



Research & Knowledge

A critical assessment on how the EU supports R&D & innovation

BY MICHELE CINCERA

Europe's weaker economic growth is largely due to lower levels of investment in Research, Development & Innovation (RDI)



One of the key aims of the European Union (EU) during the last decades has been **to encourage increased levels of RDI investment**, in order to provide a stimulus to the EU's competitiveness. The Europe 2020 strategy adopted in 2010 maintains a long-standing objective, namely, for the EU to devote 3 % of **gross domestic product (GDP) to RDI activities**. This is one of the five key targets of the Europe 2020 strategy. Despite the fact that RDI is fundamental for any economy and has an extremely beneficial effect on social welfare, the EU has not yet reached the 3% of GDP target. In addition, countries such as the **United States, Japan and South**

Korea have more efficient public funding for RDI than the EU and significant tax deductions and economic benefits from their governments.

The EU state aid policy seeks to ensure a level playing field between the EU Member states



This objective was laid down in 1957 when globalization simply did not exist. However, half a century later, **competition for RDI has become global** and many countries offer a broad range of benefits to attract R&D activities. The EU state aid rules have an impact both on the spending of the EU R&D Framework Programme (€ 70 billion over a 5-year period) and on state aid granted by Member States. The EU RDI State aid rules which add a supplementary legal layer to each Member State's national innovation policies are complex, time-consuming and restrictive.

There is no equivalent abroad. It may be the case that the restrictions which the EU imposes upon itself limit the ability of governments to compete against the advantages offered outside the EU. It is therefore very important to examine whether the strict EU state aid rules on R&D are in fact hampering the European industry in global competition.

The ENIRI study

This question has been thoroughly investigated in a study recently released by the Commission's Directorate-General for Research and Innovation, the European and National Incentives to Research and Innovation (ENIRI) study. The study which ran over two years, involved in particular a **comparison of public RDI support in the EU-28 Member states and in 9 non-EU countries** (Australia, Brazil, Canada, China, India, Japan, Russia, South Korea and US). It consisted of a detailed analysis of **real-life cases** regarding RDI investments of European companies outside the EU and of non-European companies in the EU, an **econometric analysis** of the factors affecting the **efficiency of public support to RDI** as well as a **comprehensive review of the EU state aid rules and their application in the period 2008 to 2015**.

The ENIRI study concludes that Existing EU state aid rules on RDI support are overly restrictive and do not take sufficient account of the nature of RDI activities. In particular the study finds that:

- **Public RDI support in the EU is less effective than in Japan, South Korea and the US** due to the complexity of the EU rules, the way they are being implemented and the long duration of the EU approval process;
- The EU state aid rules on RDI support do not take into account the particular **challenges and needs of SMEs** and provide insufficient incentives for collaboration between SMEs and universities/research centres;
- The **transparency requirement** (which does not exist in the 9 non-EU countries) **harms beneficiaries of RDI support** since it provides competitors with detailed information on the research undertaken by the beneficiary;
- The **presumption that aid threatens to distort competition** may not be appropriate for RDI support;

- The **"matching clause"** (which allows RDI aid to be approved if competitors outside the EU receive similar aid) **has never been applied**.

The ENIRI study proposes a number of legal improvements:



- **Fundamental research has no adverse impact on competition** and therefore should not fall under State aids' rules;
- **The risk of distorting competition on the product market should be the analysis' main issue.** This would allow for the particular nature of R&D to be taken into account while significantly reducing the number of notifications and

handling them in a quicker and simpler way;

- **Incentive effect of aid should be presumed**, or its demonstration significantly simplified, when the risk of distorting competition is limited;
- **Europe's most efficient competitors apply 1-2 different aid intensities, whereas the Union applies 31.** This should be corrected;
- The **RDI definitions used for State aid control since 1986** should be replaced by the twofold categorisation of Horizon 2020 between Research & Technology Development Activities and Innovation Activities;
- An **operational matching clause is needed** and **transparency requirements should be adapted**;
- **Future framework for RDI State aid control** should not be under the exclusive responsibility of competition regulators on both national and European level, as it has been since 1986;
- The internal governance within the Commission should better reflect the **need for innovation and competition policies to be merged.**

Read the ENIRI study [here!](#)

Bird & Bird (an international leading law firm in business sectors where technology plays a key role) of Counsel Serge Durande acted as project leader. Bird & Bird was supported by the Spanish consultancy F. Iniciativas (a specialist in the area of innovation funding), Professor Michele Cincera of the Solvay Brussels School of Economics and Management at [ULB](#), a team of researchers from iCite and Arthur D. Little. In addition, a high-level expert group, which included representatives of major companies, universities and industry associations with a focus on RDI, provided input at various stages of the project.



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