



Submission to:

Department for Business, Energy & Industrial Strategy:

Subsidy control: designing a new approach for the UK

Response to the call for written evidence

Date:

31 March 2021

From:

AIRTO - Association of Innovation, Research and Technology Organisations

Contact:

Dr Jane Gate

Executive Director

Email: enquiries@airto.co.uk

AIRTO (the Association of Innovation Research and Technology Organisations) represents the UK's Innovation, Research and Technology (IRT) sector and the majority of the organisations it comprises, with over 60 Public Sector Research Establishments (PSREs), Research and Technology Organisations (RTOs) including the Network of Catapult Centres, and some other public and private supporting bodies in membership. The latter includes the Knowledge Transfer Network (KTN), the Science and Technology Facilities Council, a couple of academic knowledge transfer departments and IBM's Research Group. The sector employs over 57,000 people and undertakes more than £6.9 Bn's worth of research and development (R&D) related activity per annum.

AIRTO's interaction with the subsidy control system

Most of AIRTO's members, working in the field of research and development, are subsidy receivers as are many of their clients also working in this field. AIRTO's members' missions are to advance the availability and adoption of scientific and technological developments for both commercial and public good purposes. They employ several tens of thousands of highly qualified staff and work, usually collaboratively, across almost all sectors of the economy and extensively with industry, academia and government.

AIRTO consents to publication of this response.

AIRTO would like to be contacted when the consultation response is published.

Our response to the consultation

This response from AIRTO focuses on four vital aspects of subsidy control that impact on UK ambitions to raise R&D spend to 2.4% of GDP and position the UK post-Brexit and post-pandemic as a 'Science and Technology Superpower' on the world stage.

These four aspects stress the need for:

- Treatment of R&D and its commercialisation as a low-risk activity in terms of causing harm and distortion to free markets.
- Treatment of the IRT sector as requiring tailored subsidy control provisions and specific guidance in order to support UK innovation strategy and harness UK national assets in this area to directly support government, economic and societal goals.
- Reduction in bureaucracy and rule interpretations that have hitherto hampered engagement with public sector schemes to incentivise R&D.
- Extension/enhancement of support to later stage and translational R&D in order to accelerate commercialisation and increase adoption of successful research outcomes.

The IRT sector: a differentiated national asset

The IRT sector is differentiated from other sectors by a number of characteristics that warrant tailored provision and specific guidance on subsidy control (see question 30 in the [consultation document](#)). These characteristics include:

- The IRT sector's positioning as a strategically important sector for government and its role in delivering on UK priorities which are held back by market failures. These priorities include R&D, commercialisation of research outcomes, the drive for Net Zero and the innovations required for economic growth post-Brexit and the pandemic.
- The sector addresses market failures by collaborating with both public and private sector stakeholders and their sources of finance to take on and develop mid Technology Readiness Level (TRL) technologies and other innovations, before handing them on to fully commercial businesses or social enterprises to scale up and grow.

- Organisations operating within the sector are mission driven and exist largely to serve the public good. This in many instances requires independence from commercial ownership structures but brings with it an inability to seek capitalisation from private sources for commercial gain.
- With their mission to pass on successful risk-reduced developments for others to extract full commercial value, IRT organisations cannot themselves sustainably match grants under the standard conditions currently attached to government support for industry on the one hand or academic research organisations on the other.
- Other countries utilise different support mechanisms to address the stages of research and innovation addressed by the IRT sector; support mechanisms which are not currently offered in the UK. Therefore, in order to properly address the challenge of capitalising on the UK's science base and innovative flair, IRT sector organisations, being neither wholly industrial or academic, need a regime tailored to their principles and modes of operation. Such organisations include Catapults, RTOs and PSREs.
- The capability to represent the UK's scientific, technical and standards expertise and national interests in international fora. IRT organisations are heavily involved in this activity representing their own industrial sectors for the UK, often without any public support.
- The capability to contribute to governmental efforts to advance recognition of the UK's scientific, technological and innovation expertise on the world stage, and to contribute to the UK's reputation as a 'Science and Technology Superpower'. AIRTO members, a significant part of the IRT sector, have world class reputations and many operate worldwide. Targeted public support will allow this reputation and these activities to hugely enhance the UK's presence on the world stage as a 'Science and Technology Superpower'.

Accordingly, it is appropriate that subsidy control for the sector should be tailored:

- i) to facilitate the role played by the IRT sector on the world stage, the services it provides in support of the public good and the increased return on government investment in the science base, and
- ii) to compensate for some of the constraints arising because the sector is not and cannot be fully reliant on and driven by commercial market interests. See the response to question 30 below for more detail on the nature, extent and form of the tailored provisions recommended.

Below are responses to the 43 questions asked in the consultation document and via the on-line survey portal.

Question 1: What type of subsidies are beneficial to the UK economy?

Subsidies supporting businesses to develop capabilities in areas of market failure that 'weaken UK commercial competitiveness or essential infrastructure and resilience' are beneficial. This is particularly the case where gaps in essential services and the nation's capabilities to deal with evolving future needs or in its preparedness to meet major threats and crises are concerned (pandemics, cyber intrusion, overdependence on foreign suppliers for critical technologies, etc.). The need for improvements in capability to react to future circumstances can, in many instances, be anticipated ahead of unsatisfied market demand emerging. Innovation in product and process is often a vital part of these improvements in capability. To prepare supply side capacity to address such future scenarios requires the government to work with the private sector to identify future needs on a speculative basis, sharing risk and cost using subsidies to incentivise innovation that current market demand would not sustain.

Instances of recent damaging gaps in capability are the UK's lack of an industrial base for medical diagnostics and the poor stocks of, and supply chains for, PPE at the commencement of the COVID-

19 pandemic. Huawei's involvement in UK 5G infrastructure is another case in point, where security concerns have vetoed a key supplier which cannot be replaced with an existing national partner.

Question 2: What type of subsidies are potentially most harmful and distortive?

Very harmful and distortive are those subsidies that enable a favoured supplier to dominate a market and freeze out new private participants from areas of commercially exploitable activity. This can happen where prolonged subsidy support for operational costs sustains competitiveness and commercial advantage. Utility companies can be involved in this kind of uncompetitive practice.

Examples of subsidies which waste or divert valuable resources at public expense can be found in the blanket government push to publish and commercialise research results as soon as they are available (referred to as 'technology push'). This can force premature spin out of insufficiently incubated ventures from universities without solid routes to market or connection to the expertise and resources needed to transition early-stage ideas to revenue generation and eventual scale-up. Much of the subsidy applied to supporting such 'technology push' ends up being wasted. Public subsidies for supply side 'technology push' need to be balanced by support for 'market pull' from potential users of new ideas, helping them to take on the considerable risks inherent in addressing and even creating new markets. Over recent decades the government's university focused R&D strategy has unbalanced the UK ecosystem in favour of investment in basic research, at the expense of UK capability to develop and exploit its potentially valuable research outcomes.

Subsidies that encourage businesses to engage in serial but incomplete developments without going on to full commercialisation and scale-up of successful outcomes (grant dependency) can sap true entrepreneurialism. Grants that just lead on to more grants, supporting projects that do not have clear and viable follow-on plans and routes to commercialisation expertise and financing are frequently wasteful of resources.

Open competitions inviting proposals for applicant defined work within specific topic areas do not result in outcomes needed to address priorities for near-term utilisation of science and technology. More tightly outcome-defined calls for project proposals would better serve the drive for commercial application of UK research.

Deployment and management of grant schemes should be undertaken by organisations that not only understand the policy intent behind provision of their grants but understand also both the nature of the research to be supported and the real-world practicalities of commercialisation. Too often grants are seemingly offered mainly to signal action on the part of government in response to calls for assistance (for help to small companies for example). Oversimplification of deployment mechanisms in order to reduce administrative costs to the absolute minimum results in too much indiscriminate and potentially wasteful uptake. Higher levels of investment in scheme management would pay dividends and help grant recipients also contribute more effectively to achievement of strategically important policy goals (Net Zero carbon emissions, for example). Grants could be better targeted therefore to improve value for money.

Question 3: Do you agree with the Government's objectives for a future subsidy control regime? Are there any other objectives that the Government should consider?

Broadly speaking, AIRTO agrees with the objective to create a more flexible and manageable regime better suited to the UK's post-Brexit global role in the world.

However, there is too much emphasis in the proposals on preventing harm and avoiding challenges to the scheme at the expense of supporting risk sharing and entrepreneurialism inherent in progressing forward looking initiatives and ventures critical to strengthening innovation and the UK's competitiveness. It is important to note also that the UK interpretation of the current EU regime has

frequently erred on the side of inflexibility and restriction of support going beyond the interpretations adopted by other EU member states. This has led to excessive caution in the funding of applied research, development and demonstration, and sub-critical deployment of support, skewed away from the market/application help needed for effective UK exploitation of R&D.

Additional objectives should be to advance national capabilities that are needed to address circumstances of national importance in which a solely market driven response will be too late; for example – mitigating climate change impacts/achieving net zero carbon emissions and building capability to respond to unexpected types of future disease pandemic. Subsidies at suitably 'attractive' levels of support should be employed to incentivise and help the private sector prepare to respond to the demand arising from such eventualities.

Question 4: We invite respondents' thoughts on further sources of evidence that would help to strengthen our analysis of policy impacts. In particular:

- *Additional datasets (other than the European Commission's Transparency Award Module) on local or regional subsidy awards (e.g., by value, sector or category)*

- *Research and evaluation projects that have been conducted on the impacts of different types of subsidy awards on domestic competition and trade (e.g., by value, sector or category)*

AIRTO does not have any comments on the sources of evidence listed above.

However, we would suggest that such evidence and datasets, essential as they are, provide retrospective analysis. Decisions on a future Subsidy Control regime will be better served by modelling and analysis to underpin new and innovative options for potential adoption going forward, in order to cater for expected new ways of doing business post Brexit, post pandemic and in the forthcoming net zero era.

Question 5: We invite respondents' views on whether our proposed subsidy control regime, including the way it functions, may have any potential impact on people who share a protected characteristic (age, disability, gender re-assignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex (gender) or sexual orientation), in different ways from people who don't share them. Please provide any evidence that may be useful to assist with our analysis of policy impacts.

AIRTO does not have a specific contribution to make on this nevertheless important topic.

Question 6: Do you agree with the four key characteristics used to describe a support measure that would be considered a subsidy? If not, why?

Yes, we would agree.

Question 7: Should there be a designated list of bodies that are subject to the new subsidy control regime. If so, how could that list be constructed to ensure that it covers all financial assistance originating from public resources?

Ideally, yes. The list could be compiled in the first instance from records of those entities involved in deploying public funds in ways that match the characteristics listed in question 6.

Question 8: Do you think agricultural subsidies in scope of the AoA and fisheries subsidies should be subject to the proposed domestic arrangements? If so, what obligations should apply?

N/A

Question 9: Do you think audio-visual subsidies should be subject to the domestic regime? Please provide a rationale for your answer.

N/A

Question 10: Do you agree with the inclusion of an additional principle focused on protecting the UK internal market by minimising the distortive effects on competition?

Yes, where the objective is to protect the internal market from damage to key supply chains which support essential services, critical national infrastructure and the safeguarding of national security.

Question 11: Do you think there should be any additional principles?

Controls applied to the deployment of subsidies should not impose additional irrecoverable costs on the beneficiary. This is not the case with the current conditions attached to R&D grants and is particularly relevant to IRT sector organisations whose primary activity is R&D with and for collaborators.

Grants should cover an agreed proportion of full (overhead included) project costs and should not be calculated on a marginal costing basis. There should not be an assumption that the recipient would undertake the project anyway even without the grant. It should be assumed that projects supported will be in addition to activities otherwise undertaken. Such additional projects incur additional overhead costs and these should be supported in the same proportion as direct costs.

Grants aimed at incentivising innovation should be simple to understand and manage; overcomplicated and restrictive grant schemes can disincentivise applications and defeat the intended purpose.

Question 12: What level of guidance or information would be helpful for public authorities to assist with their compliance with the principles?

Guidance should be very clear and unambiguous. There should be limited scope for discretionary interpretation. Success in guidance and information will be a widespread understanding of Subsidy Control rather than the limited understanding that was the case with EU State Aid Rules.

There should be clear permission to put achievement of intended policy goals first, even if that incurs a degree of risk. There should be incentives to support innovation. Funders should not default to risk aversion in making judgements concerning likelihoods of failure. They should not try to eliminate risks associated with innovation and the costs associated with their mitigation. Value for money assessments should be weighted in favour of innovative project proposals.

The level of subsidy for innovative actions should take account of the level of risk, dissemination and public relevance of the results, and the remaining risk and amount of purely private investment needed to secure subsequent commercialisation. This contrasts with the previous EU State Aid Rules, where the level of subsidy was based on three rigid categories (fundamental research, industrial research and experimental development) - fundamentally just a crude measure of nearness to market and nothing else. Guidance must address the risk and cost-based factors outlined above as more appropriate for determining subsidy levels.

Question 13: Should the threshold for the exemption for small amounts of financial assistance to a single recipient replicate the threshold in the UK-EU Trade and Cooperation Agreement at 325,000 Special Drawing Rights over a three-year period? If not, what lower threshold would you suggest and why?

Yes. And ideally it should be set higher, particularly for high-cost industries and areas of activity, in order to minimise the burden of demonstrating compliance. The level should be regularly reviewed to ensure it is working in the national interest and achieving its aims.

Question 14: If you consider the small amounts of financial assistance threshold should replicate the UK-EU Trade and Cooperation Agreement, should it be fixed at an amount of pound sterling (GBP)?

Replicating the UK-EU Trade and Cooperation Agreement in the threshold is a sensible starting point (with the caveat given in the answer to question 13). The benefit will be setting a level that UK organisations are accustomed to working with. However, as discussed above, this should be subject to regular review.

Fixing the level in pounds sterling will be a sensible action.

Question 15: Do you agree that subsidies under the proposed small amounts of financial assistance threshold be exempt from all obligations under the domestic regime, except for the WTO prohibitions? If not, why?

Yes.

Question 16: Should relief for exceptional occurrences be exempted from obligations regarding principles, prohibitions and conditions in the subsidy control regime?

Yes.

Question 17: Should subsidies granted temporarily to address a national or global economic emergency be exempted from the rules on prohibited subsidies and any additional rules set out below?

Yes.

Question 18: Should the threshold for the exemptions for Services of Public Economic Interest replicate the relevant thresholds in the UK-EU Trade and Cooperation Agreement at 750,000 Special Drawing Rights over a three-year period, and for transparency obligations at 15 million Special Drawing Rights per task? If not, what lower threshold would you suggest and why?

Yes.

Question 19: If you consider the SPEI thresholds should replicate the UK-EU Trade and Cooperation Agreement, should they be fixed at an amount of pound sterling (GBP)?

Yes, so that there is a non-varying value.

Question 20: Do you agree with the Government's approach to prohibitions and conditions? Should any types of subsidy be added to either category? If so, why?

Yes, to the approach to prohibitions and conditions. Except that the following prohibitions as currently applied give rise to insurmountable difficulties for some viable businesses that are in certain special cases. As a consequence, they are prevented from pursuing their key development plans. These are:

- i) Companies caught by the definition of 'Undertakings in Difficulty', despite having long term but phased investor backed financing plans. This is a known issue currently in both the UK and EU. See also the response to question 30.

- ii) Companies dealing with situations where risks are uninsurable, but government insists on companies taking on unlimited liabilities as a condition of being granted licences for undertaking specified activities (e.g., launching space vehicles).

This requires adjustments to the application of such prohibitions in such special cases to avoid unintended prevention of otherwise viable businesses going forward.

No, to the addition of other types of subsidy.

Question 21: Would more detailed definitions of any of the terms set out in this section, including the definition of “ailing or insolvent enterprises” be useful to ensure a consistent and proportionate? approach to compliance? If so, what should these be?

Yes. Better definitions would be useful. (see response in question 20 above and to question 30).

Question 22: Should the Government consider any additional ways to protect the UK internal market, over and above the inclusion of a specific principle to minimise negative impacts? If so, what?

Yes. An underlying principle should be to maximise incentivisation and support of innovations that foster UK competitiveness.

Question 23: Would an additional process for subsidies considered at high-risk of causing harmful distortion to the UK internal market add value to the proposed principles? If so, how should it be designed and what criteria should be used to determine if the subsidy is at high-risk of causing distortion?

All subsidies should be adequately assessed for risk. High-risk of causing harmful distortion will require a more thorough assessment, but the level of assessment needed should be an integral part of the standard process.

Question 24: Should public authorities be obliged to make competition impact reviews public? If not, why?

Yes, if requested to do so and provided there is no likelihood of compromising commercial interests.

Question 25: Should public authorities be permitted to override competition impact review e.g., in the case of emergencies? If so, why?

Yes, provided reasons are documented. Emergency responses and public safety should have precedence over most other considerations.

Question 26: Should there be additional measures to prevent subsidies that encourage uneconomic migration of jobs between the four nations?

Yes.

Question 27: Could additional measures help ensure that lower risk subsidies are able to proceed with maximum legal certainty and minimum bureaucracy? What should be included within the definition of ‘low-risk’ subsidies?

The normal assessment process should be able to identify such subsidies, and allow them to proceed easily.

For R&D and innovation in particular, where the goal is to introduce new and sometimes market disruptive capabilities to the economy in due course, subsidies could be classed as low-risk subsidies, particularly where significant technical and market risks remain to be tackled between completion of

the subsidised R&D phase and full commercial adoption. This is because the near-term likelihood of significant direct negative impact on existing markets and suppliers is also likely to be low.

Question 28: What guidance or information would be helpful for public authorities to assist on lower risk subsidies?

Including case studies in guidance could be helpful. Explanations should be issued in language that is as plain as possible and user-orientated terminology should also be the goal.

Question 29: Should the specific rules on energy and environment subsidies apply only in so far as they are necessary to comply with trade agreements? Or should they apply under the domestic regime more generally?

Limiting to compliance with FTAs would minimise controls and maximise freedom to innovate.

Question 30: Which sectors or particular categories of subsidy (such as for disadvantaged areas, R&D, transport, skills etc.) would benefit from tailored provisions or specific guidance on subsidy control? If so, why, and what should the nature, extent and form of the provisions be?

The IRT sector is differentiated from other sectors by a number of characteristics that warrant tailored provision and specific guidance on subsidy control (see question 30 in the consultation document). These characteristics include:

- The IRT sector's positioning as a strategically important sector for government and its role in delivering on UK priorities which are held back by market failures. These priorities include R&D, commercialisation of research outcomes, the drive for Net Zero and the innovations required for economic growth post-Brexit and the pandemic.
- The sector addresses market failures by collaborating with both public and private sector stakeholders and their sources of finance to take on and develop mid TRL technology and other innovations, before handing them on to fully commercial businesses or social enterprises to scale up and grow.
- Organisations operating within the sector are mission driven and exist largely to serve the public good. This in many instances requires independence from commercial ownership structures but brings with it an inability to seek capitalisation from private sources for commercial gain.
- With their mission to pass on successful risk-reduced developments for others to extract full commercial value, IRT organisations cannot themselves sustainably match grants under the standard conditions currently attached to government support for industry on the one hand or academic research organisations on the other.
- Other countries utilise different support mechanisms to address the stages of research and innovation addressed by the IRT sector; support mechanisms which are not currently offered in the UK. Therefore, in order to properly address the challenge of capitalising on the UK's science base and innovative flair, IRT organisations, being neither wholly industrial or academic, need a regime tailored to their principles and modes of operation. Such organisations include Catapults, RTOs and PSREs.
- The capability to represent the UK's scientific, technical and standards expertise and national interests in international fora. IRT organisations are heavily involved in this activity representing their own industrial sectors for the UK, often without any public support.
- The capability to contribute to governmental efforts to advance recognition of the UK's scientific, technological and innovation expertise on the world stage, and to contribute to the UK's reputation as a science superpower. AIRTO members, a significant part of the IRT sector, have world class reputations and many operate worldwide. Targeted public support will allow this reputation and these activities to hugely enhance the UK's presence on the world stage as a 'Science and Technology Superpower'.

Accordingly, it is appropriate that subsidy control for the sector should be tailored i) to facilitate the role played by the sector on the world stage, the services it provides in support of the public good and the increased return on government investment in the science base, and ii) to compensate for some of the constraints arising because the sector is not and cannot be fully reliant on and driven by commercial market interests.

The list below addresses problems and frustrations that have been experienced with the UK implementation of EU State Aid rules hitherto and which could be alleviated in the new Subsidy Control Regime. The issues listed apply in some instances directly to IRT organisations and/or to young innovative growth companies that the IRT sector is trying to assist and stabilise.

Issues to be addressed going forward

Below is a tabulation of more detailed concerns with the State Aid rules and their interpretation in recent years

Concern	Recommendation
<p>1) Current grant terms and conditions from funders result in problematic overhead under-recovery for industry and for IRT sector organisations (e.g., non-profit organisations such as Catapults and RTOs) in particular, disincentivising their participation in government grant schemes and collaborative R&D with industry and academia. Work arounds offered increase administrative burdens for recipients and distort their accounting practices.</p> <p>The current arrangements require the grant beneficiary to bear additional irrecoverable overhead and/or admin costs and to accept fundamental revision to/distortion of usual management accounting practices. This is a source of intense frustration and deters some important participants from engaging with grant-supported R&D collaborations.</p>	<p>We believe that one-size-fits-all overhead recovery allowances should be abandoned. The new regime should adopt specific differentiated allowances for SMEs, Large Companies, RTOs/Catapults/Non-profit Research Organisations and academia, in each case suited to accounting regimes applied within these categories. Making these changes would avoid the current situation where complex work arounds are required from grant beneficiaries in order to minimise grant provider administration costs.</p>
<p>2) The UK's grant support practices have long been considerably more restrictive than those adopted by other European countries, hitherto under the same set of State Aid rules. One consequence is that this has skewed support to research at the expense of development and demonstration, exacerbating the valley of death gap in exploitation of research outcomes; conservative interpretation of the rules has been even more vigorous and restrictive than adopted by the EU itself!</p>	<p>The new UK subsidy control regime should provide guidelines for grant providers to exercise greater flexibility in applying distance from market and intervention rate eligibility criteria in order to address this problem.</p>
<p>3) Intervention rates for higher Technology Readiness Level (TRL) R&D are insufficient to offset the higher costs and greater risks attached to later stage R&D and its translation to the commercial arena. This</p>	<p>Intervention rates should be set according to levels of risk attached to the work involved (rather than just nearness to market). Risk is frequently higher in later stage development and demonstration than in early-stage</p>

<p>has resulted in premature spin-outs from universities and subsequent abandonment of both these and other opportunities for exploitation at demonstration stage.</p>	<p>research. Higher intervention rates for higher TRL work would incentivise greater risk taking by industry and lead to more effective take up and exploitation of research outcomes. Also, the intervention rate should be applied separately to each project participant and not just to the project as a whole as the latter disincentivises industry participation where there is a high academic content at the full 80% Full Economic Cost (EC) intervention rate.</p>
<p>4) Over simplified 'Undertaking in Difficulty' clauses and associated eligibility problems cause extreme difficulties for businesses which need time to build up their systems and infrastructure prior to becoming revenue generating.</p>	<p>The exemption period and/or the balance sheet thresholds for ventures affected in this way should be extended/adjusted.</p>
<p>5) Re-tendering requirements imposed on multi-phase projects reduce incentives for business risk-taking and require changes to subsidy and procurement rules to alleviate this problem.</p>	<p>The new regime should disapply retendering rules unless the incumbent supplier fails to deliver or requests a retendering step.</p>
<p>6) Insistence that grant payments are withheld until evidence of corresponding outgoing payments appear in their bank accounts creates serious cash flow difficulty for SMEs. No provisions are available for advance payments as are available within EU grant schemes.</p>	<p>The new regime should make provision for advance payments and neutral cash flow profiles for grant supported projects with safeguards to recover unspent or misused funds in the event of company failure or failure to deliver project outcomes.</p> <p>Provisions were made for advancing such payments during the current COVID19 pandemic.</p>
<p>7) Governmental financial year accounting practices based on annualisation of commitment and permitted cash spending frequently impacts grant schemes and is a massive problem to industry and academia making use of this type of subsidy support. This distorts planning, execution and efficiency of support schemes. Also, industry needs at least a year's notice to source budgets for funding to match grants. Note that grants are intended to incentivize projects that would not otherwise happen and therefore require additional specific cases to be made by industry ahead of yearly budgeting cycles. That also requires notice well in advance of grant support schemes if industry is to be able to engage.</p>	<p>Subsidies for R&D support schemes should be planned over multi-year timeframes and released with plenty of notice, in time for participants to plan and budget for their own contributions.</p>
<p>8) The exemption level for small amounts of financial assistance (de-minimis in previous EU terms) are too low for research and innovation activities in high-cost areas.</p>	<p>R&D project costs and costs of entry for companies commercialising research outcomes are frequently higher than are typically found elsewhere. Consequently, de-minimis</p>

	thresholds for the IRT sector and early-stage commercialisation businesses should be raised.
9) Recent moves to limit R&D tax relief to the applicant's payroll costs and disallow costs incurred when placing subcontracted R&D work with other parties are damaging to collaboration. This restriction incentivises R&D being carried out in-house rather than taking advantage of existing expertise already available elsewhere.	This recently introduced restriction should be dropped. AIRTO welcomes the current review of R&D tax credits and advocates measures that will increase the investment in R&D and encourage more effective collaboration.
10) There was an issue for some pre-revenue companies seeking government aid during the pandemic emergency. They were deemed ineligible or unsuitable for support if there was no quick and easy way at short notice to verify their bona fides. I.e., they had not yet filed tax returns demonstrating financial viability or succeeded in passing due diligence tests to attract third party investment from venture capital funds. This was not a state aid issue but more of a fear of fraud issue.	This problem could be alleviated by using a trusted third party to pre-screen pre-revenue companies prior to a first application for grant or subsidy, speeding up application processes and widening the community that could benefit from early-stage government support. Independent government-supported IRT organisations such as PSREs, Catapults and non-profit RTOs could undertake this for government.
11) Place issues: intervention rate manipulation could risk incentivizing companies to migrate from one region to another.	The merits of clustering have been well articulated. However, incentives offered to encourage existing companies to leave clusters for other localities should be avoided. The place agenda should be addressed by prioritising placement businesses into areas from which remote working and virtual, co-working clustering will be most feasible and advantageous.

Question 31: Do you agree with the proposed rules on transparency? If not, why?

N/A.

Question 32: Do you agree that the thresholds for the obligation on public authorities to submit information on the transparency database should replicate the thresholds set for small amounts of financial assistance given to a single enterprise over a three-year period and for transparency for SPEI?

N/A

Question 33: If not, should the threshold be lowered to £175,000 over a three-year period to cover all reporting obligations for Free Trade Agreements, enabling all of the UK's international subsidy transparency obligations to be met through one database?

N/A

Question 34: Should there be a minimum threshold of £50,000 below which no subsidies have to be reported?

N/A

Question 35: Do you agree that the obligation should be to upload information within six months of the commitment to award a subsidy?

N/A

Question 36: What should the functions of the independent body be? Should it be responsible for any of the following:

- **information and enquiries;**
- **review and evaluations;**
- **subsidy development advice;**
- **post-award review; and/or,**
- **enforcement.**

All of these are appropriate.

Question 37: Should any review of a subsidy by the independent body consider all the principles, and the interaction between them, or only some principles, and if so which ones?

Any review of a subsidy by the independent body should be allowed to consider all the principles if it thinks appropriate to its work.

Question 38: What role, if any, should the independent body play in advising public authorities and reviewing subsidies before they have been awarded?

N/A

Question 39: If the independent body is responsible for post-award review, what types of complaints should it be able to receive and from whom?

N/A

Question 40: Which, if any, enforcement powers should the independent be given? In what circumstances could the body deploy them? What would be the routes of appeal and the interaction with judicial enforcement?

N/A

Question 41: How should the independent body be established in order to best guarantee its independence and impartiality when exercising its operational functions?

N/A

Question 42: In addition to the application of time limits, are there any other considerations for implementation of the recovery power?

N/A

Question 43: Should a specialist judicial forum such as the Competition Appeals Tribunal hear challenges to subsidy schemes and awards? If not, why?

N/A