



Improving the Financial Environment for European Biotechnology

What EuropaBio is asking for

- Support for measures that will improve access to finance for European biotechnology companies - increasing investment in R&D and improving the global competitiveness of the biotechnology sector.
- Increased investment in private research through Member State implementation of the EU-wide State aid rules that recognise Young Innovative Company status (YIC).
- Implementation of an SME-initiative at European Patent Office to reduce patent fees.
- EU support for seed investment through creation of a European Pre-Incubation Capital Fund (EPIC Fund)
- Better climate for private investments into Biotech SMEs throughout Europe

Purpose of this meeting

To brief MEPs and Permanent Representatives on political action required to improve financing of innovative bioscience companies.

Introduction

To raise its level of innovation, Europe aims to increase R&D spending to 3 per cent of GDP and drastically raise employment levels between now and 2010 (Lisbon goal).

The biotechnology sector can make a vital contribution towards meeting the re-launched Lisbon agenda goals. In order to be able to do so, a supportive environment is needed both for highly innovative companies and their private investors as well as for more established companies that have already been able to build some critical mass and deliver innovative products and contribute real value in terms of job creation and economic growth. Without this positive support, a high proportion of these companies are likely to fail, and Europe will lose out on realising the innovative benefits that biotechnology offers.

In February 2006, DG Enterprise and Industry hosted the Working Group “Access to Finance”. The Working Group recognised that today, one of the main barriers in Europe to successful entrepreneurship, innovation and product development is the lack of variety in forms of finance along the ‘capital chain’ (that is, from seed capital to IPO and secondary offerings).

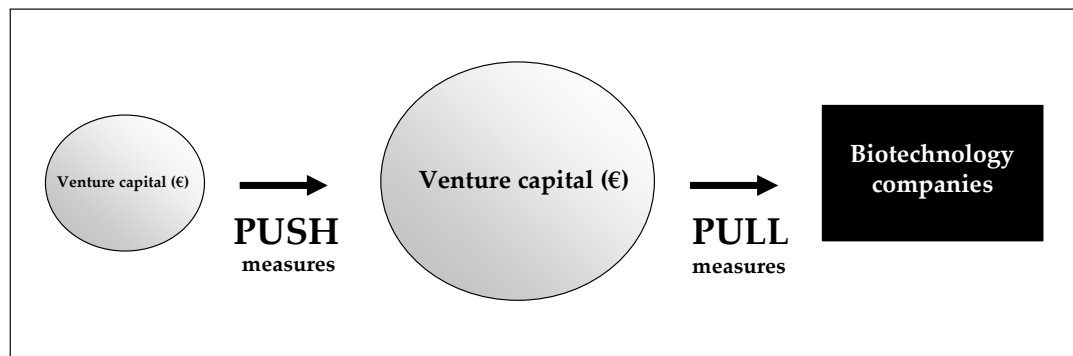


Figure 1: Push and pull measures to increase to flow of capital to the European biotechnology industry
This lack of investment in biotechnology companies has already had a large negative impact on the growth and development of the European biotechnology industry



With approximately the same number of companies as in the European sector, the US biotechnology industry employs almost twice as many people, spends almost 3 times as much on R&D, and has more than double the number of products in clinical development. Furthermore, the US industry raises 3 or 4 times as much venture capital, has access to 4 times as much debt finance and generates roughly twice the revenue of the European sector (€42 billion compared to €19 billion).

Recommendations

To help address this, EuropaBio makes the following recommendations, which would improve the financial environment for European biotech companies and could be implemented in a relatively short time frame.

1. Young Innovative Company Status (YIC)

On January 1st 2007, the European Commission adopted new rules on State aid - backed by a communication on tax incentives to stimulate R & D. The new rules recognize Young Innovative Companies (YIC) status as an eligibility criterion for state aid. This has enabled Member States - who so wish - to provide extra public funds like tax and other financial incentives to their young innovative biotechnology companies without running into trouble with EU competition rules. In addition to the R & D tax incentives communication, the new EU rules enable governments to give extra incentives to companies that are less than 6 years old and spend 15% or more of their revenues on R & D. The EU rules, which are not sector specific, benefit research, development and innovation across Europe.

National Support

EuropaBio calls on EU governments to create a specific status for Young Innovative Companies, providing tax exemptions to entrepreneurs, employees, investors and companies across Europe to reward risk with incentives and benefits. The latter should be aligned between EU member states to guarantee a fair competition between countries for industry settlement (see above: tax credits).

The implementation of the YIC status on a national level will require an initial investment from national governments as it decreases tax and other fiscal revenues. In the longer term, however, tax revenues will significantly increase as new companies and jobs are created, resulting in a positive investment balance as well as increased economic growth.

In 2004, France was the first European country to adopt YIC-based fiscal measures. YIC status is applicable to innovative French companies less than eight years old and includes total social security cost exemptions for all R&D-related employees, total exemption of local business taxes and capital gains taxes for investors, as well as sliding-scale corporate income tax breaks when the company starts to make profits.

The French YIC status has been a great success. Today, more than 1,600 companies have opted to become YICs. 250 are biotech companies and, according to preliminary estimates by France Biotech, implementation has resulted in an average cost saving of €10,000 per employee per year. This savings have immediately been re-invested by the biotech companies: 3/4 of the YIC biotech have hired new R&D employees (an average of 1.7 employee per company), 50% have launched new R&D programmes and 50% have acquired new R&D equipment.

In 2005, the Belgian government adopted a YIC-based status in mid-2006, and is the second European country to implement an initiative to support the development of young companies in this



way. Further European countries (e.g. Finland, Sweden, Estonia, Italy and Spain) have now started the evaluation of a future implementation of the YIC-status, and we hope that the trend is now clearly set. We depend on the support of EU-level policy makers to ensure that the EU's State aid rules are properly communicated to national governments.

2. European Patent Office (EPO) SME-initiative

EuropaBio calls for the implementation of an SME-initiative at the European Patent Office to reduce patent fees.

Intellectual property, and particularly patents, is essential for the development of new biotechnology medicines and treatments. The high development costs, the risk of failure in the clinic and the long development timescale mean that investors will not invest in this sector unless they have a chance of good returns. In practice, this means that some years of protection from competition are required if the investment is to be recouped.

In 2004 the EPO commissioned a survey which showed that the cost of obtaining a European patent was €46,700, with the cost of biotechnology/pharmaceuticals patents around double the cost for patents in other fields such as electrical engineering.

Compared to the US and Japan, the costs of obtaining a Euro-direct patent granted and validated is much more expensive. A US company will pay €10,250 to have a USPTO grant; a Japanese company will pay €5,460 to have a JPO grant and a European Patent Convention (EPC) state will pay on average €24,100.

EPO to Follow EMEA SME Office Model

In December 2005 the European Medicines Agency (EMA), launched an 'SME Office', which is dedicated to addressing the particular needs of smaller companies, to promote innovation and the development of new medicinal products by SMEs. The new EMA benefits for SMEs include the reduction of fees, deferral of payment of fees, taking over the responsibility for translations and offering administrative assistance.

EuropaBio proposes the implementation of similar SME provisions and benefits at the EPO, sponsored by the European Commission.

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