


EFTA SURVEILLANCE AUTHORITY

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EFTA SURVEILLANCE AUTHORITY DECISION

OF 28 DECEMBER 1994

ON AID FOR R&D IN THE FIELD OF HYDROPOWER TECHNOLOGY (SWEDEN)

THE EFTA SURVEILLANCE AUTHORITY,

Having regard to the Agreement on the European Economic Area¹, 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 Justice², in particular to Article 24 and Article 1 of Protocol 3 thereof,

WHEREAS:

I. FACTS

1. The notification

By letter dated 23 November 1994, received by the EFTA Surveillance Authority on 24 November (ref. 94-17292 A), the Swedish Government notified, in accordance with Article 1(3) of Protocol 3 to the Surveillance and Court Agreement, plans to grant a one-off aid for R&D in the field of hydropower technology.

2. The contents of the proposal

The Swedish Government has proposed³ to grant SEK 16.5 million as a one-off aid to a foundation for hydropower technology research. The founders are Vattenfall AB,

¹ Hereinafter referred to as the EEA Agreement.

² Hereinafter referred to as the Surveillance and Court Agreement.

³ Government decision I:7 of 3 November 1994

ABB Generation AB and Kværner Turbin AB. The founding enterprises have economic activities related to hydropower production and/or hydropower technology. The foundation will be located in Porjus, Municipality of Jokkmokk in the County of Norrbotten. The municipality of Jokkmokk is located in aid area no. 1 as defined under the present legislation on regional aid⁴. Jokkmokk will also be covered by the EU structural Funds' objective 6 area for Sweden after accession to the European Union.

The investments in R&D facilities in Porjus constitute one part of a project which altogether aims at the establishment of a *Centre for education and development of hydropower technology*. The other part is related to the establishment of an education facility also related to hydropower technology. These activities will be carried out in an existing hydropower plant in Porjus, owned by Vattenfall AB, which today houses two old power units. The project will include the installation of two new power units. One power unit will be designed for the specific demands related to R&D activities. The other will be based on presently available technology and be the basis for the education facility.

The County Administrative Board in Norrbotten has the intention of granting SEK 12 million for initial project costs in connection to the establishment of the education facilities. These public funds will be used for rebuilding part of the old power plant and for furnishing it with the necessary equipment to serve educational purposes. The Swedish authorities consider the grant to the education part of the project not to constitute aid in the meaning of Article 61(1), but rather to be public investment in general infrastructure, as the education facilities will be accessible for any student with the relevant technological knowledge. The education part of the centre will be administered by "Jokkmokk-skolan"⁵ and primarily be used by the local upper secondary school and for courses at the university level, notably for students from Luleå Technical University. The founders will cover the investment costs related to the new education power unit.

The aid for R&D, which will be awarded in the form of a one-off direct grant, will cover general investment costs related to buildings, equipment and instruments, but not land. The costs categories eligible for aid are subject to approval by the National Board for Industrial and Technical Development⁶. The foreseen aid intensity is maximum 24.6 % gross of the total investment in R&D facilities⁷. Thus, the private financing share will be at least 75.4 % as no cumulation of aid from other sources is foreseen. The R&D activities at the centre will cover both basic industrial research and applied research and development.

⁴ Stödrområde nr. 1, SFS 1990:642

⁵ "Jokkmokk-skolan" is a school run and driven by Vattenfall AB. The public support to the school is part of an ongoing co-operative effort between the Vattenfall AB (Energy producer and distributor) and the local authorities in Porjus and Jokkmokk to deal with the effects of structural changes in the region by promoting expansion and new jobs in other economic fields. Jokkmokk and Porjus have suffered from rationalization programmes within the hydropower sector for a number of years.

⁶ Närings- och teknikutvecklingsverket, NUTEK

⁷ The foundation is obliged to keep separate accounts between costs related respectively to the education and R&D investments.

The financing of the R&D activities at the centre will otherwise either be covered by the founders on their own account or together with other participants in projects of co-operation. Other power companies than the founders and the Technical Universities are expected to participate in some projects. When possible, the R&D projects will be conducted as Ph.D-projects.

The results from the R&D projects will belong to those companies or organizations which are carrying out the R&D work. When the projects are run as projects of co-operation within ELFORSK⁸, the results will be available to the members of ELFORSK.

The centre will create approximately 6-7 new jobs directly related to R&D activities. The research activities will aim i.a. at developing the next generation of hydropower stations for major rebuilding and in the long-run for new construction of hydropower plants with a higher degree of efficiency. The project is foreseen to continue on a long-term basis. The new production equipment in Porjus shall entirely be used for R&D and education purposes and not in commercial power production by Vattenfall AB as a resource for optimization of energy production.

II. APPRECIATION

The part of the activities to be carried out at the education part of the *Centre for education and development of hydropower technology* which will receive public support, relates to an ongoing co-operative effort between Vattenfall AB and the regional authorities to promote general economic development and employment in the region. The information supplied by the Swedish authorities indicates clearly that the public support from the County Administrative Board of Norrbotten will be used for investment in general education facilities. The education part of the centre will primarily be used by the local upper secondary school and the Technical University of Luleå. Therefore, the EFTA Surveillance Authority agrees with the Swedish authorities that the SEK 12 million in public support from the regional authorities falls outside the scope of Article 61(1) of the EEA Agreement as the grant will not favour certain enterprises for the production of certain goods.

Regarding the aid for the R&D facilities at the centre, the direct grant of SEK 16.5 million will favour certain enterprises, in particular the founders of the centre, namely Vattenfall AB, ABB Generation AB and Kvaerner Turbin AB. The aid may, by enabling the provision of R&D results to the founders of the centre at a reduced cost, favour these enterprises in the production of certain goods. As the founding enterprises are active in the production of tradable goods, notably hydro-electric power and/or equipment for hydro-electric power production, the grant is also liable to effect trade between the Contracting Parties to the EEA Agreement. Thus, the grant

⁸ ELFORSK is a Swedish organization for co-operation between power-companies concerning R&D activities in the field of electric energy.

for R&D investment 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 from the general prohibition under Article 61(1). In particular, it is relevant to examine the aid proposal with regard to the rules on State aid for research and development, as set out in chapter 14 of the Procedural and Substantive Rules in the Field of State Aid⁹, adopted by the Surveillance Authority on 19 January 1994.

The aid has a clear objective in promoting research and development and it will benefit both basic industrial research and applied research and development. The field of research will i.a. cover energy and cost saving aspects. It is also recognized by the Authority that the centre will contribute to regional development as it is a long-term project located within an assisted area eligible for regional aid.

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

The 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 aided activity gets nearer to the market place by involving the areas of applied research and development, the Authority looks in principle for progressively lower levels of aid. In accordance with practice established both by the Authority and the Commission¹⁰ aid for applied research and development up to an aid intensity of 25 % gross is generally accepted.

In accordance with section 14.5 of the State Aid Guidelines, R&D investment in instruments, equipment, land and buildings may be taken as eligible costs for calculating the aid intensity of R&D activities as far as the assets are used exclusively for R&D. In the present case, the aid will not only cover investment in a new power unit designed to meet the specific demands related to R&D activities in this particular field, but also investment in buildings, equipment and instruments for R&D activities which are not foreseen to be used for other purposes. Furthermore, the grant will not be paid to the foundation unless the eligible costs have been specified and approved by the National Board for Industrial and Technical Development. It may therefore be expected that the aid will only cover eligible R&D costs according to the rules on State aid under the EEA Agreement.

On this basis, the grant of SEK 16.5 million which will cover 24.6 % of gross eligible costs for general investment in the R&D facilities of the *Centre for education and*

⁹ Hereinafter referred to as the State Aid Guidelines

¹⁰ The established practice of the Commission is generally not to allow aid in excess of 25 % for applied research and development (Twentieth and Twenty-first Competition Reports, points 195 and 184 respectively).

development of hydropower related technology in Porjus, is deemed to be acceptable as it will only cover investment costs for R&D activities which will be related both to basic industrial research and to applied research and development.

On these grounds it is concluded that the positive effects of the aid outweigh possible distortions of competition and trade and that it qualifies for exemption under Article 61(3)(c) of the EEA Agreement by facilitating the development of certain economic activities,


HAS ADOPTED THIS DECISION:

1. The EFTA Surveillance Authority has decided not to raise objections to the plan to grant a one-off aid for R&D in the field of hydropower technology as notified in the letter from Sweden dated 23 November 1994.

2. The Swedish Government is obliged to submit a simplified annual report (in accordance with chapter 30 of and Annex IV to the Procedural and Substantive Rules in the Field of State Aid) on the aid for R&D to the *Centre for education and development of hydropower technology* in Porjus to the EFTA Surveillance Authority

Done at Brussels, 28 December 1994

For the EFTA Surveillance Authority


Knut Almestad
President


Henz Zourek
College Member