

HORIZON2020 and State Aid Rules

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**Workshop on the revision of the Framework on State aid for Research and
Development and Innovation (R&D&I)**

**Check Against Delivery
Seul le texte prononcé fait foi
Es gilt das gesprochene Wort**

Introduction

It is a great honour for me to have been invited to speak before you about what I consider to be the key question of the revision of the Framework on State Aid for Research and Development and Innovation.

Before beginning, let me say a few words about myself for those of you who do not know me. I currently work as a member of the European Parliament, where I sit on the Industry, Research and Energy Committee as well as on the Budget Committee. More specifically, I am rapporteur for the Specific Programme implementing Horizon 2020, the future framework for research and innovation in Europe. As such, the present workshop is of particular interest to my activity in the Parliament.

The main purpose of my speech today is to describe those features of H2020 that might require clarification with regard to state aid principles. I have divided my speech into three parts. To begin with I should like to offer a brief and very general overview of H2020 – with particular reference to industrial participation and competitiveness – and then I shall go on to consider a number of ways in which H2020 might impact on or be influenced by the question of state aid principles. Finally, I will conclude indicating some recommendations for the state aid rules from the point of view of a H2020 stakeholder.

Horizon 2020

At this point let me give you an overall idea of the state of play, the general principles and the structure of the new framework programme H2020. As things stand, we have voted in the six Horizon 2020 reports on the 28 November in ITRE Committee. This will be now followed by trialogues between the Parliament, Commission and Council from tomorrow onwards.

With regard to the general principles, as I see it, there are 3 key notions. The programme involves:

Firstly, a trust based funding system. This entails a simpler FP with fewer instruments alongside a radical overhaul of the administration of the FP. Over the years, the framework programmes have grown in scope both in terms of its applications and the size of its budget. The swelling number of applications for funding has been met with a parallel growth in control mechanisms in an attempt to ensure the proper use of EU funds. The unfortunate result is that it is increasingly difficult for the different entities that might contribute to find their way through a labyrinth of rules, procedures and ramifying red tape. It is for this reason that European Institutions have made efforts to replace the current system with one that places greater trust in the applicants with much simpler financial and administrative rules.

Secondly, one of the most important features of the new programme is that it aims to couple research to innovation and hence to move from initial research to the market or "from research to retail". Significantly, this is the first framework programme to seek to master and fund the whole innovation cycle.

Thirdly, a multifund approach. It is important to promote complementarities between the different EU funds, Member State funds and private funds. The great challenges require large projects of critical mass and the solution lies in combining efforts for common objectives.

Finally, the European Commission and European Parliament have proposed a substantial increase in the budget for research and innovation. The European Commission has advanced a figure of €80 billion as part of the post- 2013 7-year budget package. The next step will involve tough negotiations between the main three

European Institutions, Parliament, Council and the Commission. While a number of European countries support a figure at the higher end of this spectrum, it is to be hoped that other governments will follow this lead especially those countries with a reputation for academic excellence.

Structure

As for the structure of the new programme, this is certainly much improved by comparison with FP7 and involves a satisfactory balance between the three pillars of

- firstly, excellence in science
- secondly, industrial leadership and
- finally, societal challenges.

Time forbids me from going into too much detail with regard to the new structures that H2020 will bring into being. Instead, I should just like to sketch in only some of the most pertinent developments in relation to state aid rules.

It is particularly noteworthy that the new framework programme will integrate the whole innovation cycle from research to "close to market". In particular, Pillar 2 "Industrial Leadership" will enable us to finance industrial projects from research to the demonstration phase.

In particular,

- the "Fast Track for Innovation"
- and a dedicated instrument for SMEs, with the possibility of using Innovation vouchers

are two initiatives of particular merit. They have been designed in such a way that they will counter the tendency – regrettably found in former Framework Programmes – to minimise the participation of industry.

Interrelations between Horizon 2020 and State Aid Rules

Turning now to the question of the interrelations between H2020 and State Aid rules, there are basically four points that I should like to make.

Firstly, under H2020, bodies involved in research and innovation are entitled to claim funds from the EU but also from other public sources. This is particularly important with regard to synergies with the structural funds – especially for demonstration and innovation activities. Indeed, creating the right conditions for these synergies is something that is dear to my heart and was something that was lacking in previous framework programmes. The advantage of such synergies is that they will allow interested bodies to take advantage of multiple streams of funding. However, we have to be careful that this does not give rise to overfunding or the privileging of one company or public body over another. This would translate into distortion of competition in the market.

Secondly, I would like to see the final version of H2020 adopting a clear classification of the stage a given project is at within the innovation chain. The OECD Technological Readiness Level scale offers 9 levels ranging from 1 (basic research) to 9 (early deployment of near-commercial technologies). In the State Aid Framework, there are three categories of research aid, depending on whether the type of research is more or less remote from the market: fundamental research, industrial research and experimental development. The existing category of pre-competitive development has been expanded to cover research closer to market activities, such as prototypes which can be used commercially. In order to highlight this change, this category has been renamed "experimental development". However, definitions must be clear and "experimental development" is not a self-explanatory title. Questions have also been raised on the interpretation of an "innovation" project. This is a topic that should also be clarified in Horizon2020 and State Aid Framework.

Furthermore, the State Aid framework has as rules 100% for fundamental research, 50% for industrial research and 25% for experimental development, based on the size of the market failure that companies entering into R&D&I activities in the corresponding category are facing. In the Horizon2020 funding model, the amount of reimbursement that will be granted to beneficiaries is still under negotiation. The Parliament, the Council and the Commission all have different perspectives on the matter. In all the proposals (Commission, Parliament and Council) the funding model for “demonstration and close to the market activities” turns around a figure that would represent payment of 70% of direct costs plus 20% to 23% of overheads. In the case of projects using multifunds, clear rules should be provided to the stakeholders.

Finally, I am gratified to see that DG Competition has already made significant efforts to introduce greater flexibility and simplification into the process of granting state aid. It is my belief that as much flexibility and simplification as possible should be introduced in order to encourage faster movement through the innovation cycle. Indeed, my ardent plea would be "simplify, simplify"! My own report on simplification suggested around 60 measures, most of which were then included in the final draft version H2020.

Conclusions

By way of conclusion - and following on from what has been said so far - let me outline three recommendations. Fortunately, we still have time to fine tune H2020 as negotiations between the Commission, Council and Parliament go ahead. In this respect:

We need to clarify how state aid rules impact on H2020 in order to provide legal certainty to stakeholders. Stakeholders must be given a clear idea of the way in

which the activities they intend to undertake under H2020 are influenced by state aid principles.

We must introduce as much simplification as possible of the state aid rules. I believe it was Einstein who said: “Everything should be made as simple as possible but not simpler”.

Finally, there remains a need for greater consistency among the different services of the Commission and with regard to the different audits carried out with regard to projects.

Following these steps will contribute to enabling us, I believe, to deliver a simple, flexible, adequately funded programme – H2020 – that will be crucial for the competitiveness of European enterprises and will constitute one of the most important motors in the re-launching of the European economy.

Thank you very much for your kind attention.