



EUROPEAN COMMISSION

Brussels, 25.VII.2008
C(2008)4038

**Subject: State aid N 765/2007 – United Kingdom
All-Island Collaborative R&D scheme (Innova)**

Sir,

1. PROCEDURE

- (1) By letter dated 19 December 2007, registered at the Commission on the same date, the UK authorities notified the above mentioned measure, pursuant to Article 88(3) EC. By letters dated 1 February, 18 March and 13 June 2008, the Commission asked for additional information, which was received by letters dated 13 February, 22 April and 11 July 2008, registered at the Commission on the same date.

2. DESCRIPTION OF THE SCHEME

2.1. Background and objective

- (2) The all-island collaborative R&D pilot programme was launched in 2004 for a period of three years¹ in order to increase investments in R&D and therefore boost economic growth. Both the Republic of Ireland and Northern Ireland are

¹ This scheme (N182/2004) was approved by the European Commission in June 2004 (OJ C/265/2005).

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below the EU average in terms of R&D investments (expressed as a percentage of GDP) and below the Lisbon objective of 3%.

- (3) The new Innova (All-Island Collaborative R&D Programme) programme is a roll-out of the above-mentioned pilot programme. It is however of a larger scale and longer duration. It aims at promoting and supporting R&D collaboration between firms, and between Northern Ireland and the Republic of Ireland. It is targeted at sectors such as biotechnology, pharmaceutical, healthcare or medical devices.
- (4) The current decision examines aid granted by the UK authorities through the Innova scheme. Aid granted by the Irish authorities under the Innova scheme will be assessed in decision N 722/2007.

2.2. Legal basis

- (5) The legal basis for the scheme is the British-Irish Agreement Act 1999, under which *InterTradeIreland* (the awarding body) was established. *InterTradeIreland* is in charge of administering and funding projects under the proposed scheme.

2.3. Budget, duration, instruments and cumulation

- (6) Aid may be granted under the scheme from the date of approval by the Commission until 31 December 2013.
- (7) The total budget of the scheme for the period will be approximately £ 8,615 million². On an annual basis, the budget will be spent as follows: £66.801 euros (year 0); £540.849 (year 1); £3.698.740 (year 2); £3.719.362 (year 3) and £590.129 (year 4). The maximum grant payable per partner is £ 209.790, and £ 349.650 per company for 2 flagship projects (4 companies involved in total). The UK authorities' contribution to the scheme will amount to one third of the total budget (approximately £2, 871 million)³.
- (8) Aid will be provided in the form of direct grants. These grants are awarded at the discretion of the awarding authorities following a competitive application and evaluation process.
- (9) The UK authorities establish that the aid granted under the scheme cannot be cumulated with any other aid.

2.4. Beneficiaries

- (10) The scheme targets enterprises of any size and any sector. However, the scheme targets more specifically SMEs⁴. The UK authorities estimate that there will be between 11 and 50 beneficiaries. The UK authorities expect 15 partnerships (30

² Based on an exchange rate of £1 = € 1.43, it means a global budget of € 12.3 million.

³ Based on an exchange rate of £1 = € 1.43, it means a total contribution of € 4.1 million.

⁴ SMEs within the meaning of Regulation (EC) No 70/2001, or any regulation replacing it (OJ L 63, 28.02.2004, p.22).

participants) and two flagship projects (4 participants) to be supported in the roll-out phase. Enterprises in difficulty⁵ shall be excluded from the scheme.

- (11) Beneficiaries are located in Northern Ireland, a region that is eligible for assistance under article 87(3)(c) of the EC Treaty. The beneficiaries shall have a legal domicile or an establishment in the aforementioned regions.
- (12) Under the scheme, research organisations/not-for-profit intermediaries can only become involved in projects as contract researchers or sub-contractors. There will be no direct support to those organisations under the scheme.
- (13) In case of research *on behalf of* undertakings, the research organisation renders a service to the undertaking under the terms and conditions specified by the undertakings and in exchange of an adequate remuneration. These research services will be used by companies that do not have the in-house capabilities, often within niche research areas. The UK authorities confirm that the research organisation will provide its services at market price or, if there is no market price, at a price which reflects its full costs plus a reasonable margin.

2.5. Activities supported, eligible costs and aid intensity

2.5.1. Aid for R&D projects

- (14) The scheme will support R&D projects in industrial research and experimental development.
- (15) *Industrial research* is defined as 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.
- (16) *Experimental development* is defined as the acquiring, combining, shaping and using of existing scientific, technological, business and other relevant knowledge and skills for the purpose of producing plans and arrangements or designs for new, altered or improved products, processes or services. These may also include e.g. other activities aiming at the conceptual definition, planning and documentation of new products, processes and services.

The development of commercially usable prototypes and pilot projects is also included where the prototype is necessarily the final commercial product and where it is too expensive to produce for it to be used only for demonstration and validation purposes. In case of a subsequent commercial use of demonstration or pilot projects, any revenue generated from such use must be deducted from the eligible costs.

The experimental production and testing of products, processes and services are also eligible, provided that these cannot be used or transformed to be used in industrial applications or commercially.

- (17) The eligible costs under the scheme are the following:

⁵ OJ C 244, 1.10.2004, p.2.

- (a) personnel costs;
 - (b) costs of instruments and equipment to the extent and for the period used for the research project;
 - (c) cost of contractual research, technical knowledge and patents bought or licensed from outside sources at market prices;
 - (d) additional overheads incurred directly as a result of the research project;
 - (e) other operating expenses incurred directly as a result of the research activity.
- (18) The UK authorities will apply the following basic aid intensities for the R&D projects: 50% for industrial research and 25% for experimental development.
- (19) These ceiling may be increased in the following cases:
- (a) The intensity will be increased by 10 % for medium-sized enterprises and by 20 % for of small enterprises;
 - (b) Up to a maximum intensity of 80%, a bonus of 15 % may be added if the project involves effective co-operation between two independent undertakings.
- (20) Referring to the above point (b), the UK authorities confirm that all partnerships must be a cross-border collaboration. Besides, they confirm that no single undertaking will bear more than 70% of the eligible costs.

2.5.2. *Aid for technical feasibility studies*

- (21) The scheme will support technical feasibility studies preparatory to industrial research or experimental development.
- (22) The eligible costs are the study costs. The aid cannot exceed the following aid intensities:
- (a) for SMEs: 75% for studies preparatory to industrial research activities and 50% for studies preparatory to experimental development activities;
 - (b) for large undertakings: 65% for studies preparatory to industrial research activities and 40% for studies preparatory to experimental development activities.

2.5.3. *Aid for industrial property rights costs for SMEs*

- (23) The scheme will support industrial property right costs for SMEs, related to industrial research or experimental development activities. This is aid for the costs associated with obtaining and validating patents and other industrial property rights.
- (24) The eligible costs are the following:

- (a) all costs preceding the grant of the right in the first legal jurisdiction, including costs relating to the preparation, filing and prosecution of the application as well as costs incurred in renewing the application before the right has been granted;
 - (b) translation and other costs incurred in order to obtain the granting or validation of the right in other legal jurisdiction.
- (25) The maximum aid intensities correspond to the same basic aid intensities as would have qualified as R&D aid in respect of research activities which first led to the intellectual property rights concerned (see point 2.5.1 of the decision).

2.6. Incentive effect

- (26) The UK authorities confirm that the R&D&I activities of individual beneficiaries will not commence prior to their aid application.
- (27) The UK authorities confirm that the incentive effect will be demonstrated for R&D projects/feasibility studies where the aid beneficiary is a large enterprise or an SME, with the aid amount exceeding 7,5 million euros. The incentive effect will be evaluated on the basis of the following criteria: increase in total amount spent on R&D&I. For each project, an ex-ante and ex-post analysis of the incentive effect of the aid will be carried out.

2.7. Reporting and monitoring

- (28) The UK authorities committed themselves to
- (a) send to the Commission annual reports on the implementation of the scheme;
 - (b) explain in the annual report how the incentive effect has been respected for all aid granted under an approved scheme to large undertakings;
 - (c) publish the full text of the final aid scheme on the internet, at the following address www.intertradeirealnd.com. The scheme will not be applied before the information is published on the internet;
 - (d) provide the Commission with the information sheets as requested by section 10.1.3 of the R&D&I Framework⁶;
 - (e) maintain detailed record regarding the granting of aid.
- (29) The UK authorities will notify individually to the Commission, as requested by section 7.1 of the R&D&I Framework, aid for R&D projects/feasibility studies above the following thresholds:
- (a) If the project is predominantly industrial research, 10 million euros per undertaking per project;

⁶ OJ C 323, 30.12.2006, p.1.

(b) For all other projects, 7,5 million euros per undertaking per project.

- (30) The UK authorities confirm that there is no potential beneficiary of the measure that is subject to an outstanding recovery order by the Commission.

3. ASSESSMENT OF THE MEASURE

3.1. Presence of aid

- (31) The measure under assessment involves State resources, as it will be financed through the budget of the State. The measure will be selective as aid will be granted on a discretionary basis to a limited number of firms, which will receive an advantage through this support. Finally, since these firms are or can be active in intra-community trade, the measures will also have an effect on trade. Thus, the scheme falls under the application of Article 87(1) of the EC Treaty insofar as grants are awarded to enterprises.
- (32) As far as research organisations are concerned, they will only carry out research on behalf of undertakings under the scheme. The research organisations will not receive direct support under the scheme and are therefore not recipients of State aid.
- (33) As stated in point (13), the UK authorities confirmed that subcontracting will be on market terms (or costs plus margin). It can therefore be concluded that there will normally be no State aid passed to the undertaking through the research organisation, as the UK authorities comply with the conditions set in section 3.2.1 of the R&D&I Framework.

3.2. Legality

- (34) By notifying this measure before implementing it, the UK authorities have fulfilled their obligations under Article 88(3) of the EC Treaty.

3.3. Compatibility

- (35) The Commission has assessed the compatibility of the aid on the basis of the R&D&I Framework. The notified scheme respects all the necessary conditions set out in the R&D&I Framework. In particular:
- (a) Regarding the eligible activities, costs, aid intensity and bonuses:
 - aid for R&D projects satisfies the conditions set out in section 5.1 of the R&D&I Framework.
 - aid for technical feasibility studies satisfies the conditions set out in section 5.2 of the R&D&I Framework
 - aid for industrial property rights costs for SMEs satisfies the conditions set out in section 5.3 of the R&D&I Framework;
 - (b) The UK authorities will ensure that the aid granted will have an incentive effect on the behaviour of the beneficiaries, based on one of the indicators listed in section 6 of the R&D&I Framework (increase in total amount

spent on R&D&I), for aid to large enterprises and aid to SMEs exceeding 7,5 million euros.

- (c) The UK authorities will respect the conditions set out in section 7.1 concerning individual notification of projects above certain thresholds.
 - (d) The UK authorities will *de facto* respect the cumulation rules set out in section 8 of the R&D&I Framework as aid granted under the scheme cannot be cumulated with any other aid;
 - (e) The UK authorities will respect the conditions set out in section 10 concerning reporting and transparency of the scheme.
- (36) On the basis of the above considerations, the Commission can conclude that the notified scheme meets all the conditions for compatibility included in the R&D&I Framework.

4. CONCLUSION

- (37) The Commission has accordingly decided to consider the aid granted under the notified measure All-Island Collaborative R&D scheme to be compatible with the EC Treaty in application of its Article 87 (3) (c).
- (38) The Commission reminds the UK authorities that all plans to alter or modify this aid scheme have to be notified to the Commission.

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Your request should be sent by registered letter or fax to:

European Commission
Directorate-General for Competition
Directorate for State Aid
State Aid Greffe
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Fax No.: +32 2 296 12 42

Yours faithfully,
For the Commission

Jacques BARROT
Vice-president