

WLGA Briefing

State Aid: The new Framework for Research, Development and Innovation

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Alexia Taylor

00 32 (0)2 506 44 84 – alexia.taylor@wlga-brussels.org.uk



The European Commission has adopted a new Framework to clarify to Member States how best they can give state aid to not only research and development but also innovation projects, without infringing EC Treaty state aid rules. The new Research, Development and Innovation (R&D&I) Framework will help Member States wishing to use state aid as a complementary instrument to boost Research, Development and Innovation. The new Framework is due to apply from 1st January 2007.

The Framework sets out a series of guidelines for specific types of state aid measures – such as aid for R&D projects, aid to young innovative enterprises and aid to innovation clusters – that could encourage additional R&D&I investments by private firms, thus stimulating growth and employment and improving Europe's competitiveness. These guidelines allow individual Member States to tailor aid measures to particular situations, subject to the overall test that the aid must address a defined market failure, must be well designed and that the identified benefits must outweigh the distortions to competition resulting from the aid.

The primary objective of the new Framework for R&D&I is twofold:

1. to help Member States to channel a larger share of their total state aid budgets towards R&D and innovation and
2. to help Member States target R&D&I state aid on the best projects, on the basis of economic analysis, so that distortions of competition and trade are minimised and public spending efficiency is maximised.

Under the Framework, Member States will still be obliged to notify aid measures to the Commission for verification and authorisation, but if the measures have been drawn up in accordance with the guidelines authorisation will be faster.

Three part test

The new framework for R&D&I is based on the refined economic approach developed in the State Aid Action Plan and in the Communication on State Aid for Innovation. Whereas the current Framework is limited to aid for R&D, the new Framework also includes aid for innovation projects. It explains that a state aid measure for R&D&I will be authorised on the basis of a three-part test:

1. the aid must address a well defined market failure;

2. the aid must be well targeted: state aid must be an appropriate instrument, the aid measure must have an incentive effect and must be proportionate to the problem tackled;
3. the distortions to competition and trade resulting from the aid measure must be limited enough so that, on balance, it can be declared compatible.

The Framework outlines the main market failures hampering R&D and innovation: knowledge spill-overs, imperfect and asymmetric information, coordination and network failures. It then gives guidance on a series of types of state aid measures that can address these market failures without excessively distorting competition and trade. Member States can tailor this package to support R&D&I according to their national preferences, needs and specificities. The Framework indicates to Member States how they can use the following types of aid for R&D projects:

- aid for technical feasibility studies
- aid for industrial property right costs for SMEs
- aid for young innovative enterprises
- aid for process and organisational innovation in services
- aid for innovation advisory services and for innovation support services
- aid for the loan of highly qualified personnel for SMEs
- aid for innovation clusters

The new Framework also aims at improving the Commission's control of state aid, by allowing it to focus on the cases most likely to give rise to distortions of competition. As a result, it introduces a detailed assessment for cases involving high aid amounts, with a consequent higher risk for competition and trade.

State aid is in principle prohibited by the EC Treaty unless it is authorised by the European Commission. The Commission issues guidelines and frameworks to facilitate the work of Member States by announcing in advance which measures it will consider compatible with the common market, thus speeding up their authorisation.

For FAQ see:

<http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/06/441&format=HTML&aged=0&language=EN&guiLanguage=en>

The full text of the Framework will be available at:

http://ec.europa.eu/comm/competition/state_aid/reform/rdi_en.pdf