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BKO

ZVEI Submission to the EU IPCEI Roadmap Consultation: Revision of the Communication on important projects of common European interest (IPCEI)

We welcome the plan to review and revise as necessary the current Communication on important projects of common European interest (IPCEI) to support the Commission priorities, such as the European Green Deal, the Industrial Strategy and the Digital Strategy and the Commission's plan for the post COVID-19 recovery of the European economy.

ZVEI member companies participated in the first Microelectronics IPCEI, in the Batteries IPCEI and are generally interested in future IPCEIs.

ZVEI has been an active Member in the EU Strategic Forum on IPCEIs and co-drafted the forum's recommendations on future strategic value chains, value creation networks and IPCEIs that help fostering Europe's international competitiveness.

The twin Green and Digital transformation requires huge investments and a high degree of coordination within sectors and across sectors. IPCEIs are an adequate solution for these challenges. We give particular interest to the value chains of Hydrogen and fuel cell-technologies, microelectronics, automated driving and the Industrial Internet of Things. They can become important facilitators for the transformation of industry as well as of the energy, mobility and industry sectors to reduce global warming in light with the Paris Agreement objectives.

To support the required substantial investments and to address the considerable technical and financial risks involved, ZVEI regards high-scale public funding for the identified strategic value chains essential. Europe has to act fast in order to stay competitive as there is very well funded international competition.

An IPCEI can be an important instrument to strengthen the competitiveness of the European industry in the global context. The EU needs to respond to increasing government incentives for particular industries outside Europe, e.g. state aid in China and the US. IPCEIs can play an important role to allow European companies to continue to invest in Europe and expand global market shares of European based manufacturing - but experiences with the first IPCEIs clearly show that the instrument needs to be improved.

The EU Commission summarizes the problem statement as follows:

- (a) Clarifying certain notions and providing further guidance on certain criteria set out in the Communication;
- (b) Facilitating the involvement of SMEs, in line with the Industrial Strategy and SME Strategy;
- (c) Ensuring the European character of important projects of common European interest by enhancing their openness and consistency with EU policies

We welcome the overall scope of the review and would only point out that one key objective of the review should be to ensure that IPCEIs can be as impactful as possible in supporting Europe's competitiveness especially in strategically important sectors. The key factors for this are timeliness of the process (as innovation cycles are increasing), smart design of criteria for eligibility, and clear standards.

With respect to (a) we would like to comment as follows:

The IPCEI communication combines R&D&I and the industrialization phase. This instrument has the potential to overcome market failures and thereby contribute to economic growth and competitiveness for EU industry and economy. However, it needs to be refined and streamlined with respect to some specific rules and to allow for a shorter approval period.

To accelerate the whole process, it is necessary to have common and clear standards and templates for reports and application documents. During the first IPCEI on Microelectronics, templates and more specific guidance were only developed during the (pre-)notification phase leading to the overall approval period to extend to almost two years.

The specific criteria with respect to the definition of eligible costs in case of investments for first industrial deployment - FID (only depreciation according to project lifetime) does not appropriately support pilot lines and makes it unattractive to undertake such investments in Europe. It also needs to be considered that not all investments are made at the beginning of the project but spread over the lifetime, leading to very low funding for these investments in the second half of the project.

The definition on eligible costs related to FID – point (g) in the Annex including footnotes - is not sufficiently clear and too narrow, especially the second part of footnote 1 "but neither ... nor commercial activities". First, the reference to commercial activities is confusing as each activity of a company /business represents generally a commercial activity and is initiated for commercial reasons.

Second, we believe that the general exclusion of investments relating to industrial deployment and commercial activities could undermine the "effet utile" of IPCEI funding. In order to create the momentum, which is necessary to enable the European industry to become a significant force on a world-wide scale, this definition of eligible costs seems overly restrictive. We therefore encourage the Commission to reflect about the possibility to allow funding, at least partly, of activities related to the production phase of an investment. The fact that such activities are somewhat "closer to the market" and may therefore have a greater effect on competition than the support of pure R&D&I and FID related funding, could be reflected in lower aid intensities for this part of an IPCEI. However, the outright exclusion of production-related activities appears too rigid and inflexible.

With respect to (b) we would like to comment:

We welcome the focus to facilitate SMEs' participation in IPCEIs including to encourage large enterprises participating in IPCEIs to involve SMEs in different Member States as partners, so that SMEs can increasingly benefit from IPCEIs – together with larger industry players which are necessary to create successful ecosystems.

With respect to (c) we would like to comment:

We support the objective of ensuring the European character of IPCEIs. It will be key to streamline the process to ensure that the timeframe from conception to decision is reduced, even where more Member States and partners are involved.

On Scaling and scope, we would like to comment:

- IPCEIs should enable industry to bridge the gap between R&D&I and economically viable production (scaling, not just feasibility). In the future, a stronger focus should be put on first industrial deployment at scale. In this sense, eligible costs should not be limited to R&D&I and pre-industrialization activities but also include deployment-ready solutions.
- Against the background of increasing investment in China and the US, and in the face of major challenges (both green and digital transition), the EU Commission's state aid control should focus more strongly on the global competitive situation!

On Eligible costs and funding gap calculation, we would like to comment:

- ZVEI welcomes the intention of the EU-Commission to provide for more clarification and further guidance which is especially important in regard to the definition of the funding gap. The requirements for the calculation of the funding gap must be transparent and harmonized across EU Member States.
- European companies compete to a large extent on global markets. It should therefore be possible to take aspects of global competition into account in the funding gap calculation.
- Private sector partners are not in the position to calculate ex ante net extra costs which would have arisen in a non-funding situation and to hand in a counterfactual (non-aid) scenario. This is even more difficult when a greater number of project partners is involved.

On the Approval process and grant disbursement, we would like to comment:

The time span between funding request and project start needs to be reduced to ensure a timely realization. IPCEIs are projects in internationally highly competitive areas. Time is an important factor to be able to establish or maintain a competitive lead position.

- For the same reason the IPCEI structure must be kept lean and reasonable to administrate. The current form of ICPEIs as State Aid has proven to be efficient. Member States should keep their margin of manoeuvre regarding the definition of IPCEI objectives and priorities. As far as State Aid should be complemented by EU funding or be linked to EU projects in future this should not lead to further complexity in terms of application procedures or project and accounting/documentation requirements.

- Once an IPCEI is approved, grants must be disbursed according to a predictable schedule / within determined periods of time to establish investment security for private partners.

On Reliable funding commitments, some of our member companies have the following recommendations:

- For industry, reliable funding commitments are absolutely essential. Any potential clawback provisions must be very carefully considered to provide for legal certainty and prevent counter incentives.
 - Funding reclaims must only be based on proven eligibility violations based on clear and predefined funding rules and continuously assessed during and at the end of the project.
 - Financial returns from early qualification samples and low volume (non-competitive) manufacturing must not impact the required funding, as long as included in the funding gap analysis.
 - Financial returns from an IPCEI due to a faster market uptake of the product/ technology then expected at the time the funding gap was calculated, should be exempted from repayment obligations. Any faster uptake only serves to accelerate the intended project goals of enforcing the intended EU policies, maintaining/establishing technological leadership, industrial deployment and securing of highly qualified employment in Europe.

On Accounting modalities, some of our member companies have the following recommendations:

- Support should be provided on an expenditure basis (instead of cost basis), at least for capital expenditure (property, plants, buildings). For operating and other expense (personnel costs, third-party services, materials and supplies) the current reference to the cost basis can be maintained.
- Adequate accounting periods are important. According to common practice in Germany for example, the deadline is limited to 14 days after end of quarter which is much too short given the size and complexity of IPCEIs and the corresponding administrative workload. The minimum accounting period should be at least equal to common practice for other public national or EU funding, which means three months in Germany and 45 days for EU projects.
- For the conversion of costs arising in foreign currency, there should be the possibility to use the exchange rate of the day the costs are booked in the accounting system. This would lower administrative burden and error susceptibility and increase transparency and comparability at the same time.

On IPCEI participation and spillover effects, we would like to comment:

- SME participation in IPCEIs should be facilitated, e.g. by enabling SMEs to contribute to large-scale IPCEIs. This might require dedicated additional means to prepare/ accompany SMEs for/ during project participation. The main criteria for any participation must be its benefits to the overall IPCEI objective and realization.

- IPCEIs should be transparent and open to broad EU Member States participation. But the same applies here as to SME participation. The genuine IPCEI objective, the feasibility and scale of IPCEIs should remain the first concern. IPCEIs must be set up to strive for excellence to strengthen R&I activities in Europe and the position of European manufacturing industry in highly competitive global markets.
- ZVEI supports the objective that IPCEIs should generate spill over benefits. At the same time, administrative effort and expenditure should be kept to a minimum to enable beneficiaries to focus on central innovation and deployment activities of the ICPEI in the given timeframe. Data sharing, publication obligations, IP licencing etc. should stand in relation to the project targets, respect confidentiality requirements and intellectual property rights. Additional costs arising for private partners should be considered eligible for funding.

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