IPCEI – Not as Equal as Claimed

Introduction

The IPCEI regulation continue to be in political focus at EU level, appearing both in the political guidelines of Ursula von der Leyen and as a regular guest on the agenda of the Competitiveness Council. At its core, it is a rather complicated way of granting state aid. In contrast to the usual case, where one project and one company are assessed at a time, here a diversity of companies and projects must be dealt with at the same time. The tool has been trusted to be the vehicle that will drive Europe towards increased competitiveness through investments in research, development, and innovation. As we mark the tool's tenth anniversary in its current form, we can count a total of ten integrated projects that have been carried out, involving many Member States and companies. At the same time, not a single project has yet been evaluated to examine how it has resulted and whether it has been an effective use of taxpayers' money.

Key Takeaways

- **IPCEI does not lead to a more equitable use of state aid between Member States.** IPCEI is thus not a solution to the problem of distorted competition caused by public funding.
- **Germany clearly spends the most,** followed by Italy and France, while some countries are not involved at all. Germany has granted more IPCEI state aid than all other EU countries combined if you exclude Italy and France. In terms of the number of participating companies, Germany also leads, followed by Italy and France.
- **IPCEI state aid goes mainly to large companies**, which should have a better ability to find financing on their own. 80 percent of the recipient companies are large enterprises, and only 20 percent are SMEs.
- **The time it takes to review an IPCEI has not decreased over time**, remaining at 1–2 years. Given the number of companies participating and the high complexity of the cases, the prospects for shorter review times are limited
- **IPCEI is thus as distorting to competition** in terms of distribution between Member States as other aids in general. The aid is particularly distorting since larger aid levels can be used, and aid can be given up to the phase before mass production. IPCEI should therefore be used to a limited extent and for specific reasons, especially given that evaluations are still missing.
- **If joint EU funding would be added** on top of the existing Member State funding, there is a risk of further distortion of competition.
- We believe that **research and development rather should be stimulated through broad measures** that reduce the costs of conducting such activities. If state aid is to be used, aid under the general block exemption should primarily be considered.

> **Compared to other state aid, the IPCEI aid becomes particularly distorting to competition**

The Story so Far

The possibilities of granting aid to important cross-border infrastructure projects between EU Member States have existed for a long time. When the Commission issued a new communication in 2014, the scope was significantly broadened to also include the possibility of supporting integrated projects in research, development, and innovation. The projects that can be supported must be at the technological forefront and of a strongly innovative nature. The framework that was designed was more permissive, in that there are no real limitations on how much aid can be granted, other than that it cannot exceed the funding gap calculated for each project. There is thus no limitation on how large or unprofitable projects that can be supported, or how extensive the aid can be in absolute numbers. Another extension is that aid to first industrial development is possible – a kind of prototype and test pilot phase before regular mass production begins.

The fact that the aid can be extensive and include aid to mass production increases the distortion of competition between companies that receive aid and companies that do not. This is meant to be balanced by the fact that the aid is being given to companies participating in integrated projects, with many companies from several Member States participating and to some extent also cooperating. The cooperation between companies is a specific condition of these projects, where companies are matched together in arranged matchmaking events.

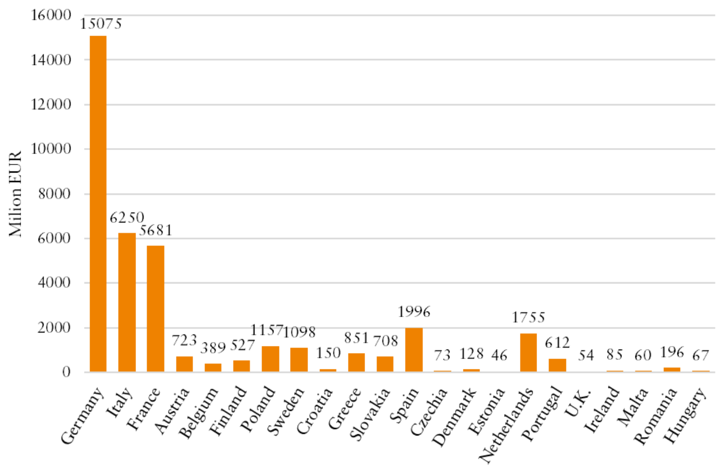
The number of companies and involved Member States is also a reason why the Commission´s assessments of each integrated project has dragged on. The projects have typically been coordinated by one Member State, but all Member States need to be included, as well as typically the relevant authorities in each Member State. The number of companies is in itself a risk for the review taking a long time. A chain is never stronger than its weakest link, and even if most companies produce the requested information at short notice, it is enough that one or a few companies do not deliver on time for the entire assessment process to be delayed.

The Commission has published some information on how the application of the IPCEI framework to integrated projects has progressed since the communication was published, but some important questions have still been unanswered. With this article, we hope to shed some lights by supplying some fundamental facts

Which Member State has Granted the Most IPCEI Aid?

The purpose of using integrated projects involving companies from several Member States is to spread the aid and reduce systematic distortion of competition between companies from different Member States. It is therefore relevant to examine how much aid each Member State has granted within the framework of the integrated projects that have taken place so far.[1]

Figure 1: Total amount of aid granted per Member State



As Figure 1 shows, Germany is the country that has granted by far the most aid, accounting for 40 percent of the total amount of aid granted, totalling over 15 billion euros. This is followed by Italy and France with 17 and 15 percent respectively. These three countries have together granted 72 percent of the aid, almost three-quarters of all aid. In other words, Germany has granted more aid than all other EU countries combined, excluding Italy and France.

It can also be noted that several countries have barely granted any aid at all within the framework of IPCEI. The Czech Republic, Estonia, Ireland, Malta, and Hungary have all granted less than 100 million euros each. Bulgaria, Cyprus, Latvia, Lithuania, Luxembourg, and Slovenia have not participated in any IPCEI at all.

[1] These statistics covers the 8 first approved IPECI:s, as the Commission's decisions in the last two approved cases have not yet been published.

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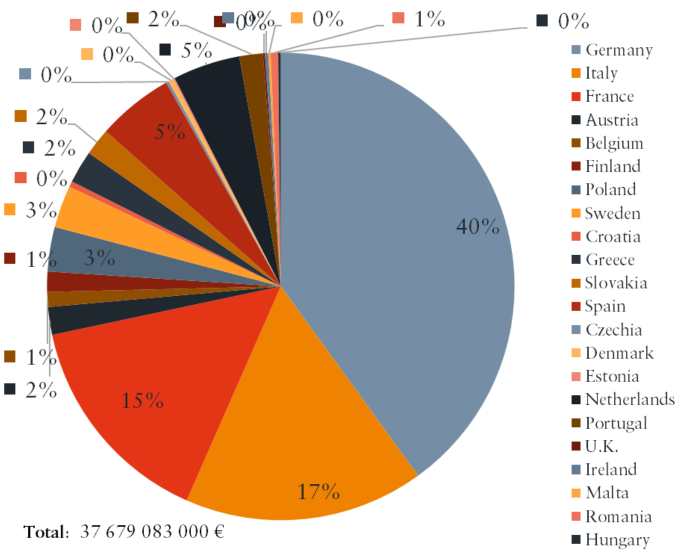
Figure 2: Share of total amount of IPCEI aid granted

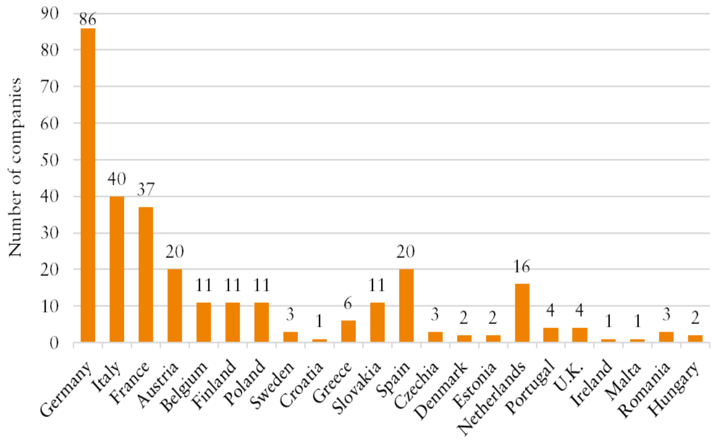


In addition, Germany is also the country that most often has acted as the coordinating Member State, thus holding the process together from the Member States' side in relation to the Commission. They have therefore had a particular interest in making sure that the projects are coordinated and finally approved.

How Many Companies Have Participated from Each Member State?

The integrated projects consist of many companies from different Member States. Here too, Germany, Italy, and France clearly stand out as the countries that have granted aid to the largest number of their own companies. There is an expected correlation between the amount of aid granted and the number of companies that have participated. However, some countries seem to have more companies involved without the amount of aid necessarily increasing as much. Austria, for example, has 20 companies involved but has only granted a total of 723 million euros.

Figure 3: Total number of companies per Member State



To What Extent are Large Companies Versus SMEs Receiving the Aid?

The Commission has reported that out of the ten integrated projects that have been approved, 20 percent of the participating companies have been SMEs.

Consequently, 80 percent of the companies that have participated have been large companies. These have however likely received more than 80 percent of the aid amount, due to their size. The amount of aid to large companies could therefore likely be more than 90 percent.[2]

How has the Commission Assessment Time Changed?

The IPCEI assessment process has been criticized for taking too long. However, it can hardly be surprising that it takes a long time to review the large number of projects within the framework of one and the same process, where all projects must be assessed and approved before the entire integrated project can be given the green light.

There seem to have been no clear shortening of the time it takes to approve an IPCEI. Apart from the first pioneering project involving microelectronics, the two most recent projects in the selection have taken the

[2] A sample shows a large spread in the amount of support that goes to companies designated as SMEs. In the first IPCEI on Microelectronics, only 0.13% of the support went to SMEs. In the Second IPECI on Batteries, 6 % went to SME and in Hydrogen IPCEI Hy2Tech 20,5% went to SME.

longest time to approve, despite not being the projects that included the most companies. It can also be noted that it generally takes about 1–2 years to complete the projects from pre-notification to final approval. It can be assumed to be difficult to shorten this time significantly unless major changes are made to the model and process.

Figure 4: Participation and time frame per IPCEI

IPCEI	Number of participating companies	Number of participating countries	Time frame** (days)
First IPCEI on Microelectronics (2018)	30	5	799
First IPCEI on Batteries (2019)	23	7	165
Second IPECI on Batteries - EUBatin (2021)	46	12	423
First Hydrogen IPCEI - Hy2Tech (2022)	41	15	318
Second Hydrogen IPCEI - Hy2Use (2022)	35	13*	386
Second IPCEI on Microelectronics and Communications Technologies (2023)	68	14	538
IPCEI on Next Generation Cloud Infrastructure and Services (2023)	19	7	610
Third Hydrogen IPCEI - Hy2Infra (2024)	33	7	657

*Norway participated in *Second Hydrogen IPCEI - Hy2Use (2022*) however, they have not been included in this survey.
**The time frame is calculated from the day the first country submitted their pre-notification until the day the decision of approval was announced.

Our Conclusions

The most obvious conclusion is that IPCEI does not lead to a more equal use of state aid. On the contrary, a few Member States are the big spenders while many others are not involved at all. Germany stands out as the country that grants the most aid, has the most participating companies, and has coordinated most of the integrated projects. It is also worth noting that the support essentially goes to large companies.

All in all, this means that it is justified to demand caution in the further use of IPCEI. Compared to other state aid, the IPCEI aid becomes particularly distorting to competition as larger aid levels can be used, as well as aid up to the phase right before mass production. It would be particularly problematic if joint EU funding were added on top of the existing state aid – this would risk further exacerbating the distortion of competition that can now be observed. Any revisions to the IPCEI framework should therefore be focused on increasing efficiency and transparency. It should be considered to introduce limitations to aid levels that can be approved, and perhaps not focusing only on large projects with a large number of companies that increase the complexity of the project. Further insights are required, as the first evaluations are not due for some time.

To support research and development, it would however in many cases be more appropriate to avoid state aid as a tool altogether, and instead use broad measures that stimulate the use of research and development and reduce the cost of this, among SMEs in particular. If state aid is deemed appropriate, the main tool should be the general block exemption, which also reduces aid levels and thus distortions of competition and allows aid to be granted without waiting for a year-long review of the aid.

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Methodology

This review does not include the two most recent projects, Hy2Move and Med4Cure, unless otherwise stated, as the Commission's decisions in these cases have not been published. The statistics presented on the amount of state aid refer to granted aid. In the projects where these have been approved in the form of a range, the higher range limit has been used. Granted aid constitutes the upper limit for how much aid can ultimately be paid out, which can be lower. Since it is still aid in the form of grants, it can be assumed that the difference will not be as significant as when the aid is given in the form of loans or guarantees, or when aid is given in the form of a broad budget to many unknown companies. There is also no reason to assume that differences in granted versus paid aid will systematically differ between different countries.