GE Aviation response to the communication on the revision of the framework for state aid for research and development and innovation

The instruments available to Member States under the EU's state-aid framework are critical to boost the innovation capacity and support vital research and development and innovation (R&D&I) activities in the EU. These measures are essential for de-risking R&D&I activities, push the innovation frontier forward and drive the emergence of advanced systems. Without support, many of these activities would not be feasible, take place at a much slower pace of development or outside the EU.

At a time where R&D&I is paramount to addressing many of today's challenges and achieving the EU's ambitious climate targets, state support will be paramount. The revision should therefore build on the previous successes of incentivizing the development of R&D&I activities, while ensuring that is takes account of recent developments, externalities, and continuing pressure points.

Considering the recent communication on the revision of the framework for state aid for research and development and innovation, we have the following comments:

- **State-aid framework fit for the future:** The EU is facing major environmental, economic, and societal challenges, many of which will only be solvable through continued innovation and technological breakthroughs. While R&D&I activities carried out by private entities play a leading role, their budgets have been significantly impacted by the COVID-19 pandemic and the resulting economic disruptions. At such a critical time, the revised state-aid framework should provide as much support as possible to allow innovation to continue, especially for higher risk, early TRL projects. The indirect R&D project costs should therefore not be tied to a flat rate of 15% of the total eligible direct R&D project costs as is currently being proposed. Given the current economic circumstances and societal challenges, there should a reverse trend that foresees higher percentages for indirect costs (such as 30%). This would greatly support industry in maintaining and expanding critical R&D activities at a time of constrained budgets.

- **Supporting European industrial and technological leadership**: The EU has many successful companies that thanks to their ingenuity have been able to claim a significant market role in certain sectors and/or products. This greatly contributes to the EUs ability to compete on the global market and leverage EU standards on an international level. In some sectors market conditions make it impossible to avoid larger market shares. In the aerospace sector for example, notwithstanding the high levels of actual competition, there are larger market concentrations due to high capital requirements, technological expertise, and safety standards. These high entry requirements make it difficult for new actors to access the market. Given that each sector comes with its own unique conditions and requirements, a blanket threshold completely fails to take these into consideration. Moreover, it is unclear under which geographical scope the market share it considered. Does it apply to a national, European, or global scale?

  We believe that a blanket threshold is not suitable for the R&D&I state-aid framework. The revision should aim to simplify the process, increase effectiveness and support the competitiveness of EU industry. It should not exclude leading European companies on the grounds of vaguely defined market powers, especially when this is a precondition for some sectors. The revision should therefore focus on limiting market distorting measures, while ensuring that leading European companies are able to continue carrying out critical R&D&I activities.

- **Distortion of competition and cohesion funding:** The EU's state aid framework is key in limiting market distorting practices that could impact industry competition within the EU. A differentiation needs to however be made with cohesion instruments, which support economically challenged regions in the EU. The EU offers attractive direct funding for companies to locate activities in peripheral regions, this in return creates jobs, innovative ecosystems, and boosts the overall economic output. The limitations established in the revision proposal should ensure that cohesion funding is not caught under the exclusions of the state-aid R&D&I framework. In some instances, cohesion funding could create effects listed in paragraph 111 ("increasing or maintaining the degree of market power in product markets") and paragraph 112 ("influences the choice of a location"). Especially in the case of the later, cohesion funding could be in direct contradiction, as it is effectively an instrument that is meant to sway companies to move to certain locations. It will be vital for the European Commission to ensure that the revised state-aid framework continues to effectively support R&D&I activities and limit competition distorting measures , while not affecting the scope and objectives of cohesion funding in the EU.