer.

The EU institutions can set a good example by practicing procurement of innovative products and services.

UNICE expects the following actions to be addressed with a view to developing a strategy to stimulate innovation through procurement:

The EU should in particular:

- enforce the application of the legislative procurement package in Member States;
- do more, within existing rules, to facilitate access of innovative SMEs to procurement contracts and ensure that decisions are taken based on reasons of value, not to simply meet targets;
- promote the introduction of advanced education and training in public procurement for civil servants of contracting authorities and suppliers;
- address the problem of risk aversion. Innovation may be considered in pilot or short-term projects, but often this is not followed through into longer-term projects, instead low-risk solutions are sought;
- secure a level playing field for public suppliers (municipalities and municipality-owned enterprises) and private suppliers by opening up the public service sector;
- clarify and elaborate further on the relationship between the state aid and public procurement rules;
- clarify the situation regarding the possible use of variants by public authorities as a possible tool for encouraging and promoting innovation, and;
- ensure effective protection and confidentiality of information so that companies are protected against the "cherry picking" of ideas by competitors and by contracting authorities. Without this there is no incentive for companies to develop and propose innovative solutions.

Member State for their part should:

- can support innovation by acting as and early adopter of new ideas. Early adoption of ideas can have a major impact on supply-side business. Providing firms with their first significant customer for a new innovation can form the platform of respectability from which further sales and long-term growth can be achieved;
- use procurement more strategically to stimulate innovative firms. For example they could promote the use, by public purchasers, of innovative criteria in the award of contracts;
- put forwards legislation that will encourage public purchasers to make procurement policies and to share these plans with the private

- suppliers. Early supplier involvement in the procurement process is critical if innovation is to be captured, and;
- promote advanced education and training in public procurement for civil servants of contracting authorities and suppliers.

Additional actions: RISK FINANCING

The availability of risk and venture capital is vital for Europe's potential to innovate. Financial needs are greatest in the early part of the life-cycle of a company, at start-up, and when initial funding is no longer available to finance growth investments.

Europe's markets for risk capital and venture capital are currently highly fragmented. In comparison to the US, Europe (with the exception of Denmark, Sweden and the UK) still lags far behind in terms of availability and volume of early stage financing. Market integration can provide new companies with improved access to these types of finance. To this end, regulators should agree on a common, EU-wide definition of a venture capital funds, so that funds active in cross-border operations no longer need to establish a range of parallel intermediary structures. Currently, parallel fund structures serve in particular to gain access to investors in a cross-border market and to avoid double taxation of fund investments in EU countries other than the country of establishment.

Information problems between investors and target companies relating to the risks and the profitability of an investment can lead to market failures, which need to be addressed by public policy. The Commission is rightly allocating resources under the High Growth and Innovative SME Facility (GIF) to investment in venture capital and in risk capital funds providing equity or quasi-equity to SMEs in their seed, start-up and expansion phases. It needs to be recalled that thresholds up to which investments can be made need to be sufficiently high.

An important means for the promotion of mezzanine financing also consists in refinancing via the asset-backed securities (ABS) markets. This would considerably reduce SME's financing costs. The Commission and Member States should therefore look into possibilities to further foster the development of hybrid instruments.

In order to make risk and venture capital financing available to companies, and thus to strengthen their potential for innovation, financial markets need to be in a position to develop and market new financing instruments without undue regulatory and tax barriers. In this respect, it is important that regulation can be adapted quickly to new market developments.

UNICE expects the following actions to be addressed with a view to risk financing:

The EU should in particular:

- agree on a common EU-wide definition of venture capital funds in order to encourage cross-border operations, and;
- foster together with the member states the development of hybrid instruments.

Member States for their part should:

- reduce tax-related and regulatory barriers that hamper risk capital financing, and;
- establish and develop capital market based financing structures.

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