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# *EFTA SURVEILLANCE AUTHORITY*

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## EFTA SURVEILLANCE AUTHORITY DECISION

OF 19 OCTOBER 1994

ON THE GRANTS AND SOFT LOANS FOR INDUSTRIAL R&D (FINLAND)

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 7 September 1994, received by the EFTA Surveillance Authority on 9 September (ref. 94-13373A), the Finnish Government notified, in accordance with Article 1(3) of Protocol 3 to the Surveillance and Court Agreement, a proposal to alter the grants for industrial R&D and soft loans for industrial R&D, notified to the Authority as existing aid schemes by letter dated 3 March 1994 (ref. 94-3941A). An amended notification was sent to the Authority by letter dated 27 September 1994 (ref. 94-14388A).

#### 2. The aim and contents of the scheme

The aim of the scheme is to promote research and development activities in order to develop internationally competitive products, production processes and services.

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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.

The scheme is administered by the Technology Development Centre (TEKES<sup>3</sup>). Aid is given to basic industrial research, applied research and development. The eligible costs shall cover personnel costs and other running costs needed to carry out the project such as supplies, material, instruments and equipment. Also costs relating to land and buildings as well as those to consultancy can be covered by aid.

*Basic industrial research* is defined as original theoretical or experimental work whose objective is to achieve new or better understanding of the laws of science and engineering as they might apply to an industrial sector or the activities of a particular enterprise.

*Applied research* is defined as investigation or experimental work based on the results of basic industrial research to acquire new knowledge to facilitate the attainment of specific practical objectives such as the creation of new products, production processes or services. It could normally be said to end with the creation of a first prototype.

*Development* is considered to cover work based on applied research aimed at establishing new or substantially improved products, production processes or services up to but not including industrial application and commercial exploitation. This stage would normally include pilot and demonstration projects and such further development work as necessary, culminating in the production information package or equivalent.

The aid is given in the form of a grant and in the form of soft loans. The amount of the grant given for basic industrial research is 50% while for applied research and development the aid can cover only up to 25% of the eligible costs. For small and medium-sized enterprises (SMEs) the aid can be 10 percentage points higher.

The soft loan can cover up to 60% of the eligible costs. The maximum loan period is 10 years of which a grace period can be up to 5 years. The interest rate is 3% below the base rate of the Bank of Finland which at the moment is 5,25%. If the project does not lead to profitable business, the Technology Development Centre can, based on application, decide not to require repayment on half of the loan. This can be granted, however, only in so far that the above mentioned aid intensities are not being exceeded. No exemption can be given on the interest payments. If the project for which a loan is given, is successful, the recipient is obliged to repay the whole loan. The cumulated amount of aid must not exceed the maximum aid ceilings.

Aid is given to enterprises whereas it is not to be granted to universities or other public institutions. However, the enterprise receiving the aid can have co-operation with such organisations and buy consultancy or equivalent services from them. These costs are eligible for aid.

The R&D results are owned by the enterprises carrying out the project. However, if the enterprises in question have not taken any measures to exploit the results in five years after the completion of the project, the Technology Development Centre can decide on the exploitation of the results. Although the results are owned by the firms involved, the aim of the scheme is to contribute to other enterprises being able to

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<sup>3</sup> Teknologian kehittämiskeskus.

indirectly benefit from the results. All results are directly available to the parties concerned in projects carried out in co-operation between several firms.

The aid scheme is unlimited in time. It will come into force on 1 December 1994 and replace the presently applicable grants for industrial R&D (93-038) and soft loans for industrial R&D (93-039) which were notified to the Authority as existing aid schemes. The changes are being made in order to make the aid criteria fully comply with the rules on aid for research and development.

The estimated number of recipients is around 400 per year. The budgetary commitments for grants and loans in the period of 1992-1994 are given in the table below.

<b>FIM million per year</b>	<b>Grants</b>	<b>Loans</b>
1992	FIM 343	FIM 248
1993	FIM 645	FIM 230
1994	FIM 600	FIM 230

For the application of the scheme an SME is defined as an enterprise which has no more than 250 employees and has either an annual turnover not exceeding ECU 20 million or a balance sheet total not exceeding ECU 10 million. Moreover, the enterprise cannot be more than 25 % owned by one or more companies not falling within this definition.

## **II. APPRECIATION**

Since the aid is proposed to be granted in the form of grants and soft loans by the central government authorities it, thus, shall be granted through State resources. As the scheme confers a competitive advantage to enterprises, the aid threatens to distort competition and affect trade within the EEA, particularly since the products of the favoured undertakings may be in competition with that of undertakings in other States participating in the EEA. Therefore, the foreseen measures constitute 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>4</sup>.

The scheme has clear horizontal objectives in promoting research and development. Aid is given to basic industrial research, applied research and development with the aim of developing internationally competitive products, production processes and services.

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<sup>4</sup> Hereinafter referred to as the State Aid Guidelines.

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 functioning of the EEA Agreement.

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.

An aid intensity of 50% foreseen for basic industrial research corresponds to the maximum ceiling laid down in the State Aid Guidelines. The aid intensities of 25% proposed for applied research and development are deemed to be acceptable as the levels of aid diminish for R&D activities that are close to the market.<sup>5</sup> The aid intensities will, therefore, diminish as stated in the table below depending on the type of R&D activity being aided.

Basic industrial research	Applied research	Intensity
100 %	-	50 %
90 %	10 %	47,5 %
80 %	20 %	45 %
70 %	30 %	42,5 %
60 %	40 %	40 %
50 %	50 %	37,5 %
40 %	60 %	35 %
30 %	70 %	32,5 %
20 %	80 %	30 %
10 %	90 %	27,5 %
-	100 %	25 %

The definitions given for basic industrial research, applied research and development correspond to those stated in the State Aid Guidelines. The eligible costs are also in line with the rules on aid for R&D. Furthermore, the enhancement of the aid intensity of 10 percentage points for SMEs, whose definition is compatible with the State Aid Guidelines, are in conformity with the rules.

The scheme may be applied to various sectors, including all sectors of industry. However, in the application of the scheme, the specific notification obligations with regard to certain sensitive sectors (currently synthetic fibres, motor vehicles and steel), as laid down in Part V of the State Aid Guidelines and in the Act referred to in point 1 a of Annex XV to the EEA Agreement establishing Community rules for aid to the steel industry (Commission Decision No. 3855/91/ECSC) have to be observed.

<sup>5</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).

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

The grants and soft loans for industrial R&D qualify, however, on the basis of the above considerations, for exemption under Article 61(3)(c) of the EEA Agreement due to the fact that the scheme facilitates the development of certain economic activities without adversely affecting trade to an extent contrary to the common interest.

#### **HAS ADOPTED THIS DECISION:**

1. The EFTA Surveillance Authority has decided not to raise objections to the grants and soft loans for industrial R&D, as notified by letters dated 7 and 27 September 1994.
2. The Finnish Government is obliged to submit a detailed annual report (according to chapter 30 of and Annex III to the State Aid Guidelines) on the application of the scheme to the EFTA Surveillance Authority.
3. The Finnish Government is reminded of the obligation in the application of the scheme to ensure the cumulation control and to observe the rules on notification obligations for certain specific sectors of industry, as laid down in Part V of the State Aid Guidelines and in the Act referred to in point 1 a of Annex XV to the EEA Agreement establishing Community rules for aid to the steel industry (Commission Decision No. 3855/91/ECSC).
4. The Finnish authorities are also reminded of their obligation to notify individual awards of aid made under this programme for projects over ECU 20 million as well as for Eureka projects exceeding ECU 30 million with a national participation of more than ECU 4 million.

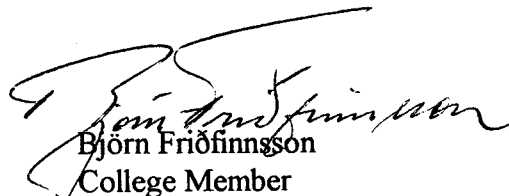
Done at Brussels, 19 October 1994.

For the EFTA Surveillance Authority



Knut Almestad

President of the EFTA Surveillance Authority



Björn Friðfinnsson  
College Member