

Case No: 74981
Event No: 698409
Decision No: 127/14/COL

EFTA SURVEILLANCE AUTHORITY DECISION

of 19 March 2014

not to raise objections to individual aid to the NCE Raufoss innovation cluster
(Norway)

The EFTA Surveillance Authority (“the Authority”)

HAVING REGARD to the Agreement on the European Economic Area (“the EEA Agreement”), in particular to Article 61(3)(c) and Protocol 26 thereof,

HAVING REGARD to the Agreement between the EFTA States on the Establishment of a Surveillance Authority and a Court of Justice (“the Surveillance and Court Agreement”), in particular to Article 24,

HAVING REGARD to Protocol 3 to the Surveillance and Court Agreement (“Protocol 3”), in particular to Article 1(3) of Part I and Article 4(3) of Part II,

Whereas:

I. FACTS

1. Procedure

- (1) The Norwegian authorities notified individual aid to the NCE Raufoss innovation cluster (“NCE Raufoss”) pursuant to Article 1(3) of Part I of Protocol 3 by letter received and registered by the Authority on 30 January 2014 (Event No. 697649).

2. Description of the proposed measure

2.1 The nature and objective of the aid measure

- (2) The notified measure relates to operating aid for cluster animation to the legal entity operating NCE Raufoss. The primary objective of the notified measure is to continue supporting the operation of NCE Raufoss.

2.2 NCE Raufoss¹

- (3) The cluster is based in Raufoss² and includes 40 companies with about 5,000 employees and an annual turnover of EUR 700 million. It is estimated that 85 % of NCE Raufoss' companies production is exported³. The objective of NCE Raufoss is to enhance collaboration, innovation, growth and competitiveness between the participating companies.
- (4) NCE Raufoss is an industrial cluster with the core area of activity in manufacturing of products in lightweight materials by automated production. The cluster undertaking's main markets are the global automotive industry⁴, the defence sector and B-B electronics. Strong niches within water and gas distribution, gas tanks, aluminium profiles and mobility aids are growing markets for NCE Raufoss.
- (5) One of NCE Raufoss' main pillars is innovation through R&D activities. The research organization SINTEF Raufoss Manufacturing AS carries out the essential part of the activity in R&D. Numerous Raufoss' research projects involve both manufacturing industry and academia.
- (6) NCE Raufoss currently receives operating aid for cluster animation through the innovation cluster aid scheme *Norwegian Centres of Expertise* ("NCE"). The aid scheme was approved by the Authority in its Decision No. 09/11/COL of 26 January 2011 on the Innovation Cluster scheme, which also contains further information on the functioning of the scheme.⁵ The aid scheme is implemented by Innovation Norway.⁶
- (7) NCE Raufoss is operated by the legal entity elected by the cluster participants. This legal entity is responsible for operating the cluster including the management of access to facilities and activities and it also has the role of business manager of the cluster.
- (8) Under the scheme, the activities eligible for financial support are process management, establishment of networks and meeting points, analysis and strategy processes, communication and marketing of the cluster's open access facilities, organisation of training programs, workshops and conferences to support knowledge sharing between the members of the clusters as well as facilitating the development of project ideas and proposals in their early stages.⁷

2.3 Budget and duration

- (9) In 2006, NCE Raufoss applied for and was granted aid for cluster animation from NCE. As foreseen under the aid scheme approved by the Authority, the maximum total period of aid is ten years, ending in July 2016 at the latest.
- (10) The annual aid amount, representing a maximum of 50% of all eligible costs, is on average NOK 5 million (approx. EUR 625 000). Given a maximum aid period of ten

¹ Further information on NCE Raufoss can be found at: <http://www.nceraufoss.no/en/>.

² The cluster is mainly located in Raufoss Industrial Park. However, the cluster extends beyond the geographic borders of the park. Several of the member's, especially the SMEs, are located in the Gjøvik region at large.

³ NCE Raufoss "*Rapport Fra hjørnesteinbedrift til dynamisk industriklynge: OKT Verdiskaping med Raufoss*". May 2012. Annex 6 to the notification.

⁴ It is estimated that 60% of the cluster's companies operate within the automotive business.

⁵ The full text of the decision is available at <http://www.eftasurv.int/media/decisions/9-11-COL.pdf>.

⁶ Innovation Norway is an entity wholly owned by the Norwegian State. Its objective is to promote innovation and business development in Norway.

⁷ Reference is made to the definition of the eligible activities provided in Decision No. 09/11/COL.

years, the total aid to NCE Raufoss during the entire duration of the scheme is estimated to reach NOK 50 million (approx. EUR 6.25 million).

- (11) The Norwegian authorities indicate that assuming a positive decision from the Authority, the cumulative aid amount granted to NCE Raufoss will exceed in 2014 the threshold of EUR 5 million for individual notification set out in paragraph 130 of the Authority's Guidelines on Aid for Research and Development and Innovation ("the R&D&I Guidelines"⁸) as well as in Decision No. 09/11/COL.

3. Comments by the Norwegian authorities

- (12) According to the Norwegian authorities, NCE Raufoss requires support beyond the EUR 5 million threshold authorised in Decision No. 09/11/COL. This Decision authorised the NCE program for a maximum period of 10 years.⁹ This implies that taking into account that the maximum annual amount of aid authorised by the same Decision is about NOK 5 million (approx. EUR 625 000), at the end of the period of ten years the total amount of aid in favour of NCE Raufoss is estimated at NOK 50 million (approx. EUR 6.25 million).¹⁰
- (13) The Norwegian authorities do not dispute that the intended measure classifies as state aid that requires an individual notification to the Authority. However, they argue that the aid should be declared compatible under Article 61(3)(c) of the EEA Agreement in combination with the R&D&I Guidelines.
- (14) The Norwegian authorities note that the measure addresses a well-identified market failure in the form of positive externalities and imperfect information that hinder the development of innovation clusters. They argue that state aid is an appropriate instrument to address this market failure, as has already been concluded by the Authority in Decision No. 09/11/COL. Furthermore, they have submitted an evaluation report, conducted by the independent business consultant Menon Business Economic in 2012,¹¹ which shows that the aid to NCE clusters has led to new networks and increased collaboration between undertakings, the development of research and education as well as the internationalisation of SMEs.¹² According to the Norwegian authorities, the aid is also proportionate and limited to the minimum necessary, which is ensured in particular by the rigorous selection and evaluation mechanisms contained in the NCE scheme.
- (15) The NCE program is monitored on annual bases and according to the internal and external evaluations provided by the Norwegian authorities, the public support to NCE Raufoss has been efficient. The objectives established for the first two periods of the program have

⁸ Procedural and Substantive Rules in the Field of State Aid (State Aid Guidelines), adopted and issued by the EFTA Surveillance Authority on 19 January 1994, published in OJ 1994 L 231, as amended by Decision 313/06/COL and prolonged by Decision 21/14/COL. The State Aid Guidelines are available on the Authority's website: <http://www.eftasurv.int/?1=1&showLinkId=16599&1=1>

⁹ Decision No. 09/11/COL recognised that the prolongation of the scheme up to 10 year was duly justified pursuant to para. 118 of the R&D& I Guidelines. The support period from the NCE programme to each of the NCE clusters was divided in fixed 3 to 3.5-year contract period.

¹⁰ According to the Norwegian Authorities, until 2013, NCE Raufoss has already received NOK 37.5 million (approx. EUR 4.5 million).

¹¹ Menon Business Economic report "*Samhandling i og mellom klynger – evaluering av seks NCE-prosjekter*". Rapport no 40/2012. Provided to the Authority as annex 8 to the notification.

¹² Internal evaluations have also confirmed key developments in the cluster foundations skills, technology and better market position and competitiveness of the companies based in the cluster. According to the NCE report (referred to in footnote 3), the cluster has allowed companies to increase their turnover and to achieve good positioning within the niches markets.

been achieved. For the third period (ending in July 2016), concrete goals have also been designed. Among them, it is foreseen to strengthen competitiveness, internalization, to increase the number of companies in the cluster, to strengthen regional cooperation and networking to create a more efficient supply chain, the reinforcement of R&D activities and the development of cluster's new business.¹³ In order to achieve these objectives, public support is still needed.

- (16) Regarding the effect of the intended measure on trade and competition, the Norwegian authorities highlight that the aid for the innovation cluster is aimed at stimulating R&D&I by increasing collaboration between companies and between companies and research institutions. All activities involve a number of undertakings and all activities and information sharing is conducted on a transparent and open accesses basis. Furthermore the aid takes place upstream from product markets and is characterized by pre competitive activities that do not have an impact on commercial transactions in the market. The aid to NCE Raufoss is granted on the basis of a detailed analysis and the effects of the public support are monitored through a thorough evaluation system. The evaluations demonstrate that the aid results in increased information sharing, collaboration, R&D&I activity and value creation and thus contributes positively to the sector both regionally and internationally.

II. ASSESSEMENT

1. Existence of State aid within the meaning of Article 61 (1) of the EEA Agreement

- (17) Article 61(1) of the EEA Agreement reads as follows: “Save as otherwise provided in this Agreement, any aid granted by EC Member States, EFTA States or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, in so far as it affects trade between Contracting Parties, be incompatible with the functioning of this Agreement.”
- (18) To constitute state aid within the meaning of Article 61(1) of the EEA Agreement, a measure must meet the following four cumulative criteria: (i) the measure must confer on recipients an economic advantage which is not received in the normal course of business; (ii) the advantage must be granted by the State or through state resources; (iii) the measure must be selective by favouring certain undertakings or the production of certain goods; and (iv) it must be liable to distort competition and affect trade between the Contracting Parties.

1.1 Economic advantage

- (19) It is established case law that a State intervention favours an undertaking if it provides the undertaking with an economic advantage, which it would not have obtained under normal market conditions.¹⁴ The most common form of such an advantage is the granting of a

¹³ These objectives are described in the report of the NCE referred to in footnote 3.

¹⁴ Case C-301/87 *France v Commission* [1990] ECR I-307, para. 41; Case 30/59 *De Gezamenlijke Steenkolenmijnen v High Authority of the European Coal and Steel Community* [1961] ECR 50, para. 19; Case C-241/94 *France v Commission (Kimberly Clark)* [1996] ECR I-4551, para. 34; Case T-109/01 *Fleuren Compost* [2004] ECR II-132, para. 53.

subsidy, i.e. a payment in cash or in kind made in support of an undertaking other than the payment by the purchaser or consumer for the goods or services, which it produces.¹⁵

- (20) The support provided to NCE Raufoss takes the form of a non-repayable direct grant, which relieves the cluster, represented by the legal entity responsible for operating the cluster and its members, of charges that are normally to be borne by their budgets. Consequently, the state measure grants an economic advantage to the cluster's members.

1.2 Presence of state resources

- (21) It is established case law that a measure is financed through state resources if it results in a burden on the budget of public undertaking, provided that the measure is imputable to the state.¹⁶
- (22) The support provided to NCE Raufoss by Innovation Norway¹⁷ is directly financed through the annual state budget. As a consequence, the measure is imputable to the state and financed by state resources.

1.3 Selectivity

- (23) A State measure is selective if it applies only to certain (groups of) undertakings or certain sectors of the economy in a given state.
- (24) The notified measure is selective as it is only addressed to those undertakings that take part in NCE Raufoss.

1.4 Distortion of competition and effect on trade between Contracting Parties

- (25) It is established case law that a measure distorts or threatens to distort competition in a way that affects trade between Contracting Parties if it strengthens the position of the recipient compared to other companies¹⁸ and if the recipient is active in a sector, in which trade between Contracting Parties takes place.¹⁹
- (26) The undertakings participating in NCE Raufoss carry out their economic activities (i.e. activities consisting of offering goods and services on a given market²⁰) in competition with other companies from other countries of the EEA and the support granted to the cluster strengthens their position. The support therefore is liable to affect trade between the Contracting Parties of the EEA Agreement and Contracting Parties and to distort competition.

1.5 Conclusion

- (27) Based on the above findings, the Authority comes to the conclusion that the notified measure constitutes state aid within the meaning of Article 61(1) of the EEA Agreement.

¹⁵ Case 30/59 *De Gezamenlijke Steenkolenmijnen v High Authority of the European Coal and Steel Community* [1961] ECR 50, para. 19 et seq.

¹⁶ Case C-482/99 *France v Commission (Stardust)* [2002] ECR I-4397, para. 52.

¹⁷ See footnote 6.

¹⁸ Case 730/79 *Philip Morris Holland BV v Commission* [2005] ECR, 2671, para. 11.

¹⁹ Case 102/87 *France v Commission (SEB)* [1988] ECR 4067, Case C-310/99 *Italian Republic v Commission* [2002] ECR I-289, para. 85, Case C-280/00 *Altmark Trans GmbH and Regierungspräsidium Magdeburg v Nahverkehrsgesellschaft Altmark GmbH (Altmark)* [2003] ECR I-7747, para. 77, Case T-55/99, *Confederación Española de Transporte de Mercancías (CETM) v Commission* [2000] ECR II-3207, para. 86.

²⁰ See *inter alia* Case C-118/85 *Commission v. Italy* [1987] ECR 2599 and Joined Cases C-180/98 to C-184/98 *Palov and others* [2000] ECR I-6451.

2. Procedural requirements

- (28) Pursuant to Article 1(3) of Part I of Protocol 3, “the EFTA Surveillance Authority shall be informed, in sufficient time to enable it to submit its comments, of any plans to grant or alter aid (...). The state concerned shall not put its proposed measures into effect until the procedure has resulted in a final decision”.
- (29) The Authority notes that the Norwegian authorities have not yet implemented the individual aid measure in favour of NCE Raufoss. Furthermore, by submitting the notification received and registered by the Authority on 30 January 2014, the Norwegian authorities complied with the notification requirement.
- (30) The Authority can therefore conclude that the Norwegian authorities have respected their obligations pursuant to Article 1(3) of Part I of Protocol 3.

3. Compatibility of the aid

- (31) Under Article 61(3)(c) of the EEA Agreement, aid to facilitate the development of certain economic activities or of certain economic areas may be considered compatible with the functioning of the EEA Agreement where such aid does not adversely affect trading conditions to an extent contrary to the common interest.
- (32) The primary objective of the notified measure is to support the operation of an innovation cluster. Aid to innovation clusters falls within the scope of the R&D&I Guidelines. The Authority will thus carry out its assessment of the aid measure with reference to Article 61(3)(c) of the EEA Agreement in combination the R&D&I Guidelines.
- (33) Sections 5 to 7 of the R&D&I Guidelines set out a detailed framework for the Authority’s assessment.

3.1 Aid intensity and duration of the measure

- (34) The notified measure concerns operating aid for cluster animation. Section 5.8, paragraph 117 of the R&D&I Guidelines provides that “operating aid for cluster animation may be granted to the legal entity operating the innovation cluster.”
- (35) Section 5.8 further sets out the compatibility conditions concerning eligible costs and aid intensity.

3.1.1 Eligible costs

- (36) Paragraph 119 of the R&D&I Guidelines provides that “the eligible costs shall be the personnel and administrative costs relating to the following activities:
- marketing of the cluster to recruit new companies to take part in the cluster;
 - management of the cluster’s open-access facilities;
 - organisation of training programs, workshops and conferences to support knowledge sharing and networking between the members of the cluster.”

- (37) The Authority finds that the eligible costs that are taken into account by the Norwegian authorities are in line with the requirements of the R&D&I Guidelines.²¹

3.1.2 Aid intensity

- (38) Paragraph 118 of the R&D&I Guidelines provides that generally “in the case of non-degressive aid, its duration is limited to five years and its intensity must not exceed 50% of the eligible costs”. However, the R&D&I Guidelines also foresee that “in duly justified cases, and on the basis of convincing evidence provided by the notifying EFTA State, aid for cluster animation may be granted for a longer period of time, not exceeding ten years”.
- (39) As the Authority found in its Decision No. 09/11/COL authorising the NCE innovation cluster scheme, the Norwegian authorities provided sufficient evidence to demonstrate that aid for cluster animation should be allowed for a period up to ten years. In particular, the Authority noted that the aid was subject to regular evaluation and would only be continued if certain conditions linked to performance were met.
- (40) The Norwegian authorities have confirmed that this procedure is respected in the case of NCE Raufoss. They have also confirmed that the maximum aid intensity of 50% of eligible costs is complied with.
- (41) On this basis, the Authority finds that the conditions in Section 5.8. of the R&D&I Guidelines regarding the aid intensity and the duration of the support are fulfilled.

3.2 Detailed assessment of the measure

- (42) In assessing whether an aid measure can be deemed compatible with the EEA Agreement, the Authority balances the positive impact of the aid measure in reaching an objective of common interest against its potentially negative side effects by distortion of trade and competition. As set out in paragraph 14 of the R&D&I Guidelines, the assessment is based on the following steps:
- Is the aid measure aimed at a well-defined objective of common interest (e.g. growth, employment, cohesion, environment)?
 - Is the aid well designed to deliver the objectives of common interest, i.e. does the proposed aid address the market failure or other objective?
 - Is state aid an appropriate instrument?
 - Is there an incentive effect, i.e. does the aid change the behaviour of the firms?
 - Is the aid measure proportional, i.e. could the same change in behaviour be obtained with less aid?
 - Are the distortions of competition and effect on trade limited, so that the overall balance is positive?
- (43) Section 7 of the R&D&I Guidelines states that the Authority will carry out a more detailed assessment where the aid amount for innovation clusters exceeds EUR 5 million per cluster (para. 130). The Norwegian authorities estimate that the notified measure will

²¹ See the list of eligible costs referred to in paragraph 8 above.

result in total aid to NCE Raufoss reaching up to NOK 50 million (approx. EUR 6.25 million), thus exceeding the threshold that impose a more detailed assessment.

- (44) Following paragraph 135 of the R&D&I Guidelines, the level of the Authority's scrutiny in the framework of the more detailed assessment is proportional to the risk of distortion of competition. This means that the scope of the analysis depends on the nature of the case. State aid for activities that are far away from the market is therefore less likely to give rise to very extensive scrutiny.
- (45) The notified measure concerns operating aid to an innovation cluster. This type of aid supports the management and marketing of the cluster, as well as the organisation of training programs, workshops and conferences to support knowledge-sharing and networking between the members of the cluster. These activities are generally pre-competitive and distant from commercial market transactions.
- (46) The Authority therefore considers that the notified measure carries a lesser risk of distortion of competition. As a result, the aid does not warrant extensive scrutiny and the more detailed assessment set out below will be limited to a lesser level of scrutiny.

3.2.1 *Positive effects of the aid*

3.2.1.1 Objective of common interest

- (47) The promotion of research, development and innovation is a well-defined objective of common interest.²²
- (48) Innovation clusters such as NCE Raufoss play an important role in fostering innovation, growth and competitiveness, as well as collaboration between companies and research institutions. As set out in Decision No. 09/11/COL, state aid to innovation clusters aims at mobilising actors to collaborate in fields that can strengthen the clusters' dynamics and companies' abilities to innovate.
- (49) The aid measure is therefore aimed at a well-defined objective of common interest.

3.2.1.2 Appropriate instrument to address market failure

- (50) The Authority notes that there are market failures with regard to the creation of innovation clusters. An innovation cluster can be considered as a common good that all participating undertakings benefit from, but where no single participant alone has incentives to invest in developing the cluster. There are positive externalities from the individual undertakings' activities in the form of knowledge spill-over to other participants. Further, a cluster creates a basis for beneficial collaboration between companies and between companies and R&D&I institutions, but imperfect information and uncertainty could hamper necessary collaboration.
- (51) In the case of NCE Raufoss, the number of participants in the cluster (about 40 companies) from different backgrounds,²³ including large international corporations and regional SMEs, with diverse activities and a high level of specialisation, as well as research and education institutions, makes effective coordination particularly difficult. At the same time, the size and nature of the cluster presents increased opportunities for knowledge spill-over and other positive externalities of collaboration to occur.

²² See paragraph 1 of the R&D&I Guidelines.

²³ See <http://www.nceraufoss.no/en/companies/the-companies>.

(52) In its Decision No. 09/11/COL, the Authority concluded that state aid is an appropriate instrument to address the market failures hindering the creation of innovation clusters. According to the Norwegian authorities, NCE Raufoss was evaluated in light of the specifications set out in the aid scheme and compared to other applicants at the time the aid was first granted. The evaluation report submitted by the Norwegian authorities²⁴ shows an increase in knowledge spill-over collaboration and R&D&I activity in the cluster. In fact, the evaluation conducted in the selection process and through the project period has demonstrated a potential for increased R&D&I in the cluster that would not have been triggered without the aid. Furthermore, according to the information provided by the Norwegian authorities, NCE Raufoss' portfolio of research projects has exceeded NOK 1 billion²⁵ (approximately EUR 120 million). The Authority considers that this confirms that the aid for cluster animation granted to NCE Raufoss is an appropriate instrument to address the identified market failures.

3.2.1.3 Incentive effect

(53) Paragraph 126 of the R&D&I Guidelines provides that EFTA States may refer in particular to an increase in project size, in scope, in speed or in the total amount spent on R&D&I to show the incentive effect of the aid. In addition, paragraph 127 of the R&D&I Guidelines underlines that if the Authority undertakes a more detailed assessment of an individual measure, these indicators may not be considered as a sufficient demonstration of an incentive effect, and the Authority may need to be provided with complementary evidence.

(54) The Authority found in its Decision No. 09/11/COL that the NCE innovation cluster scheme fulfilled the conditions of the R&D&I Guidelines regarding the incentive effect. The Authority based its finding in particular on the selection and evaluation mechanisms contained in the scheme, which require projects to continuously demonstrate change in behaviour within the cluster.

(55) In addition, the report conducted by the independent business consultant Menon in 2012²⁶ shows in particular the increase of the cluster's size, scope and R&D&I activities, and documents the contribution of NCE Raufoss to information sharing, collaboration, R&D&I activity and value creation within the cluster. It further contains a counterfactual study that comes to the conclusion that without the aid, these positive effects would not have been realised to the same degree.²⁷

(56) On this basis, the Authority finds that the notified measure fulfils the conditions of the R&D&I Guidelines regarding the incentive effect.

²⁴ Menon Business Economic 's report, see footnote 11 above.

²⁵ NCE Raufoss' report referred to in footnote 3.

²⁶ The aim of Menon's economic analysis is to assess the cluster's development. According to this report, the cluster has led to: (i) an increase in R&D projects. In fact, approximately 60 R&D projects were carried out, involving more than 50 companies, (ii) cooperation with educational institutions, establishing a master degree in Production Engineering in addition to the master in Efficient and Sustainable Production at Gjøvik, thus, within the core activities of the cluster, (iii) reduction of production costs and production time, and improvement of productivity among the cluster's members. NCE Raufoss 'own assessment (see footnote 3 above) also concludes that the cluster has achieved its objectives.

²⁷ According to this report, a group of enterprises that do not collaborate over time shows a flat development trajectory in value creation. With optimal collaboration, however, the enterprises can realise external economies of scale within a large number of areas, such as joint infrastructure, knowledge development, knowledge dissemination and recruitment. As a consequence, the enterprises can manage to achieve a bigger value creation trajectory. According to the data provided in one of the NCE Raufoss' reports (see footnote 3 above), NCE Raufoss has done it better in terms of value added and productivity compared with a reference group of Norwegian and foreign companies.

3.2.1.4 Proportionality

- (57) The Authority notes that the innovation cluster scheme in which NCE Raufoss participates specifies the intended changes and contains a continuous evaluation mechanism that links the aid amount to the activity level of the cluster, in particular with regard to additional innovation-orientated activity. This mechanism not only contributes to the incentive effect of the measure, but also ensures that the aid is proportionate to the activities of the cluster and limited to the minimum necessary to achieve the desired effects.
- (58) Furthermore, the notified measure respects the maximum aid intensity foreseen in the R&D&I Guidelines (i.e. 50% of the eligible costs).
- (59) The Authority therefore considers that the notified measure is proportionate.

3.2.2 Actual distortion of competition and trade

- (60) When assessing the distortion of competition and trade resulting from the notified measure under the R&D&I Guidelines, the Authority needs to look at whether the aid will lead to distortions of dynamic incentives, to the creation of market power or the maintaining of inefficient market structures.

3.2.2.1 Limited potential for distortions of dynamic incentives

- (61) Firstly, the Authority notes that the notified aid for cluster animation relates to pre-competitive activities that are distant from commercial market transactions.
- (62) Secondly, the annual aid granted to the cluster is on average NOK 5 million (approximately EUR 625 000) and the total aid amounts at NOK 50 million (approximately EUR 6.25 million), disbursed over a period of ten years. There are about 40 companies participating in NCE Raufoss. Furthermore, according to the information provided by the Norwegian Authorities, the expected turnover of the cluster taking into account the turnover of the new members is estimated at NOK 7.2 billion.²⁸ Given the number of companies involved in the cluster, their diversification and its economic strength, the Authority considers that the individual aid amount is unlikely to have any major impact on competition.
- (63) Thirdly, the initial decision to grant aid to NCE Raufoss was taken on the basis of an open, competitive selection process. This fact reduces distortions of competition as any innovation cluster project fulfilling the conditions published by NCE was able to apply for support.
- (64) Fourthly, the companies in NCE Raufoss' main clients are the global automotive industry, the defence markets and B-B electronics as well as strong niches within water&gas distribution, gas tanks, aluminium profiles and mobility. These markets are all technologically advanced and highly competitive. Undertakings participating in the latter markets, as well as NCE Raufoss' companies, are dependent on continuous innovation and development to meet the end user demand and to maintain their market shares. As a consequence, there is a wide range of innovation processes, developments plans and investment through these industries. This presents significant exit barriers from the

²⁸ According to the plan for the third contract period, provided in Annex 5 to the notification (NCE Raufoss "Plan for tredje kontraktsperiode NCE Raufoss" dated 22.10.2013), the turnover of the initial members of the cluster was estimated at NOK 4.2 billion. The turnover of the same companies is currently estimated at NOK 5.3 billion. However, the estimated total turnover of the members of the cluster (including the new members) is estimated at NOK 7.2 billion.

innovation process. It is therefore unlikely that the notified measure will negatively affect research investment plans of competitors.

- (65) Fifthly, NCE Raufoss invites broad participation, encouraging all stakeholders in the market to join the cluster's networks and activities. The aid is thus not aimed at granting any single undertaking an advantage, but rather at encouraging market entry and expansion.
- (66) Finally, NCE Raufoss is based on a shared core competence in lightweight materials and automated production. The cluster's competence is applied in a range of different products and markets with strong competition and a high degree of differentiation between segments and within each segment. As a result, product differentiation is high and competition intense. This further reduces the risk that the notified measure will actually cause any significant distortions of competition.

3.2.2.2 No creation of market power

- (67) Companies in NCE Raufoss compete in global and highly competitive markets with an important number of market players such as the automotive or defence industry. There is no companies in the cluster, nor the cluster itself, holding an important market share in the relevant markets the operate in. Furthermore, the number of buyers within the cluster as well as in the referred industries (i.e. automotive or defence industry) prevent any one buyer from holding a dominant position in the market or to develop significant buyer power.
- (68) There is open access to the cluster's activities and there is a goal to attract new companies, to stimulate start-ups and to recruit new competence to the cluster. The aid therefore does not raise entry barriers to the sector, but rather stimulates the development of new entrants.
- (69) As described above, the aid was granted after an open selection process. The Norwegian authorities have confirmed that particular attention was paid to the independence of all parties participating in the selection process in order to ensure that no undertaking could influence the selection process.

3.2.2.3 No risk of maintaining inefficient market structures

- (70) The aid was granted to the cluster through a selection process in which, among other factors, innovation dynamics and development potential in the cluster were considered. These factors are also evaluated annually and the presence of technological development, innovation and market dynamics is a prerequisite for continuing the aid.
- (71) The aid in favour of NCE Raufoss focuses on the development of new technologies in existing companies, as well as on the establishment of new companies and business. The notified measure is therefore unlikely to have the effect of maintaining inefficient market structures, but will rather contribute to increasing competition within the sector.

3.2.3 *Balancing and conclusion*

- (72) Based on the above, the Authority has undertaken a balancing of the positive and negative elements of the notified aid. The Authority concludes that any distortions resulting from the notified measure do not adversely affect trading conditions to an extent contrary to the common interest.

3.3 Cumulation

- (73) The Norwegian authorities have undertaken that they will ensure adequate communication of information from the beneficiary about aid from other public sources to the cluster. Based on this information, they will adjust the amount of aid granted in order to comply with the maximum aid intensity for operating aid for clusters. Furthermore, the notified aid will not be cumulated with *de minimis* support in respect of the same eligible costs.

3.4 Monitoring and reporting

- (74) The Norwegian authorities will submit annual reports on the implementation of the notified aid and maintain detailed records regarding the granting of aid in line with the requirements in the R&D&I Guidelines.

4. Conclusion

- (75) On the basis of the foregoing assessment, the Authority considers the notified aid to NCE Raufoss to be compatible with the functioning of the EEA Agreement.

HAS ADOPTED THIS DECISION:

Article 1

The individual aid to NCE Raufoss notified by the Norwegian authorities on 30 January 2014 is compatible with the functioning of the EEA Agreement.

Article 2

The implementation of the measure is authorised accordingly.

Article 3

This Decision is addressed to the Kingdom of Norway.

Article 4

Only the English language version of this decision is authentic.

Done at Brussels, 19 March 2014.

For the EFTA Surveillance Authority

Oda Helen Sletnes
President

Frank Büchel
College Member