Consultation on Draft Guidelines on Research, Development and Innovation State aid for 2014-2020

Finnish Energy Industries (ET) is the voice of over 260 member companies in Finland that produce, supply, transmit and sell electricity, district heat and district cooling and offer related services.

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We thank you for the opportunity to state our opinion on the R&D&I state aid guidelines.

Finnish heat and power industry sees that required changes in the sector are vast in the coming years and new innovations are necessary in order to improve energy and cost efficiency of the energy system. Public support is necessary for the whole innovation chain to meet the societal challenges.

The revised R&D&I Framework is part of the Commission’s SAM package, which also includes e.g. the Guidelines on Environmental and Energy Aid (EEAG), the General Block Exemption Rules (GBER) and Consultation on the notice on the notion of state aid. It is naturally important to ensure consistency across the guidelines and block exemptions in order to address the full innovation chain and to further improve compatibility.

For the energy sector there are several programmes for RD&D co-operation on a EU level. The Strategic Energy Technology plan, the European Energy Research Alliance and the InnoEnergy Knowledge and Innovation community all outline collaboration mechanisms which are also covered by the Research, Development and Innovation Guidelines. The new Guidelines must not hinder the operation of these existing programmes.
The whole innovation chain in the energy sector needs support

The different state aid instruments (R&D&I, EEAG and GBER) that are part of the State Aid Modernisation Package need to complement each other and the scope of the guidelines and the GBER as well as the links between them should be clearly expressed. They cover together for example the whole innovation value chain up to the first commercial scale projects and wide spread deployment of technologies.

The first three stages (Research, Development and Demonstration) of the innovation cycle require policies which support research in the technology so that it can be developed and demonstrated, i.e. technology push measures.

The range of policies that are used to support these stages (Direct R&D grants, R&D risk-sharing and loans, R&D tax credits and Demonstration funding) should clearly fall under the remit of the Research, Development and Innovation Guidelines.

It is equally important to support bringing innovations quickly to the market, which means that support for deployment and commercialisation is necessary. It enables innovation beyond the point of demonstration – through commercialising technologies and opportunities for new business models.

The final steps of the innovation cycle thus require policies which pull technologies into the market once they have been demonstrated and early commercial market uptake is taking place. The policy tools used in these phases have to be chosen for delivering the market pull. The logic of support switches from a support to a single project to the concern of creating a market.

The range of policy tools to support deployment and commercialisation for energy sector fall under the remit of the Energy and Environmental State Aid Guidelines.

The different state aid instruments need to be coherent between themselves

We see that currently the linkage between the R&D&I guidelines and the EEAG is not sufficiently developed- where does demonstration end and first commercial scale deployment start? The draft framework states that ‘experimental development’ may include the “development of a commercially usable prototype or pilot which is necessarily the final commercial product and which is too expensive to produce for it to be used only for demonstration and validation purposes’. This clearly overlaps with, for example, the notion of ‘first commercial scale projects’ as defined by the EEAG. So the level playing field with regard to pilot and demonstration plants is currently unclear and Member States could have difficulties in assessing the best options for support.

In this regard it is also important to define what can be understood about a pilot and demonstration facility, especially with regard to how far one can go in bridging the transition towards commercialisation and to keep an eye on the support possibilities in non-European countries. A disconnect between demonstration and market uptake means that promising technologies do not make it to the market. It should be clear what type of support mechanisms can be used to help the best performing companies bridge this so called “Valley of Death”.

Clarification and an improved cross-reference to the R&D&I guidelines in the EEAG is therefore required.
Increase the state intensities for demonstration projects

Demonstration and early deployment (what is defined as ‘experimental development’ in the guidelines) are indispensable parts of the power sector innovation chain. Not only does demonstration enable real-world validation of emerging R&D findings, but when integrated within an effective overall innovation policy, it also is a crucial step towards commercialisation and subsequent widespread deployment.

Despite its importance, demonstration is often at risk of neglect, also in the draft rules. Private actors often lack a business case to undertake demonstration projects, especially at scale, making public support a necessity. Recent steps to put greater emphasis on demonstration in the EU Framework Programmes (like Horizon 2020) are a welcome start and should be pursued.

Also Member States should design their RD&D programmes accordingly, to ensure demonstration receives the attention it requires. Therefore, we recommend that in order to give a clear and coherent message the maximum percentage for state aid for experimental developments should be clearly higher for all types of enterprises – at least 50 % for large undertakings. And values in the table in Annex II should be increased accordingly. Experimental development is among one of the most important steps during the maturation of innovative projects, since it implements the real results of industrial research.

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