Stichting Water Alliance | Agora 4, 8934 CJ Leeuwarden
t +31 (0)58 284 90 44 | **e** info@wateralliance.nl | **kvk** 01169665 | **btw** NL821701241B01
iban NL82 RABO 0153 4401 63| **bic/swift** RABONL2U

Subject: Urgent Revision of Profitability and "Undertaking in Difficulty" Rules for Deep-Tech SMEs in the European Water Technology Sector

To: European Commission
On behalf of Water Alliance and the broader ecosystem of Dutch small and medium-sized enterprises (SMEs) active in the water technology sector, we would like to express our strong concern regarding the current application of financial eligibility rules in European, national, and regional funding programmes. In particular, we refer to:

- The expectation that companies must demonstrate profitability within three years to remain eligible for public funding, and
- The definition of "Undertaking in Difficulty" (UID) under Article 2(18) of the General Block Exemption Regulation (GBER).

While originally designed to safeguard public funds, these rules no longer reflect the realities of deep-tech innovation ecosystems. As such, they unintentionally exclude precisely those companies that are essential to Europe's green transition, strategic autonomy, and long-term competitiveness.

1. Misalignment with Deep-Tech Innovation Cycles

The water technology sector is inherently capital-intensive, research-driven, and characterised by long development cycles. Innovations in areas such as advanced water treatment, resource recovery, and circular wastewater systems typically require **10 to 18 years** to reach full commercial deployment.
These timelines are driven by:

- Extensive R&D and pilot validation phases,
- Complex integration into existing infrastructure,
- Strict regulatory approval processes,
- High requirements for operational reliability and safety.

The expectation that such companies should achieve profitability within three years is therefore fundamentally unrealistic and misaligned with technological reality.

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2. Sector-Specific Barriers in Water Technology

In addition to general deep-tech challenges, the water sector faces **unique structural and regulatory barriers**:

2.1. Drinking Water Sector – Safety and Reliability First

Drinking water systems are critical public infrastructure. Innovations must undergo rigorous, multi-year testing and validation processes to ensure zero risk to public health. This significantly slows market adoption compared to less regulated sectors.

2.2. Wastewater and Circular Economy – Scale and Market Barriers

Innovations in wastewater treatment plants (WWTPs), particularly in nutrient recovery (e.g. phosphate), face a "double barrier":

- Regulatory hurdles such as achieving "End-of-Waste" status,
- Economic constraints due to the need for large-scale production before viable markets emerge.

Recovering small quantities of resources is not economically feasible; scaling up requires substantial upfront investment, long-term commitment, and stable policy support.

2.3. Financing and Market Entry Constraints

Water tech SMEs must simultaneously navigate:

- Long periods without revenue,
- Dependence on public funding and patient capital,
- Limited early-stage market demand,
- High costs for demonstration and certification.

These factors create temporary financial profiles that may appear weak under traditional accounting metrics, but do not reflect actual viability or long-term value creation.

3. Impact of Current UID Definition and Profitability Rules

Under the current UID framework, companies can be classified as "in difficulty" when accumulated losses exceed certain thresholds, even when these losses are the direct result of intensive R&D investment.
This leads to several unintended consequences:

- Exclusion of financially viable, innovation-driven SMEs from funding programmes,
- Reduced leverage of private investment due to lack of public co-financing,
- Disruption of innovation consortia, where start-ups are excluded due to eligibility risks,
- Slower progress towards EU policy goals in water, climate, and circular economy.

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Similarly, the rigid expectation of short-term profitability further reinforces this exclusion.

4. Strategic Importance of Water Technology

The water sector is central to achieving multiple EU priorities:

- Climate adaptation and resilience,
- Circular economy and resource efficiency,
- Protection of ecosystems and biodiversity,
- Public health and safety,
- Global food security.

For example, circular nutrient recovery from wastewater has the potential to reduce dependency on imported fertilizers, strengthen food security—particularly in vulnerable regions—and mitigate environmental impacts such as eutrophication and water pollution. These innovations are not only environmentally critical but also geopolitically relevant, especially in light of global supply chain disruptions.

5. Recommendations

We urge the European Commission to revise the current framework to better reflect the realities of deep-tech sectors such as water technology. Specifically:

5.1. Extend the profitability horizon

Replace the three-year profitability expectation with a framework aligned to deep-tech development cycles (10–15+ years).

5.2. Revise the UID definition

Ensure that companies are not classified as “in difficulty” when negative financial indicators result from:

- Long-term R&D investments,
- Goodwill amortisation,
- Strategic scaling activities,

provided that the company demonstrates financial continuity and investor support.

5.3. Recognise sector-specific dynamics

Explicitly acknowledge sectors with:

- High regulatory barriers,
- Long validation timelines,
- Critical public safety implications.

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5.4. Enable continued access to funding across all programmes

Ensure consistent application across EU, national, and regional funding instruments (including ERDF and innovation programmes).

5.5. Support scaling of circular water solutions

Address regulatory barriers such as “End-of-Waste” status and support market creation for recovered resources.

6. Conclusion

The current financial eligibility rules were designed for a different economic context and are no longer fit for purpose in an innovation-driven, sustainability-focused Europe.
Without timely revision, these rules will continue to:

- Delay critical innovations,
- Weaken Europe’s global competitiveness,
- Undermine progress towards climate and circular economy goals.

The Dutch water technology sector stands ready to contribute to Europe’s strategic ambitions—but requires a regulatory framework that enables, rather than constrains, long-term innovation.
We therefore call on the European Commission to take urgent action to revise these rules and ensure that deep-tech SMEs can fully contribute to Europe’s future.

Yours sincerely,

Ronald Wielinga
Water Alliance
On behalf of the Dutch Water Technology SME sector