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# *EFTA SURVEILLANCE AUTHORITY*

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## EFTA SURVEILLANCE AUTHORITY DECISION

OF 28 SEPTEMBER 1994

ON THE AID GRANTED TO iR3 VIDEO INTERNATIONAL GMBH, VIENNA (AUSTRIA)

THE EFTA SURVEILLANCE AUTHORITY,

Having regard to the Agreement on the European Economic Area<sup>1</sup>, in particular to Protocol 26 and to Articles 61 to 63 of the Agreement,

Having regard to the Agreement between the EFTA States on the establishment of a Surveillance Authority and a Court of Justice<sup>2</sup>, in particular to Article 24 and Article 1 of Protocol 3 thereof,

WHEREAS:

### I. FACTS

#### 1. The notification

By letter dated 26 July 1994, received by the EFTA Surveillance Authority on 27 July 1994 (ref. 94-11364A), the Austrian Government notified, in accordance with Article 1(3) of Protocol 3 to the Surveillance and Court Agreement, a proposal for granting aid to iR3 Video International GmbH, Vienna. The EFTA Surveillance Authority, by letter dated 10 August 1994 (ref. 94-11893D), requested additional information from the Austrian Government. The requested information was submitted to the Authority by letter dated 23 August 1994 (ref. 94-12567A).

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<sup>1</sup> Hereinafter referred to as the EEA Agreement.

<sup>2</sup> Hereinafter referred to as the Surveillance and Court Agreement.

## **2. The aim of the project concerned and details of the proposed aid measure**

The proposed measure foresees an individual award of aid to iR3 Video International GmbH, Vienna. The aim of the aid is to support a project of the company which involves research and development in the area of digital video technology, product and process development of VHS/SVHS video technology and development of existing VHS video technology.

The overall cost of the project is estimated at ATS 2,563.6 million, of which ATS 986.3 million is considered eligible for State aid. The maximum total amount of aid proposed by the Austrian authorities in support of the project is ATS 225 million.

The main part of the aid is to be granted in the form of a grant within the framework of the following existing legislation or aid schemes: Guarantee Act (1977)<sup>3</sup>, Research Promotion Act (1982)<sup>4</sup> and the Innovation and Technology Promotion Programme of Vienna (INNOVA)<sup>5</sup>. The maximum amount of aid given in the form of a grant shall be ATS 170 million.

The project shall be aided also in the form of soft loans granted in accordance with the European Recovery Programme Act (1962)<sup>6</sup> and the Research Promotion Act. The maximum amount of soft loan is ATS 360 million, of which ATS 60 million with an annual interest rate of 4% allocated by the Research Promotion Fund. The maximum amount of soft loan provided for by the ERP Fund, set up by the European Recovery Programme Act, is ATS 300 million. The interest rate is fixed for the first two years at 3.5% per year while it is 5% yearly for the following three years.

All the above-mentioned legislation and programmes used for the project were notified to the Authority as existing aid by letter dated 4 March 1994 (ref. 94-3878A).

The stages of R&D benefiting from the aid shall include those of applied research, development as well as pilot or demonstration projects. The eligible costs shall cover personnel costs, supplies and material, instruments and equipment. Also costs relating to consultancy, including acquisition of research results, patent and know-how can be covered by aid. No cooperative research is foreseen. Neither does the project have any multinational aspects. The results of the project shall be owned by iR3 Video International GmbH. There are no provisions for general publication or dissemination of nor any conditions attached to the licensing of the results.

A breakdown of the project costs together with the proposed aid amounts and aid intensities is set out in the table below:

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<sup>3</sup> *Garantiegesetz.*

<sup>4</sup> *Forschungsförderungsfondsgesetz.*

<sup>5</sup> *Wiener Innovations- und Technologieförderungsaktion.*

<sup>6</sup> *ERP-Fonds-Gesetz.*

Amounts in million Austrian shillings:

Field and type of research and development	Project costs	Max. amount of aid	Aid intensity
Digital video technologies: - applied research - product and process development	495.0 0.0	123.7 0.0	25%
New VHS/SVHS video technologies: - applied research - product and process development	275.8 215.5	69.0 32.3	25% 15%
Existing VHS video technologies: - product and process development	1,577.3	0.0	
Total project costs	2,563.6	225.0	

The main field of activities of iR3 Video International GmbH is the development, production and sale of video equipment. It is a wholly owned subsidiary of Österreichische Philips Industries GmbH, Vienna. At the end of 1993, the company employed 2,250 persons. The main financial indicators of the company for 1992 and 1993 are given in the table below.

Financial results	Turnover	Net result	Cash flow	Balance sheet total
1992	4,905	- 281	168	2,863
1993	5,843	95	520	3,095

## II. APPRECIATION

Since the aid is proposed to be granted in the form of grants and soft loans by the central and regional authorities it, thus, shall be granted through State resources. As the aid is directed to one particular company that is in direct competition with undertakings operating in other States participating in the EEA, the aid threatens to distort competition and affect trade within the territory covered by the EEA Agreement. Therefore, the foreseen measure constitutes aid in the meaning of Article 61(1) of the EEA Agreement.

Consequently, the EFTA Surveillance Authority is obliged to assess whether any of the exemption clauses under Article 61(2) and (3) are applicable in order to exempt the aid measure from the general prohibition of aid under Article 61(1). In particular, it is relevant to examine the aid proposal with regard to the rules on aid for research and development, as set out in chapter 14 of the Procedural and Substantive Rules in the Field of State Aid, adopted by the Surveillance Authority on 19 January 1994<sup>7</sup>.

<sup>7</sup> Hereinafter referred to as the State Aid Guidelines.

The Austrian authorities have fulfilled their obligation to notify individual aid awards under existing aid schemes where aid is given to a R&D programme involving total expenditure of the project in excess of ECU 20 million.

The aid is to be given in support of a project of iR3 Video International GmbH, Vienna which involves R&D activities in the field of digital video technology, product and process development of VHS/SVHS video technology as well as development of existing VHS video recorder technology. The company is a wholly owned subsidiary of Österreichische Philips Industries GmbH, Vienna. In 1984 Philips took over the industrial leadership of Grundig<sup>8</sup>. Video equipment and the like are classified by NACE statistics under code 345.1 which groups together consumer electronical products such as CD readers, colour televisions, video recorders, video cameras and camcorders.

Japanese companies have the largest market share in the consumer electronics sector world-wide, especially for products like VCRs and camcorders. The only EU companies ranked in the top 10 of consumer electronics world-wide are Philips and Thomson. Nokia is the third largest European-owned manufacturer. Europe is the second largest market for consumer electronics in the world, after the USA. In 1992 total EU production of video tape recorders was 45%, with extra-EU imports accounting for 60%.<sup>9</sup>

In 1993 the market of VCRs in six EU countries<sup>10</sup> was estimated at ECU 17,072 million. Philips/Grundig VCRs' share of the market in these countries, thus including products of iR3 Video International GmbH, was 28 % while Panasonic/Technics and Thomson Group each held about 9.5% of the market. Sony held slightly less with 8.2% whereas JVC had a market share of 5.5%.<sup>11</sup>

The competition in this sector is fierce. However, there seems to be room for European companies to acquire a larger share of the market. The prospects of European companies in the consumer electronic industry will depend on their ability to increase their global market share and produce both new standards and innovative products.

According to the calculations carried out by the Authority based on the information provided by the Austrian authorities, the financial results of iR3 Video International show that it is economically sound and that its financial situation has improved over the last three years. In 1992 and 1993 its equity ratio was 49% and 52% respectively. Furthermore, in 1993 the pay back ratio in years equalled 1,7 indicating that the company is not heavily indebted.

As outlined in chapter 14 of the State Aid Guidelines, the EFTA Surveillance Authority recognizes, in general, the potential beneficial effects of R&D activity on economic development and takes a favourable view of aid to such activity, provided that it is not likely to adversely affect trading conditions to an extent contrary to the

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<sup>8</sup> Source: Beer, E. et al.: *Wem gehört Österreichs Wirtschaft wirklich?*, 1991.

<sup>9</sup> Source: European Commission: *Panorama of the EU Industry*, 1994.

<sup>10</sup> Germany, UK, France, Netherlands, Italy and Spain.

<sup>11</sup> Source: Gesellschaft für Konsum Markt und Absatzforschung GmbH.

functioning of the EEA Agreement. The assessment of such aid takes into consideration several factors such as the nature of the project, the technical and financial risk involved, overall policy considerations related to the competitiveness of European industry and the risk of distortion of competition.

Given that it is necessary to ensure that there is a substantial volume of own funds from the recipient firm involved in the project, the Surveillance Authority considers that for basic industrial research the level of aid should, as a general rule, not exceed 50% of the gross eligible costs. As the activity being aided gets nearer to the market place, involving the areas of applied research and development, the Surveillance Authority looks in principle for progressively lower levels of aid.

The project of iR3 Video International GmbH to be aided does not involve basic industrial research. For R&D activities in the field of digital video technology, an aid intensity of 25 % is proposed for applied research. No product or process development is foreseen in this field. Product and process development of VHS/SVHS video technology shall involve applied research with a foreseen aid intensity of 25% and product and process development whereby an aid intensity of 15% shall be applicable. While more than half of the total cost of the project relates to research and development in the area of existing VHS video technologies, no aid will be granted in support of product and process development of existing VHS video recorders.

The aid intensities of 25% proposed for applied research and 15% for product and process development are deemed to be acceptable as the levels of aid diminish for R&D activities that are close to the market.<sup>12</sup> The amount of aid covers less than 8% of the overall costs of the project. The eligible costs are in line with the rules on aid for R&D as laid down in the State Aid Guidelines. The aid is further justified due to the fact that the R&D activities to be aided concern highly innovative video technologies. Moreover, the main objective of the proposed aid measure is to support the only European producer of key video technologies in the field of research and development of innovations.

The proposed aid measures are not considered to promote the execution of an important project of common European interest to an extent which would make them qualify for the exemption provided for in Article 61(3)(b) of the EEA Agreement as the project is not genuinely transnational in character such as, for example, Eureka projects.

The aid granted to iR3 Video International GmbH, Vienna qualifies, however on the basis of the above considerations, for exemption under Article 61(3)(c) of the EEA Agreement due to the fact that it facilitates the development of certain economic activities.

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<sup>12</sup> The established practice of the Commission is generally not to allow aid in excess of 25% for applied research and development (Twentieth and Twentyfirst Competition Reports, points 195 and 184 respectively).

**HAS ADOPTED THIS DECISION:**

1. The EFTA Surveillance Authority has decided not to raise objections to the aid granted to iR3 Video International GmbH, Vienna, as notified by letters dated 26 July and 23 August 1994.
2. The Austrian Government is obliged to submit a simplified annual report (according to chapter 30 of and Annex IV to the State Aid Guidelines) to the EFTA Surveillance Authority on the granting of the aid to the company in question.

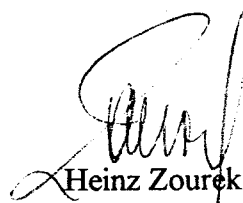
Done at Brussels, 28 September 1994

For the EFTA Surveillance Authority



Knut Almestad

President of the EFTA Surveillance Authority



Heinz Zourek  
College Member