

**ASD**  
Aerospace and Defence  
Industries Association of Europe

**STATE AID FOR INNOVATION**  
**ASD RESPONSE TO THE COMMISSION CONSULTATION DOCUMENT**

REPLIES	
QUESTION	COMPANIES
<b>Question 1) Do you think that it is appropriate not to create a separate Framework for Innovation and that the new possibilities for State aid target selected innovation-related activities?</b>	
<b>I.</b>	<b>Large</b>
	<p>Yes. We believe that a separate and new framework to support innovation is not necessary, except when a market failure is clearly identified. A new scheme would create additional complexity in the state aid system and may overlap with existing initiatives. The existing Community guidelines are not the main obstacle to Member States' redirecting State aid in favour of the Lisbon objectives.</p> <p>Research and technology activities geared to innovation are inherently risky and expensive. Such activities clearly require state aid supports, particularly to bridge the typical 15-20 years gap between initial development and market return. State aids also provide an additional source of finance to venture capital, which can be predatory in its attitude to new companies. But a balance needs to be struck between sectors where Europe is already world class and sectors, which show promise for the future. There should be no doubt that Europe's technology leaders are being challenged in both Asia, Canada and the US by companies benefiting from significant state aid for innovation and other supports.</p> <p>SMEs provide the majority of employment in Europe. Their preference goes to flexible, rapid and innovative actions, processes and products. However, the situation that they have to work in is often detrimental to the process of innovation; rules, regulations, red tape, lack of access to finance, evolving legal requirements relating to bankruptcy and the development of a European patent are all difficulties facing SMEs. The availability of qualified staff and the effect of employment regulations on the recruitment and dismissal of staff or short term and or long term contracts also represent a restraint on flexibility and performance.</p>
<b>2</b>	<b>Large</b>
	<p><b>Question 2) Do you think that the problems presented in Annex and the market failures identified by the Commission as hampering the innovation process are accurate? If so, why? If not, why not?</b></p> <p>..</p> <p>Overall the problems presented in the Annex are accurate, the common theme is overregulation.</p>
<b>2</b>	<b>SME</b>
	<p>Overall the problems presented in the Annex are accurate, the common theme is overregulation.</p>

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<b>Question 3) The measures described in this Communication provide ex-ante criteria on the basis of which State aid for innovation would be approved. Do you think that such an approach is adequate?</b>	
Only ex ante criteria can adequately answer the need.	
The overall measures described in the communication are a step forward.	
3	<p><b>Large</b></p> <p><b>SME</b></p> <p><b>Question 4) Stakeholders are invited to provide empirical evidence about the appropriateness of authorising State aid to large companies, in particular in connection with the objective of developing clusters around poles of excellence in the EU. Do you think that the Commission should develop ex-ante rules allowing State aid for innovation to the benefit of large companies, or that such type of aid should always be subject to a case-by-case stricter analysis on the basis of a notification to the Commission? As far as support to innovation (or other state aid) is concerned, would it be appropriate to distinguish between different categories of large companies? If so, on the basis of which criteria? And for which purpose?</b></p> <p>The European aeronautics industry illustrates in exemplary fashion the benefits that can accrue when state funding is targeted on a sector with significant growth potential in a high value-added/knowledge intensive industry. European technological achievements in fly-by-wire aircraft made from advanced materials, light composites for large structures, new wing design, etc. are examples of this. The dynamic economic efficiency created by Airbus's advanced technology would not have been achieved without state aid for new aircraft development and the EU's Framework Programmes for aeronautics, and it is still valid today. The dynamic efficiency has created significant cost benefits up-stream in the aviation sector, which is itself pivotal to the wider European economy and the global travel and tourism industry.</p> <p>Airbus's location in the Toulouse area of Midi Pyrenees has created a vibrant techno-pole and cluster of supplier companies and R&amp;D organisations. In total some 57,000 people work in aeronautics and space in the wider Toulouse area. The clustering of supplier companies around the Airbus Prime in the Toulouse area reflects the state support of the R&amp;D science and knowledge base in the various labs and universities in the region and the supply of skilled labour from universities and institutes. With 18,670 people involved in research (researchers, engineers, technicians), Midi-Pyrenees is second only to Paris for investment in R&amp;D in France</p> <p>The EC question relates to clusters around poles of excellence. However a number of different definitions are used. We suggest that more information on, let us call them, "regional Hi-Tech areas" at national level, should be included in this chapter.</p>
4	<p><b>Large</b></p>

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	<p>The existence of "aerospace Hi-Tech areas" spread in the EU Member States' regions show the effectiveness of strong sector relationships, lead by large global competitors with the role prime contractor / system integrator, which drive a network of other specialised players, including SMEs, along the supply chain. This structure generates spill-over effects of technological innovation in the regional / district areas as well as in other non contiguous areas of the economy.</p> <p>Examples of this integrated approach in Italy are "aerospace Hi-Tech areas" in some regions (Piemonte, Lombardia, Lazio, Campania) with employment ranging from 8000 to 14000 units, and others with employment averaging 3000 units. Each "geographical area" features specific system specialisations through Finmeccanica companies, an integrated network of innovative capabilities with dozens of SMEs, research labs and Universities. Other examples of integrated approach can be given in other EU countries such as the UK (Derby), Germany (Hamburg, Ottobrunn), Spain (Seville), Poland (Aerospace Valley near Rzeszow), etc.</p> <p>Companies in the supply chain have seen a strategic advantage in locating themselves physically close to the primes. Public investment in such areas (an appropriate definition is not standardized), should be considered both for SMEs participating in specific projects, as well as for prime contractors, on the principle that one does not exclude the other, since each one has different roles.</p> <p>ASD believes that state aid for innovation should take into account the specificity of each sector of the economy, such as aerospace, rather than seek to differentiate between large and small companies. The examples mentioned above illustrate that the wider educational and R&amp;D framework needs to be right for the industrial cluster to develop. In other sectors, such as automotive, attempts to create regional clusters have sometimes failed because the specified region lacked the pull factors to bring companies in.</p> <p>In terms of differentiating types of companies the focus should be on those with high requirements for R&amp;D and overall strategic significance to the European economy and politico/diplomatic system. With around 15% of turnover spent on R&amp;D aerospace and pharmaceutical industries face a huge recurring cost for maintaining their knowledge base, which requires government support for them to remain competitive. However, very large firms with a corresponding turnover might be expected to support more of their R&amp;D in house.</p>
SME	<p>The issue of State aid to large companies has to recognise, particularly in Aeronautics, that the success of those companies ensures a continuance of a successful supply chain. However, a successful balance has to be found between large companies and SMEs which have the will to develop their own technical capabilities.</p>

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		On the other hand, companies down the supply chain cannot integrate vertically with one of their customers through a common geographic location of activities. A supplier of mechanical parts or engineering services to Airbus, Rolls-Royce or Safran will need to organise a network of long term relationships with research centres, university labs as well as customers and suppliers, and constantly optimise the location of its activities.
		Large engine manufacturers will tend themselves to create poles of related activities around their main plants (e.g. Snecma/Paris, RR/Derby) as well as locating some activities near Airbus and Boeing's main design and testing facilities. In a global aerospace market, the actual size of our European pole of excellence is...Europe.
		<b>Question 5) Stakeholders are invited to provide empirical evidence about the appropriateness of authorising State aid to non-technological innovation, notably in services sectors</b>
	Large	Innovation in aerospace is primarily based on technology, not rebranding or repackaging.
5	SME	..
		<b>Question 6) Should the rules on State aid for innovation include regional bonuses for cohesion purposes? Should they differ according to the geographical situation of the region, irrespective of cohesion issues?</b>
	Large	Development of aerospace companies or subsidiaries already benefits from European regional "cohesion" policies and lower wages in those regions.
6	SME	The development of regional bonuses in support of innovation and cohesion is to be encouraged. However, provision still has to be made for those companies which for various reasons continue to generate activity within and especially across regions and countries. It should be remembered that the EC Framework programmes insist on a European co-operation
		<b>Question 7) Are some types of aid more suited to specific situations and specific innovation activities (ex: tax rebates, secured loans, repayable advances)?</b>
		Yes. Tax incentives will certainly encourage R&D investment, but not the launch of major and risky new product programmes incorporating advanced technology. As the short-term financial markets take such a negative view of R&D investment, European industry will continue to require direct state investment in research. Secured loans and repayable advances are attractive as incentives for investment in innovative projects with a business plan or new facilities and processes, as well as developments, but less so for Research.
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	<p>In view of the issues raised by this question, it is interesting to note that the US Senate recently adopted a comprehensive tax bill that includes an extension of a basic R&amp;D tax credit as well as an AIA-advocated Alternative Simplified Credit (ASC) designed to increase incentives for high-risk defense and aerospace research. The ASC will permit aerospace companies to claim a potential 12 percent benefit on Qualified Research Expenditures. Under current law the maximum claim would be less than 4 percent.</p>
<b>SME</b>	<p>The ability of an SME to take advantage of various methods of support will depend on their business situation. However, access to additional monies to support innovative research and the creation of products suitable for market is a critical benefit if it allows companies to leverage monies from financial institutions at a preferential interest rate that may otherwise be available only to larger companies.</p>
<b>8</b>	<p><b>Question 8) Do you agree with the proposed criteria to define innovative start-ups, with the approach of not defining eligible costs, with the amounts of aid and cumulation rules? Do you think that different eligibility criteria should be established for high-tech sectors like biotech and pharmaceuticals which have long time-to-market and product development cycles?</b></p> <p>The proposed definitions fail to consider that start-ups in aerospace are not necessarily SMEs, but also strategic businesses carried out by large companies.</p> <p>Although in sectors where the industry is very "slow pulse", such as aerospace, it might be useful to allow some flexibility. In sectors that are highly safety critical and where there are stringent certification requirements it may be appropriate to extend the time limit beyond 5 years. One of the key risks in aerospace with new technology is the effort and finance needed to prove compliance with safety standards.</p> <p>Long lead-time to market and product cycle times are critical variables. Although it is the time and cost to get to the market that creates the real risk of financial failure.</p>
<b>SME</b>	<p>There should be some tailoring of support, particularly where development cycles have a long time to market. The restriction of aid to small companies, notably independent of large companies, should be reviewed. The process should be set up to encourage large companies to create spin-off businesses which, freed of their traditional overhead and management structures, turn into additional innovative companies.</p>

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<b>Question 9] Beyond the proposed rules, empirical arguments are welcomed that demonstrate the need for State aid: i) for start-ups independently of the innovativeness criterion, and ii) for innovative SMEs established for more than 15 years).</b>		
<b>9</b>	<b>Large</b>	--
	<b>SME</b>	Aid for start-up companies, be it in the form of tax breaks, access to money, or other incentives. However, it is important that SMEs over 5 years old are encouraged and supported in their quest for innovative processes and products.
<b>Question 10] Do you think that other types of State aid apart from those currently granted in respect of risk capital are required in order to help European SMEs grow beyond the start-up phase? If so, which ones?</b>		
<b>10</b>	<b>Large</b>	--
	<b>SME</b>	Other State aid should be in the form of simplification of applicable rules and regulations designed to recognise the administrative burden that fall on small companies. It is essential that proper impact assessments are carried out to take into account the existence of supply chain where the cost and burden of legislation get progressively more burdensome to the smaller companies.
<b>Question 11] Do you think that these provisions would produce the expected effects in terms of encouraging SMEs to launch innovative products in the market? If not, what changes should be made to these rules?</b>		
<b>11</b>	<b>Large</b>	--
	<b>SME</b>	The limit of 15% should be adjusted according to circumstances, possibly with a higher percentage in the earlier stages of development
<b>Question 12] Is there evidence that these provisions should be extended to large companies? Do you think that notification should be required for measures granting substantial amounts of aid to individual firms or individual sectors? If yes, above what amount? What empirical evidence should then be requested by the Commission?</b>		
<b>12</b>	<b>Large</b>	We see no reason why these provisions could not be extended to larger firms. The key issue here is the competitive environment that the company is in. In aerospace and defence it is quite normal in competing countries for governments to fund both demonstrators and prototypes. In the US NASA routinely funds and builds aircraft prototypes for the US

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		industry. US manufacturers benefit also from government funded military "flight demonstrators" that will allow the industrial participants to put "flight proven" new concepts on the commercial market. Given the reluctance of airlines to accept the risk inherent to innovation, this gives a definite advantage to participants in US military programmes. Organising public support to in-flight demonstration of innovative concepts would be beneficial to Europe's competitiveness.
	SME	This would depend on whether provision was made to change the rules in large company, participation in start ups (see Q8).
		<b>Question 13) How would you regard specific support for innovation intermediaries, which merge or develop a joint venture to reach critical mass in a technological field of specialisation? Should investment aid be permitted in this context? If so, on what conditions? What other measures could be envisaged?</b>
13	Large	Specific aid should be directed at projects, including intermediaries, consortia or joint ventures organised to manage and support those projects.
	SME	The reaching for critical mass of innovation intermediaries should be encouraged if it meets the needs of that sector
		<b>Question 14) Is there evidence that the recruitment by SMEs of other types of highly skilled personnel should be also aided?</b>
14	Large	SMEs have problems in recruiting highly skills personnel, either due to lack of suitable candidates, the problem of recognition of qualifications, language, security and resource issues. This issue is being addressed by ACARE.
	SME	<b>Question 15) Should the Commission adopt specific rules for cases where a researcher chooses not to return to his/her home university or where the university no longer intends to hire him/her back?</b>
15	Large	No, the Commission should accept that exchange / transfer to companies of personnel is a fact of life; it is the overall support for the supply chain that should be the main driver.
	SME	<b>Question 16) What definition of cluster/clustering activities should be followed and what criteria should be used to distinguish clusters from the broader category of innovation intermediaries?</b>
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16	SME	<p>The appointment of aid according to input is a good approach, the more definitions introduced the less flexibility there will be.</p> <p><b>Question 17) Do you think that State aid should be allowed to promote European centres of excellence? If so, what type of State aid, for what reasons, and subject to what conditions?</b></p> <p><b>What other, possibly better, measures could be envisaged?</b></p> <p>We would support the strategy to create European centres of excellence. However, we would need to have a clearer idea of their meaning and implications (pertinence, criteria of eligibility, governance, funding mechanisms, etc.).</p> <p>Infrastructure support is necessary to build the right kind of environment. Therefore a contribution towards capital costs of investment would be a key incentive for start-ups and small firms. A key requirement in technological centres of excellence is effective knowledge transfer from the R&amp;D community to industry. Technology incubator labs can be effective here, particularly if they are run as a partnership between academia and industry. State aid should be used to help create these incubators, which can also offer services to the wider scientific community.</p> <p>State aid committed to centres of excellence should be seen as public investment in infrastructure or regional systems of innovation. As the aim is not to directly support firms bringing products to market, this aid should not be in the form of repayable loans.</p> <p>In areas of dynamic growth cost of living pressures can discourage labour movement into the region. Centres of excellence may thus require support systems for housing and other benefits to allow the translation of the necessary skilled labour. This could be either through the public provision of affordable housing or via financial incentives to the actual employees.</p> <p>State aid to promote European centres of excellence would have to take into account National Programmes. Perhaps a degree of co-ordination should be investigated.</p>
17	Large	
	SME	
18	Large	<p><b>Question 18) Are additional criteria needed to avoid State aid being fragmented and to encourage the concentration of resources in a limited number of poles of excellence?</b></p> <p>Yes. When fostering systems of integration there is always a danger of duplicating the same sets of capabilities in different regions. In the EU as a whole the question partly turns on the size of the relevant sector and its degree of presence in different nation states. With aerospace having a significant presence in France, Germany, Italy, UK and Spain there are convincing reasons to have separate centres of excellence, which have to be matched to existing capabilities and educational provisions.</p>

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		Opinion as to whether these centres should be organised around a single major techno-pole diverge within the industry, as some fear that this could lead to market distortion with one nation in a dominant position.
	SME	In aeronautics centres of excellence are a critical success element of the business. For example, Toulouse (Airbus), Derby (Rolls Royce), Paris (Snecma) and Seville where the setting up of the A400M production facility is leading to many smaller companies setting up in business.
		<b>Question 19] What are your views more generally about the need for additional provisions for infrastructure that supports innovation (e.g. in the field of energy, transport etc.)?</b>
	Large	Infrastructure support which would be available to SMEs who could not afford such facilities may act as an effective multiplier of effort and effectiveness for company effort.
19	SME	<b>Question 20] Do you think that large firms should be entitled to State aid, e.g. to establish research facilities in a European pole of excellence? Should the Commission try and develop specific criteria to control such State aid? What type of economic evidence should be requested to analyse the necessity of such State aid?</b>
	Large	Yes. As already stated existing arrangements for linking public labs, academia and industry do not always work effectively. In some fields it may be necessary to create new hybrid research organisations to focus on new strategies. From an economic point of view State aid might depend on an economic effects analysis undertaken on the facility itself. Also the criterion of market failure remains relevant. There may, for example, be a key technology that would bring spill-over gains in environmental performance that has not come to the market and that requires additional research effort. Obviously today, in sectors like aerospace and chemicals, there is a huge technological challenge to develop sustainable technologies. Funding could be conditional on the eco-sensitivity of the technology or process concerned with identifying priorities. We do not believe that additional controls would be necessary as there are already a myriad of regional, national, EU level and global disciplines on this kind of aid
	SME	Consideration should be given on a case by case basis; and care should be taken to avoid the creation of duplicate facilities unnecessarily.

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