The first final decision involving a detailed economic assessment of R&D aid: the ITP case

Almorò Rubin de Cervin (1)

On 21 October 2008, the Commission authorised, under the EC Treaty rules on state aid (Article 88(2)), €35 million of public funding granted by Spain to Industria de Turbo Propulsores (ITP) for the development of the low-pressure turbine for the Trent 1000 engine (2). The Trent 1000 engine is being developed by Rolls-Royce for the Boeing B787 Dreamliner. After an in-depth investigation, launched in March 2007, the Commission found that the project satisfied the requirements of the EU framework for state aid for research, development and innovation (3) (the R&D&I framework).

In particular, the Commission found that the project incites ITP to carry out additional research, that the public funding will be reimbursed according to the success of the project and that the relevant provisions on eligible costs and aid intensity have been respected. The Commission accordingly concluded that the aid does not threaten to distort competition in the single market and is therefore compatible with the EC Treaty (Article 87).

The five-year project (2005-2009) is focused on the low-pressure turbine of the Trent 1000 engine, which Rolls-Royce is developing with a number of partners in order to equip the Boeing B787.

The aid is granted by the Centro para el Desarrollo Tecnológico Industrial (CDTI), an agency of the Spanish Ministry of Industry, Commerce and Tourism, in the form of a €35 million loan. It is intended to reduce the risk linked to this type of project, where returns on investment are uncertain and slow. The project is carried out in Zamudio (Vizcaya, País Vasco), Ajalvir and San Fernando de Henares (Comunidad de Madrid), which are eligible for regional aid as areas with employment and living standards below the EU average.

The case is relevant as it is the first final decision taken on the basis of the detailed economic assessment provided for in Chapter 7 of the R&D&I framework.

The investigation made it possible to clarify a number of factual circumstances:

- first, it clarified the circumstances that led the Spanish authorities to grant two tranches of aid to the same project. Spain recognised that it made a mistake in doing so, and in forgetting to mention the first tranche of aid in the initial notification of the second tranche of aid;
- second, the investigation clarified the granting process by the Spanish Government, including the transfer of competencies from a ministry to the public agency CDTI.

There are several aspects of the assessment that deserve to be highlighted:

The first aspect worth mentioning is that the assessment of the incentive effect was not based on a counterfactual project. A detailed analysis of the company’s decision-making process, based among other things on internal documentation, showed that the potential alternative investments considered by the company were numerous; at the same time, the assessment also showed that these alternatives were only theoretical, as they depended ultimately on the negotiation with the leader of the project. The information supplied by Rolls-Royce during the procedure allowed a broader understanding of the project.

The second relevant aspect concerns the eligible costs, which were reduced and reclassified. On the eligibility of costs, the final decision states that eligible R&D costs are only those costs incurred by the company until the certification of the engine. This means that costs after the engine has been certified should be considered as not eligible for aid. Secondly, some costs were reclassified from industrial research to experimental development, as Spain recognised that they were specific to the project under development. The aid amount now corresponds to around 48% of the total eligible costs, in line with the aid intensity laid down in the R&D&I framework.

A third important aspect of the final decision is that the aid instrument has been changed compared to the measure notified in 2006. Spain has transformed the aid instrument into a repayable advance, i.e. a fully reimbursable loan, with the reimbursement depending on the success of the product. The reimbursement mechanism includes a success fee in

(1) The content of this article does not necessarily reflect the official position of the European Commission. Responsibility for the information and views expressed lies entirely with the author.


case sales go beyond the forecasted level. The new instrument is fully in line with point 5.1.5 of the R&D&I framework.

Further, the Commission’s investigation made it possible to ensure that the amount of aid was kept to the minimum, set at €35 million, somewhat lower than the sum of the initially notified amount of €27 million plus a first tranche of €9 million that Spain had not notified.

Another important aspect concerns bonuses, which have not been allowed. On the one hand, the R&D&I framework does not allow a regional bonus. On the other hand, the final decision found that the project was not entitled to receive a collaboration bonus: the project was entirely carried out by ITP in Spain, and the two companies involved (of which only ITP is an aid beneficiary) were not independent, since RR is a large shareholder of ITP.

The investigation also ruled out the presence of indirect aid to Rolls-Royce, the main developer of the Trent 1000 engine. In particular, the agreement between ITP and Rolls-Royce was made on commercial terms (similar to those available to other risk-sharing partners), the costs to be taken into account for the calculation of the aid amount are only those incurred by ITP in Spain and there is no transfer of state resources to Rolls-Royce itself.

Finally, concerning the impact on competition, the final decision takes note of the fact that no competitor or other third parties intervened during the proceedings to make observations. It further notes that ITP has a limited market share and that the impact of the aid on competition is limited.

To conclude, the final decision provides clarification on a number of aspects related to practice in the field of large amounts of R&D aid in the aerospace sector. It ensured that the aid was made fully reimbursable, on acceptable terms, and relative to a correct amount of eligible costs. The final decision also clarified a number of aspects related for instance to the application of bonuses and to the absence of indirect aid in case of commercial partnerships.