

Significance of the state aid rules for Innovation Projects for the Industrial Sector

Support awarded by the Research Council of Norway under the application type “Innovation Projects for the Industrial Sector” is defined as state aid and is subject to the EEA state aid rules. The aid scheme is monitored by the EFTA Surveillance Authority, and aid is granted under Article 25 of the General Block Exemption Regulation for state aid (Commission Regulation (EU) No 651/2014).

Article 25 serves as the framework for the aid scheme, and the support granted by the Research Council must comply with the parameters set out in this article, including those on maximum aid intensity. The Research Council establishes further details and requirements through the description of the application type, specifications in the call for proposals and in the guidelines for completing the project account report for innovation projects.

It is important to note that the state aid rules stipulate the maximum aid intensities, and that funding granted by the Research Council to a project will normally lie well below these limits. Applicants must consult the text of the individual call for proposals for specific information.

What are the practical ramifications?

Article 25 of the Block Exemption, “Aid for research and development projects”, describes the types of activity a project may comprise and the types of costs the Research Council can help to cover. The article describes in detail the categories of research and development (R&D) activity that are eligible for support, and the maximum aid intensities for the various activities. The categories “industrial research” and “experimental development” are the most relevant for Innovation Projects for the Industrial Sector. Each of these categories has a specific definition and the maximum aid intensities of the categories are different. Thus it is important to clarify how much of the eligible project costs is related to each of these categories. The maximum aid intensity is also dependent on whether the recipient company is a small, medium-sized or large enterprise according to the definition of SMEs in the state aid rules. This definition is the same as the European Commission’s definition of SMEs; see the [SME User Guide](#).

The state aid rules require the calculation of aid intensity per recipient. “Aid intensity” means the amount of support expressed as a percentage of the eligible costs. The Research Council disburses the entire funding amount to the Project Owner (the company responsible for the project). If the Project Owner is collaborating with other companies, the Research Council will need information on how the funding will be used to cover the costs of each partner company and any joint project costs shared by these. The Research Council also needs information about the distribution of costs among the various categories of R&D activity and whether the company is a small, medium-sized or large enterprise. This is necessary to ensure that the aid intensity for each recipient is not too high, so that the Research Council does not award non-compliant support which it may subsequently have to require be repaid at a later date.

How is this dealt with?

Applicants must specify in the grant application which R&D category each main project activity belongs to, well as the budgeted costs for each main activity. In addition, the applicant must specify the distribution of project costs among the companies participating in the project. If a

conditional allocation of funding to the project has been approved, the Project Owner must submit a revised grant application with updated, clarifying information on all factors necessary to ensure that the funding can be granted within the limitations stipulated in the state aid rules. The Research Council will review the revised grant application and the supplementary information to determine whether the conditions of the allocation are satisfied. If this is the case, a contract will be signed with the Project Owner.

More detailed information about the sections of Article 25 that are of particular importance in the context of Innovation Projects for the Industrial Sector is provided in the following.

1. Activities that are eligible for support

To be qualified for support, activities in an Innovation Project for the Industrial Sector must fall completely within one of the following research categories defined in the state aid rules:

- a) Industrial research
- b) Experimental development.

These categories are defined as follows:

Industrial research (definition no. 85 under Article 2 of the General Block Exemption Regulation):

'Industrial research' means the planned research or critical investigation aimed at the acquisition of new knowledge and skills for developing new products, processes or services or for bringing about a significant improvement in existing products, processes or services. It comprises the creation of components parts of complex systems, and may include the construction of prototypes in a laboratory environment or in an environment with simulated interfaces to existing systems as well as of pilot lines, when necessary for the industrial research and notably for generic technology validation.

Experimental development (definition no. 86 under Article 2 of the General Block Exemption Regulation):

'Experimental development' means acquiring, combining, shaping and using existing scientific, technological, business and other relevant knowledge and skills with the aim of developing new or improved products, processes or services. This may also include, for example, activities aiming at the conceptual definition, planning and documentation of new products, processes or services;

Experimental development may comprise prototyping, demonstrating, piloting, testing and validation of new or improved products, processes or services in environments representative of real life operating conditions where the primary objective is to make further technical improvements on products, processes or services that are not substantially set. This may include the development of a commercially usable prototype or pilot which is necessarily the final commercial product and which is too expensive to produce for it to be used only for demonstration and validation purposes.

Experimental development does not include routine or periodic changes made to existing products, production lines, manufacturing processes, services and other operations in progress, even if those changes may represent improvements.

2. Maximum aid intensity

The maximum aid intensity allowed by the state aid rules varies according to R&D category. The basic aid intensity is not to exceed:

Industrial research	50 %
Experimental development	25 %

This means that the project must be broken down into main activities (work packages, sub-projects) that are wholly comprised of either “industrial research” or “experimental development”. The project activities must be specified in this manner in the project description, and the budgeted costs for each main activity must be provided.

Possible increase in aid intensities for SMEs

The maximum aid intensity allowed by the state aid rules may be increased by 10 percentage points for medium-sized enterprises and 20 percentage points for small enterprises. The size of the company is determined according to the definition of SMEs in the Grant Block Exemption Regulation.

In the form “Information about applicant and partner companies”, which is to be submitted with the grant application, the Project Owner and all other companies listed as “company partners” in the project description must provide information that gives an indication of the company’s size category. This information enables the Research Council to determine the maximum aid intensity. If the project receives a conditional allocation of funding, the Project Owner must submit a revised application including a written statement from itself and each partner company that will be receiving support under the project stating the correct size category for the company in question.

The state aid rules allow for an increase in aid intensity for reasons other than the size of the individual company receiving support, for example in cases where:

- a) The project involves effective collaboration between undertakings among which at least one is an SME, or is carried out in at least two Member States, or in a Member State and in a Contracting Party of the EEA Agreement, and no single undertaking bears more than 70 % of the eligible costs.
- b) The results of the project are widely disseminated through conferences, publication, open access repositories, or free or open source software.

3. Consequences if support received is not in compliance with Article 25 of the Block Exemption

In the event that a project participant receives support that is in violation of Article 25, the recipient may be required to repay the non-compliant portion of aid, with interest.