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ANNEX

to the report drawn up by Mr DELEAU
on behalf of the Committee on Economic and Monetary
Affairs

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Opinion of the Committee on Energy, Research and
Technology

PE 87.241/fin./Ann.

OPINION

(Rule 101 of the Rules of Procedure)

Draftsman: Mrs PHLIX

On 12 July 1983, the Committee on Energy, Research and Technology appointed Mrs PHLIX draftsman of the opinion.

The committee considered the background document and the draft opinion at its meetings of 12 July, 3 November and 23 November 1983. It adopted the conclusions unanimously on 23 November 1983.

The following took part in the vote: Mrs Walz, chairman; Mr Seligman, vice-chairman; Mrs Phlix, draftsman; Mr Bernard, Mr Flanagan, Mr Moreland, Mr Purvis, Mr Sälzer and Mr Veronesi.

BACKGROUND

1. For some time there has been considerable interest in the Community in improving the climate for investments. In October 1982 the Commission presented a series of proposals and guidelines for promoting investment¹.
2. The Commission, and subsequently also the Council and Parliament², stressed the special importance of investment in innovation for renewed economic growth in the industrial countries and drew attention to the crucial role of innovative small and medium-sized undertakings.
3. However, at both the national and the Community level, innovative small and medium-sized undertakings face specific financing difficulties³, which prompted the Commission to make a thorough study of these financing problems and to develop its own views on innovation and investment^{4,5}.
4. The central question of financing innovation has various aspects. This proposal for a Council decision concerns the availability of special financial resources specifically for innovation and the role which appropriate Community instruments can and must play in this field.

GENERAL OBSERVATIONS

5. Recently the small and medium-sized undertakings were (re) discovered not only as an important source of new employment but also as the champions of technological progress. At present it is the small and medium-sized undertakings that are more receptive to innovation and expansion as their goal is to command new fields and thus to conquer new market sectors.

¹ COM(82) 641 final

² Resolution of 19 February 1982 on the situation of small and medium-sized undertakings in the Community

³ Opinion of the Economic and Social Committee on the promotion of the small and medium-sized enterprises, 27 May 1982

⁴ A policy for industrial innovation strategic lines of a Community approach (COM(81) 620 final)

⁵ Communication from the Commission to the Council on the problem of investment (COM(81) 365 final).

Nevertheless, the inherent qualities of small and medium-sized undertakings (small fixed assets, a lack of liquidity and under-capitalization) together with the characteristics of innovation (uncertain return, delayed return and the need to gain a considerable market share) mean that innovative small and medium-sized undertakings are soon confronted with insurmountable financing problems.

National measures (ANVAR in France, RKW in Germany and numerous development companies in the United Kingdom) have provided some assistance but this is still insufficient.

The proposed Community approach, which is the first legislative initiative by the Commission during the European year of small and medium-sized undertakings and craft industries, must be welcomed.

6. Innovative investment has, by its very nature, a Community dimension (see 5 above on the need for an adequate market share).

The basic Commission proposal is that innovation should be promoted by making European innovation loans available and that these should be managed by financial intermediaries.

The aim of the Community measures is to create a general framework and to encourage the (national) financial intermediaries to supplement Community financing by bearing responsibility for 50% of the projects either in the form of own resources or in the form of financing under similar terms to those of the European innovation loan. (It is perhaps interesting to note that such a loans procedure already exists in Belgium through the guarantee fund 'Fonds de Garantie').

7. Such a process not only helps to establish appropriate mechanisms for financing innovation but also offers valuable guarantees in the selection of projects.

8. It is absolutely clear that the choice and role of the financial intermediaries is of vital importance.

The success of the Commission's proposal depends to a large extent on the satisfactory direct contacts maintained by these bodies with the small and medium-sized undertakings.

In addition these financial intermediaries have the extremely important task of providing the innovative small and medium-sized undertakings and the general public with the necessary information.

CONCLUSIONS

9. The draftsman notes that a tranche of borrowings of 100 million ECU has been proposed and urges that adequate precautions should be taken to ensure the continuity of the project.

If insufficient budgetary resources are made available it would be preferable to drop the project.

10. (a) The draftsman considers that it would be valuable to define the concept of small and medium-sized undertakings more precisely.

The existing technical European standards which are:

- ((a) maximum of 500 employees,
 - (b) maximum 75 million ECU net fixed assets,
 - (c) maximum 33% of capital owned by another undertaking)¹
- cover a vast range of small and medium-sized undertakings.

Division into various categories would reduce the risk of the smallest and most vulnerable small and medium-sized undertakings not being able to hold their own when the project is implemented. This risk is increased by the various criteria which apply in the Member States.

(b) The draftsman notes that there is no precise definition of innovation. Too vague a description of innovation creates uncertainty and might hamper the success of this project. The list in the report should not be interpreted as a restrictive list: a negative list should not exclude branches of the tertiary sector (for example distribution and service industries).

Both the Commission and the financial intermediaries have an important role in providing the necessary detailed information.

11. (a) The phrase 'normally for a period of ten years' should be clarified (i.e. does it relate to a maximum or minimum term?). It should also be made clear whether the provision that 'no security is required' applies to the financial intermediary as well.

¹ With regard to this criterion, the permitted percentage is too high. It is more than enough to block any decision in the S.M.U. concerned.

(b) In addition the draftsman considers that it would be advisable to consider whether the principle of subordinated loans is compatible with certain national legislation (i.e. bankruptcy legislation), in particular where the financial intermediaries have supra-national status. Consideration should also be given to whether the financial risks associated with subordinated loans cannot be overcome by re-insurance at European level.

12. (a) It is important that the financial intermediaries should be those that are accessible to small and medium-sized undertakings and that the procedures should not be complicated or cumbersome, as this would increase the reluctance of small and medium-sized undertakings to use the scheme and would hamper the success of the project.

The draftsman would therefore ask the Commission to define exactly the nature, conditions and procedures relating to the European innovation loan in order to make it much more accessible.

(b) Secondly, each Member State must take steps to ensure that the financial intermediaries have the guarantees to cover exchange risks.

13. The draftsman would also ask that the European Parliament should be kept informed about the cooperation agreement between the Commission and the European Investment Bank and developments with regard to loans granted.

14. The draftsman considers that the proposed appropriations are the minimum to ensure realization of the proposed project and calls on the committee responsible to make certain that these funds are made available.

15. Lastly, the draftsman would point out that the proposed Community financing for innovation in small and medium-sized undertakings can as an isolated initiative only produce limited results.

Additional measures (for example, protection of innovators, the Community patent, a single rate of VAT, harmonization of purchasing licences etc.) cannot be neglected if the desired result is to be achieved.

The Committee on Energy, Research and Technology calls on the Committee on Economic and Monetary Affairs to bear these its observations and suggestions in mind when drawing up its report.

