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# *EFTA SURVEILLANCE AUTHORITY*

Doc. No. 94-13345-I  
Dec. No. 124/94/COL  
Ref. No. SAM030.94.026

## EFTA SURVEILLANCE AUTHORITY DECISION

OF 19 OCTOBER 1994

ON THE REGIONAL INVESTMENT AID GRANTED TO SMEs IN AREAS OF THE  
SUBREGIONAL UNITS OF JYVÄSKYLÄ, KUOPIO, OULU AND VAASA (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 4 July 1994, received by the EFTA Surveillance Authority on the same day (ref. 94-9989A), the Finnish Government notified, in accordance with Article 1(3) of Protocol 3 to the Surveillance and Court Agreement, a proposal to alter the regional investment aid, notified to the Authority as an existing aid scheme by letter dated 3 March 1994 (ref. 94-3941A). The EFTA Surveillance Authority, by letter dated 29 July 1994 (ref. 94-11535D), requested additional information from the Finnish Government. The requested information was submitted to the Authority by letter dated 29 August 1994 (ref. 94-12733A).

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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 and contents of the existing aid scheme

The objective of the regional investment aid scheme is to increase the number of competitive enterprises located in the development areas.

The primary aim is to give aid in support of projects that promote the competitiveness of enterprises by improving the technical level of products and production processes. Furthermore, aid should be given to projects that enhance the commercial and industrial life of a structurally weak region, decrease the unemployment of regions facing a difficult employment situation and improve the internationalisation of enterprises.

The conditions for granting regional investment aid are that the enterprise is commencing or expanding its operations or renewing its fixed assets and that the enterprise is considered to have the prerequisites for continuous profitable operations. Furthermore, the project to be aided should promote the objectives laid down in the regional development act<sup>3</sup>, such as safeguarding the regions' development of industrial life and the supply of services relevant thereto as well as increasing the number of new jobs in the region. The expansion or renewal is expected to lead to an essential increase in the number of jobs and in value added of output within the enterprise in question or in the amount of services supplied by the enterprise. An exception from this can be allowed if the enterprise is upgrading its fixed assets to a technological standard essentially higher than before.

The aid is given in the form of a grant. The aid can cover costs relating to land, buildings and equipment. The amount of aid is determined on the basis of the procurement cost of fixed assets considered relevant for the purpose of granting the aid. The aid intensity applicable under the scheme and the maximum aid ceiling for cumulated aid from other sources are set for the three development areas and structural change areas, as defined by the Decision of the Council of State<sup>4</sup>, as stated in the table below. The differentiation of the aid intensities between the areas reflects the different levels of development and needs of each area.

Assisted area:	Aid intensity under the scheme:	Max. cumulated aid ceiling:
I development area	25 - 40 %	50 %
II development area	15 - 30 %	35 %
III development area	0 - 20 %	25 %
Structural change areas	15 - 30 %	35 %

The aid intensity can be lower than the ones given in the table if that is justified by the amount of the investment in question. Regional differences within the different development areas can be taken into account when a decision on the level of aid is being made. In the areas of subregional units of Jyväskylä, Kuopio, Oulu and Vaasa, which are part of the third development area, aid is given only to projects promoting new technology relevant for the firm, sector or region.

<sup>3</sup> *Laki alueiden kehittämisestä (1135/93).*

<sup>4</sup> *Valtioneuvoston päätös yritystuesta (1689/93).*

### 3. The proposed changes to the scheme

During the negotiations on accession to the European Union, a common understanding was reached between the Finnish authorities and the Commission that the overall population coverage of the area eligible for regional investment aid shall be reduced from the present 51% to 41,6%. This understanding is proposed by the Finnish authorities to be implemented by amending the Decision of the Council of State on Aid to Business<sup>5</sup> so as to restrict the granting of regional investment aid in certain subregional units to small and medium-sized enterprises (SMEs) only. The amendment would involve the following:

*Aid in areas of the subregional units of Jyväskylä, Kuopio, Oulu and Vaasa that belong to the third development area can be granted solely to SMEs in such a way that the maximum aid amount granted to a small firm or to a medium-sized enterprise does not exceed 15 % or 7,5 % respectively of the total amount investment in fixed assets.*

A small and medium-sized enterprise is defined as an enterprise which has no more than 250 employees and has either an annual turnover not exceeding FIM 120 million or a balance sheet total not exceeding FIM 60 million. Moreover, the enterprise cannot be more than 25 % owned by one or more companies not falling within this definition.

## II. APPRECIATION

An alteration of an existing aid scheme must be notified to the Authority in accordance with Article 1(3) of Protocol 3 to the Surveillance and Court Agreement before it is put into effect. In general such an alteration would require the Authority to assess the compatibility of a scheme as a whole with the EEA Agreement, unless the particularities of the amendment allow a separate assessment and, thus, can be decided upon independently.

As the Surveillance Authority has not yet taken a decision on the Finnish map of assisted areas and the intensities thereof, the assessment of the regional investment aid is carried out only as regards the proposed granting of regional investment aid to SMEs in the areas of subregional units of Jyväskylä, Kuopio, Oulu and Vaasa. The other parts of the regional investment aid remain subject to constant review under Article 1(1) of Protocol 3 to the Surveillance and Court Agreement. The decision is, therefore, taken without prejudging the future position of the Authority on other aspects of either the aid scheme in question or the system of regional aid in Finland.

Since the aid is proposed to be granted in the form of a grant by the central and regional government authorities it, thus, shall be granted through State resources. As the aid is directed to SMEs that might be in competition with enterprises operating in other States participating in the EEA, the aid threatens to distort competition and

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<sup>5</sup> Valtioneuvoston päätös yritystuesta (1689/93).

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).

The proposed amendment to the existing scheme restricts the scope of granting regional investment aid in the areas of subregional units of Jyväskylä, Kuopio, Oulu and Vaasa to SMEs only. The amendment, therefore, has clear horizontal objectives in promoting small and medium-sized enterprises. Aid can cover investments made by SMEs if the aided project fulfils the conditions described in part I.2 of this decision.

The definition of SMEs and the proposed aid intensity of 15 % for small enterprises and that of 7,5 % for medium-sized enterprises are in line with chapter 10 of the State Aid Guidelines.

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.

Regional investment aid granted to SMEs in the subregional units mentioned above qualifies, 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.

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

1. The EFTA Surveillance Authority has decided not to raise objections to the regional investment aid granted to SMEs in areas of the subregional units of Jyväskylä, Kuopio, Oulu and Vaasa, belonging to the third development area, as notified by letters dated 4 July and 29 August 1994.
2. The Finnish Government is obliged to submit a simplified annual report (according to chapter 30 of and Annex IV to the State Aid Guidelines) on the application of regional investment aid to SMEs in the areas mentioned in point 1 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. This decision refers to the particular application of regional investment aid granted to SMEs in the areas mentioned in point 1 and does not prejudice the future position of the Authority with respect to further examination of existing aid measures and/or the system of regional aid in Finland.

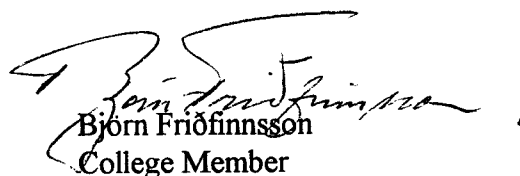
Done at Brussels, 19 October 1994

For the EFTA Surveillance Authority



Knut Almestad

President of the EFTA Surveillance Authority



Björn Friðfinnsson

College Member