EAPB Position paper on the paper of the services of DG Competition containing a draft Framework for state aid for on research and development and innovation

17 February 2014

HT. 618 – Consultation on the draft R&D&I–Framework

The EAPB welcomes the opportunity to comment on the draft R&D&I–Framework published on 20 December 2013. The EAPB member development banks play an important role in promoting research and development and innovation in the EU. Development banks act on the basis of a public mandate –defined by law–and support their competent authorities’ socio-political objectives.

We have following remarks on the draft’s provisions that affect development bank’s activities:

Chapter 5.4

According to point 62 the aid should change the behavior of an undertaking so that it engages in additional activities which it would not carry out or it would carry out in a restricted or different manner without the aid. In order to prove the incentive effect the beneficiary must have applied for the aid before the start of the project, a requirement also included in the current rules. Beyond that, the draft now introduces further conditions in point 64 (including for SMEs) such as information on the company, the project and the aid amount. Some of these new criteria are problematic. This is the case for example with loans where the interest rate can change until the moment of the aid approval by the granting authority. The precise amount can thus only be broadly estimated. The framework rules concerning the application should take this into consideration and only require information on the requested loan.

Furthermore points 5.4.2 include additional, extensive documentation requirements for notifiable individual aids. Specific elements that should be included are listed under point 67 such as the counterfactual analysis, the level of profitability or the level of risk involved. The
EAPB members consider that these elements only apply to notifiable individual aids, but not for the granting of individual aid in the context of approved aid schemes. For the latter the incentive effect is understood to be proven in line with the requirements of 5.4.1 (general conditions).

Chapter 5.5.2 – Proportionality of the aid– additional conditions for individual aid

According to point 87 notifiable aid will only be considered limited to the minimum if the aid amount does not exceed the net extra costs of implementing the R&D&I activities concerned, compared to the counterfactual project that would be undertaken in the absence of aid. EAPB members understand that the extra costs principle only applies to notifiable individual aids, but not for the granting of individual aid in the context of approved aid schemes. This could be clarified.

With regard to the extra cost principle the EAPB would like to generally note that it completely rejects its introduction in the field of R&D&I as it would lead to unjustifiable administrative burdens and legal uncertainty for the granting authorities. In addition to the burden resulting from the difficult calculation of the extra costs, the draft reflects a lack of understanding of innovative projects. The aim of the procedure proposed in point 87 is to calculate the extra costs of an aided innovative project compared to a counterfactual project (an investment, which would take place instead without aid). This approach is fundamentally misguided, since innovative projects are only implemented when their expected net present value is greater than zero. As innovative projects are always uncertain, the net present value of an innovative project can only roughly be estimated on the basis of scenarios. Thus the counterfactual situation is de facto neither possible nor relevant for the company. It is important to stress that company innovations are not classical investments that are enhanced by an innovative component. Therewith expenses for innovation expenditures are “extra costs” per se and a comparison with the counterfactual situation described in point 87 is not possible. Therefore the calculation of net extra costs, which should serve as basis for the permissible amount of the aid, is not appropriate. The EAPB therefore advocates removing this requirement from the framework and maintaining the current calculation method of the aid intensity on the basis of the overall investment costs incurred.

Chapter 5.7 transparency

EAPB members doubt that national public registries are the suitable tools for reporting State aid. The associated administrative burden with publishing extensive information on aid granted could discourage applicants and relevant public bodies and jeopardize the legitimate R&D&I goals of the guidelines.
Chapter 6 – Evaluation

According to point 118 the Commission may request that certain aid schemes be subject to a time limitation and to the evaluation referred to earlier (The English (and French) draft text probably mistakenly refer to point 48, while other linguistic versions refer to point 44). EAPB members understand this evaluation request possibility to apply only in cases of time limited schemes and not to unlimited schemes. This aspect should be clarified and the mistake in reference corrected in all linguistic versions of the text.

Annex II in connection with Annex I and point 12 d)– innovation advisory services aid

The maximum aid intensity for innovation advisory services aid is set at 50% in the Commission proposal. In the context of research and technology transfer programmes in the 2007–2013 cycle, EAPB members have had positive experiences with financial instruments. However a limit to 50% would not provide sufficient incentives, especially for SMEs where an own contribution of 50% represents a major obstacle for engaging in innovation. This obstacle to achieving new technological discoveries should be lowered. The EAPB therefore proposes to keep the intensity of 75%.

The European Association of Public Banks (EAPB) represents the interests of 30 public banks, funding agencies and associations of public banks throughout Europe, which together represent some 100 public financial institutions. The latter have a combined balance sheet total of about EUR 3,500 billion and represent about 190,000 employees, i.e. covering a European market share of approximately 15%.