EUROFER comments on “Paper of the Services of DG Competition containing a draft Framework for state aid for research and development and innovation”

EUROFER is the European Steel Association. The European Steel Industry is a world leader in its sector with a turnover of about 170 billion euros and direct employment of about 350 thousand highly skilled people. The European Steel Industry operates more than 500 steel production and processing sites in 23 Member States of the European Union, producing on average 170 million tonnes of steel per year.

EUROFER welcomes the opportunity to provide comments to this consultation for the revision of the framework for state aid for research and development and innovation.

Process innovation

Paragraph 15(bb) defines process innovation as “the implementation of a new or significantly improved production….method”. Steel is a capital intensive process industry. Much of our research is devoted to improving our production processes to improve cost, product quality or environmental performance. Annex II would restrict the aid intensity for process innovation by large companies to a mere 15%, whereas SMEs would benefit from 50%. So while Member States could provide aid of up to 65% to facilitate research in new processes, only 15% would be available to implement that research.

As the following table shows, there is a distinct distortion in the permissible aid intensities for the different categories:

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<thead>
<tr>
<th></th>
<th>Medium size companies</th>
<th>Large companies</th>
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<tbody>
<tr>
<td>Industrial process research</td>
<td>60%</td>
<td>50%</td>
</tr>
<tr>
<td>Collaborative experimental development of processes</td>
<td>50%</td>
<td>40%</td>
</tr>
<tr>
<td>Process innovation</td>
<td>50%</td>
<td>15%</td>
</tr>
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</table>

EUROFER proposes that the Commission should separate process innovation from organisational innovation, and increase the allowable aid intensity for the former.
Research stage definitions

Paragraph 15 defines the four stages of research, development and innovation adopted for state aid purposes, but then in footnotes the Commission states that these categories “usually” correspond to specific Technology Readiness Levels (TRLs). Having two sets of definitions are potentially confusing. The Commission should either stick with its initial category definitions as given in paragraph 15, or replace these definitions with a direct reference to the relevant TRLs.

Definition of “research and knowledge dissemination organisation”

The final sentence of paragraph 15(ee) prevents undertakings that are members etc. of research organisations from getting preferential access to the organisation’s facilities. This would imply for example that research organisations that are established by a group of undertakings in order to conduct research for those undertakings would not be eligible to receive aid. Application of this condition would have very serious implications for a large segment of the Union’s research infrastructure. This sentence should be deleted.

No indirect state aid

Paragraph 28 proposes four options for conditions to be applied by Member States to ensure that state aid does not pass through indirectly to undertakings where research projects are pursued collaboratively between undertakings and research organisations. EUROFER is very concerned about the conditions relating to the treatment of any IPR arising from a project. Option (c) applies in situations where all parties own a pro rata share of the IPR and is perfectly logical. Option (d) however, which applies where ownership of the IPR remains vested in the research organisation, undervalues the contribution made by the participating undertakings. This option requires undertakings to purchase the IPR at market value, minus the absolute value of any contributions they may have made “to the costs of the research organisations.....”. This ignores any in-kind contributions made by the undertakings themselves during the research project. The deduction should instead be the undertaking’s share of the total costs of the project. If the Commission persists with this condition, it will disincentivise undertakings from participating in collaborative projects of this nature, as it would be cheaper for them not to take the risks involved, but simply to cherry pick and buy IPR developed by research organisations “off the shelf”.

Appropriateness of different aid instruments

Paragraph 60 contains a preference for risk financing over grants and other instruments providing direct pecuniary advantage. While from a strict state aid control perspective risk financing may be less distortive, the Commission must also bear in mind the critical need for the Union’s economy to increase the rate of innovation. The “valley of death” is a well-documented phenomenon whereby projects fail in the final stages because of the very high costs entailed in bringing innovative products and processes to the point where they are ready for implementation.
Loans and other forms of liquidity support increase the riskiness of a project and are frequently inadequate to incentivise undertakings to move to this final step. The Commission should therefore recognise that grants can be the best way of addressing this market failure.

**Incentive effect**

EUROFER is strongly opposed to the continuing requirement in paragraph 63 that aid cannot be paid where work has started prior to the submission of the aid application. This ignores the nature of research, where exploratory work is important in establishing which projects to pursue further, but may only be undertaken in the expectation that projects in their entirety will be state supported. Footnote 38 exempting feasibility studies from this requirement does not go far enough.

**Aid intensities**

EUROFER would welcome clarification of paragraph 77 (perhaps with a worked example), as its meaning is currently unclear.

In paragraph 89, it is not at all clear under what conditions these higher aid intensities can be applied.

**Maintaining inefficient market structures**

EUROFER is concerned by paragraph 113, which implies that the Commission will be less favourable to approving aid in markets where there is over-capacity. The steel market, both globally and in Europe, is currently in over-capacity. This is a result of the continuing economic crisis. One important way forward for the European steel industry is to continue to innovate, with a view to reducing its operating costs and differentiating its product offering. Preventing the steel industry from having access to research funding would thus condemn the sector to a downward spiral. This would be illogical and counter-productive to the achievement of the Union’s 2020 target for manufacturing. While we recognise that this factor would just be one of many that the Commission would take account of in its assessment, we request that it be deleted from the Framework.