



AeroSpace and Defence  
Industries Association of Europe

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## Response to the European Commission's Consultation on the proposed State Aid Action Plan 2005-2009

The Aerospace & Defence Industries Association (ASD) takes note with great interest of the European Commission's State Aid Action Plan – Less and Better Targeted State Aid: A Roadmap for State Aid Reform 2005-2009.

ASD agrees with the overall objective of the European Commission to reform the rules governing state aid policy and procedures, as it does agree with the intention to provide Member States with a clear, comprehensive and predictable set of rules which will allow them to support initiatives contributing to the Union's cohesion and competitiveness.

We strongly support the aim of redirecting aid towards horizontal objectives of common interest and targeting it to market failures (including R&D).

We also welcome the focus that the Commission is giving to the question of state aids for innovation which is important not only in addressing the EU's internal growth agenda but also in tackling the global challenge of innovation and state support in third countries, including low-cost economies. We look forward to commenting on the Commission's consultation documentation on state aid for innovation in due course.

However, we do have some concerns on the following points:

- distinction made by the EC between support towards SME and towards large companies (I)
- Absence of recognition of the international dimension surrounding this issue (II)
- Procedural aspects: modification of the "one-stop shop" principle + absence of legal deadlines in state aid procedures (III)

ASD addresses the following comments for EU consideration:

### I- Distinction between SME and large companies

The overall objective set out in the Action Plan should apply both to large and SME companies. This would better recognize the functioning of the supply chain, thus avoiding an artificial distinction between companies, large or small.

Our members have long ago recognized the benefit of pursuing innovation through small, reactive ad hoc organizations. Industrial groups foster such small innovative organizations, either in the form of small divisions of an existing company or through the setup of a new subsidiary.

To ensure that resources are effectively targeted on uncovering breaches of state aid rules, we strongly support the development of block exemptions, in principle. However, it is important to note that in the context of developing sector exclusions this may feed a preference for targeting funding at SME. The reality is that for SME to continue to grow and



thrive, particularly in aerospace and defence related industries, they rely upon the successful growth and competitiveness of large commercial operators, known as primes. For this reason, it is imperative that state aid rules strike the right balance and do not adversely prejudice against state investment for research and development funding to primes in the aerospace and defence sectors. We are concerned that reforms of state aid rules should seek to achieve efficiency across the board rather than reducing complexity in one area only to increase it in another.

In addition, state aid to large companies often triggers a spill-over effect on the industrial supply chain and beyond, thus benefiting independent SME as well. This is particularly true for the aerospace sector which is characterized by the presence of a very limited number of large-scale integrators and where innovations benefit companies not only in the same industry, but also in the other fields. On the other side support to SME will also benefit large companies.

Therefore, ASD requests that the State Aid Action Plan does not artificially draw a line between SME and larger companies, and that aid is available at all levels. ASD recommends that the Commission reinforce its sectoral approach. This would foster research and innovation in determined sectors, with a likely impact on the whole supply chain and, to some extent, on the entire economy.

## II- International Dimension

ASD regrets the absence of any reference to the need to proceed with international benchmarking (*i.e. benchmarking that takes into account countries outside the European Union*) when assessing the lawfulness of a state aid.

This is a particular concern to our sector which operates in a global market. Indeed, our sector faces **increasing competition worldwide**, not only because of the emergence of new entrants in our markets (Japan, China, Brazil, Canada, India, Russia) that enjoy strong government support but also because of the benefits derived by our existing competitors from very high public spending on R&D, mainly in the US where R&D is carried out through Government contracts 100% funded. In 2003, US Aerospace R&D funding amounted to over than \$25 billion with a contribution of the private sector reaching 15.5 % on average (Source AIA), whereas in Europe private sector funding reached 61%.

So whilst intra-European competition is intense the wider international competitive landscape is becoming increasingly challenging in a playing field that is tilted, but not in favour of Europe.

In such scenario, the absence of a regulatory framework for R&D support in competing non-EU nations puts European aerospace companies at a real disadvantage. With the demise of Article 8 of the WTO Agreement on Subsidies and Countervailing Measures, current EU rules limiting State aided R&D represent a severe constraint to European companies. The current Community regime of state aid is unfortunately unique and bears no comparison with third-country practices.

ASD considers it crucial to reduce the gap which divides WTO members who respect the principles enshrined into the ASCM and EU members who, in addition to these principles, have to respect even more stringent domestic measures. It is therefore important to introduce international benchmarking criteria in the assessment of any significant state aid.



Although we recognize the need to maintain a level playing field between European competitors, we believe the global competition should be taken into account in the acceptability assessment of state aid in the aerospace sector.

In parallel, all WTO members must be encouraged to devise state aid control regimes.

### III- Procedural Aspects

a) ASD regrets that the reform does not provide an answer to the legal uncertainty which arises from the absence of legal time frames in the state aid procedure.

The absence of legal timeframes may lead to situations where clear distortions of competition may last for a long period of time.

The Commission has alluded to the possibility of introducing more predictable deadlines in its envisaged "best practices guidelines". ASD is strongly in favour of this, as it increases legal certainty, reduces risk and is therefore business-friendly. We invite the Commission to proceed with this initiative and request binding deadlines for the whole state aid procedure, in the same vein as the Community merger control.

b) ASD notes with interest the increased participation of Member States in the state aid procedure which notably envisages the recourse to independent national authorities in assisting the Commission. However, ASD would like to recall the importance of the principle of uniform application of EC state aid legal framework. Hence, ASD would recommend the Commission to emphasize this principle in its proposal.

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**ROOSE Manouche (CAB)**

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**Sent:** mercredi 28 septembre 2005 11:26

**To:** KROES Neelie (CAB)

**Cc:** gunther.verheugen@cec.eu.int; POTOCHNIK Janez (CAB); BARROT Jacques (CAB)

MESSAGE FROM ASD SECRETARY GENERAL TO COMMISSIONER KROES  
WITH COPIES TO VICE-PRESIDENTS VERHEUGEN AND AND BARROT, AND COMMISSIONER  
POTOCHNIK

Dear Mrs. Kroes,

Please refer to the attached documents. A hard copy of the letter and the ASD Position Paper is being sent to you by post.

Kind regards,

Lucia Zivec

Policy Assistant

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