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# *EFTA SURVEILLANCE AUTHORITY*

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## EFTA SURVEILLANCE AUTHORITY DECISION

OF 28 DECEMBER 1994

ON THE AMENDMENT OF AID FOR BUSINESSES' INTERNATIONALISATION (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 8 November 1994, received by the EFTA Surveillance Authority on the same day (ref. 94-16440A), the Finnish Government notified, in accordance with Article 1(3) of Protocol 3 to the Surveillance and Court Agreement, a proposal to alter the scheme on aid for businesses' internationalisation (Case No. 93-036), notified to the Authority as existing aid by letter dated 3 March 1994 (ref. 94-3941A). An amended notification was submitted to the Authority by fax dated 22 December 1994 (ref. 94-18876A).

#### **2. The aim and contents of the existing aid scheme**

The scheme on aid for businesses' internationalisation aims at promoting the exporting capabilities of enterprises, in particular those of small and medium-sized

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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.

enterprises (SMEs) as well as creating joint activities of and alliances between enterprises.

The scheme is administered by the Ministry of Trade and Industry. The conditions on which aid can be granted are laid down in the State budget<sup>3</sup>. Aid in support of the internationalisation projects is given in the form of a grant. The supported activity may cover, *inter alia*, market research carried out by consultants, participation in trade fairs, set-up of a sales organisation abroad, fees charged by foreign authorities responsible for inspection, testing and registration, advertising in foreign newspapers and magazines or on television abroad as well as journeys undertaken to promote exports. Aid may cover, as a main rule, up to 50 % of the eligible costs. For information campaigns and sectoral export promotion activities the aid may be higher. The level of aid may go up to 75 % in the case of joint export activities of SMEs.

### 3. The aim and contents of the changes

The Finnish authorities propose changes to the scheme in order to make the aid criteria fully compatible with the rules on aid to SMEs and the established practice of the European Commission on soft aid. The aid scheme is unlimited in time. The changes will come into force on 1 January 1995 and replace the presently applicable scheme on aid for businesses' internationalisation (93-036) which was notified to the Authority as existing aid.

In order to lay down more detailed criteria of award of aid, the Ministry of Trade and Industry will issue a decision<sup>4</sup> defining the purposes for which aid can be granted from 1 January 1995 onwards and the conditions thereof. The main changes to the scheme involve the limitation of eligible costs as well as of the maximum aid intensity for joint activities of SMEs from the presently applicable 75 % to 50 % of the eligible costs. Furthermore, the decision-making on the granting of the aid will be delegated to the Regional Business Offices of the Ministry in cases where the total cost of the project to be aided remains below FIM 300,000.

The main objectives of the scheme remain the same. The internationalisation and exporting capabilities of SMEs are to be promoted by diversifying their exports and in particular by launching exports of new SMEs. Apart from promoting product-related exports, the scheme also aims at promoting exports of construction, engineering, know-how and services.

Aid can be granted to projects, clearly defined and limited in time, whose purpose is to launch new products or to enter new markets. Aid can be given to enterprises registered in Finland and organisations representing exporting firms. In order to be eligible for aid, the enterprises must have the prerequisites for profitable exporting operations. Furthermore, the products of such enterprises should contain a high degree of domestic and processed added value.

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<sup>3</sup> Budget account 32.85.40.

<sup>4</sup> *Kauppa- ja teollisuusministeriön päätös yritysten kansainvälistymisen edistämiseksi myönnettävän valtionavun käyttöä koskevista yleisohjeista, 159/690/94, 23.12.1994.*

The proposed eligible costs and/or purposes for which aid can be granted are defined as follows:

- participation in training courses (for management and marketing) which are aimed at improving the exportation capabilities of enterprises
- export consultancy
- market and project research conducted by external experts
- feasibility studies
- presentation and information material of general nature
- marketing campaigns
- journeys undertaken to investigate market possibilities
- joint programme based export projects of enterprises (network and alliance building)
- participation in international fairs
- participation in seminars/symposiums abroad
- visits of interest groups to Finland
- engaging export marketing personnel
- registration and protection of patents in foreign countries
- set-up of a sales organisation of an SME outside the EEA.

Aid cannot be given on a continuous basis but only during the start-up phase of a project. Moreover, aid is given, as a main rule, only once to the same project. Aid can be given up to a maximum period of two years, except when export marketing personnel is being engaged. In the latter case aid can be given only up to one year. Aid is not given to projects which are considered to be insignificant in relation to the turnover or exports of the enterprise. Furthermore, the aid amount applied for by the enterprise must be realistic in view of its turnover and exports. Within the EEA, aid can be given only to enterprises fulfilling the definition of SMEs referred to below.

The aid is given in the form of a grant. The maximum aid intensity is 50 % of the eligible costs. The average aid amount is estimated to be less than FIM 100,000 FIM, thus remaining below the *de minimis* ceiling. The number of recipients is estimated to amount to 2,500. Priority is given to projects promoting the co-operation of enterprises.

The budgetary commitments for the proposed scheme for 1995 are FIM 247 million. The scheme can be cumulated with aid from other sources. The cumulation of aid is, however, controlled by the Ministry of Trade and Industry so as to prevent the 50 % ceiling to be exceeded.

For the application of the scheme an SME is defined as an enterprise which has not more than 250 employees and has either an annual turnover not exceeding FIM 120 million (ECU 20 million) or a balance sheet total not exceeding FIM 60 million (ECU 10 million). Moreover, the enterprise cannot be more than 25 % owned by one or more companies not falling within this definition.

## II. APPRECIATION

The scheme on aid for businesses' internationalisation covers soft aid for consultancy help, training and the dissemination of knowledge as well as for the purpose of encouraging co-operation between enterprises and for other measures on export promotion. The activities carried out under the scheme constitute aid in the meaning of Article 61(1) of the EEA Agreement either by providing direct financial support to individual enterprises or through measures by which the benefiting enterprises do not pay the full cost of the services supplied.

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 SMEs, as set out in chapter 10 of the Procedural and Substantive Rules in the Field of State Aid, adopted by the Surveillance Authority on 19 January 1994<sup>5</sup> and with regard to the practice established by the European Commission on soft aid.

It should be noted that the Authority has reservations in principle against export aid, also in cases of application where the amounts awarded to each firm are relatively small. This is reflected in point 12(3) of chapter 12 of the State Aid Guidelines which stipulates that the *de minimis* rule does not apply to export aid. Small amounts of aid in accordance with the *de minimis* rule are generally not subject to examination by the Authority in cases of application other than for export aid and aid to the sectors which are subject to specific sectoral rules<sup>6</sup>. Certain measures for export promotion may be compatible with the rules on State aid under the EEA Agreement if they fall under the concept of soft aid.

The conditions on which aid has been granted under the presently applied scheme have up until now been stated in the State budget<sup>7</sup>. On the basis of this budget account, the following aid measures can be taken in support of exporting activities of enterprises: internationalisation of businesses, costs incurred by tenders for project exports and support to joint campaign activities carried out by the Finnish Foreign Trade Association. These measures were notified to the Authority as existing aid falling under the framework of the scheme on aid for businesses' internationalisation. For reasons of clarity, however, each measure has been defined by the State Aid and Monopolies Directorate as its own existing aid scheme. Therefore, this decision applies only to grants given to promote the internationalisation of enterprises and not to the other measures referred to above.

The scheme has clear horizontal objectives in promoting the internationalisation of SMEs. The purposes for which aid is to be given fall under the scope of the notion on soft aid, in particular for export promotion. These include support for attending seminars abroad or participation in fairs and exhibitions. The use of consultants for advice as well as for market research and feasibility studies are also covered by the

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<sup>5</sup> Hereinafter referred to as the State Aid Guidelines.

<sup>6</sup> Currently synthetic fibres, motor vehicles and steel.

<sup>7</sup> Budget account 32.85.40.

notion of soft aid. Among other justified measures of SME promotion are aid to collective business support services and establishment of networks and alliances between enterprises. The purposes for which aid may be given under the proposed scheme do not include any operating costs but only those covered by the concept of soft aid.

For activities related to exports, a distinction may be drawn between export promotion related to markets with an EEA-dimension and other markets. There are several reasons for this. Access to overseas and other non-EEA markets may in many cases involve greater risk and higher initial costs than within the EEA. Furthermore, it is perceived that export promotion measures directed towards non-EEA markets usually have less impact on competition between enterprises established within the EEA. For these reasons the provisions on aid for export promotion to SMEs may be differentiated according to the relevant market. Therefore, the set-up of a sales organisation of an SME outside the EEA may be considered compatible with the rules on State aid.

As the aid amounts per firm typically tend to be relatively modest the activities eligible for aid may be supported up to 50 % of the eligible costs, which is in line with the provisions in chapter 10 of the State Aid Guidelines.

Since the amount of aid is expected to be in most cases below ECU 50 000 (within a period of three years) it, therefore, falls under the scope of the *de minimis* rule, as laid down in chapter 12 of the State Aid Guidelines, which stipulates that aid below a certain amount is considered not to have a perceptible impact on competition and not to affect trade between the Contracting Parties.

The aid may be cumulated with other aid from State resources. The Ministry of Trade and Industry will, however, ensure cumulation control according to the general principles laid down by the Ministry<sup>8</sup>.

The definition of SMEs is compatible with the EEA provisions on State aid, as stated in chapter 10 of the State Aid Guidelines. Furthermore, the scheme is in line with the rules and established practice of the European Commission on 'soft aid' according to which aid of up to 50% gross is generally accepted for advice and help by outside consultants provided to SMEs.

The Finnish authorities commit themselves to observe the rules on notification obligations applicable to particular sectors of industry (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). Furthermore, the Finnish authorities shall submit an annual report on the application of the scheme to the EFTA Surveillance Authority.

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<sup>8</sup> Decision of the Ministry of Trade and Industry (*Kauppa- ja teollisuusministeriön päätös ETA-sopimuksessa tarkoitettujen valtion tukien myöntämistä koskevien päätösten ilmoittamisesta kauppa- ja teollisuusministeriön piiritoimistolle, N:o 294, 22.4.1994*).

The scheme on aid to businesses' internationalisation qualifies 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:**

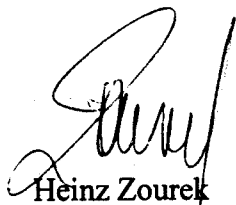
1. The EFTA Surveillance Authority has decided not to raise objections to the scheme on aid for businesses' internationalisation (Case No. 93-036), as notified by letter dated 8 November and by fax dated 22 December 1994.
2. The Finnish Government is obliged to submit a detailed annual report (according 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 (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).

Done at Brussels, 28 December 1994.

For the EFTA Surveillance Authority



Knut Almestad  
President



Heinz Zourek  
College Member