

EFTA SURVEILLANCE AUTHORITY DECISION

of 25 November 2015

raising no objections to the prolongation of the CLIMIT Demo aid scheme

(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,

Protocol 26 to the EEA Agreement,

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,

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 the prolongation of the CLIMIT Demo aid scheme pursuant to Article 1(3) of Part I of Protocol 3 by letter dated 29 September 2015, received and registered on 30 September 2015.¹ They submitted further information by email on 29 October 2015.²

2 The aid scheme

2.1 CLIMIT Demo

- (2) The CLIMIT Demo aid scheme is intended to promote technology for CO₂ capture, transport and storage (“CCS”) through development, pilot and demonstration projects. CCS technologies essentially cover four stages: (i) CO₂ capture; (ii) handling and compressing of CO₂; (iii) its transport; and (iv) long-term storage of CO₂ through injection, deposition or other applications (geological sequestration or chemical/mineral sequestration).

¹ Document Nos 774668-774675.

² Document No 778766.

- (3) The CLIMIT Demo aid scheme as notified is a prolongation of an existing scheme put in place ten years ago. On 30 November 2005, the Authority adopted Decision No 302/05/COL regarding a notified scheme for research and development concerning gas technologies with improved environmental performance. The principal objective of the scheme was to strengthen the intensity of research and development for gas-fired power stations with CCS technologies in order to reduce CO₂ emissions. In its decision, the Authority found the scheme to be compatible with the functioning of the EEA Agreement, on the basis of Article 61(3)(c) read in conjunction with the R&D Guidelines applicable at the time.³
- (4) The existing scheme was amended twice to allow for aid to be granted to new categories of beneficiaries:
- On 17 December 2008, the Authority adopted Decision No 786/08/COL, approving a notified amendment of the scheme by including CCS technologies related to all fossil fuels and not only gas. The decision also approved several amendments necessary for the scheme to comply with the 2007 research, development and innovation (“R&D&I”) Guidelines.
 - On 15 September 2010, the Authority adopted Decision No 348/10/COL approving a notified amendment making the scheme applicable not only to R&D&I concerning CCS technologies in relation to energy production, but also to industrial sources.
- (5) The Authority’s approval of the existing CLIMIT Demo scheme under Decision No 302/05/COL expires on 30 November 2015.

2.2 Gassnova SF (“Gassnova”)

- (6) CLIMIT Demo is managed through a joint effort between the Norwegian Research Council and Gassnova, where Gassnova serves as the principal coordinator of the programme and the authority responsible for granting funds under the scheme.
- (7) Gassnova is an administrative body which was established through a decision of the Norwegian government and became operational as of 3 January 2005. Gassnova reports to the Ministry of Petroleum and Energy.⁴

2.3 Potential beneficiaries and application process

- (8) Any undertaking planning to conduct research, development, piloting and demonstration of CCS technologies for power generation and other industrial sources can apply for aid under the CLIMIT Demo scheme. Gassnova issues calls for aid applications on its website several times a year.
- (9) The evaluation of the applications is based on an assessment of the project’s technical and commercial merits defined in the regulations for CLIMIT Demo. The following criteria are particularly relevant in the evaluation of applications:
- Commercial potential: the technologies must demonstrate commercial potential. This means prospects for profitability, market opportunities, business concept and realism in business plans. The market potential must be documented through research, feasibility studies and market analyses. The project must be organised in

³ Former Chapter 14 of the Authority’s State Aid Guidelines, Aid for Research and Development, adopted on 26 July 2002 (see Decision No 145/02/COL).

⁴ Further information on Gassnova can be found on its website, <http://www.gassnova.no/en>.

a manner that strengthens the possibility of market introduction; this includes industry participation from vendors and users nationally and internationally.

- Technical basis: projects that are supported in a prototype and demonstration phase must be technologically qualified through documentation of research and development activities and good results at laboratory scale.
 - Incentive effect, i.e. that the project would not be carried out in the same manner without the aid.
 - Development in Norway: the project must contribute to added value/growth in Norway, either in the form of development of technology and/or capacity building within CLIMIT's objectives.
 - Plan for implementation: appropriate project financing, organisation and methodology plan for implementation of the project, which substantiates completion of the project, must be documented.
- (10) In particular, Gassnova prepares an individual cost-benefit assessment of each proposed project, including a financial analysis in order to determine the level of aid needed to ensure a normal return on capital for the beneficiary to trigger the investment.

3 National legal basis

- (11) The proposed prolongation of the CLIMIT Demo aid scheme is based on the same national legal basis as the existing aid scheme.
- (12) The legal basis is set out in *NOU 2002: 7 Gassteknologi, miljø og verdiskapning* (White paper 2002: 7 Gas Technology, the Environment and Added Value), *St. meld. Nr. 9 (2002–2003) om innenlands bruk av naturgass mv.* (Report No. 9 to the Storting (2002-2003) On Domestic Use of Natural Gas), *Stortingsvedtak nr. 352 (2002-2003)* (Decision No. 352 by the Storting (2002-2003)), *Stortingsvedtak nr. 69 (2003-2004)* (Decision No. 69 by the Storting (2003-2004)), *Innst. S. nr. 250 (2003-2004) vedtak nr. 549* (Proposition No. 250 to the Storting (2003-2004), decision No. 549), *St. meld. Nr. 47 (2003-2004) Innovasjonsverksemda for miljøvennlige gassteknologier mv* (Report No. 47 to the Storting (2003-2004) Innovation activities for environmentally-friendly gas technologies etc), *Budsjettvedtak re. Budsjett-innst. S. nr. 9 (2004-2005) fra energi og miljøkomiteen* (Budget resolution No. 9 to the Storting (2004-2005) from the Committee for Energy and Environment), *Kongelig resolusjon av 17.12.2004 Om opprettelse og fastsettelse av vedtekter og fullmakter for forvaltningsorganet Gassnova, samt forskrift om endringer i forskrift 16. desember 1977 nr. 14 og forskrift 16. desember 1977 nr. 15* (Royal decree of 17.12.2004 concerning the establishment and decision on by-laws and authority for the administrative agency Gassnova, and Regulation on amendments to Regulation of 16.12.1977, No. 14 and Regulation of 16.12.1977, No. 15).
- (13) The legal basis for the amendments that were approved by the Authority in Decision No 786/08/COL is set out in *St.prp. nr. 1 (2008-2009)*. The proposal explained that the Gassnova aid scheme should be expanded to cover all fossil fuel energy production. The St.prp. was approved by the Norwegian cabinet (Statsråd) on 12 September 2008.
- (14) The legal basis for the amendments that were approved by the Authority in Decision No 348/10/COL is set out in the letter "*Representantforslag 26S (2009-2010) om utarbeidelse av en handlingsplan for CO₂-fangst og lagring fra store punktutslipp til industrien*" to the Norwegian parliament.

4 Aid instrument, intensity, eligible costs and overlap with other schemes

- (15) Aid under the CLIMIT Demo scheme will be disbursed in the form of grants.
- (16) Aid under the scheme may, in principle, be granted for R&D&I in any of the stages referred to in section 1.2 of the Authority's current R&D&I Guidelines.⁵ Feasibility studies related to the R&D&I stages also qualify for aid under the scheme. The main focus of Gassnova will be to provide funding for certain industrial research activities as well as pilot and demonstration activities. However, the Norwegian authorities note that it cannot be excluded that Gassnova may provide funding for fundamental research activities in certain cases, for instance where fundamental research needs arise in the course of a pilot project. The CLIMIT Demo scheme therefore refers to all R&D&I stages.
- (17) The Norwegian authorities have stated that the CLIMIT Demo scheme will follow the maximum aid intensities that are provided in the R&D&I Guidelines and that are applicable to the eligible R&D&I measures that are set out in Annex II to the Guidelines.

	Small enterprise	Medium-sized enterprise	Large enterprise
Aid for R&D projects			
Fundamental research	100%	100%	100%
Industrial research	70%	60%	50%
- Subject to effective collaboration between undertakings (for large enterprises, cross-border or with at least one SME) or between an undertaking and a research organisation; or - subject to wide dissemination of results	80%	75%	65%
Experimental development	45%	35%	25%
- subject to effective collaboration between undertakings (for large enterprises, cross-border or with at least one SME) or between an undertaking and a research organisation; or - subject to wide dissemination of results	60%	50%	40%
Aid for feasibility studies	70%	60%	50%
Aid for the construction and upgrade of research infrastructures	50%	50%	50%
Innovation aid for SMEs	50%	50%	-

- (18) Further, the calculation of the eligible costs under the scheme will follow the relevant parts of Annex I of the Guidelines.

Aid for R&D projects	<p>(a) Personnel costs: researchers, technicians and other supporting staff to the extent employed on the project.</p> <p>(b) Costs of instruments and equipment to the extent and for the period used for the project. If such instruments and equipment are not used for their full life for the project, only the depreciation costs corresponding to the life of the project, as calculated on the basis of good accounting practice, are considered as eligible.</p>
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⁵ The Guidelines are available on the Authority's website: <http://www.eftasurv.int/media/state-aid-guidelines/Guidelines---State-aid-for-research-and-development-and-innovation.pdf>.

	<p>(c) Costs of buildings and land, to the extent and for the period used for the project. With regard to buildings, only the depreciation costs corresponding to the life of the project, as calculated on the basis of good accounting practice are considered as eligible. For land, costs of commercial transfer or actually incurred capital costs are eligible.</p> <p>(d) Cost of contractual research, knowledge and patents bought or licensed from outside sources at arm's length conditions, as well as costs of consultancy and equivalent services used exclusively for the project.</p> <p>(e) Additional overheads incurred directly as a result of the project.</p> <p>(f) Other operating expenses, including costs of materials, supplies and similar products incurred directly as a result of the project.</p>
Aid for feasibility studies	Cost of study.
Aid for the construction and upgrade of research infrastructures	Investment costs in intangible and tangible assets.
Innovation aid for SMEs	<p>(a) Costs for obtaining, validating and defending patents and other intangible assets.</p> <p>(b) Costs for secondment of highly qualified personnel from a research and knowledge dissemination organisation or a large enterprise, working on R&D&I activities in a newly created function within the beneficiary and not replacing other personnel.</p> <p>(c) Costs for innovation advisory and support services.</p>

- (19) The Norwegian authorities state that research into CCS technologies may be eligible for state aid from a number of sources, depending on the research stage concerned. CLIMIT Demo aims at late stage development and demonstration of CCS technologies, whereas other schemes normally target earlier R&D&I stages. In any event, the Norwegian authorities will ensure that the cumulation rules in the R&D&I Guidelines are respected.

5 Budget and duration

- (20) The CLIMIT Demo scheme is financed through allocations from Norway's budget, which are transferred to an account administered by Gassnova.⁶
- (21) For 2014, the CLIMIT Demo programme had a budget allocation of NOK 95 million and a budgeted total disposable income of NOK 168.97 million. According to the Norwegian authorities, the yearly budget allocations can vary over time, but may in any event not exceed NOK 200 million.
- (22) The Norwegian authorities have notified the CLIMIT Demo scheme for a duration of 5 years.

6 Comments by the Norwegian authorities

- (23) The Norwegian authorities note that promoting research, development and innovation is not only an objective of the EEA Agreement, but is also one of the key drivers for achieving smart, sustainable and inclusive growth that has been identified in the European Commission's "Europe 2020 strategy." They submit that the CLIMIT Demo scheme will

⁶ This represents a change to the funding mechanism in the previous scheme, which was financed through annual dividends of a dedicated fund of NOK 2 billion.

help achieve these objectives by awarding subsidies to R&D&I projects that aim to provide more cost and energy efficient capture, transport and long-term storage of CO₂.

- (24) The Norwegian authorities argue that whilst significant efforts have been made internationally in the past decade to develop and test CCS technologies in order to turn such technologies into cost-effective measures to reduce CO₂ in power production and industry, CCS technologies are not yet commercially viable. The Norwegian authorities further refer to reports from the Intergovernmental Panel on Climate Change and the International Energy Agency (“IEA”) which indicate that there is a need for CCS technologies to combat climate change whilst at the same time ensuring energy security.⁷ The Norwegian authorities note that the IEA has concluded that CCS technologies will be important for the Nordic countries to achieve their climate targets.⁸ Furthermore, the EU Energy roadmap 2050 shows that CCS technologies will be important in all scenarios, but primarily in the years beyond 2030.⁹
- (25) In this context, the Norwegian authorities’ strategy in terms of CCS technologies includes a wide range of activities, including research, development and demonstration as well as work on the realisation of large-scale demonstration facilities, transport, storage and alternative use of CO₂ and efforts to promote CCS technologies internationally.¹⁰ The CLIMIT Demo scheme is an integral part of this policy.
- (26) The Norwegian authorities point out that supporting CCS technologies serves an environmental objective as their purpose is to avoid an increase in global greenhouse gas emissions. They further submit that until CCS technologies represent a commercially viable solution, continued public R&D&I stimuli are crucial to maintaining the progress in developing CCS technologies.
- (27) The Norwegian authorities have provided two evaluation reports for the existing CLIMIT Demo scheme:
- For the period 2005-2010: Report on the Evaluation of the CLIMIT Programme (2011), conducted by Oxford Research in collaboration with Thema Consulting Group and Element Energy Ltd. (“Oxford Research Evaluation Report”).¹¹
 - For the period 2010-2015: Preliminary report on the Evaluation of the CLIMIT Demo programme, conducted by Technopolis Group (“Technopolis Evaluation Report”).¹²

⁷ Examples of reports are available here: https://www.ipcc.ch/pdf/special-reports/srccs/srccs_wholereport.pdf and <http://www.iea.org/topics/ccs/>.

⁸ <https://www.iea.org/publications/freepublications/publication/NETP.pdf>.

⁹ https://ec.europa.eu/energy/sites/ener/files/documents/2012_energy_roadmap_2050_en_0.pdf.

¹⁰ For a summary in English of the Norwegian CCS strategy, see <https://www.regjeringen.no/en/topics/energy/carbon-capture-and-storage/the-governments-carbon-capture-and-storage-strategy/id2353948/>.

¹¹ The study is available at http://www.oxfordresearch.no/media/89641/climit_evaluation_final_report.pdf.

¹² Document No 774672.

II. ASSESSMENT

1 The presence of state aid

- (28) A measure constitutes state aid within the meaning of Article 61(1) of the EEA Agreement if the following conditions are cumulatively fulfilled: the measure (i) is granted by the State or through state resources; (ii) confers a selective economic advantage on the beneficiary; (iii) is liable to have an impact on trade between Contracting Parties and to distort competition.

1.1 Presence of state resources

- (29) In order to constitute state aid, a measure has to be granted by the State or through state resources.
- (30) Gassnova receives an allocation directly from the State budget for the operation of the CLIMIT Demo scheme. The criteria for state aid to be granted to beneficiaries under the scheme are fixed by the Norwegian authorities, and Gassnova reports to the Ministry of Petroleum and Energy.
- (31) The Authority therefore considers that CLIMIT Demo is financed through state resources.

1.2 Favouring certain undertakings or the production of certain goods

- (32) Firstly, the aid measure must confer on potential beneficiaries advantages that relieve them of charges that are normally borne from their budgets. Secondly, the aid measure must be selective in that it favours certain undertakings or the production of certain goods.
- (33) The CLIMIT Demo scheme will only favour certain undertakings with eligible CCS projects by relieving them of R&D&I costs that they would normally have to bear themselves.
- (34) The Authority therefore considers that the measure confers a selective advantage on the beneficiaries.

1.3 Distortion of competition and effect on trade between Contracting Parties

- (35) The aid measure must be liable to distort competition and affect trade between the Contracting Parties to the EEA Agreement.
- (36) CCS technology is the object of a number of R&D&I programmes in Europe, and there are a number of undertakings throughout the EEA that are active in the development of such technologies. Both the market for CCS technologies and the industries to which CCS can be applied are international and subject to trade and competition in the EEA.
- (37) The Authority therefore considers that the CLIMIT Demo scheme is liable to distort competition and to affect trade between the Contracting Parties.

1.4 Conclusion on the presence of state aid

- (38) Based on the above, the Authority concludes that the CLIMIT Demo scheme constitutes state aid within the meaning of Article 61(1) of the EEA Agreement.

2 Procedural requirements

- (39) 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”*.

- (40) By submitting a notification of the CLIMIT Demo scheme on 30 September 2015, the Norwegian authorities complied with their obligations pursuant to Article 1(3) of Part I of Protocol 3.

3 Compatibility of the aid

- (41) The Authority has assessed the notified aid scheme under Article 61(3)(c) of the EEA Agreement. This article provides that the Authority may declare state aid to facilitate the development of certain economic activities compatible with the functioning of the EEA Agreement, where such aid does not adversely affect trading conditions to an extent contrary to the interest of the Contracting Parties. Furthermore, the Authority has applied its current R&D&I Guidelines.
- (42) As stated in the R&D&I Guidelines, in order to assess whether a notified aid measure can be considered compatible with the functioning of the EEA Agreement, the Authority generally analyses whether the design of the aid measure ensures that the positive impact of the aid towards an objective of common interest exceeds its potential negative effects on trade and competition.
- (43) In doing so, the Authority determines whether the notified measure satisfies each of the following criteria:¹³
- Contribution to a well-defined objective of common interest;
 - Need for state intervention;
 - Appropriateness of the aid measure;
 - Incentive effect;
 - Proportionality of the aid;
 - Avoidance of undue negative effects on competition and trade; and
 - Transparency of the aid.

3.1 Contribution to a well-defined objective of common interest

- (44) The main objective of the CLIMIT Demo scheme is to increase the volume, quality and novelty of R&D&I related to CCS technologies – and by doing so to promote the development of low carbon energy solutions. The Authority notes that the CLIMIT Demo scheme will therefore contribute to the achievement of certain objectives referred to by the European Commission in its Europe 2020 strategy, notably that of developing low carbon energy solutions.¹⁴
- (45) Specifically, CLIMIT Demo aims to support development, pilot and demonstration projects for CCS technologies in order to achieve cost-effective solutions. Although CCS technologies are available today, they are not commercially viable yet and thus are not utilised in industry.
- (46) The experience from the existing CLIMIT Demo scheme as evidenced by the evaluation reports suggests that the aid scheme has so far resulted in important R&D&I results and made the prospects of global CCS deployment more likely than would have been the case without.¹⁵ However, the evaluation reports also highlights the continuous need for R&D&I in this area.¹⁶

¹³ See R&D&I Guidelines, section 3.

¹⁴ See R&D&I Guidelines, section 4.1.1.

¹⁵ See Oxford Research Evaluation Report, page 10, and Technopolis Evaluation Report, page 3.

¹⁶ See Oxford Research Evaluation Report, page 41, and Technopolis Evaluation Report, page 3.

- (47) Based on the above, the Authority concludes that the CLIMIT Demo scheme contributes to an objective of common interest.

3.2 Need for state intervention

- (48) State aid may be necessary to increase R&D&I in the EEA in a situation where the market, on its own, fails to deliver an efficient outcome. In order to assess whether state aid is effective in reaching the objective of common interest, it is first necessary to identify the problem that needs to be addressed. There are a number of factors which may prevent R&D&I investments from reaching their optimal output and lead to economic inefficiencies, such as market failures related to positive externalities, information asymmetries and coordination failures.¹⁷
- (49) CCS technologies are recognised internationally as being the type of technologies that are needed to combat climate change.¹⁸ However, they have yet to become a commercially viable measure against climate change. There are a number of existing R&D&I initiatives to stimulate their development, but the commercialisation of CCS technologies is still hampered in particular by technology gaps. According to the evaluation report, CLIMIT Demo has contributed to an acceleration of CCS technology by improving the knowledge in important areas and by reducing these technology gaps, even though the gaps turned out to be larger than originally anticipated.¹⁹
- (50) Coordination failures and information asymmetries may occur for large scale CCS projects with high investment costs, since individual undertakings generally do not have the financial capacity to support such projects and will not be in a position to achieve the necessary economies of scale on their own.²⁰
- (51) Regarding positive externalities, the Norwegian authorities have shown that there has already been a positive knowledge distribution resulting from projects that have benefitted from CLIMIT Demo funds.²¹ This is confirmed by the Technopolis Evaluation Report, which highlights a strong focus on dissemination of results, for instance in the form of regular conferences organised by Gassnova.²² It is also likely that this effect will continue through further support of CCS projects by CLIMIT Demo.
- (52) Based on the above, the Authority considers that there is a continuing need for state intervention.

3.3 Appropriateness of the aid measure

- (53) The assessment of the appropriateness of an aid measure is undertaken at two levels. The first relates to whether state aid is the appropriate policy instrument to promote the R&D&I activities in question. Indeed, there may be other, better suited instruments, such as regulation or general fiscal measures. Whether the chosen policy instrument is appropriate or not will generally depend on the nature of the problem to be addressed. The second part of the assessment is aimed at determining whether the aid is awarded in the form that is likely to generate the least distortions of competition and trade.²³

¹⁷ See R&D&I Guidelines, section 4.2.1.

¹⁸ See reports in footnote 8 above.

¹⁹ See Oxford Research Evaluation Report, page 41.

²⁰ See Oxford Research Evaluation Report, page 71

²¹ For instance, the CO₂ capture test facility at Norcem Brevik is organised in cooperation with the European Cement Research Academy and has attracted international interest from the cement sector.

²² See Technopolis Evaluation Report, page 4.

²³ See R&D&I Guidelines, section 4.3.1.

- (54) The Norwegian authorities have assessed alternative instruments to stimulate R&D&I in CCS technologies. They state that the CO₂ price is currently not high enough to encourage research activities in this area and that carbon price forecasts for the short-to-medium term are not high enough to trigger sufficient R&D&I activities sponsored by the industry. This is evidenced by the IEA's recent statement that the deployment of CCS is running far below the trajectory required to limit long-term global average temperature increase to 2°C and that the current carbon prices do not drive CCS development.²⁴
- (55) Alternative legislative instruments which the Norwegian government could put in place (e.g. permits or taxes) would not be effective in helping to achieve the objective of encouraging the development of commercially viable CCS technologies. In this context, adding further restrictions or costs to Norwegian facilities emitting CO₂ would result in higher comparative costs for the operators of such facilities, most likely resulting in reduced industrial activity rather than an increase in R&D&I.
- (56) CCS is not yet commercially viable. As explained in section 3.5 below, state aid under the CLIMIT Demo scheme is aimed at triggering investment in CCS projects by achieving a sufficient return on capital for the beneficiary. The Norwegian authorities have demonstrated that state aid is the most appropriate way of addressing this lack in profitability. Furthermore, the chosen aid instrument, i.e. grants, is the most suitable way of achieving this, as no other aid instrument has a comparable impact on profitability.
- (57) Against this background, the Authority concludes that state aid is an appropriate instrument to address the identified market failures.

3.4 Incentive effect

- (58) State aid, including for R&D&I, can only be found compatible with the functioning of the EEA Agreement if it has an incentive effect. An incentive effect occurs where the aid changes the behaviour of an undertaking in such a way that it engages in additional activities, which it would not carry out or it would carry out in a restricted or different manner without the aid.²⁵ The aid must not subsidise the costs of an activity that an undertaking would anyhow incur and must not compensate for the normal business risk of an economic activity.
- (59) As described in section 3.2 above, CCS technologies are not commercially viable yet and there are therefore very limited market opportunities for such technologies. It is therefore unlikely that CCS projects would be developed on a commercial basis at this point in time.
- (60) The CLIMIT Demo scheme ensures that aid has an incentive effect. Gassnova will follow the conditions laid down in section 4.4.1 of the R&D&I Guidelines. In particular, applicants for aid cannot commence the activity in question prior to submitting their aid application. Only once the aid is granted can recipients start incurring costs. Furthermore, Gassnova performs an individual financial analysis of each project to ensure that the investment would not have been sufficiently profitable without the aid, taking due account of any benefits associated with the project.
- (61) The Authority also notes that the Technopolis evaluation report finds that CLIMIT Demo scheme has clear added value and creates space for ideas that would not otherwise have

²⁴ See

http://www.iea.org/publications/freepublications/publication/TechnologyRoadmapCarbonCaptureandStorage_e.pdf.

²⁵ See R&D&I Guidelines, section 4.4.1.

been developed. It further states that there is no evidence that any of the supported projects would have been carried out without the aid.²⁶

- (62) Based on the above, the Authority considers that aid granted under the CLIMIT Demo scheme has an incentive effect.

3.5 Proportionality of the aid

- (63) For any R&D&I aid to be considered proportional, its amount must be limited to the minimum needed for carrying out the aided activity. In order to ensure that the level of aid is proportionate to the market failures which it is intended to address, the aid must be determined in relation to a predefined set of eligible costs and limited to a certain proportion of those eligible costs (“aid intensity”).²⁷
- (64) The Norwegian authorities state that any aid granted under the CLIMIT Demo scheme will be limited to the minimum needed for carrying out the proposed activity and, in any event, will be limited by the aid intensities set out in the R&D&I Guidelines. Furthermore, the assessment of eligible costs will also be carried out in line with these guidelines.
- (65) The Norwegian authorities further point out that an individual assessment is carried out for each project to determine the level of aid needed to ensure a normal return on capital for the beneficiary. This includes an assessment as to whether the project would be sufficiently profitable without the aid. As a result, projects with an estimated return on capital which exceeds what is considered normal for the relevant projects and industry will not be eligible for aid.
- (66) In addition, the CLIMIT Demo scheme contains a number of safeguards to ensure that the funds are used in a targeted and efficient manner. First, the scheme does not cover any costs until they have been incurred and the aid applicant has documented them in a satisfactory manner. Second, the funds are paid in tranches subject to satisfactory milestone reporting according to a progress plan, an approved budget and planned results. Finally, 10% of the total grant awarded is withheld until a final report has been submitted and approved. This final report would be expected to describe the results of the project compared to the objectives that were set out in the contract, together with an approved set of project accounts.
- (67) Finally, the Norwegian authorities note that costs above the initial budget are borne by the beneficiary whereas costs below budget are clawed back by Gassnova.
- (68) The Authority notes that the CLIMIT Demo scheme respects the aid intensities in the R&D&I Guidelines and contains a number of additional safeguards to ensure that aid will be limited to the minimum necessary. The Authority therefore considers that the aid is proportionate.

3.6 Avoidance of negative effects on competition and trade

- (69) For R&D&I aid to be compatible with the functioning of the EEA Agreement, the negative effects of the aid measure in terms of distortions of competition and impact on trade between the EFTA States must be limited and outweighed by the positive effects in terms of contribution to the objective of common interest.²⁸

²⁶ See Technopolis Evaluation Report, page 3.

²⁷ See R&D&I Guidelines, section 4.5.1.

²⁸ See R&D&I Guidelines, section 4.6.1.

- (70) The Authority notes that, as a general rule, if the aid is proportionate, its negative impact on trade and competition is likely to be limited. As set out above in section 3.5, the Authority has concluded that the aid is proportionate. The Authority considers therefore that any negative effects on competition and trade are likely to be limited.
- (71) The Authority further notes that CCS technologies are not yet commercially viable, and that the aid is therefore unlikely to create distortions of competition or an effect on trade under the current market conditions. CLIMIT Demo is intended to help undertakings develop commercially viable CCS technologies. A successful development of such technologies will most likely confer a first-mover advantage on the beneficiary. However, this sort of first-mover advantage represents an inherent part of funding the development of new technologies. Any such advantage is also mitigated by the dissemination of research results through the CLIMIT Demo scheme and the positive spill-over effects that the availability of commercially viable CCS technologies will have for consumers and society.²⁹
- (72) Finally, the CLIMIT Demo scheme will be open to applications from a wide range of potential beneficiaries from both the energy sector and other industries. Furthermore, aid can be granted to projects located anywhere in the EEA as long as they contribute to added value or growth in Norway in the form of development of technology or capacity building within CLIMIT's objectives. The scheme is therefore unlikely to have an appreciable effect on the localisation of economic activities across the EEA States.
- (73) Based on the above, the Authority considers that any negative effects on competition and trade of the CLIMIT Demo scheme are limited. These limited negative effects are outweighed by the positive effects in terms of contribution to the objective of common interest.

3.7 Transparency

- (74) The CLIMIT Demo scheme documentation is publicly available on the CLIMIT website (<http://www.climit.no/en>).
- (75) As of 1 July 2016 at the latest, any individual aid awards exceeding €500 000 granted under the scheme will be published in the state aid register in accordance with the requirements set out in the R&D&I Guidelines.³⁰

3.8 Reporting and monitoring

- (76) The Norwegian authorities will ensure that the requirements for reporting and monitoring, as set out in the R&D&I Guidelines will be fulfilled.³¹
- (77) The Norwegian authorities are further reminded of the obligation resulting from Article 21 of Part II of Protocol 3 in conjunction with Articles 5 and 6 of Decision No 195/04/COL to provide annual reports on the implementation of the scheme.

4 Conclusion

- (78) On the basis of the foregoing assessment, the Authority considers that the CLIMIT Demo scheme constitutes state aid with the meaning of Article 61(1) of the EEA Agreement. This aid is compatible with the functioning of the EEA Agreement.

²⁹ See Technopolis Evaluation Report, page 8.

³⁰ See R&D&I Guidelines, section 4.7.

³¹ See R&D&I Guidelines, section 6.

- (79) The Norwegian authorities are reminded that all plans to modify this scheme must be notified to the Authority.

HAS ADOPTED THIS DECISION:

Article 1

The CLIMIT Demo scheme is compatible with the functioning of the EEA Agreement pursuant to Article 61(3)(c) thereof.

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 in Brussels, on 25 November 2015

For the EFTA Surveillance Authority

For Sven Erik Svedman
President

for Helga Jónsdóttir
College Member