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WORKING LANGUAGE

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Subject: State aid N 279/2007 – Slovak Republic - R&D aid to VUJE, a.s.

Dear Sir,

1. PROCEDURE

1. By registered e-mail dated 21 May 2007, registered at the Commission on the same day, the Slovak authorities notified the Commission of the above-mentioned measure concerning research and development.
2. The Slovak authorities provided further information by registered e-mail of 12 July 2007, registered on the same date.

J.E.pán Ján KUBIŠ
minister zahraničných vecí SR
Ministerstvo zahraničných vecí Slovenskej republiky
Hlboká cesta 2
SK-833 36 Bratislava

2. DESCRIPTION OF THE SCHEME

2.1. Objective

3. The purpose of the measure is to increase and improve fundamental research on magnetic and electric fields and their modelling for the Slovak outdoor electricity distribution system.

4. The granting authority, the Research and Development Aid Agency (Agentúra na podporu výskumu a vývoja, hereinafter "APVV"), will provide state aid to a large enterprise with the objective of improving knowledge on magnetic and electric fields of open-air substations as well as for publication and dissemination activities.

2.2. Legal basis

5. The legal basis of the measure is:
 - Act No 172/2005 on the organisation of state aid for research and development.
 - Section 5 (2) (b) of State Aid Act No 231/1999 as amended.

2.3. Budget and duration

6. The overall amount of the budget is EUR 344 000¹ (SKK 11.62 million), divided in three annual tranches, EUR 104 000 in 2007, EUR 130 000 in 2008, EUR 110 000 in 2009.

7. The duration of the scheme is from the Commission's approval until 31 December 2009.

2.4. Beneficiaries

8. The beneficiary of the measure is Výskumný ústav jadrovej energetiky, a.s. (hereinafter "VUJE"), a research institute, active in the research and development in the field of nuclear energy. For the aided research project VUJE will be active in R&D in the field of electricity distribution. VUJE is planning to work together with the Slovak University of Technology, which will obtain a portion of the aid in order to carry out a part of the research activities.

¹ Converted with Euro exchange rate – annual average, ec.europa.eu/eurostat.

9. The beneficiary will remain VUJE, which is the entity contracting with the granting authority APVV. VUJE will receive EUR 300 000 (SKK 10 118 000) and the co-beneficiary will receive EUR 44 000 (SKK 1 500 000).
10. VUJE has the legal form of a joint stock company, whose shares are owned by current and former employees. It is an engineering company that presently implements large projects, mainly in the field of nuclear power generation. The company performs activities related to the design, construction, operation, reconstruction and decommissioning of energy installations and systems.

2.5. Aid instruments

11. The aid is delivered in form of a direct grant.
12. The aid will be provided on annual basis. For the years subsequent to the first, aid will be given following receipt and assessment of the preceding year's annual report on the project and the use of financial resources for the preceding year.

2.6. Eligible activities to receive public financing

13. The aid will be granted for the project APVV-0399-06 "Research and layout of the electric and magnetic fields of the open-air substations in the electricity system of the Slovak Republic" (hereinafter "project APVV-0399-06").
14. In particular the eligible project will involve the establishment of principles and of a model for the electric and magnetic fields of open-air substations. The layout of electric and magnetic fields, based on mathematical modelling, will be needed in order to design a system of electricity stations so as to comply with the permissible levels of exposure for electric and magnetic fields according to Slovak law.
15. The results will be of theoretical nature and will be publicly accessible. They will be presented in conferences, seminars, in specialist literature, journals and for educational purposes at universities.

2.7. Conditions of aid in the underlying project

16. The aid will be granted annually. During the first year the whole annual amount will be disbursed. After the first year, 50 % of the planned aid will be obtained following the receipt of the annual report on the preceding year and the remaining 50% following a full assessment of the results achieved on the basis of an evaluation of the project's annual report and the use of the financial resources of the preceding year.

17. If the beneficiary fails to comply with the terms of the contract and does not conduct research in accordance with the approved project, the Agency can decide to reduce, suspend or completely discontinue funding of the project.

2.8. Aid intensity for R&D projects

18. The project involves fundamental research and the applied aid intensity is 100% of eligible expenditures. No bonuses apply.

2.9. Eligible costs

19. The following costs are eligible for VUJE:
 - Wages, based on the real wages of the staff and their proposed number of hours worked; for top staff working full-time annual wages are capped at EUR 12.000;
 - Contributions for health and social insurance, up to the statutory 35.2% of wage costs;
 - Travel costs for work related trips, representing 3.91% of the expenditure of APVV;
 - Services, such as conferences and seminars, both domestic and foreign;
 - Indirect costs, such as electricity consumption, wage costs for other service staff, depreciation of assets and other equipment, up to 16.65% of the resources requested from APVV for the project.

20. The following costs are eligible for Slovak University of Technology, Faculty of Electrical Engineering and Information Technology:
 - Wages, based on an average hourly rate of EUR 2/hour, for a total capacity of 7 050 hours;
 - Health and social security contributions for the statutory 35.2% of wage costs;
 - Travel costs for attending conferences in Slovakia and abroad, for work-related trips and for the mapping of electricity stations in the transmission and distribution networks of the Slovak Republic;
 - Costs of material such as office supplies, literature, technical specifications and procurement of measuring apparatus;
 - Conference fees;
 - Faculty overheads.

3. ASSESSMENT

3.1. Existence of aid within the meaning of Article 87 (1) of the EC Treaty:

21. Under the measure a grant is awarded to an enterprise engaged in economic activity. It is funded through the budget of the state of Slovak Republic, and therefore through State resources. It favours a single undertaking, namely

VUJE; hence it is selective. The grant under the measure makes it possible for the beneficiary to improve its overall financial condition and to enhance its market position. The measure awards aid to an undertaking that may engage in intra-Community trade. It must therefore be assumed that the measure is likely to distort competition and affect trade between Member States. Hence the measure constitutes State aid within the meaning of Article 87(1) EC.

3.2. Lawfulness of the aid

22. The Commission notes that the Slovak authorities have complied with the requirement under Article 88(3) EC in that they have notified the aid before it has been implemented. The measure's entry into force is subject to the Commission's approval.

3.3. Applicable Community Rules

23. According to information provided by the Slovak authorities, the notified scheme will provide aid for R&D-related activities, namely aid for fundamental research. The Framework for State aid for Research and Development and Innovation² (hereinafter "the Framework") sets out the rules in the field of R&D&I on the basis of which the application in these activities are checked by the Commission. Section 5.1 of the Framework provides that aid for R&D projects will be considered compatible with the common market within the meaning of Article 87.3(c) of the EC Treaty provided that the conditions set out in this section are fulfilled.

3.4. Compatibility criteria

24. The Commission considers that aid for project APVV-0399-06 fulfils the requirements established by the Framework, since all conditions set in the aid measure correspond with the Framework.
25. The R&D stage corresponds with the definition of fundamental research provided by point 2.2 e) of the Framework that states that fundamental research means experimental or theoretical work undertaken primarily to acquire new knowledge of the underlying foundations of phenomena and observable facts, without any direct practical application or use in view. The research aims at establishing new principles and models for the design of electricity systems in compliance with national health standards, without any direct application or use in view. The outcome and results will be publicly available.

² OJ C 323, 30.12.2006, p. 1.

26. The aid intensity of 100% for the project is in line with the intensity foreseen under point 5.1.2 of the Framework that states that the aid intensity for fundamental research shall not exceed 100% of the eligible costs of the project.
27. Point 5.1.4 of the Framework provides, among others, for costs for personnel, instruments and equipment and other operating expenses incurred directly as a result of the research activity to be eligible.
28. The eligible cost in this case are all part of the personnel costs, instruments and equipment, additional overheads incurred directly as a result of the research project and other operating expenses as a result of the research activity. Therefore, these expenses are in line with point 5.1.4 of the Framework.

3.5. Incentive effect

29. Point 6 of the Framework requires that the aid must have an incentive effect. Therefore, as a result of the aid, R&D&I activity should be increased in size, scope, amount spent or speed. In the report included in the notification aiming at demonstrating the presence of an incentive effect, the Slovak Republic outlines the factors demonstrating the existence of the incentive effect and the necessity of the aid.
30. Moreover, the Slovak authorities state that in setting up the project the facts proving the incentive effect have been taken into account exactly in accordance with the Framework. The yearly assessment carried out by specialist bodies of the APVV and the financial control department shall ensure that the project is carried out according to contractual agreement between the granting authority and the beneficiary.
31. The Slovak authorities presented the following factors aimed at proving the incentive effect.
32. Increase in project size: the aid would generate an increase in total project costs, since VUJE would not take on such a project without the aid. Two new jobs would be created since two additional persons would be employed to work on the R&D project.
33. Increase in scope: the project carried out will be more demanding, and in which, given the non-commercial and risky nature of the fundamental research project, the beneficiary would not be able to fully engage without the support of the aid.
34. Increase in speed: the Slovak Republic further claims that without the aid, with the original staffing capacity and using the beneficiary's own resources, the project would take much longer.
35. On the basis provided by the Slovak authorities, the Commission therefore considers the conditions related to the incentive effect to be satisfied and the measure to comply with point 6 of the Framework.

36. The Commission also notes that the aid amount does not meet the threshold for a more detailed assessment pursuant to point 7.1 of the Framework.

3.6. Cumulation

37. Further to point 8 of the Framework, aid for R&D&I shall not be cumulated with de minimis support in respect of the same eligible expenses in order to circumvent the maximum aid intensities laid down in this Framework.
38. The Slovak authorities state that no cumulation with other schemes to cover the same eligible costs applies. The Commission therefore considers the conditions related to cumulation in point 8 of the Framework are satisfied.

3.7. Annual reports, access to the full text of the scheme, information sheets

39. Pursuant to Point 10.1.1 of the Framework, Member States must submit annual reports to the Commission. Beyond the requirements set out in Regulation (EC) No 659/1999³ and Commission Regulation (EC) No 794/2004⁴, such reports must contain information as to: the name of the beneficiary; the aid amount per beneficiary; the aid intensity; the sectors of activity where the aided projects are undertaken.
40. The Slovak authorities have committed to fulfil the reporting and monitoring requirements. The Commission therefore considers the conditions related to reporting and monitoring to be satisfied.

4. CONCLUSION

41. The Commission concludes that the notified State aid measure is compatible with the common market pursuant to Article 87(3)(c) of the EC Treaty. It accordingly decides not to raise objections to the notified measure.
42. The Commission reminds the Slovak Government that, in accordance with Article 88 (3) of the EC Treaty, all plans to refinance, alter or change this aid measure have to be notified to the Commission.
43. The Commission further reminds the Slovak Government to submit annual reports on the implementation of the notified programme which will comprise the information demonstrating the incentive effects of aid granted to large firms.

³ OJ L 83, 27.3.1999, p. 1.

⁴ OJ L 140, 30.4.2004, p. 1.

If this letter contains confidential information which should not be published, please inform the Commission within fifteen working days of the date of receipt. If the Commission does not receive a reasoned request by that deadline, you will be deemed to agree to the disclosure to third parties and to the publication of the full text of the letter in the authentic language on the Internet site:

http://ec.europa.eu/community_law/state_aids/index.htm

Your request specifying the relevant information should be sent by registered letter or fax to:

European Commission
Directorate-General for Competition
State Aid Greffe
B - 1049 Brussels
Fax No: +32 2 296 12 42

We would ask you to state the case name and number in all correspondence.

Yours faithfully,
For the Commission

Neelie KROES
Member of the Commission