

- STATE AID IN LIFE SCIENCES IN BELGIUM -

1. What is the size of the market and what are current trends in Belgium?

The most recent data collected by the Belgian Biotechnology Industry Organisation show that life sciences are of great importance to the Belgian economy¹. In 2006, more than 140 biotechnology companies were active in Belgium, representing 7% of all biotechnology companies with their head offices in Europe. Between 1997 and 2006, the number of biotechnology companies grew annually by 17%, while jobs in this industry increased by 10% each year. The enormous investment projects by large biotechnology companies indicate that Belgium has a number of assets which attract such companies. However, it must be stressed that the Belgian government has not restricted its efforts to multi-national firms and large investment projects: it encourages and supports SMEs too.

The past growth of the biotechnology sector does not mean that the government has slowed its efforts to develop this industry. Indeed, developing economic activities in biotechnology and life sciences is one of the main objectives of Belgian economic policy, which is implemented by different authorities. This is due to the federal nature of the Belgian State. The relevant authorities are the federal government, and the three Regional governments of Flanders, Wallonia and Brussels. The measures of the federal government are mainly of a tax nature. The regions, which up until now have only very limited tax competences, have constructed a number of financial incentives, mostly by setting up specific funds.

In this respect, a number of specific economic programmes are worth mentioning. The Flanders Region government has set a number of ambitious objectives, such as promoting Flanders as the world leader in healthcare services. Furthermore, considerable efforts have been made to develop Flanders as one of the top regions for (bio)technological research. A successful example is the Belgian Institute for Biotechnology, which has a proven track record. In addition, the Flanders Region government has concluded a number of alliances with other top European research regions to stimulate co-operation.

In the Wallonia Region a so-called “Marshall Plan” was launched to improve the competitiveness of the region and to ensure an economic turnaround. Life sciences are one of the cornerstones of this plan and a number of entities and funds have been set up.

The Brussels-Capital Region, being at the heart of Europe and uniting companies and people from all over the world, provides a number of incentives for the biotechnology industry. Currently, the Brussels-Capital Government is working on legislation to create a framework for state aid for R&D investment in compliance with the framework provided for by the European Commission.

It should, however, be stressed that Belgium and its regions are not only attractive because of financial incentives. Belgium is also widely recognised for its high levels of education whilst partnerships with universities are supported and encouraged. The Belgian academic environment is highly favourable to the development of applied research in close connection with industry.

¹ Belgian Biotech market 2006, report dated 5 October 2007.

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2. What kind of state aid schemes for life sciences exist in Belgium?

The overview below does not claim to be exhaustive. Only state aid which focuses on the life sciences industry in the strict meaning of the term is dealt with, and we have only given overviews of the most important aid schemes. We would also draw your attention to a number of (private equity) funds which have dedicated units focussed on investments in the life sciences industry, e.g. *GIMV*, *KBC Private Equity* and *Biotech Fonds Vlaanderen*.

Federal level

At the federal level, the government has opted for tax incentives to promote investments in R&D. While no special measures relating to the life sciences industry exist, there are a number of incentives that may be of interest to companies in this sector:

- **Tax exemption for patent-related revenue:** The Belgian tax code for the tax year 2008 offers tax exemption for 80% of certain patent-related revenues, including compensation for licences, for Belgian companies and Belgian branches of companies whose head office is outside Belgium. To benefit from this exemption, the company must have an R&D centre, either in Belgium or elsewhere.
- **Notional interest deduction:** Belgian companies, as well as Belgian branches of foreign companies, are entitled to a "notional interest deduction". This deduction is calculated on the company's accounting equity (or on the working capital allocated to a branch). Certain corrections are made in order to avoid abuses of the measure (e.g. the value of participations has to be deducted from the calculation base). The notional interest deduction rate is fixed at 3.781% for tax year 2008 and 4.307% for tax year 2009. The rates are increased by 0.5% for small- and medium-sized enterprises.²
- **Increased investment deduction for R&D efforts:** Investment deduction is a basic accounting principle in the Belgian tax system in order to stimulate investment. Fixed assets used in Belgium to promote research and development of new products and environmentally-friendly innovative technologies, or technologies which aim to reduce environmental damage, are eligible for an increased investment deduction of either 13.5% on the acquisition value or 20.5% of annual depreciations permitted for tax purposes.³

Flanders Region

- **Innovation support for SMEs:** The Flemish Regional government's agency *IWT-Vlaanderen*, offers financial support for innovative projects pursued by SMEs. Any SME with its head office in the Flanders Region can apply for this support. In essence, the scheme offers two sorts of subsidy: (i) grants to cover 50% of the eligible costs of innovation studies and (ii) grants to cover 35% of the costs of innovative projects (up to a maximum of EUR 200,000). Additional grants are available to small companies and two or more SMEs who co-operate on a project. These grants can also be increased under the Eureka scheme, a European co-operation programme to stimulate the development of new and technologically-advanced products. *IWT Vlaanderen* can also provide grants to companies with their head offices in the

² Contribution by Nico Demeyere of tax law firm Tiberghien, Altius' partner for all tax related issues.

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Flanders Region of up to 10% of the cost of innovative projects undertaken with one or more non-Belgian industrial partners.

- **Vinnof** is the Flanders Regional government's innovation fund, which provides seed capital to start-up companies in the Flanders Region. *Vinnof's* investments aim to enable such companies to grow to the point when they can seek further capital from the private capital market. *Vinnof* aims to make a profit on its capital investments by selling the shares acquired once the company has grown. *Vinnof* also offers subordinated loans, or a mix of capital investment and a loan. *Vinnof* can provide a maximum of EUR 500,000 per start-up company. Furthermore, any capital investment by *Vinnof* must be matched by investment by private investors of at least 25% of the amount invested by *Vinnof*, and *Vinnof* will only make investments to companies in the start-up and initial growth phases. *Vinnof's* subordinated loans are usually provided to finance projects that have already received support from *IWT-Vlaanderen*, and can be up to a maximum of EUR 800,000. At least 20 % of the project has to be financed by the beneficiary. *Vinnof* loans can also cover "incubation financing" for pre-start-ups and start-ups to research market possibilities, up to a maximum of EUR 100,000.
- **ARKimedes**: Given the perceived shortage of risk capital in the Flanders Region, the regional government has set up, via *Participatie Maatschappij Vlaanderen*, a scheme to encourage investment in promising Flemish SMEs, by offering private investors tax incentives and capital guarantees to participate in ARKIVs, the sub-funds of the ARKimedes system. Only the ARKIVs relevant to the life sciences industry will be discussed here.
 - The Arkiv **Baekeland Fonds II NV** provides seed capital and early-stage financing to spin-offs from higher education institutions in Ghent and East Flanders.
 - The **Vesalius Biocapital ARKIV NV** invests in early-stage companies and growth companies linked to the life sciences industry. It is a venture capital fund which invests in companies developing new therapies and innovative medical technologies. Its initial investments are between EUR 1m and EUR 3m, and can be increased at a later stage.
 - **KMO-FIN** is an investment fund set up together with the Investment Fund for Limburg, for companies based in the Belgian province of Limburg only. The fund invests in shares or provides a subordinated loan or a mixture of both.
- **InVita**: recently *Participatie Maatschappij Vlaanderen* set up a special fund to invest in the life sciences industry. It is not yet fully operational, but all future investments by *Participatie Maatschappij Vlaanderen* in life sciences companies will be made via this fund. Also existing participations in life sciences companies will be centralised within this fund.

Wallonia Region

- **Technowal** is a branch of the *Société Régionale d'Investissement de Wallonie* (S.R.I.W. Group) and is focused on companies based in the Wallonia and the Brussels-Capital Regions, which are developing innovative and exportable products. *Technowal's* grants are part of the so-called "Marshall Plan for Wallonia", which aims to develop business sectors⁴ which can enhance the competitiveness of Wallonia. *Technowal* usually purchases a minority shareholding or bonds with warrants for between EUR 250,000 and EUR 1,500,000, on condition that this investment is matched by private investors.

⁴ The sectors particularly envisaged are aeronautics, agro-industry, mechanical engineering, life sciences, and transport and logistics.

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- **Sowalfin** is the Wallonia Region's agency to stimulate the creation of SMEs. It has three main activities. (1) *Sowalfin* grants subordinated loans, of between EUR 25,000 and EUR 350,000 for a maximum term of 12 years, when matched by a commercial bank loan. The interest on the loan is 2% below the the interest payable on the bank loan, subject to a fixed minimum of (currently) 3.9 %. *Sowalfin* undertakes not to intervene in the day-to-day management of the beneficiary company. (2) *Sowalfin* also guarantees loans granted by private financial institutions to companies whose head offices are in the Wallonia Region. It charges a premium of 1% for this. The conditions for obtaining these guarantees are based on those in the European Commission's guidelines for state aid in the form of guarantees, as well as by the *de minimis* Regulation. (3) Finally, *Sowalfin* co-ordinates the activities of organisations active in the field of venture capital and mezzanine finance. These so-called "Invests" are the Wallonia regional government's principal instrument for supporting the development of SMEs and the creation of jobs. The "Invests" intervene either by granting subordinated loans, or by obtaining convertible bonds or by acquiring a minority shareholding (with the possibility of future repurchase). The "Invests" are geographically bound and cover the whole Wallonia Region. Examples are *Sambrinvest*, *Invest Borinage Centre* and *Namur Invest*.
- **DGTRE**: this body provides a range of services. It provides for aid enabling companies with their head offices in the Wallonia Region to set up "spin-out" companies which develop technology or know-how which does not fit with the mother company's core activities. This is called *First Entreprise Spin-Out*. It finances a part (50% for a large company, 80% for a SME) of the salary costs of the spin-out company during the first two years of its existence. In addition, grants of EUR 20,000 are available to cover costs of a more general nature. It also provides incentives for Wallonia-Region-based companies to conduct R&D activities, such as subsidies covering 50% (or 70% for a SME) of the cost of setting up R&D projects. Research projects with a commercial orientation have to repay the subsidy from commercial revenues received.

Brussels-Capital Region

- **ISRIB**: This institute provides subsidies for applied research and commercially-orientated R&D. All companies, including large companies, can apply for grants covering up to 50% (which can be in certain circumstances be increased up to a maximum of 75%) of the costs related to R&D. Furthermore, SMEs can obtain financial support to conduct feasibility studies and up to 60% of the costs of applying for and maintaining patents for processes or products which resulted from R&D supported by the Brussels-Capital Region, for up to 3 years after the patent application.
- **Brustart**: As a subsidiary of the *GimB*, *Brustart* supports the development of new companies by providing venture capital in return for a minority shareholding or by granting loans. Its interventions usually last for 5 years and range between EUR 12,500 and EUR 250,000. The *Brustart* seed capital fund for technological innovation, a fund within Brustart, supports spin-offs from universities or from company research departments. *Brustart* supports early-stage Belgian SMEs whose head offices are located in the Brussels-Capital region.
- **B2E KMO**: This partnership between the *GimB* and the European Investment Bank provides loans with a minimum term of 3 years to finance investments made by Brussels-based SMEs. The loans can be between EUR 100,000 and EUR 2,000,000, and a lower-than-market-rate interest is charged.

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3. What else could be done to promote young life sciences companies in Belgium?

Although the respective governments provide a range of measures encouraging investments in the life sciences industries, we should mention a few issues. One is that it might be more convenient to streamline the various aid measures. However, this would be difficult to achieve given the federal character of the Belgian State. Second, it might also be helpful to establish one central liaison office per Region since the application processes for the various types of aid are rather complex. At this moment, the Flanders Region has spotted this weakness of its system and set up *Flanders Investment and Trade*. This agency describes itself as an institution to enhance Flanders' position as the gateway to Europe for inward investors. On its website, it states that it "*identifies, informs, advises and supports overseas enterprises by establishing production and research facilities, contact centres, headquarters, logistics operations and the like in Flanders, the northern region of Belgium*"⁵. Next to *Flanders Investment and Trade*, the Flanders Region has set up *VLAO -Flanders Enterprise*. This is an agency which is the unique point of contact for all companies located in Flanders with business related queries (i.e. relating to aid schemes available).

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⁵ For more information, see: <http://www.flanderstrade.com/>.