



EFTA SURVEILLANCE AUTHORITY

Doc. No. 97-6386-I
Dec. No. 218/97/COL
Ref. No. SAM030.97009

EFTA SURVEILLANCE AUTHORITY DECISION

OF 22 OCTOBER 1997

ON AID FOR AN R&D PROJECT BY SOLNES BÅT AS

(NORWAY)

THE EFTA SURVEILLANCE AUTHORITY,

Having regard to the Agreement on the European Economic Area¹, in particular to Articles 61 to 63 of the Agreement,

Having regard to the Act referred to in point 1b of Annex XV to the EEA Agreement on aid to shipbuilding (Council Directive No. 90/684/EEC as amended by Council Directive No. 93/115/EC and Council Directive No. 94/73/EC)²,

Having regard to the Agreement between the EFTA States on the establishment of a Surveillance Authority and a Court of Justice³, in particular Article 1 of Protocol 3 thereof,

WHEREAS:

I. FACTS

By telefax from the Mission of Norway to the European Union of 5 September 1997, registered by the Authority on 8 September 1997 (Doc. No. 97-5801-A), the Norwegian authorities notified, pursuant to Article 1(3) of Protocol 3 to the Surveillance and Court Agreement and Article 11 of the Shipbuilding Directive, their proposal for a grant in support of an R&D project by the shipyard Solnes Båt AS. Certain additional information was communicated by telefax from the Norwegian Industrial and Regional Development Fund (SND on 3 October 1997 (Doc. No. 97-6344-A).

¹ Hereinafter referred to as the EEA Agreement.

² These Council Directives, as adapted for the purpose of the EEA Agreement by decisions of the EEA Joint Committee No 21/95 of 5 April 1995, 16/96 of 4 March 1996 and 58/96 of 28 October 1996, will hereinafter be referred to as the Shipbuilding Directive, or for short as the Directive.

³ Hereinafter referred to as the Surveillance and Court Agreement.

Solnes Båt AS is a small shipyard located in the municipality of Nærøy (Ottersøy) in Nord-Trøndelag county. The company has presently 14 employees, an annual turnover of NOK 9,8 million (approx. ECU 1,2 million) and a balance-sheet total of NOK 0,5 million (approx. ECU 0,06 million). The owners are private individuals.

Since 1979, the company has been engaged in the building of aluminium fishing boats, up to approx. 140 GT in size. All boats are designed and developed within the company. The company is accommodated in leased premises in Ottersøy in Nord-Trøndelag county.

The objective of the R&D project is to develop special material oriented building techniques and calculation norms for the construction of larger boats using aluminium and at the same time to utilise aluminium's thermal properties to cool engines. Special structural profiles intended to increase rigidity and decrease weight will be developed. These new methods are expected to simplify and accelerate production compared to present building methods and allow that vessels with greater cargo capacity be built at lower production costs. The project is planned to be realised in approximately one year.

Total project costs, which the Norwegian authorities consider to be eligible for aid, are NOK 2395 thousand (approx. ECU 300 thousand), consisting primarily of personnel costs (mostly payments for outside engineering and production expertise), and costs for testing, technical management and travel of the specialists engaged in the project. To support the financing of the project the Industrial and Regional Development Fund (SND) will contribute with a grant of NOK 795 thousand (approx. ECU 100 thousand), which corresponds to 33,2% of the project costs. The grant is to be awarded under an existing aid scheme, the SND Industrial R & D Contracts (aid no 95-015, ex aid no 93-147). No aid from other sources will be granted for the project.

II. APPRECIATION

The proposed grant by the state-owned Industrial and Regional Development Fund (SND) in support of the project will relieve the recipient, Solnes Båt AS, of some of the costs of the project, whose objective is to develop new technology for construction of aluminium vessels, a product which is open for trade between the Contracting Parties to the EEA Agreement. The grant therefore represents State aid within the meaning of Article 61(1) of the EEA Agreement.

Although Solnes Båt AS is a small company building mostly relatively small fishing boats for the domestic market, it has capacity to build metal-hulled boats above 99 GT in size and has built aluminium boats up to 140 GT. Aid to the company therefore comes within the scope of the Shipbuilding Directive. By notifying the proposed grant, the Norwegian authorities have respected the procedural requirements in Article 11 of the Directive.

According to Article 8 of the Shipbuilding Directive, aid to defray expenditure by shipyards for research and development projects may be considered compatible with

the functioning of the EEA Agreement. The relevant guidelines for the assessment of such aid are the rules on aid for research and development set out in Chapter 14 of the Authority's State Aid Guidelines⁴. In these guidelines the Authority has in general expressed a favourable view on aid for R&D, such a view being justified by several factors, including the aim of such aid, the financial requirements and risks of R&D projects, and, taking account of the distance from the marketplace of such projects, the reduced likelihood that such aid will distort competition and trade. Aid for R&D projects can therefore be approved, if it meets the criteria in the Authority's Guidelines, which pay particular attention to the kind of activity involved and its proximity to the market place, the type of expenditure to be supported and the aid intensity in relation to eligible costs.

As mentioned above, the purpose of the project is to develop new material oriented techniques for the building of aluminium boats and special structural profiles intended to increase rigidity and reduce hull weight. If successful, the project can pave the way for simplified and accelerated production at reduced costs and would also have favourable effects on subcontractors in the district. The project must thus be considered to aim at a significant technological enhancement and to involve high risks for Solnes Båt AS. The Authority therefore concurs with the view of the Norwegian authorities that the project work represents applied research and precompetitive development activity, in the meaning of the rules on aid for research and development. Given the small size of the company and its limited financial resources, there is no doubt that the aid will have an incentive effect by inducing the company to pursue R&D activities, which, in the absence of aid, it is unlikely to venture.

The project costs, totalling NOK 2395 thousand, consist primarily of payments for outside engineering consultants (NOK 1228 thousand), personnel costs within Solnes Båt AS for the experts engaged in the project (NOK 441 thousand) and costs for testing, technical management and travel of engineering researchers (NOK 726 thousand). These cost categories qualify as eligible costs for R&D projects according to point 14.6.(1) of the Authority's State Aid Guidelines.

According to section 14.5. of the State Aid Guidelines, the Authority determines the allowable aid intensity for R&D aid on a case-by-case basis, taking into consideration *inter alia* the nature of the project, the proximity of the R&D activity concerned to the market place, and the risk of distortion of competition and the effect on trade between the Contracting Parties. However, as a general rule, the Authority has defined ceilings, ranging from 25% to 100%, for the different stages of R&D activity. Thus, for the type of R&D activity which is relevant in the present case, precompetitive development, an activity relatively close to the market, a ceiling of 25% of eligible costs has been fixed as the permissible gross aid intensity. This ceiling can be increased in certain situations, including where the aid is to be given to a company qualifying as a small and medium-sized enterprise (SME), when an extra 10

⁴ The term 'State Aid Guidelines' refers to the Procedural and Substantive Rules in the Field of State Aid, initially adopted by the EFTA Surveillance Authority on 19 January 1994 (OJ 1994, L231, EEA Supplement No 32, 3.9.1994), last amended on 16 July 1997 (not yet published). The presently applicable R&D guidelines were adopted by the Authority on 15 May 1997 (OJ 1996, L245, EEA Supplement No 43, 26.9.1996).

percentage points can be accepted. Where the research project is carried out in an Article 61(3)(c) region, a further 5 percentage points can be authorized.

Solnes Båt AS has at present 14 employees, an annual turnover corresponding to ECU 1,2 million and a balance-sheet total of ECU 0,06 million, and it is owned by private individuals. The company therefore qualifies as an SMEs as defined in section 10.2. of the State Aid Guidelines. As a matter of fact, it falls well within the narrower definition of “small” enterprises (fewer than 50 employees, annual turnover not exceeding ECU 7 million, and balance-sheet total not exceeding ECU 5 million, as well as conforming to the so-called independence criterion defined in point 10.2.(3) of the Guidelines). Solnes Båt AS is located in the municipality of Nærøy in Nord-Trøndelag county. That municipality belongs to Target zone B of the map of assisted areas in Norway and qualifies for regional aid under Article 61(3)(c) of the EEA Agreement (cf. the Authority’s Decision No 157/94/COL of 16 November 1994). Solnes Båt AS is therefore eligible for up to 40% (gross) of eligible costs in support of the project.

Solnes Båt AS is the instigator of the project and carries the main responsibility for its execution, but it will be carried out in co-operation with the company Hydro Aluminium Vekst AS, which contributes to the financing of the project in the same amount as Solnes Båt AS, by NOK 800 thousand. A few other companies and research institutions in Norway will also participate in the project on consultancy basis, in return for payment. Aid for the project is only to be provided to Solnes Båt AS. The research results will be owned jointly by Solnes Båt AS and Hydro Aluminium Vekst AS. Although Solnes Båt AS will be the main beneficiary of a successful outcome of the project, it seems likely that Hydro Aluminium Vekst AS may also benefit to a certain extent. The project is taking place in an assisted area, but Hydro Aluminium Vekst AS, a subsidiary of Norsk Hydro ASA, does not qualify as an SME. Hence, that company could only benefit from an aid level of 30% for the present project. If Hydro Aluminium Vekst AS were to benefit from the project to the same extent as Solnes Båt AS, which however appears unlikely, then the admissible aid intensity could be calculated as the simple average of the rates applicable to the two companies, i.e. 35%.

The proposed aid level for the project corresponds to 33,2% (gross) of eligible costs. It is therefore within the aid intensity ceiling which is admissible in the present case according to the Authority’s State Aid Guidelines.

It is finally noted that the aid scheme, which will be applied to support the project, the SND Industrial R & D Contracts (aid no 95-015, ex aid no 93-147), has been assessed and authorised by the EFTA Surveillance Authority (cf. Decision No 130/95/COL of 14 December 1995).

For the reasons stated above it is concluded that the notified aid qualifies for exemption under Article 61(3)(c) of the EEA Agreement, as aid to facilitate the development of certain economic activities without adversely affecting trading conditions 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 proposed State aid for an R&D project by Solnes Båt AS, as notified by telefaxes of 5 September 1997 (Doc. No. 97-5801-A) and of 3 October 1997 (Doc. No. 97-6344-A).

Done at Brussels, 22 October 1997.

For the EFTA Surveillance Authority

Knut Almestad
President

Hannes Hafstein
College Member