industriAll Europe’s response to the consultation is in line with the following principles:

- State aid for R&D&I is a tool to reach strategic policy objectives and to fulfil societal needs, within the framework of European fundamental values and European international commitments. Supporting any R&D&I from private firms with public money cannot be a goal in itself. State aid for R&D&I is specifically expected to achieve policy results by increasing the quality-based competitiveness of European manufacturing industry (in the process or in the product), thereby generating numerous high-quality jobs in the European Union, and providing solutions to societal challenges.

- In order to achieve the policy objective of generating high-quality jobs in Europe, the results of R&D&I that is funded by European public budgets should be exploited in Europe. Appropriate sanctions should be set up to prevent firms from obtaining public R&D&I funding in Europe while exploiting its results (and generating the corresponding industrial jobs) elsewhere.

- Generally speaking, competition in innovation-intensive industries is global. Therefore, the assessment of the (potentially distortive) "market power" of firms receiving State aid for R&D&I should not be carried out exclusively by the European Internal Market, but should be considered on a much larger scale. Thereby, firms that are large in Europe but remain small on a global scale (European "champions") would be allowed to receive the State aid for R&D&I that they need in order to compete on the global market, even if they are (relatively) strong in their European "base camp".

- The cost structure of innovation-intensive industries generally involves a very high proportion of fixed costs, and often network effects (specifically in ICT), entailing "winner takes all" competitive situations. State aid should be allowed in these situations.

- Industries that are on the decline in Europe are often fast-growing elsewhere, meaning that the concept of "declining industries" (expressed in absolute terms) is, in itself, debatable. In addition, these industries can be in great need of R&D&I, in order to adapt their products or processes to changes in their markets or in their competitive environment. All industries, whether growing or declining, should have equal access to State aid for R&D&I.

The detailed requests for amendments are listed below.
Draft "Framework for state aid for research, development and innovation".
Proposed amendments

§42 - 44. (part of 5.1. Contribution to a well-defined objective of common interest - 5.1.1. General conditions)

"42. The general objective of R&D&I aid is the promotion of R&D&I in the Union. In doing so, R&D&I aid should contribute to the achievement of the Europe 2020 strategy of delivering smart, sustainable and inclusive growth.

43. Member States considering granting state aid for R&D&I, must precisely define the objective pursued, and in particular explain how the measure intends to promote R&D&I.

44. With respect to aid schemes, the Commission takes a favourable view of notifications of aid measures which are an integral part of a comprehensive national programme or action plan to stimulate R&D&I activities, and are supported by rigorous evaluations of similar past aid measures demonstrating their effectiveness."

Public funding should not be allowed to support any R&D&I effort performed by private firms. Research, Development & Innovation cannot be an objective in itself, as pure academic science would be. It is a tool to reach strategic policy objectives and to fulfil societal needs, within the framework of European fundamental values and European international commitments. It is specifically expected to achieve policy results by increasing the quality-based competitiveness of European manufacturing industry (in the process or in the product), thereby generating numerous high-quality jobs in the European Union, and providing solutions to societal challenges.

In order to achieve the policy objective of generating high-quality jobs in Europe, the results of R&D&I that is funded by European public budgets should be exploited in Europe. Appropriate sanctions should be set up to prevent firms from obtaining public R&D&I funding in Europe while exploiting its results (and generating the corresponding industrial jobs) elsewhere.

Proposed amendments:

"42. The general objective of R&D&I aid is the promotion of R&D&I activities in the Union that serve the Union’s values, international commitments and strategic policy objectives. In doing so, R&D&I aid should specifically contribute to quality-based competitiveness (either relating to the process or to the product) and to the development of industrial manufacturing in the European Union, to the achievement of the Europe 2020 strategy of delivering smart, sustainable and inclusive growth and high-quality jobs in the European Union.

43. Member States considering granting state aid for R&D&I, must precisely define the objective pursued, and in particular explain

- how the measure intends to promote R&D&I,
- the nature of the R&D&I being promoted,
- the source of added quality-based competitiveness that the R&D&I activity is intended to provide to European industrial manufacturing (in its process or in its products),
- the location and dimension (in terms of jobs and fixed assets) of the (existing or planned) manufacturing unit(s) in the European Union that will exploit the anticipated results of the publicly-funded R&D&I activity,
• the sanctions foreseen for the aid recipient in the event that it does not exploit the results of the publicly-funded R&D&I project in Europe, the interest rate applicable to the repayment of the aid, taking into account the risk taken by the public budget, and the additional penalty incurred if the breach of commitment happens to have been intentional,

• the strategic Union policy objectives that this R&D&I intends to achieve,

• the justification of the compatibility of the supported R&D&I activities with the European Charter of Fundamental Rights and with the international commitments of the Union.

44. With respect to aid schemes, the Commission takes a favourable view of notifications of aid measures which are an integral part of a comprehensive national programme or action plan to stimulate R&D&I activities that support the quality-based competitiveness of European manufacturing industry, that are compatible with the European Charter of Fundamental Rights and with the international commitments of the Union, that serve strategic Union policies, and are supported by rigorous evaluations of similar past aid measures demonstrating their effectiveness. 

§106 (part of 5.6.3.1. Distortions in product markets)
"For notifiable individual aid, in order to enable the Commission to identify and assess potential distortions of competition and trade, Member States should provide information on (i) the product markets concerned, that is to say the markets affected by the change in behaviour of the aid beneficiary, and (ii) the competitors and customers or consumers affected."

Generally speaking, competition in innovation-intensive industries is global, so the relevant market to assess the (potentially distortive) "market power" of firms receiving State aid for R&D&I should not be restricted to the European Internal Market, but should be considered on a larger scale. Thereby, firms that are large in Europe but remain small on a global scale (European "champions") would be allowed to receive the State aid for R&D&I that they need to compete in the global market, even if they are (relatively) strong in their European "base camp".

Proposed addition (at the end of the paragraph):
"The relevant product market(s) to be considered in the evaluation of the effect of State Aid on competition and trade should not be geographically restricted to the European internal market. They can be broader, and even be considered on a truly global scale, specifically in the case of innovation-intensive industries."

§110 (part of 5.6.3.1. Distortions in product markets; (i) Distorting dynamic incentives)
"In its analysis of the potential distortion of dynamic incentives, the Commission will consider the following elements:

[...]

• Incentives to compete for a future market: R&D&I aid may lead to a situation where competitors to the aid beneficiary renounce competing for a future "winner takes all" market, because the advantage provided by the aid, in terms of degree of technological advance, economies of scale, network effects or timing, reduces their possibility to profitably enter that future market;
The cost structure of innovation-intensive industries generally involves (1) a very high proportion of fixed costs (specifically R&D&I and capital goods), and often (2) network effects (particularly in ICT). In these (frequent) cases, a (even temporary) lead in the innovation competition is self-reinforcing:

1. the fixed costs of the market leader are spread over a larger number of units, so that each unit may be sold at a lower price, thereby increasing this market leadership further still, and
2. customers are encouraged to purchase the products of the leading provider, in order to be technically compatible with the largest number of units in the existing installed base, thereby increasing this market predominance in the future installed base even more.

This self-reinforcing effect is so strong that it can very well lead to having "the market" select a technically inferior solution, which it then becomes "locked into" (the classic example of this phenomenon being the QWERTY keyboard).

Because of this self-reinforcing effect, the competition often leads to "winner takes all" situations, where a single market leader reaches a de facto (and highly profitable) monopoly. US American firms in the ICT industry have historically proven to be excellent at winning these competitive races (e.g. Microsoft, Oracle). This situation is frequent, intrinsically related to innovation-intensive industries and to network industries, and should therefore be considered as normal. State aid to R&D&I should be allowed in these situations.

Proposed amendment:

The paragraph should be suppressed.

§113 (part of 5.6.3.1. Distortions in product markets; (iii) Maintaining inefficient market structures)

"In its analysis of market structures, the Commission will consider whether the aid is granted in markets featuring overcapacity or in declining industries. Situations where the market is growing or where state aid for R&D&I is likely to change the overall growth dynamics of the sector, notably by introducing new technologies, are less likely to give rise to concerns."

Industries that are on the decline in Europe are often fast-growing elsewhere, meaning that the concept of "declining industries" (expressed in absolute terms) is, in itself, debatable. In addition, these industries can be in great need of R&D&I, in order to adapt their products or processes to changes in their markets or in their competitive environment, and recover from their current difficulties. All industries, whether growing or declining, should have equal access to State aid for R&D&I.

Proposed amendment:

The paragraph should be suppressed.