

## State Aid Scoreboard – EEA/EFTA States

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## EXECUTIVE SUMMARY

The present scoreboard covers state aid granted in the three EFTA States, Iceland, Liechtenstein and Norway during the years 2004 and 2005. The overall level of state aid granted by the three EFTA States was estimated at €1.4 billion in 2004 and €1.6 billion in 2005. There are important differences in the state aid policies pursued by the three EFTA States. Measured against the size of national economies Norway granted by far more aid than the two other EFTA States: In 2004 Norway granted €1380 million and €1571 million in 2005, while Iceland granted €7.40 million in 2004 and €7.59 million in 2005. In 2004 Liechtenstein granted €1.12 million and €1.08 million in 2005.

There are also substantial differences with respect to the purposes for which aid was granted. Iceland allocated a comparatively large share of its aid to research and development while regional aid dominated in Norway. Liechtenstein granted only sectoral aid to media and financial services.

The use of the aid instruments also differed in the EFTA States. Norway granted most of its aid in the form of tax concessions while Iceland granted almost all aid in the form of grants. Liechtenstein granted most of its aid in the form of guarantees.

As a part of the State Aid Action Plan the European Commission has called for “less and better targeted” aid. While this points to policy changes over time, the scoreboard presents a comparison of aid (excluding aid to agriculture, fisheries and transport) granted in the three EFTA States with the EU Member States for the year of 2005. This comparison shows that Norway granted more aid relative to GDP (0.55%) than the average of the EU Member States (0.42%). Iceland and Liechtenstein, on the other hand, were among the states granting the least amounts of aid in relation to the size of their economies (Iceland 0.15% and Liechtenstein 0.04%). Under the State Aid Action Plan aid to for example research and development and other so-called “horizontal” objectives are considered to be preferable to “sectoral” aid. While aid in Liechtenstein belonged to the latter category, most aid in Iceland and Norway was of a horizontal nature.

It may be noted that the three EFTA States granted relatively little aid to environment and energy saving. Iceland and Liechtenstein granted no aid to the environment while Norway granted a comparatively low share of its aid for this objective and considerably less than some of the EU Member States.

## INTRODUCTION

This is the first time that the EFTA Surveillance Authority (the “Authority”) publishes a scoreboard on the volume of state aid granted in Iceland, Liechtenstein and Norway which are Contracting Parties to the EEA Agreement (hereinafter referred to as the “EFTA States”). The scoreboard is based on data submitted by the three states according to their obligations under the EEA Agreement and the Agreement between the EFTA States on the Establishment of a Surveillance Authority and a Court of Justice. While a reporting system has been in place since the inception of the EEA Agreement, the methods for gathering data and the manner in which the data is being processed have been entirely revamped for purposes of establishing the scoreboard. In general EFTA States have welcomed this approach which should, in principle, result in less work and more clear results in the long-term and in a better basis for monitoring the implementation of existing aid schemes in the future by the Authority.

In June 2005 the European Commission launched a “State Aid Action Plan” which calls for “less and better targeted State aid”. The goal of the State Aid Action Plan is to use the state aid rules to encourage contributions to the Lisbon Strategy by focussing aid on improving the competitiveness of the industry and creating sustainable jobs.<sup>1</sup> In practical terms this means that while overall state aid is to be reduced, aid towards horizontal objectives, such as research and development, innovation and risk capital may be increased. One of the purposes of the current scoreboard is to assess state aid policy in the EFTA States in the light of the policy objectives in the State Aid Action Plan. Although the Lisbon objectives are set for the European Union it should be recalled that the EEA Agreement calls for a uniform surveillance in the field of state aid throughout the EEA. The Authority therefore adopts and implements guidelines on the application of the state aid rules in line with those of the European Commission, following necessary adjustments based on particularities of the EEA Agreement and the EFTA States. Accordingly, the policy objectives outlined in the State Aid Action Plan are therefore also relevant for the EFTA States.

The present scoreboard has been prepared and issued in close contact with the European Commission. This implies that figures have been calculated on the basis of similar premises as those applied for purposes of the state aid scoreboard in the Member States of the European Community. This approach has been chosen for purposes of facilitating a comparison between the two scoreboards and in order to enable potential readers to obtain an overview of aid granted EEA-wide.

Having said this, the scoreboard prepared by the Authority differs from that of the European Commission due to the more limited scope of the EEA Agreement compared to the EC Treaty. In this regard it is relevant to recall that the EEA Agreement provides for an extension of the internal market of the Community to the territories of the three EFTA States via the application of the rules on the four freedoms (on free movement of goods, persons, services and capital)

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<sup>1</sup> The Lisbon Strategy (also known as the Lisbon Agenda or Lisbon Process) is an action and development plan for the European Union, set out by the European Council in Lisbon in March 2000. The Lisbon Strategy intends to deal with the low productivity and stagnation of economic growth in the EU, through the formulation of various policy initiatives to be taken by all EU Member States - of which the broad ones are to be attained by 2010. The main fields are economic, social, and environmental renewal and sustainability. Important economic concepts of the Lisbon Strategy are innovation as the motor for economic change; the “learning economy” and social and environmental renewal.

and the common competition rules. However, rules on the tax, agricultural and fishing policies of the Community are not covered by the EEA Agreement.<sup>2</sup>

Aid for transport is covered by the scoreboard. According to the aid measures reported and reviewed for purposes of the scoreboard only Norway granted aid to the transport sector. No aid was reported to be directed at the railways sector.<sup>3</sup>

Another important area concerns compensation for the provision of public service obligations. In its judgment in the Altmark case the European Court of Justice ruled that compensation to undertakings that perform public service obligations does not constitute state aid, provided certain conditions are fulfilled.<sup>4</sup> Hence, cases where aid is granted in compensation for public service obligations which fulfil the Altmark criteria are excluded from the scoreboard. However, other cases on aid for public service obligations are, in principle, covered by the scoreboard. For 2004 and 2005 no aid was, however, reported as having been granted by the three EFTA States for purposes of public service obligations during the period subject to review.

The scoreboard covers existing aid schemes and ad hoc aid granted during 2004 and 2005 and is divided into four main parts. Part One looks at the overall amount and type of state aid awarded by the EFTA States in 2004 and 2005. Part Two provides an overview of legislative and policy developments within the area of state aid. Part Three provides an insight into alternative measures to state aid and an overview of pending cases for purposes of recovery of unlawful state aid. Finally, Part Four provides information on methodology and information sources.

The scoreboard is available online at the homepage of the Authority (<http://www.efta.surv.int>).

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<sup>2</sup> This does however not change the fact that state aid granted in the form of tax alleviations are covered by the scoreboard.

<sup>3</sup> Just as in the case of other transport sectors than railways, secondary legislation on railways has been incorporated in the EEA Agreement.

<sup>4</sup> Case C-280/00 of 24 July 2003 was a reference for a preliminary ruling under Article 234 EC by a German national court (Bundesverwaltungsgericht) in the proceedings pending before that court. The case concerned the grant of licenses for scheduled bus transport services in the Landkreis of Stendal (Germany) and public support for operating those services.

## 1 PART ONE: OVERALL STATE AID GRANTED IN 2004 AND 2005

Based on the data reported this chapter provides an overview of all state aid granted in the EFTA States in 2004 and 2005. Overall state aid in the three EFTA States together has increased in absolute figures. However, measured against the Gross Domestic Product (“GDP”) the volume of aid has remained fairly stable.

### 1.1 State aid in absolute and relative terms

Table 1 shows total state aid in absolute figures and as a percentage of GDP.<sup>5</sup> It is clear that in absolute figures total state aid for all three EFTA States increased from 2004 (approximately €1.4 billion) to 2005 (approximately €1.6 billion). On an individual basis Norway granted by far the highest amount of aid, not only in absolute terms but also measured in relation to GDP.

**Table 1: State aid awarded in the three EFTA States, 2004 and 2005**

	2004		2005	
	Million Euro	% of GDP	Million Euro	% of GDP
<b>Iceland total</b>	17.40	0.169	17.59	0.145
<b>Iceland, less transport</b>	17.40	0.169	17.59	0.145
<b>Liechtenstein total</b>	1.12	0.039	1.08	0.037
<b>Liechtenstein, less transport</b>	1.12	0.039	1.08	0.037
<b>Norway total</b>	1380.00	0.676	1571.86	0.681
<b>Norway, less transport</b>	1097.76	0.537	1257.98	0.545
<b>EFTA-3, total</b>	1398.52	0.643	1590.53	0.647
<b>EFTA-3, less transport</b>	1116.28	0.514	1276.65	0.519

Table 1 shows also that there has been a minor increase in total aid relative to GDP in Norway, while in Iceland and, to a lesser extent, in Liechtenstein aid relative to GDP decreased between 2004 and 2005.

### 1.2 Sectoral aid

State aid may be earmarked for one or several specific sectors. If it is not also aimed at a so-called horizontal objective (such as research and development or small and medium-sized enterprises) it is referred to as pure sector-specific aid. However, aid may also be “mixed”, that is, it may be aimed at specific sectors while at the same time being aimed at a horizontal objective. The following graphs include both pure sector-specific aid as well as “mixed” aid aimed both at horizontal objectives and certain sectors.<sup>6</sup>

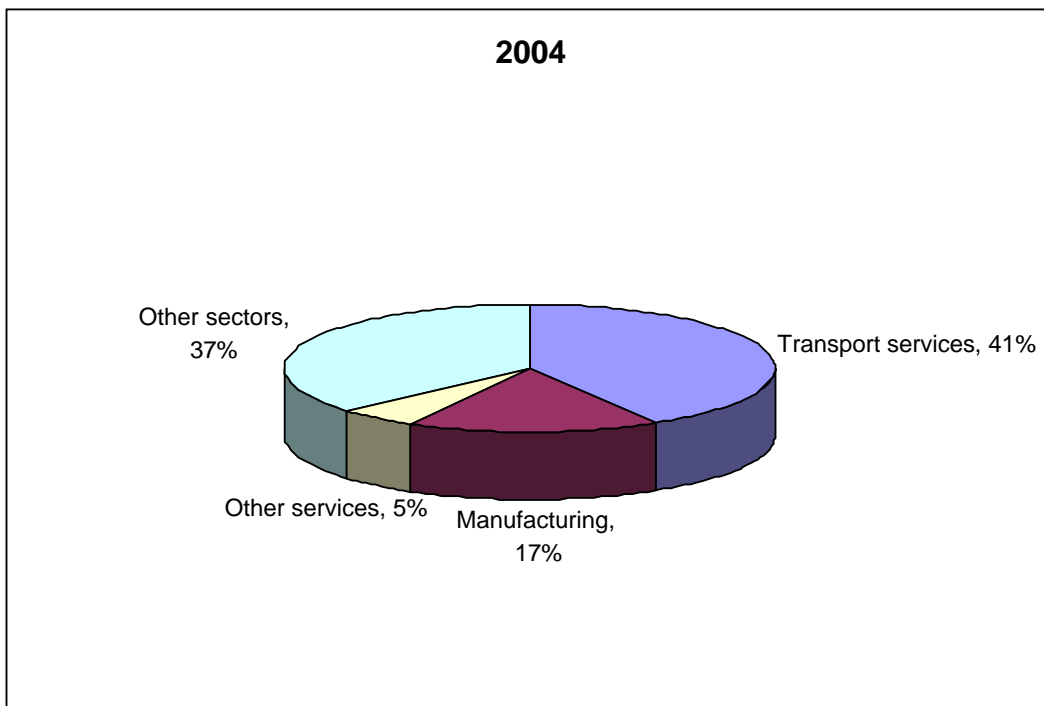
<sup>5</sup> According to EUROSTAT and the EFTA Secretariat GDP in million Euro was for 2004: Norway: 204251; Iceland: 10279 and Liechtenstein: 2833; for 2005: Norway: 230881; Iceland: 12116 and Liechtenstein: 2937. In Iceland and Liechtenstein the total state aid amounts are similar both when including and excluding aid for transport since neither of them granted aid for this purpose.

<sup>6</sup> This implies that pure horizontal aid, i.e., aid directed only at the general economic development (e.g. regional aid) and aid for horizontal objectives (such as aid for small and medium-sized enterprises, environment, employment and training) for which a specific sector is not indicated are excluded.

Based on the above approach Graphs 1(a) and (b) show aid earmarked for the manufacturing sector, transport sector, other services and other sectors in the three EFTA States.<sup>7</sup> Graphs 1(a) and (b) show that between 2004 and 2005 total aid for the manufacturing sector increased from 17% to 22% of total sectoral aid. A rather large share of total sectoral aid was granted to the transport sector although aid for transport decreased from 41% in 2004 to 36% in 2005. Aid for other services remained to represent a small part of total sectoral aid of around 4-5%. The remaining group, other sectors, received a fairly high share of overall sectoral aid, 37-38% over the two years subject to review.

The total level of aid in the three EFTA States are heavily influenced by the amount of aid granted by Norway (some 99% of total aid has been granted by Norway). Hence Table 3 provides an overview of the grant of sectoral aid on an individual EFTA State basis.

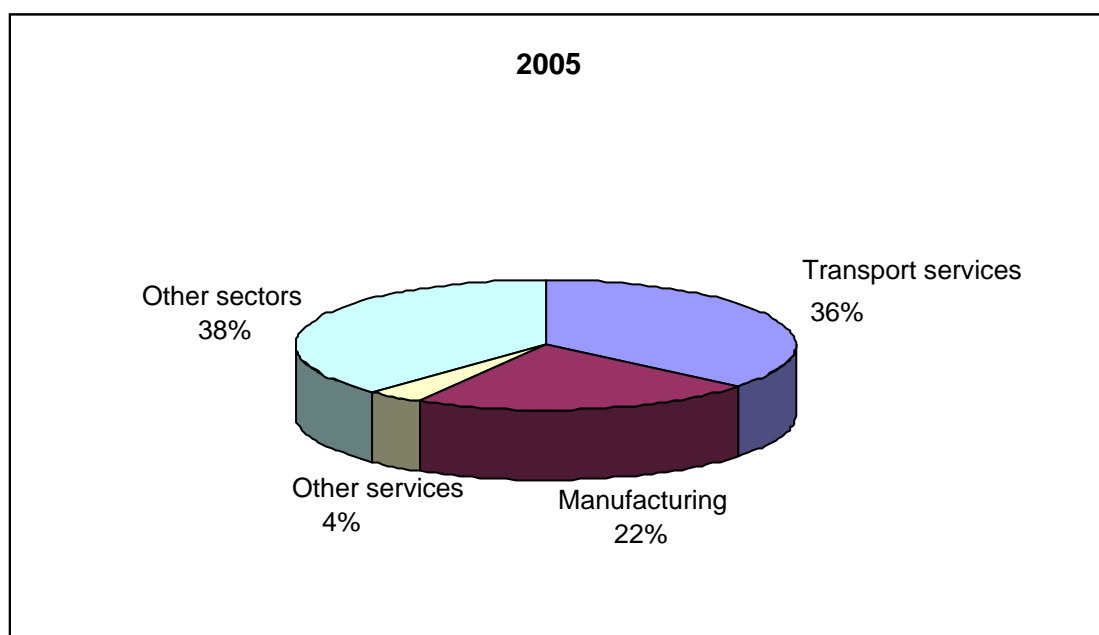
**Graph 1(a): Total sectoral state aid: EFTA-3**



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<sup>7</sup> Aid for “other sectors” include aid for forestry, hunting, electricity, gas and water supplies as well as mining and natural gas extraction.

**Graph 1(b): Total sectoral state aid: EFTA-3**



**Table 3, Sectoral aid by EFTA State**

Year	EFTA State	Aid to the manufacturing sector as a percentage of total sectoral aid	Aid to transport as a percentage of total sectoral aid	Aid to other services as a percentage of total sectoral aid	Aid to other sectors as a percentage of total sectoral aid	Total sectoral aid in million Euro
2004	ICE	13.76	0.00	86.24	0.00	5.74
	LIE	0.00	0.00	100.00	0.00	1.12
	NOR	16.54	41.90	4.36	37.20	673.56
	EFTA-3	16.49	41.48	5.21	36.82	680.42
2005	ICE	18.85	0.00	81.15	0.00	4.19
	LIE	0.00	0.00	100.00	0.00	1.08
	NOR	22.34	36.34	3.34	37.98	863.73
	EFTA-3	22.29	36.12	3.83	37.76	869.00

Table 3 shows that there are significant differences between the three EFTA States with respect to the sectors to which they direct aid. During 2004 and 2005 more than 80% of sectoral aid in Iceland has been granted to the service sectors (other than transport) while the remaining aid (i.e., less than 20%) has been granted to the manufacturing sector. In Iceland no aid was granted to the transport sector and other sectors. During 2004 and 2005 all aid in Liechtenstein has been granted to the service sector while no aid was granted to the transport sector or other sectors. Norway granted about one fifth of sectoral aid to the manufacturing sector in 2004 and 2005. Less than 5% was directed at the service sector while about 40% of Norwegian sectoral aid was granted to the transport sector. Similarly almost 40% of total sectoral aid was granted to other sectors.

### 1.3 State aid to the transport sector

Norway is the only EFTA State having granted aid to the transport sector. Total amount of aid earmarked for the transport sector by Norway was €282 million in 2004; and €314 million in 2005. The majority of such aid is aimed at maritime transport. No aid has been reported as being directed to the railway or airline sector.

### 1.4 State aid to the shipbuilding sector

Only Norway has granted aid to the shipbuilding sector with an amount of €19 million in 2004 and €3 million in 2005. The decrease from 2004 to 2005 results from the fact that almost all grants committed to under a shipbuilding scheme were paid out in the course of 2004.

### 1.5 State aid for horizontal objectives

State aid granted under schemes for horizontal objectives, such as aid for the purposes of research and development, safeguarding the environment, small and medium-sized enterprises, employment and the promotion of training, is according to the Lisbon objectives, considered as being targeted to market failures and as being less distortive than sectoral aid or ad-hoc aid. However, as mentioned above, horizontal aid schemes may nonetheless be aimed at a specific sector in which case their value in terms of being less distortive (than pure sector-specific aid schemes) may be discussed. For this reason the scoreboard includes two types of tables showing the extent to which aid is granted for horizontal purposes: The “mixed” schemes which are aimed at a horizontal purpose (e.g. research and development) but at the same time are earmarked for specific sectors could be counted either as “horizontal aid” or alternatively as “sectoral aid”. In Tables 4(a) and (b) such schemes are counted as horizontal aid while in Tables 5(a) and (b) such schemes are counted as “sectoral aid”.<sup>8</sup>

It appears from Tables 4(a) and (b) that in Norway more than 95% of total aid (less transport aid) had horizontal objectives or was granted for regional purposes both in 2004 and in 2005. Tables 4(a) and (b) also show that in Iceland 80% - 90% of the aid had horizontal objectives of which most aid was granted for research and development both in 2004 and 2005. Hence both in Norway and Iceland aid with horizontal objectives was much larger than aid for sectoral purposes. Liechtenstein, on the other hand, granted no aid for horizontal objectives neither in 2004 nor in 2005; only sectoral aid.

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<sup>8</sup> In the first set of tables (Table 4(a) and (b)) the figure for “horizontal aid” includes pure horizontal schemes and sector-specific horizontal schemes while “sectoral aid” covers only pure sector-specific schemes. This is in line with the approach used for purposes of the European Commission scoreboard. In the second set of tables (Tables 5(a) and (b)) the figure for “horizontal aid” covers only pure horizontal aid schemes while aid granted under sector-specific horizontal aid schemes has been included in the figure for “sectoral aid”.

**Tables 4(a) and (b): Aid for horizontal objectives and pure sectoral aid as a percent of total aid (less transport aid)<sup>9</sup>**

2004	Horizontal objectives	R & D	Environment and energy saving	SME	Employment	Regional development	Other horizontal objectives*	Pure Sectoral aid	Other services	Manufacturing	Total aid less transport in million €
<b>ICE</b>	<b>79.40</b>	33.50	0.00	1.10	23.30	15.50	6.00	<b>20.60</b>	20.60	0.00	17.40
<b>LIE</b>	<b>0.00</b>	0.00	0.00	0.00	0.00	0.00	0.00	<b>100.00</b>	100.00	0.00	1.12
<b>NOR</b>	<b>95.60</b>	20.20	8.10	5.30	0.10	60.70	1.20	<b>4.40</b>	2.70	1.70	1097.76
<b>EFTA 3</b>	<b>95.25</b>	20.45	8.00	5.00	0.50	60.00	1.30	<b>4.75</b>	3.05	1.70	1116.28

2005	Horizontal objectives	R & D	Environment and energy saving	SME	Employment	Regional development	Other horizontal objectives*	Pure Sectoral aid	Other services	Manufacturing	Total aid less transport in million €
<b>ICE</b>	<b>90.40</b>	48.00	0.00	0.30	19.50	14.60	8.00	<b>9.60</b>	9.60	0.00	17.59
<b>LIE</b>	<b>0.00</b>	0.00	0.00	0.00	0.00	0.00	0.00	<b>100.00</b>	100.00	0.00	1.08
<b>NOR</b>	<b>97.60</b>	17.40	7.30	3.30	0.20	69.00	0.40	<b>2.40</b>	2.34	0.06	1257.98
<b>EFTA 3</b>	<b>97.50</b>	17.85	7.15	3.30	0.50	68.20	0.50	<b>2.50</b>	2.40	0.10	1276.65

\* Other horizontal aid covers cultural and heritage objectives and natural disasters.

It should be recalled that for purposes of Tables 4(a) and (b) horizontal aid schemes directed at specific sectors have been classified and counted as “horizontal aid”. However, Tables 5(a) and (b) show that if the “mixed” schemes, that is, horizontal aid schemes directed at specific sectors, are classified and counted as “sectoral aid” the situation is not entirely the same.

<sup>9</sup> For purposes of the data on horizontal aid, aid has been classified according to its primary objective in order to avoid double counting.

**Tables 5(a) and (b): Aid for pure horizontal objectives and sectoral aid as a percent of total aid (less transport aid)**

2004	Horizontal objectives	R & D	Environment and energy saving	SME	Employment	Regional development	Other horizontal objectives*	Sectoral aid	Other Services	Other sectors	Manufacturing	Total aid less transport in million €
ICE	<b>67.00</b>	33.30	0.00	1.20	23.30	9.20	0.00	<b>33.00</b>	28.50	0.00	4.50	17.40
LIE	<b>0.00</b>	0.00	0.00	0.00	0.00	0.00	0.00	<b>100.00</b>	100.00	0.00	0.00	1.12
NOR	<b>64.30</b>	20.20	7.50	5.30	0.10	30.00	1.20	<b>35.70</b>	2.70	22.90	10.10	1097.76
EFTA 3	<b>64.30</b>	20.30	7.30	5.20	0.40	29.90	1.20	<b>35.70</b>	3.20	22.50	10.00	1116.28

2005	Horizontal objectives	R & D	Environment and energy saving	SME	Employment	Regional development	Other horizontal objectives*	Sectoral aid	Other Services	Other sectors	Manufacturing	Total aid less transport in million €
ICE	<b>76.10</b>	48.00	0.00	0.30	19.50	8.30	0.00	<b>23.90</b>	19.40	0.00	4.50	17.59
LIE	<b>0.00</b>	0.00	0.00	0.00	0.00	0.00	0.00	<b>100.00</b>	100.00	0.00	0.00	1.08
NOR	<b>56.30</b>	17.40	6.60	3.30	0.06	28.60	0.34	<b>43.70</b>	2.30	26.10	15.30	1257.98
EFTA 3	<b>56.50</b>	17.90	6.50	3.30	0.30	28.20	0.30	<b>43.50</b>	2.60	25.80	15.10	1276.65

\* Other horizontal aid covers cultural and heritage objectives and natural disasters.

Tables 5(a) and (b) show that if sector-specific horizontal schemes are counted as “sectoral aid” the percentage granted as “sectoral aid” is substantially increased both in the case of Iceland and Norway. Thus, for the two years under scrutiny, sectoral aid measured in this way accounted for close to 30% of total aid in Iceland and around 40% in Norway.

## 1.6 State aid for research and development (“R&D”)

Tables 4(a) and (b) and Tables 5(a) and (b) show that Iceland directed most of its horizontal aid to R&D with approximately 33% in 2004 and 48% in 2005. The increase results from increased aid granted in 2005 under the Research Fund and the Technical Research Fund schemes. Norway decreased the share of horizontal aid directed at R&D from 20% in 2004 to 17% in 2005. Liechtenstein did not direct any aid to R&D in 2004 and 2005 at all.

Table 6 shows the volume of state aid aimed at R&D in each EFTA State and as a percentage to each EFTA State’s GDP. While Iceland granted a large share of its overall aid to R&D the aid for this purpose did not make up more than 0.07% of its GDP in 2005. In Norway state aid makes up a larger share of GDP than in Iceland. This implies that although Norway allocated less of its overall aid to R&D than Iceland in 2005, R&D aid measured in relation to GDP was twice as high in Norway than in Iceland.

**Table 6: State aid for research and development**

	2004		2005	
	Aid to Research & Development (in million €)	Share of R&D aid to GDP (in %)	Aid to Research & Development (in million €)	Share of R&D aid to GDP (in %)
<b>ICE</b>	6.00	0.06	8.51	0.07
<b>LIE</b>	0.00	0.00	0.00	0.00
<b>NOR</b>	330.82	0.16	310.40	0.14
<b>EFTA 3</b>	336.82	0.15	318.91	0.13

\* The amount showing total aid to R&D reflects all aid directed at R&D irrespectively of whether R&D is the primary or secondary objective of an aid measure. This also means that the amount of aid to R&D in this table is not similar to the amount of aid to R&D included in Tables 4(a) and (b) and 5(a) and (b).

### 1.7 Aid for the environment

Norway is the only EFTA State having granted aid for environmental and energy saving purposes in 2004 and 2005. In nominal terms Norway increased its aid for environmental purposes with more than 50% from 2004 to 2005, see Table 7.

**Table 7: Overview of the level of state aid for environmental and energy saving purposes**

	2004		2005	
	Aid for environmental and energy saving (in million Euro)	Share of environmental and energy saving aid as percent of total aid less transport	Aid for environmental and energy saving (in million Euro)	Share of environmental and energy saving aid as percent of total aid less transport
<b>ICE</b>	0.00	0.00	0.00	0.00
<b>LIE</b>	0.00	0.00	0.00	0.00
<b>NOR</b>	174.85	16.00	273.21	21.70
<b>EFTA 3</b>	174.85	15.70	273.21	21.40

\* The amount showing total aid for the environment reflects all aid directed at the environment irrespectively of whether the environment is the primary or secondary objective of an aid measure. This means that the amount of aid to the environment in this table is not similar to the amount of aid to the environment included in Tables 4(a) and (b) and 5(a) and (b).

### 1.8 State aid supporting regional development and cohesion

Tables 4(a) and (b) show that in 2004 and 2005 regional aid constituted a prominent feature of Norwegian state aid policy. In Norway more than two thirds of total aid (less transport) constituted regional aid but even if transport aid is included, aid for regional purposes represented more than 50% of total aid in 2005. The share of total regional aid increased between 2004 and 2005. By comparison to Norway, Iceland granted considerably less regional aid, around 15% of total aid (less transport) in both 2004 and 2005. Liechtenstein granted no regional aid during those years.

It should be recalled that Tables 4(a) and (b) count “mixed aid” schemes (which are directed at both horizontal and sectoral objectives) as horizontal aid. However, if such mixed schemes are counted as sectoral aid (as in Tables 5(a) and (b)), aid for regional purposes in Norway represented only close to 30% of total aid (less transport) and less than 10% in Iceland.

## 1.9 Aid awarded under the block exemption regulations

With a view to reducing the administrative burden for specific types of aid, block exemptions<sup>10</sup> for aid to small and medium-sized enterprises, training aid and employment aid have come into force over the past few years.<sup>11</sup> Only Norway has made use of the possibility to award aid under block exemptions and increased the number of aid measures applied under block exemptions from 2 in 2004 to 28 in 2005; the areas of small and medium-sized enterprises and training aid being the most important.

As regards expenditure, an estimated €0.5 million was awarded in 2004 and €19.5 in 2005 under the block exemption regulations. This represented less than 0.05% in 2004 and less than 1.6% in 2005 of all aid directed at horizontal objectives.

In 2004 30% of total aid granted under block exemptions was for small and medium-sized enterprises while 70% was for training purposes. In 2005 47% of total aid granted under block exemptions was for small and medium-sized enterprises, 28% for training purposes and 25% for employment.

**Table 8: Number of aid measures submitted under the block exemption regulations**

Type of block exemption	2004	2005	Total
SME	1	17	18
Training	1	8	9
Employment	0	1	1
<b>Total number</b>	<b>2</b>	<b>26</b>	<b>28</b>

## 1.10 State aid instruments

Graph 2 below shows the extent to which the three EFTA States combined have made use of different state aid instruments for purposes of granting aid during 2004 and 2005. The graph reveals that the three EFTA States have predominantly paid aid in the form of alleviations from the tax or social security system (with up to 65%). This figure largely represents the picture in Norway while Iceland granted less than 5% of total aid by means of tax concessions. Second follows the use of grants (with more than 30%) as an aid instrument which all three EFTA States have made use of. Again, this figure is mostly representative for Norway while in Iceland more than 95% of total aid was awarded in the form of grants.

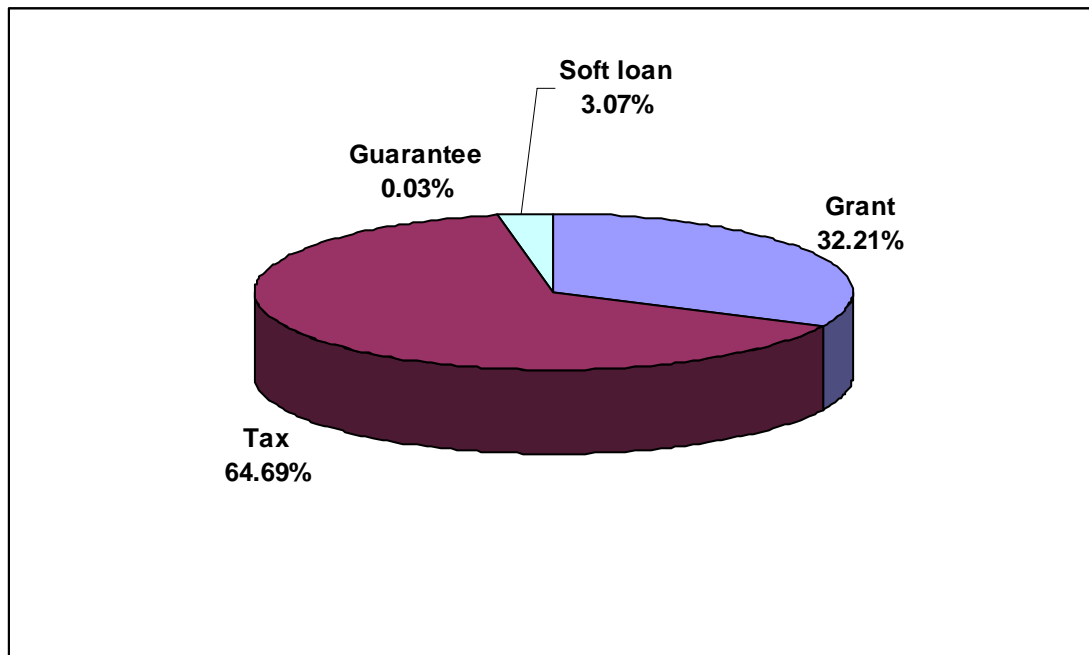
The EFTA States have granted less than 5% of total aid in the form soft loans. It should be recalled that in soft loans the aid element is not the loan itself but rather the favourable interest

<sup>10</sup> Block exempted aid implies that there is no obligation to notify the aid measures as they are deemed to be automatically exempted from the general prohibition of state aid subject to certain conditions being fulfilled.

<sup>11</sup> Commission Regulations (EC) No 70/2001 of 12 January 2001 on State aid to small and medium-sized enterprises (OJ L 10, 13.01.2001, pages 33-42); No 68/2001 of 12 January 2001 on training aid (OJ L 10, 13.01.2001, pages 20-29); No 2204/2002 of 5 December 2002 on State aid for employment (OJ L 337, 13.12.2002, pages 3-14). The Regulations have been incorporated into Annex 15 (in Sections 1(d), (f) and (g)) to the EEA Agreement by means of Joint Committee Decision No. 88/2002 (OJ L 266, 3.10.2002, p. 56 and EEA Suppl. No. 49, 3.10.2002, p. 42) and Joint Committee Decision No. 131/2004 (OJ L 64, 10.3.2005, p. 67 and EEA Supplement No. 12, 10.3.2005, p. 49).

rate. With respect to guarantees the aid element is normally calculated as the difference between the premium paid (if any) and a premium at market rate.

**Graph 2: Share of each aid instrument of total aid in 2004 and 2005 in EFTA-3<sup>12</sup>**



<sup>12</sup> The graph shows the extent to which aid instruments have been used out of total aid granted both in 2004 and 2005.

## 1.11 Comparison with the EU Member States

As mentioned in the introduction the tables in the present scoreboard have been based on premises similar to those applied for purposes of the state aid scoreboard in the EU Member States of the European Community. The following includes therefore tables comparing the level of aid granted in the individual three EFTA States with that granted in the individual EU Member States in 2005.<sup>13</sup>

Table 9 reveals important differences between the individual EFTA States as well as between the individual EU Member States with respect to the level of aid granted relative to size of the national economy. In 2005 Norway granted some 30 percent more in aid relative to GDP than the average of the 25 EU Member States. Only seven out of the 28 EEA States granted more aid relative to GDP than Norway. On the other hand, Iceland and in particular Liechtenstein were among the countries granting the lowest level of state aid in proportion to their gross domestic product.

The grant of aid should also be measured from the perspective of contributions to the Lisbon strategy - which encourages the aim of granting “less aid” while “better targeted aid” (towards horizontal objectives) may be increased. Table 10 reveals that in 2005 there were substantial differences between the individual EEA States. However, Iceland and Norway were not so different from the majority of the EU States who granted significant amounts of “better targeted aid” and very little for pure sectoral purposes. Liechtenstein differed from all others by having directed all aid at pure sectoral purposes.

It has already been pointed out previously that Iceland granted most of its horizontal aid to R&D while most of Norway’s horizontal aid represented regional aid. On the EFTA side, in 2005, Table 11 shows that Iceland granted no aid to the environment while Norway granted only eight percent in environmental aid. While many EU Member States also granted low levels of aid for the environment in 2005 others such as U.K, Finland, Denmark, Germany, the Netherlands, and in particular Sweden granted significantly higher shares of aid to the environment than Norway.

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<sup>13</sup> The figures on aid amounts in the EU have been extracted from the autumn 2006 scoreboard for the EU Member States covering aid which has been granted in 2005.

**Table 9**

**Total aid less aid for transport as a percentage of GDP in the EFTA States in 2005**  
**Total aid less aid for agriculture, fisheries and transport as a percentage of GDP in the EU-25**

Iceland	0.15
Liechtenstein	0.04
Norway	0.55
<b>EFTA-3</b>	<b>0.52</b>
Austria	0.24
Belgium	0.23
Cyprus	1.00
Czech Republic	0.39
Denmark	0.52
Estonia	0.13
Finland	0.38
France	0.38
Germany	0.68
Greece	0.14
Hungary	1.08
Ireland	0.26
Italy	0.37
Latvia	0.23
Lithuania	0.12
Luxembourg	0.15
Malta	2.61
Netherlands	0.24
Poland	0.37
Portugal	0.65
Slovakia	0.64
Slovenia	0.36
Spain	0.36
Sweden	0.91
United Kingdom	0.20
<b>EU-25</b>	<b>0.42</b>

**Table 10**

**State aid for horizontal objectives and sectoral aid as percentage of total aid in 2005**

	<b>Horizontal</b>	<b>Sectoral</b>
Iceland	90	10
Liechtenstein	0	100
Norway	98	2
<b>EFTA-3</b>	<b>98</b>	<b>2</b>
Austria	95	5
Belgium	100	0
Cyprus	45	55
Czech Republic	100	0
Denmark	97	3
Estonia	100	0
Finland	97	3
France	88	12
Germany	81	19
Greece	97	3
Hungary	48	52
Ireland	74	26
Italy	96	4
Latvia	97	3
Lithuania	81	19
Luxembourg	100	0
Malta	3	97
Netherlands	97	3
Poland	70	30
Portugal	26	74
Slovakia	61	39
Slovenia	86	14
Spain	66	34
Sweden	100	00
United Kingdom	91	9
<b>EU-25</b>	<b>84</b>	<b>16</b>

**Table 11**

**Environmental aid in percent of total aid less agriculture, fisheries and transport 2005**

Iceland	0
Liechtenstein	0
Norway	8
<b>EFTA-3</b>	<b>8</b>
Austria	15
Belgium	10
Cyprus	1
Czech Republic	2
Denmark	47
Estonia	7
Finland	40
France	2
Germany	47
Greece	10
Hungary	1
Ireland	2
Italy	3
Latvia	0
Lithuania	10
Luxembourg	8
Malta	0
Netherlands	65
Poland	1
Portugal	0
Slovakia	0
Slovenia	15
Spain	5
Sweden	88
United Kingdom	28
<b>EU-25</b>	<b>28</b>

## 2 PART TWO: LEGISLATIVE AND POLICY DEVELOPMENTS

### 2.1 Five year reform of state aid policy

In June 2005, the European Commission launched a State Aid Action Plan<sup>14</sup> outlining the guiding principles for a comprehensive reform of state aid rules and procedures over the next five years. In particular, the European Commission intends to use the EC Treaty's state aid rules to encourage contributions to the Lisbon Strategy by focussing aid on improving the competitiveness of EU industry and creating sustainable jobs (by allowing more aid for R&D, innovation and risk capital for small firms), and ensuring social and regional cohesion as well as improving public services. Moreover, procedures are to be rationalised and streamlined.

The European Commission has already adopted a number of measures to implement the aims of the State Aid Action Plan. The following outlines related measures adopted by the EEA Joint Committee<sup>15</sup> and the Authority.

### 2.2 The regional guidelines and block exemption regulation for regional investment aid

The European Commission adopted new guidelines for 2007-2013 on regional aid in December 2005. Corresponding guidelines adapted to the EEA Agreement and the EFTA States were adopted by the Authority in April 2006.<sup>16</sup> The guidelines set out the rules for allowing state aid which promotes the development of poorer regions or regions with a particular low population density.<sup>17</sup> In October 2006 the European Commission also adopted a block exemption regulation on national regional investment aid.<sup>18</sup> The block exemption is still pending adoption by the EEA Joint Committee and is therefore not in force in the EFTA States yet. The regulation will exempt EFTA States from the notification duty in respect of regional investment aid schemes complying with the regional aid map and fulfilling certain conditions. The regulation block exempts transparent forms of regional investment aid, i.e., schemes for which it is possible to calculate the aid intensity as a percentage of the investment costs *ex ante* without the need for a risk assessment. Moreover, revised notification forms have been prepared for purposes of regional aid schemes which still need to be notified (such as aid schemes involving public shareholding, risk capital and state guarantees).

### 2.3 Guidelines for risk capital

On 25 October 2006 the Authority adopted guidelines on state aid to promote risk capital investments in small and medium-sized enterprises.<sup>19</sup> The Guidelines include a "safe harbour"

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<sup>14</sup> [http://europa.eu.int/comm/competition/state\\_aid/others/action\\_plan/](http://europa.eu.int/comm/competition/state_aid/others/action_plan/)

<sup>15</sup> The EEA Joint Committee shall ensure the effective implementation and operation of the EEA Agreement and is composed of representatives of the EEA States and the European Commission. The EEA Joint Committee is therefore responsible for the incorporation into the EEA legal framework of relevant EU legislation, such as block exemptions.

<sup>16</sup> Decision No 85/06/COL of 6 April 2006 to adopt Guidelines on national regional aid for 2007-2013. While the Decision is not yet published, it is available at <http://www.eftasurv.int/fieldsOfWork/fieldstateaid/guidelines/>

<sup>17</sup> The regional aid map for Norway and Iceland was adopted by the Authority on 19 July and 6 December 2006 by Decision Nos 226/06/COL and 378/06/COL, respectively.

<sup>18</sup> Commission Regulation (EC) No 1628/2006 of 24 October 2006 on the application of Articles 87 and 88 of the Treaty to national regional investment aid, Official Journal L 302 of 01.11.2006, p. 29.

<sup>19</sup> Decision No 313/06/COL of 25 October 2006 to adopt Community guidelines on state aid to promote risk capital investments in small and medium-sized enterprises. While the Decision is not yet published, it is available at <http://www.eftasurv.int/fieldsOfWork/fieldstateaid/guidelines/>

of €1.5 million investment per small and medium-sized enterprise over 12 months and an easier procedure for clear-cut cases fulfilling certain conditions and assessment criteria.

## **2.4 Framework for state aid for research and development and innovation**

On 7 February 2007 the Authority adopted a new framework for research development and innovation, which opens up for the possibility of granting aid to young innovative enterprises, innovation clusters and sets out specific aid intensities in this respect.<sup>20</sup>

## **2.5 Regulation on de minimis aid and prolongation of other block exemptions**

The European Commission adopted a revised regulation on de minimis aid in December 2006.<sup>21</sup> The new de minimis Regulation increases the amount of permissible de minimis aid which need not to be notified to €200.000 over a three-year period and has extended the scope also to cover the transport sector. Moreover, it codified the principle that if an aid amount surpasses the de minimis threshold with just a fraction, the whole amount will be considered as aid. A corresponding block exemption is pending adoption by the EEA Joint Committee.

Aside from this the European Commission has prolonged the application of the current block exemptions on aid to employment, small and medium-sized enterprises and training until 30 June 2008.<sup>22</sup> Corresponding prolongations is pending adoption by the EEA Joint Committee.

## **2.6 Revision of environmental guidelines**

The European Commission has commenced the revision process for the Guidelines on state aid for environmental protection which expire at the end of 2007 by inviting both EU Member States and EFTA States as well as other interested parties to share their experience with the current guidelines. For this purpose the Commission published a questionnaire<sup>23</sup> in August 2005 addressing some of the issues currently under consideration. The Commission is examining the replies to the questionnaire with a view to preparing a draft set of guidelines. Following the adoption of new guidelines by the Commission, the Authority will adopt a corresponding set of guidelines adapted to the EEA Agreement and the EFTA States.

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<sup>20</sup> Decision No 14/07/COL of 7 February 2007 to adopt a framework for State aid for Research, Development and Innovation. While the Decision is not yet published, it is available at <http://www.eftasurv.int/fieldsOfWork/fieldStateAid/guidelines/>

<sup>21</sup> Commission Regulation (EC) No 1998/2006 of 15 December 2006 on the application of Articles 87 and 88 of the Treaty to de minimis aid, Official Journal L 379 of 28.12.2006.

<sup>22</sup> Commission Regulation EC No 1976/2006 of 20 December 2006 amending Regulations (EC) No 2204/2002, (EC) No 70/2001 and (EC) No 68/2001 as regards the extension of the periods of application, Official Journal L 368 of 23.12.2006, p. 85.

<sup>23</sup> [http://europa.eu.int/comm/competition/state\\_aid/others/00910\\_questionnaire\\_env\\_en.pdf](http://europa.eu.int/comm/competition/state_aid/others/00910_questionnaire_env_en.pdf)

### **3 PART THREE: ALTERNATIVES TO STATE AID AND RECOVERY**

#### **3.1 Alternatives to state aid**

In the context of reducing overall levels of state aid various European Council meetings have invited national authorities to consider whether an intervention in the form of state aid is the most appropriate and effective way to address relevant policy issues. In this context it has been proposed to develop best practices that support a “less and better targeted” state aid policy. To this end the following questions have been addressed: To what extent does an authority assess whether or not state aid is the most appropriate form of intervention? When and what sort of analysis is carried out to ensure that taxpayers’ money in the form of state aid measures is spent efficiently? What alternatives to state aid have been used or are being developed? What kind of institutional setup supports these goals? The following represent some replies to these questions given by EU Member States in May 2005.

One alternative is to make explicit policy efforts towards improving the general business environment, such as making changes to the regulatory environment, streamlining business support schemes and directing any support away from state aid towards general measures. Examples of this include the setting up of committees or the like which makes industrial strategy focus on improving the general environment and the growth conditions of firms as opposed to helping individual firms directly. Another alternative is to take measures in tax legislation aiming at the overall improvement of the business environment. The increased use of public-private partnerships in which both parties invest on equal terms and where the government invests commercially has been pointed out as a third alternative.

Finally, it is worth considering that although the final decision as to whether or not state aid should be used is with the aid-granting authority it could be made compulsory for this authority (or some form of coordinating body) to demonstrate that alternatives to state aid have been explored.

As the main state aid rule in the EEA Agreement also is that state aid is prohibited such measures may be addressed by the EFTA States as well.

#### **3.2 Recovery of unlawful aid**

Article 14 of Part II of Protocol 3 to the Surveillance and Court Agreement provides that “where negative decisions are taken in cases of unlawful aid, the Authority shall decide that the EFTA State concerned shall take all necessary measures to recover the aid from the beneficiary.”

On 31 December 2006 three recovery cases were pending. Two recovery cases are pending against Norway; one dating from 2004 regarding exemptions from electricity tax and one dating from 2006 regarding the energy saving fund “Enova”.<sup>24</sup> One case dating from 2004 on the International Trading Companies is pending in Iceland.<sup>25</sup> There are no recovery cases pending against Liechtenstein.

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<sup>24</sup> The case on exemption from electricity tax for the manufacturing and mining industries in Norway was appealed to the EFTA-Court and a judgment, which upheld the Authority’s decision, was issued on 21 July 2005 (Joined cases E-5/05, 6/04, 7/04).

<sup>25</sup> Upon submission of the case by the Authority to the EFTA Court, the Court ruled on 25 November 2005 in Case E-2/05 that the Icelandic authorities had to recover the aid.

The Authority continues its efforts to obtain information from the EFTA States on outstanding aid amounts to be recovered. The Authority intends to increase its efforts to ensure immediate and efficient enforcement of its decisions and will therefore monitor closely the execution of recovery decisions by EFTA States in the future. Where EFTA States do not take all measures available to implement such decisions the Authority will actively pursue non-compliance under the procedures provided for in the Surveillance and Court Agreement.

**Table 9: Pending recovery cases by EFTA State, until end of 2006**

	<b>Situation 31/12/2003</b>	<b>New cases in 2004</b>	<b>Cases closed in 2004</b>	<b>New cases in 2005</b>	<b>Cases closed in 2005</b>	<b>New cases in 2006</b>	<b>Cases closed in 2006</b>	<b>Situation 31/12/2006</b>
<b>ICE</b>	0	1	0	0	0	0	0	1
<b>LIE</b>	0	0	0	0	0	0	0	0
<b>NOR</b>	0	1	0	1	0	1	1	2
<b>TOTAL</b>	0	2	0	1	0	1	1	3

## 4 PART FOUR: INFORMATION SOURCES AND METHODOLOGY

### 4.1 State aid register – a second transparency tool

The Authority's state aid register is an online service which provides an overview of all state aid cases which have been the object of a final decision by the Authority since 1 January 1994; see the general website of the Authority <http://www.eftasurv.int> under shortcuts: "Register – State aid decisions". The register of the European Commission includes data on all reports made in respect of block exemptions in the Official Journal; see [http://europa.eu.int/comm/competition/state\\_aid/register/](http://europa.eu.int/comm/competition/state_aid/register/)

### 4.2 Annual report and state aid e-news

The Authority publishes an Annual Report on its activities which summarises the most important legal developments and case-law during the relevant year. It is available at the general website of the Authority under "Information and Publications".

State aid e-news which commenced in 2006 is an online service via the general web site of the Authority under "State aid". It contains a weekly update providing an overview of state aid decisions adopted by the Authority or the European Commission, their publication as well as the issuance of court judgments. It is also available via the general web-site of the European Commission.<sup>26</sup>

### 4.3 Methodology

The present scoreboard is published in response to the Authority's obligation set forth in Article 6 of Decision No. 195/04/COL of 14 July 2004 which provides that the Authority shall publish a scoreboard, containing a synthesis of the information in the annual reports submitted by the individual EFTA States in compliance with Article 21 of Part II of Protocol 3 to the Surveillance and Court Agreement.

Except for recovery cases, all data has been obtained from the annual reports provided by the EFTA States, as well as on the basis of the reports informing of the application of block exemptions by EFTA States. All state aid data refer to existing aid schemes (either dating from prior to the entry into force of the EEA Agreement or which have been subject to a decision by the Authority) and granted ad-hoc aid.<sup>27</sup> No pending cases which are still being examined have been included.

State aid data collected for the scoreboard are grouped according to primary objectives which may be either horizontal (for example research and development, small and medium-sized enterprises etc.) or sector-specific (i.e., the maritime sector, the manufacturing sector etc). Unless otherwise indicated information has been included according to the objective for which the aid has been earmarked as opposed to who the final aid recipients may be. For example, if the aid is earmarked for small and medium-sized enterprises it will be classified as having small and medium-sized enterprises as its primary objective irrespectively of the sectors which beneficiaries belong to. Also, aid granted under, say, a regional development scheme may

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<sup>26</sup> [http://ec.europa.eu/comm/competition/state\\_aid/overview/newsletter.html](http://ec.europa.eu/comm/competition/state_aid/overview/newsletter.html)

<sup>27</sup> Almost all aid granted by the EFTA-3 in 2004 and 2005 have been awarded under aid schemes.

ultimately benefit small and medium-sized enterprises, but if, at the time the aid was approved, the scheme was open to all types of enterprises it will be classified as regional aid.

The online scoreboard contains an electronic version of this scoreboard:

<http://www.eftasurv.int>. Any queries or requests for data should be marked “scoreboard” and be sent to the general state aid mailbox at [stateaid@eftasurv.int](mailto:stateaid@eftasurv.int)