Commission Consultation on State Aid for Innovation: UK Response

The UK would like to thank the Commission for consulting the Member States on their proposed reform of State aid for innovation. The Commission paper issued on 21 September contained a number of thought-provoking ideas, which have stimulated great interest in the UK. The UK shares the Commission's view that State aid for innovation is an important topic, related to pursuit of the Lisbon objectives.

Our responses to the Commission questions follow.

Introduction and principles governing control of state aid for innovation (sections 1 and 2)

Commission's questions:

Q 1) Do you think it is appropriate not to create a separate framework for innovation and that the new possibilities for state aid target selected innovation-related activities?
Q 2) Do you think that the problems presented in the Annex and the market failures identified by the Commission as hampering the innovation process are accurate? If so why? If not why not?
Q 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 such an approach is adequate?
Q 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?
Q 5) Stakeholders are invited to provide empirical evidence about the appropriateness of authorising State aid to non-technological innovation, notably in services sectors
Q 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?
Q 7) Are there some types of aid more suited to specific situations and specific innovation activities (e.g. tax rebates, secured loans, repayable advances)

UK Response

We are encouraged by the Commission's overall approach, which recognises the importance of innovation to the achievement of the Lisbon goals. The UK agrees that the preservation of competition should be the first priority when designing effective systems to foster innovation in the EU.

We also welcome the Commission's acknowledgement that state aid is but one of many tools that are available to target market failures and stimulate competition - there may also be the need for regulatory reform etc. However the UK agrees there may be specific market failures that warrant public intervention (although we note that most of the Annex to the Commission’s paper is about barriers rather than market failures) and we would like to focus our response on how best this can be achieved.

The UK would support changes to the rules on State aid that increase legal certainty, establish criteria to target aid more effectively, and simplify the regulatory framework. There are also a number of issues that require further consideration and clarification. These are explored in more detail in subsequent sections responding to the Commissions specific proposals.

We support the focus on first improving the general business environment, which should accommodate university/business collaboration, and second the focus on supporting risk-taking.

In relation to innovation, the question is how to address the shortcomings in the current legal framework so as to promote activities that support risk-taking and experimentation, entrepreneurship, and help bridge the gap between technological knowledge and the market; and activities that improve the general business environment for innovation? We agree that the Commission should build on the existing framework for R&D, but also the Risk Capital Guidelines, the Environmental guidelines, and the general Block Exemption. This should target most areas of market failure effectively and at relatively low risk, as opposed to devising a new instrument specifically for innovation, which is itself not always inhibited by market failure, which would therefore be a high-risk option. This would also largely avoid having to define the term innovation.

We would question relying exclusively on a rules based approach to aid for innovation, as the market failure will vary widely according to the barrier to innovation, and the state payment should generally be the minimum necessary to overcome this. Ultimately we recognise that there exists a trade off between a case-by-case approach and a rules based approach. For small aids to SMEs that are unlikely to distort competition, for instance, or other aids of a kind that can easily be assessed against the set criteria, we would favour a block exemption to avoid the need for notification in such cases. There must however also be scope for aid schemes to be agreed rapidly on a case by case basis even where they do not fit neatly within existing framework, provided they respond to a demonstrable market failure and meet the key state aid principles. No state aid instrument can ever be completely future proof, especially one that deals by its very nature with innovation.

While promotion of innovation and entrepreneurship is an important element of regional economic policy, the provisions put forward in the Commission’s paper are primarily horizontal and should be designed to tackle market failures wherever they arise and allow the minimum necessary funding to address them. In principle, assisted area bonuses should only apply where there is a specific and demonstrable regional element to market failures.

We accept the importance of poles of excellence and clusters to an economy but feel that these largely develop organically often around public-sector research facilities, centres of academic excellence and sometimes the existing locations of large company “magnets” or industrial strengths. We support the concentration of public science spending on centres of global excellence and we support measures to improve technology transfer and networking between such centres and the business community, but we have strong reservations about focusing the emphasis of any rules on innovation aid to businesses themselves on poles of excellence as this departs from the principle of addressing market failures and may also run counter to regional policy. Where businesses cluster around poles of research excellence the market may well be functioning properly making it difficult to justify state intervention. In fact there is the risk that state intervention could inhibit organic development of centres less favoured by public authorities and lead to greater dispersal of resources, rather than more clustering.

Our comments on the Commission’s specific proposals for new aid categories are set out in detail in our response to sections three and four but in general, based on the principle, acknowledged by the Commission, that start-ups and SMEs are more affected by market failures than more established and larger firms, we agree that the main focus should be on aids to SMEs. While state aid will sometimes be justified for large enterprises, the incentive effect and the link to specific market failures need to be convincingly demonstrated, given the greater danger of distortion. The Commission’s paper makes no mention of support for the production, processing and marketing products listed in Annex 1 of the Treaty, although the Community framework for state aid for research and development does currently apply to such activities. It would be helpful if the Commission could clarify the extent to which any new rules as discussed in this paper are intended to apply to the agriculture and fisheries sectors, and if so, provide an analysis of the impact, in order to allow further consideration.

We welcome the encouragement of innovation intermediaries and we believe that such intermediaries should not be considered recipients of state aid where they act only as conduits of benefits to SME end users. Where state aid is involved, it should be easily approvable provided that certain basic safeguards are met, particularly in ensuring that the aid flows through to SMEs.

Finally, the concept of innovation is an organic one, that is difficult to define, and the approach to aid for innovation will need to evolve over time to reflect this. We look forward to the opportunity to comment on more detailed proposals as they emerge from the Commission. We would also suggest that the Commission keep any new innovation related provisions under regular review.

Supporting Risk Taking and Innovation Section 3

Commission questions:

Q8 Do you agree with the proposed criteria to define innovation 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 a long time-to-market and product development cycles?

Q9 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 five years?

UK response:

We support some expansion of the scope for aid to small start-ups, provided these are backed up by evidence of market failures. The provisions should not encourage unsustainable expansion by start-ups or subsidise them to an extent that will damage competing businesses, including other non-assisted start-ups or SMEs or crowd out commercial SME finance suppliers, for example. Aid should be focused on the areas where start-ups face particular market failures (for example, finance for investment or research, availability of premises or equipment on short term leases, or advisory/networking services to compensate for a lack of short term experience) and should not feed into general running costs.

Any new provisions here need to be seen in the context of the aids allowed under the broader state aid regime: the SME block exemption, for instance, which already allows aid towards investment, R&D, and some other costs within set aid intensity limits, for both start ups and established businesses, and the Risk Capital framework, together with the other new provisions proposed under this initiative. The Commission will need to address cumulation between any new aid for start-ups and the other forms of aid from which such companies may benefit.

Finally, while we support the broad aim of stimulating innovation and entrepreneurship, it will be difficult to devise a definition of "innovative" which will be legally robust and fair without imposing undue restrictions on beneficiaries and aid giving entities. Given this, it will be particularly important to ensure that any aids allowed under this heading are subject to effective safeguards to ensure that they are proportionate and that any distortive effects are limited to the minimum necessary.

In answer to questions 8 and 9:

We agree that start ups in this context should be restricted to small and micro enterprises only and start up-related aid should be limited to the first five years of the enterprise's existence as proposed; following the initial five year period, innovation and investment in R&D would be more effectively supported by other initiatives, both state aid and non-state aid. We would not support sector specific rules here. Although in some sectors, notably the pharmaceutical and life sciences, products may take considerably longer than five years to reach commercial launch this does not in itself imply that there are market failures which aid of the kind proposed here would effectively address after the initial start up period; businesses in these sectors may for instance be able to derive an income from sale of IPR and/or licensing agreements, or obtain venture capital on the basis of projected sales; ongoing R&D work may be subsidised under the existing state aid framework.

Given the difficulty of producing a definition of innovation that is both robust and encompasses a wide enough range of activities, it may be worth considering a two or more tier approach in relation to the provisions proposed in section 3. For innovative start-up aid, the focus should be on R&D as a measure of technological innovation, as new innovative enterprises are likely to face particularly high start up costs in high-tech sectors, requiring substantial R&D investment.

We would like to find a way to allow support also for innovative service-based industries whose R&D may be low or non-existent in some cases, but no obvious metric presents itself and it is not clear anyway that such companies face market failures of the kind, which are now well-documented for R&D intensive start-ups.

We would propose a higher proportion of spending on R&D expenses in order to qualify (perhaps 25%) and that this should be the sole qualifying criterion. For other forms of aid proposed by the Commission, or which emerge from the review process a broader definition, which extends to innovative service sector enterprises may be appropriate

In terms of the forms of aid allowable, we believe that Government intervention should be targeted first on ensuring a supportive environment (for example, in terms of the availability of finance, incubator and high tech support services, and other infrastructure), and only exceptionally on direct grants to start-ups. We do not believe that allowing start-ups a temporary holiday from social contributions and other taxes, as proposed in the paper's first option, would be effective or proportionate, even if linked to a requirement to recycle the saving into the business or convert the saving into a repayable loan; it would remove incentives to reduce taxes or tackle over-regulation and would risk becoming a subsidy of running costs. We strongly oppose this as a specific category of allowed aid.

We would see some merits in the second option proposed of a one off start up aid without specific restrictions on eligible costs, but with a lower cap on aid per recipient than the €1 million proposed; we would propose €500 thousand (twice the de minimis limit proposed by the UK response to the Roadmap consultation). We agree that this option should be available only where there is no cumulation with other aids over the same period i.e. only where there is a particular need which is not going to be met through the categories specified in the rest of the state aid framework. Because of the potentially distortive nature of this, only enterprises which have the higher proportion of R&D spend should be eligible.

3.2 Tackling the equity gap to increase the provision of risk capital in the EU:

Commission questions
Q.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?

UK response:

We welcome the Commission's proposals to review the risk capital framework. As we have previously argued, the risk capital guidelines should enable faster scheme approval where there is persuasive evidence of market failure, the intermediaries and funds suppliers are chosen competitively, the measures are aimed at SMEs, the funds are commercially managed and where private capital must be put at risk alongside any Government funds (see UK's response to the Roadmap consultation and the comments submitted to the Commission in March 2005 on the risk capital review). Specifically, we would favour greater flexibility over safe-harbour limits. We also believe that provided that schemes ensure that private investors bear a proportionate share of the risk there is also scope for higher state ownership levels.

There is a related issue about the current definition of SME which we raised in our Roadmap response: under the current definition, enterprises lose SME status if they are more than 25% owned by a business angel holding more than a € 1.25 million stake (but not if a similar investment is held by venture capitalists). This impacts on the ability of business angels to protect their investment in high-growth companies seeking capital increases and therefore deters business angel investment at the lower end. This is particularly significant for technology and R&D based enterprises with significant external funding needs, for whom aid is often critical.

3.3 Supporting technological experimentation and the risks of launching innovative products:

Commission questions

Q 11: Do you think that the provisions proposed by the Commission 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?

Q 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?

UK response:

Aid towards the production of commercially usable prototypes may be useful in certain circumstances, in particular in relation to environmental technology. However our current experience is that market failures at this level are in most cases linked to financing and where this is the case they will be most effectively targeted by changes to the risk capital rules or by improved access to debt finance, for example through something similar to the proposed Risk Sharing Finance Facility (RSFF) associated with FP7.

Any new provisions on this form of aid even at the SME level must therefore ensure strict safeguards on additionality and be closely linked to market failures; otherwise Member States may use this support simply to bolster favoured companies in launching new models, or incremental enhancements of existing products. Such aid would cover costs which the businesses would normally have to cover themselves and would simply be investment or even operating aid.

In view of the danger of abuse this form of aid should not be covered by block exemption provisions at any level, so that the onus is always on member states to make the case for the schemes they want to promote, what market failure is being addressed, the incentive effect of the proposed grant, and how the activities being aided fall short of full commercial launch. Schemes should contain clawback mechanisms such that funding only covers the net cost of meeting the market failure and excludes commercial benefit for the recipient.

Guarantees might be a suitable form of aid for this sort of project.

In return for public funding, recipients should as proposed be required to show that the activities funded were linked to a specific R&D project carried out by themselves or another enterprise, and that the products involved are technologically new. In addition, individual aid grants over a certain level should require individual notification even where they are granted under approved schemes, in line with the existing R&D framework; the thresholds currently set in the framework (the project must be over €25 million and the proposed grant over €5 million) are relatively low, however and higher thresholds may now be appropriate.

With these provisos the new provisions could encompass aid to large firms and at be offered at higher intensities than those proposed. We would suggest a 25% maximum.

Finally, we believe that there is a particular public interest in securing demonstration projects for certain new environmental technologies. Such projects often require massive upscaling of research models to test costs and performance on an industrial scale. This is both expensive and risky, but important for public policy reasons, quite independent of the commercial motivations of the businesses involved. We comment on how we believe the State aid rules should apply to such projects in our paper on Environmental aid, submitted to the Commission as an attachment to our response to the State Aid Action Plan.

Section 4 – A supportive business environment for innovation

Commission questions:

Q 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?

UK response

Current state aid rules inhibit support for small business incubators and other intermediary infrastructure, including that aimed at high-tech start-ups. While the Commission's recent decision on the incubator scheme proposed by the German authorities is welcome (C(2005)1315 Final), it leaves some uncertainties on the boundaries between schemes where no aid to the intermediary is involved, and schemes where there is aid, but of an approvable nature. The Commission's decision to address these issues here is therefore to be applauded, and the general direction of the proposals, which clarify the scope for incubation, high tech open access facilities and related services is very welcome. In general:

- We support the proposed new scope for intermediary bodies to provide infrastructure and services, whether on a "no-aid" basis in cases where there is demonstrably no advantage beyond the normal course of trade to the intermediary itself, or on a compatible aid basis provided the activities involved will not distort competition with commercial entities
- The intermediaries could be either public or private bodies. In either case, the support service or infrastructure provided should be on a non-profit basis or with profit capped at, for example 15%, and there should be safeguards to ensure no direct or indirect advantage beyond the normal course of trade to any of the intermediaries' commercial activities (e.g. in the scenario set out in question 13). Where the intermediary is not a state owned entity, it should be selected according to transparent and competitive processes
- Basic incubation facilities (the provision of short term accommodation and advisory/networking services) should be available to all start ups, provided that these are small enterprises and that the facilities are available on a time limited basis. There is no need to limit these services to "innovative" businesses.
- Intermediaries should also be allowed to provide high tech laboratory services as proposed, provided that these are on an open access basis – this would address one of the key obstacles that businesses, particularly though not exclusively SMEs, face in exploiting new technologies.
- Eligible services should include manufacturing at least up to the "experimental development" phase described in part three, but only in sectors where such facilities are not yet generally available on a purely commercial

basis and end users should be charged at market rates, as closely as they can be estimated. As markets develop and commercial competitors emerge, state support should be withdrawn – this could be achieved by requiring intermediaries to pay back state funding when service usage and income exceeds pre-agreed levels; this should follow from the requirement to ensure that there is no advantage to the intermediary.
- The price of facilities/services should only be subsidised where end users are SMEs, as proposed. In general, where the problem is the high cost of services rather than lack of availability of e.g. short term leases/open access facilities, direct grants to the SMEs concerned may be preferable, and the voucher system proposed here looks useful, provided that the vouchers must be spent with approved innovation intermediaries (for instance, member states could be required to list the intermediaries involved when they report on approved schemes). The risk of abuse of such vouchers might dictate that they could only be spent with pre-defined innovation intermediaries, whether public sector or private sector run. They should not be used to subsidise businesses' normal consultancy or professional service use.
- Intermediaries should not be required to produce both services and infrastructure – local needs and structures will legitimately vary.

4.2 Encouraging training and mobility.

Commission Questions:

Q 14) Is there evidence that the recruitment by SMEs of other types of highly skilled personnel should also be aided?

Q 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?

UK response:

Creative schemes to assist knowledge transfer and allow SMEs to access highly skilled personnel can be of real value. SMEs can find it particularly difficult to attract new, highly skilled staff when they are at the early stages of expansion – recruiting their first key specialist employee may open the door to further growth. It will be important to ensure that any new provisions here, however, do not become a form of aid towards operating costs and genuinely address a market failure in a way that is not already done by current state aid instruments (such as the block exemption provisions for training, which allow for job related training, or the new provisions on intermediaries discussed earlier in the Commission's paper). Shortages of highly educated workers need to be addressed at many levels of government policy (e.g. higher education, immigration), and state aid will not always be the appropriate answer. In general we would argue that:

- any subsidies for the recruitment of specialist staff and for short-term placements should be limited to the two categories proposed (highly qualified researchers and engineers). The beneficiaries should be SMEs of a technologically innovative kind. The Commission should consider requiring that subsidies can only be paid for the first specialist to be taken on by the business who should then be expected to carry the full cost of further employees in that area. As proposed by the Commission, subsidies should be limited to a three-year maximum period. The UK would in principle prefer to limit such support to cases where businesses receive only an indirect advantage and the direct incentive goes to the individual researcher or engineer involved.
- secondment programmes can be a valuable component of knowledge transfer support and member states should be allowed to incentivise secondment schemes for university/large enterprise employees to work on short-term placements with SMEs. The SMEs concerned should be technologically innovative, and the placements should be project related, as proposed; subsidies should only be available for the period of the placement.

4.3 supporting the development of poles of excellence through collaboration and clustering:

Commission questions

Q 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?
Q 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? What other, possibly better, measures could be envisaged?
Q 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?
Q 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)?
Q 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 to develop specific criteria to control such state aid? What type of economic evidence should be requested to analyse the necessity of such state aid?

UK response:

Clusters have a demonstrated value in driving the application of research and the development of high tech industry, but we agree with the Commission's reservation that they should not be treated as a substitute for regional investment aid. The UK supports the development of clusters, but the most effective clusters are likely to grow organically round existing research centres; attempts to create them artificially are likely to fragment rather than concentrate specialist enterprises (and attempts to encourage industry based sectoral clusters around one or two large players may be extremely vulnerable to market changes).

Where state intervention is needed, the most appropriate vehicles are likely to be the new intermediary provisions proposed earlier in this section which will allow aid to make incubation and high tech support services available to business users, together with continued and expanded support for public sector centres of research excellence and for networks to allow such centres to collaborate effectively with the private sector in collaborative projects.

As argued in our Roadmap response, universities and other research organisations can have a key innovation role in addition to their research and teaching functions. Universities invest in proof of concept studies, for example, to test the commercial potential of technological innovation then license the technology to businesses. They also supply advice to and initial investment in spin-out companies and provide valuable support for small businesses by supplying incubation and sometimes grow-on space and also open-access research facilities.

All of the above are potentially “economic activities” which can result in Universities being classified as undertakings in certain circumstances, and their funding classed as state aid. The Universities (and university-owned non-profit subsidiaries with these functions) are, however, performing all such activity in the public interest with a view to furthering their academic research and teaching functions. Any revenue is ploughed back into the public function activity of the university.

With a few basic safeguards, any competitive distortion from this activity should be minimal while the benefits to European competitiveness are substantial. Clarity over the application of the State aid rules to this activity would allow Member States to enhance university performance in these areas with greater legal confidence.

Ideally the Commission would clearly state that any such activities be block exempted to the extent that they might involve State aid at the level of the University. In order to prevent abuse there could be Block Exemption limits on amounts to be invested in spin-out companies, for example, and rules to ensure that users of incubators and science parks be charged market rates.

External businesses collaborating with universities or receiving services from them will be in receipt of state aid if not charged commercial rates for services received. The UK favours the maintenance of robust rules on subsidies for competitive businesses. Clearly the spinouts will be subject to the rules as well, once established, and aid to them must fit within the relevant frameworks.

We would also support rules that facilitate innovation and research collaboration between companies and the public sector (and also between companies).

Both the UK Treasury's Lambert Review of university-business collaboration and the DTI's Innovation Report concluded that more needed to be done to encourage "business pull" - taking new technologies out of the innovation base and into the market. This has become a major focus of UK policy activity.

This is because the close proximity of businesses and universities/public research centres can result in substantial innovation spillovers and external benefits, which are economically advantageous. Recent UK work on measuring productivity has shown that the diffusion and use of the results of innovation is important for generating the bulk of the benefits from innovation. However, systemic failures may delay or prevent technology transfer and diffusion.

Potential "bottlenecks" in an economy such as the poor functioning of institutions and a lack of linkages between the science base and industry, which restrict the spread of innovation, need to be addressed. Differences in objectives between the groups (publication as against profitable use, for example) can reduce market driven knowledge transfer, validating public support for institutions of co-ordination. Greater interaction between the University sector and industry is one area which is increasingly seen as a key element in the innovation system. Of course many firms will seek to access innovation outside of universities - through for example customers, suppliers and specialist intermediaries - however even in these more market driven environments incentives to share knowledge are attenuated by transactions costs and by asymmetric information between potential partners.

These market failures relating to collaborative innovation systems appear to be present in the UK, where, whilst UK-based firms appear to have many, varied, network relationships, the infrastructure is patchy and relationships appear to be largely driven by short-term decisions. By tackling market failures relating to innovation networks (whether in relationships between firms and the science base, or relationships between firms), Government can help create business opportunities that would not otherwise exist and strengthen the national capacity to make optimal economic use of innovation resources, so contributing to the goal of increasing value added and productivity. The UK would welcome rules that would promote and positively underpin these activities.

In answer to the Commission's questions:

- While member states should be able to support the development of clusters, we would argue against creating a new category of allowable aid to businesses for this purpose. Rather the Commission should clarify how the State aid rules apply to universities and other research establishments for innovation as well as research activities and focus on facilitating networks for technology transfer and collaboration on innovation between businesses and between businesses and public sector bodies. The UK believes that it is through the world-class excellence of public research facilities and the provision of facilities for technological expertise to be disseminated, combined with maximum competition between businesses, that the EU has the best chance of building successful business clusters in the high-technology sectors..

- The current R&D framework continues to work effectively in many respects, and rightly focuses most scope for aid on the categories of research furthest from the market. Collaborative public/private research and collaborative innovation networks can be particularly valuable, however, and we would support more flexible provisions on the assessment of the state aid involved in the contribution of public partners in collaborative research projects; there may be instances where the value of the public partner's contribution in state aid terms may be limited even where the private partner retains some or all of any resulting IPR and where additional direct funding should therefore be allowed, and we welcome the Commission's commitment to consider a more tailored approach.
- As indicated earlier in our response, the R&D Framework should continue to require individual notification of large project grants even where they originate from approved schemes, given their potentially greater distortive effect. However, we believe the thresholds for the individual notification requirement (grants of €5 million or more to projects over €25 million) are now too low and need to be reviewed.
- State aid should continue to be allowed under Article 87(3)(b) for R&D projects of common European interest (which may qualify for funding of up to 100% aid intensity) and to be allowed at higher than basic intensity rates for joint or crossborder projects, as under the present R&D framework rules for projects approved under Article 87(3)(c). Higher rates should continue to be allowed where competitors based outside the EU are receiving aid of equivalent levels, as allowed under WTO rules.
- The Commission should continue to authorise the provision of infrastructure in circumstances where this will constitute state aid, but is necessary in order to address market failures and to ensure the availability of services which businesses need to access in order to modernise and innovate; broadband is a good example of an area where the state can legitimately intervene with minimum distortive impact providing certain basic safeguards are met. Such infrastructure support will be relevant in the context of supporting clusters, although it may also be relevant and appropriate in other contexts.
- Large firms should continue to be eligible for R&D support, but at lower rates than SMEs, as in the current framework. We believe that large firms should also be eligible for funding as intermediaries, provided that there is effective ringfencing between their intermediary activities and any other commercial functions.