EUROPEAN COMMISSION

Brussels, 04.XII.2007
K(2007)6169

Subject: State aid N 308/2007 – Finland - Aid for Innovation Advisory Services and Innovation Support Services for SMEs

State aid N 309/2007 – Finland - Aid for Young Innovative Enterprises

Dear Sir,

1. Procedure

(1) By letters dated 1 June 2007, registered at the Commission on the same date, the Finnish authorities notified, according to Article 88(3) of the EC Treaty, the above mentioned measures, on the basis of the Community Framework for State aid for research and development and innovation1 (thereafter: the R&D&I Framework).

(2) After a first assessment of the information received, the Commission considered the notifications to be incomplete and by letter of 29 August 2007 asked the Finnish authorities for additional information. The Finnish authorities responded on 29 October 2007.

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1 OJ C 323, 30.12.2006, page 1

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FIN - 00161 Helsinki
2. DESCRIPTION OF THE AID SCHEMES

2.1. Objective

(3) The objective of the Aid for Innovation Advisory Services and Innovation Support Services for SMEs measure is to encourage SMEs to buy innovation services, develop supply and demand for such services and improve the availability and quality of innovation services provided by private companies. The measure targets market failures related to insufficient information dissemination, externalities and lack of coordination.

(4) The objective of the Aid for Young Innovative Enterprises measure is to encourage the development of innovative growth enterprises in Finland. The measure targets market failures linked to imperfect and asymmetric information, which influences the ability of SMEs to receive adequate funding for innovative ventures.

2.2. Legal basis, managing authority, budget and duration

(5) The legal basis of the measures is the Act on Discretionary Government Transfers (Valtionavustuslaki, 688/2001) and the Act on the General Terms and Conditions of Business Subsidies (Laki yritysten yleisistä ehdoista, 786/1997). The aid under the schemes can only be granted after the approval by the Commission.

(6) The granting authority is the Finnish Funding Agency for Technology and Innovation (thereafter – TEKES, the Agency) which is obliged to ensure that the aid is granted and monitored appropriately.

(7) The measures are funded from the Finnish national budget. The young innovative enterprise aid can be provided in the form of risk capital financed by public risk capital investment funds, such as Aloitusrahasto Vera Oy (Seed Fund Vera Ltd, the nationwide venture capital start-up fund in Finland which is part of the Finnvera Oyj group).

(8) The total budget of the Aid for Innovation Advisory Services and Innovation Support Services for SMEs is EUR 120 million and the Aid for Young Innovative Enterprises is EUR 240 million. The duration of both measures is from the date of the Commission approval until 31.12.2013.

(9) Before the implementation of the measures, the aid criteria will be specified in the Government Decree. The Finnish authorities have committed to send the Decree to the Commission once approved by the Government.

2.3. Beneficiaries

(10) The measures target SMEs in Finland. The beneficiaries shall comply with the SME definition as defined by the Community legislation.2 The schemes are not sector-specific and are not restricted geographically. The Finnish authorities confirmed that the schemes shall not impose any conditions restricting the freedom of establishment in the internal market.

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Only profitable business operations and the projects with competitive business effects are eligible for aid under the schemes. Undertakings in difficulty within the meaning of the Community guidelines on State aid for rescuing and restructuring firms in difficulty\(^3\) are excluded from the measures in question.

### 2.4. Aid for Innovation Advisory and Support Services

#### 2.4.1. Eligible beneficiaries

The beneficiaries of the aid for innovation advisory and support services shall be SMEs. The aid for innovation services must promote an innovative business concept associated with significant commercial potential.

#### 2.4.2. Eligible service providers and certification

Beneficiaries can use state aid to purchase innovation advisory and support services both from private service providers and public innovation intermediaries, such as universities, vocational colleges and the Technical Research Centre of Finland (VTT). Public innovation intermediaries shall separate their economic and non-economic activities and their costs and funding in order to avoid cross-subsidisation of activities.

According to the Finnish authorities, various certification procedures of innovation service providers will be applied, such as:

- the procedures used by Employment and Economic Development Centres (T&E Centres) to certify providers of innovation services in various areas of know-how and operation;
- the European certification procedures, such as e.g. the IRC network used to support technology transfer services or those under development (e.g. the process being developed in the IMP3ROVE project under the Europe INNOVA initiative);
- open competition procedures, in which the quality of consultation work is monitored by means of customer feedback.

According to the Finnish authorities, the variety of certification procedures will enable the opening up and development of the market for innovation services and improve the availability and quality of innovation services provided by private companies. The certification procedures will allow service providers operating in other Member States to participate in the measure.

Service providers will be selected on the basis of open competition. The detailed conditions of the measure and the certification procedures will be published in advance on TEKES website. TEKES will prepare a register of the certified innovation service providers.

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\(^3\) OJ C 244, 1.10.2004, p. 2
2.4.3. Eligible costs

The eligible costs of innovation advisory services are the costs of management consulting, technological assistance, technology transfer services, training, consultancy for acquisition, protection and trade in Intellectual Property Rights and for licensing agreements, consultancy on the use of standards. The eligible costs of innovation support services are the costs of office space, data banks, technical libraries, market research, use of laboratory, quality labelling, testing and certification.

2.4.4. Aid intensities and amount

The maximum aid intensity is 100%, up to EUR 200 000 per beneficiary within any three years if the service provider benefits from a national or European certification. The aid shall be limited to 75% of the eligible costs if the service provider does not benefit from a national or European certification.

The granting authority will inform the beneficiaries about the nature of the aid. The beneficiaries will be asked to inform the granting authority if any other aid has been granted for the same purpose within a three year period to ensure the maximum limit per beneficiary is not exceeded.

2.4.5. Aid instrument

In most cases, the aid shall be awarded in the form of a grant to SMEs to buy services at market price or, if the service provider is a not-for-profit entity, at the price which reflects full costs plus a reasonable margin.

The aid can also be granted in the form of price reduction for innovation services. The aid element shall be calculated as the difference between the price paid by the beneficiary and the market price. TEKES will set up a system to measure and monitor the aid element by checking the market price for innovation services and the price paid by the beneficiary.

TEKES will check the pricing principles of public innovation intermediaries, before approving them as service providers under the measure. The intermediaries should calculate the costs of services in accordance to the Act and the Decree on the Criteria for Charges Payable to the State (No 150/1992 and 211/1992) which stipulates that the services must be priced commercially. The revenue must at least cover the costs incurred by the activity and a reasonable profit margin. As for other not-for-profit entities, the profit margin will be examined on a case-by-case basis before the entity is approved a service provider.

2.5. Aid for Young Innovative Enterprises

2.5.1. Eligible beneficiaries

The measure provides aid to small enterprises\(^4\) that have been in existence for less than 6 years at the time when the aid is granted. The aid can be paid in several instalments

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until the enterprise reaches the age of 8 years and as long as it remains an SME. The beneficiary may receive the aid under the measure only once during the period in which it qualifies as a young innovative enterprise. If the aid is granted in stages, entering a new stage is dependent on the beneficiary having achieved the objectives set for it.

(24) The beneficiary is an innovative enterprise, on the basis that its R&D expenses represent at least 15% of its total operating expenses in at least one of the three years preceding the granting of the aid, as certified by the enterprise’s external auditor. In the case of a start-up enterprise without any financial history, the R&D expenses of at least 15% shall be in the audit of its current fiscal period, as certified by an external auditor. The beneficiary must have a credible innovative business concept, which is associated with significant commercial potential.

2.5.2. Aid amount

(25) The aid shall not exceed EUR 1 million per beneficiary. The aid may be granted up to a maximum of EUR 1.25 million per beneficiary located in the Art 87(3)(c) regions, as defined in the regional aid map for Finland5. There are no aid intensity limits. However, the granting authority will monitor the costs of young innovative enterprises and require the aid to be used for operations that promote the objectives set in the decision granting the funding.

2.5.3. Aid instrument

(26) The aid can be awarded as a grant, an interest free unsecured loan, or risk capital or a combination of these, up to the maximum allowed aid amounts.

(27) The amount of an interest free and unsecured loan shall not exceed the maximum aid levels specified above (paragraph 24). The loan can have a grace period up to 10 years. The beneficiaries will have to meet certain conditions at the end of the first 5 years grace period in order to receive an additional 5 year grace period. If the conditions listed in the loan agreement are not met, the loan will have to be repaid after the 5 year grace period.

(28) In cases where beneficiaries receive part of the aid in the form of risk capital, the amount of risk capital shall not exceed the maximum aid levels specified above (paragraph 24). Risk capital will be provided by public capital investment companies such as Aloitusrahasto Vera Oy and other regional investment companies. Investment companies are for their part obliged to comply with the conditions of the aid scheme in their funding and to monitor and supervise its implementation.

2.6. Cumulation

(29) The innovation advisory and support services aid cannot be cumulated with any other aid for the same eligible costs. The Finnish authorities confirmed that the aid under both measures will not be cumulated with de minimis support in respect of the same eligible expenses.

(30) The young innovative enterprises aid cannot be cumulated with any other State aid other than R&D&I aid and risk capital aid until 3 years after the granting of the young innovative enterprise aid.

(31) At least once a year the company must send TEKES a report by an external auditor on compliance with the cumulation rules. The reports are required for the three year period after receiving the young innovative enterprise aid. In addition, TEKES will carry out inspections to check compliance with the cumulation rules.

2.7. Incentive effect

(32) The aided activities of the beneficiaries shall not commence prior to their aid application. From the start of operations, the measures will be subject to evaluation initiated by the granting authority. The first evaluation results are expected in 2010.

2.8. Monitoring and reporting

(33) Finnish authorities have committed to submit annual reports on the measures, which will contain the following information: the name of the beneficiary, the aid amount per beneficiary, the aid intensity, the sectors of activity where the aided projects are undertaken.

(34) The Finnish authorities have committed to publish the full text of the schemes on the internet, prior to the implementation of the schemes and communicate the internet address of the publication to the Commission.

3. Existence of Aid

3.1. Elements of Aid

(35) The Commission has assessed the existence of aid in relation to Art.87 (1) of the EC Treaty and Article 61 (1) of the EEA Agreement. In order for a measure to fall within the scope of Article 87(1) EC Treaty, four cumulative criteria must be met:

1) measure must involve the use of State resources;

2) measure must distort or threaten to distort competition by conferring an advantage on the beneficiary;

3) advantage must be selective in that it is limited to certain undertakings or the production of certain goods;

4) measure must affect trade between Member States.

(36) Insofar as support is provided to enterprises engaged in economic activity, the proposed scheme falls under Art.87 (1) EC. The notified scheme is funded through the national budget and therefore through State resources. By providing the aid to certain enterprises, the notified scheme gives a selective advantage to these undertakings. The undertakings concerned operate on markets subject to intra-community competition. The scheme improves the position of the recipients in relation to their competitors in the EU. Consequently, the scheme affects the trade between Member States. It therefore
constitutes state aid within the meaning of Article 87 (1) of the EC Treaty and Article 61 (1) of the EEA Agreement.

3.2. Legality

(37) By notifying the measures before their implementation, the Finnish authorities have fulfilled their obligations under Article 88(3) of the EC Treaty.

4. ASSESSMENT

(38) The Commission has assessed the measures on the basis of the R&D&I Framework. Pursuant to section 2.1 of the R&D&I Framework, it does not apply to aid for undertakings in difficulty within the meaning of the Community Guidelines on State aid for rescue and restructuring undertakings in difficulty. As indicated above (point 2.3, paragraph 10), such undertakings will be excluded from the scope of the notified measure.

4.1. Aid for innovation advisory and support services

(39) According to point 5.6 (1-4) of the R&D&I Framework, the aid for innovation advisory and support services must fulfil each of the following conditions:

– the beneficiary must be an SME;

– the aid must not exceed a maximum of EUR 200 000 per beneficiary within any three year period, provided the service provider benefits from a national or European certification. If the service provider does not benefit from a national or European certification, the aid may not cover more than 75 % of the eligible costs;

– the beneficiary must use the State aid to buy the services at market price. If the service provider is a not-for-profit entity, the aid may be given in the form of a reduced price. A system should be set up ensuring transparency about the full costs of services and the price paid by the beneficiary.

(40) As indicated above (in point 2.4.1, 2.4.2, 2.4.4 and 2.4.5), the conditions of granting aid under this measure correspond to the criteria specified above.

(41) According to point 5.6 of the R&D&I Framework, the eligible costs are:

– For innovation advisory services: the costs of management consulting, technological assistance, technology transfer services, training, consultancy for acquisition, protection and trade in Intellectual Property Rights and for licensing agreements, consultancy on the use of standards;

– For innovation support services: the costs of office space, data banks, technical libraries, market research, the use of laboratory, quality labelling, testing and certification.

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6 OJ C 244, 1.10.2004, p. 2.
The eligible costs of the measure, as indicated above (point 2.4.3), correspond to the eligible cost categories of point 5.6 of the R&D&I Framework.

The Commission can therefore conclude that the aid for innovation advisory and support services is in line with the R&D&I Framework.

4.2. Aid for young innovative enterprises

According to point 5.4 of the R&D&I Framework, the aid for young innovative services must fulfil the following conditions:

– The beneficiary must be a small enterprise\(^7\) that has been in existence for less than 6 years. The beneficiary may receive the aid only once during the period in which it qualifies as a young innovative enterprise;

– The beneficiary is an innovative enterprise, on the basis that it plans to develop products, services or processes which are technologically new or substantially improved, as approved by an external expert, or on the basis that the R&D expenses of the beneficiary represent at least 15% of its total operating expenses in at least one of the three years preceding the granting of the aid;

– The aid shall not exceed EUR 1 million per beneficiary in non-assisted areas or EUR 1.25 million per beneficiary in regions eligible for the derogation in Article 87(3)(c) of the EC Treaty.

The eligible beneficiaries, the definition of an innovative enterprise, the maximum aid amounts, as indicated above (point 2.5.1, 2.5.2 and 2.5.3), correspond to the provisions of point 5.4 of the R&D&I Framework.

The Commission can therefore conclude that the aid for young innovative enterprises is in line with the R&D&I Framework.

4.3. Cumulation

Section 8 of the R&D&I Framework stipulates that, where the expenditure eligible for aid for R&D&I is eligible for aid for other purposes, the common portion will be subject to the most favourable ceiling under the applicable state aid rules. This limitation does however not apply to aid granted in accordance with the Community guidelines on State aid to promote risk capital investments in SME\(^8\). Also, 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 the Framework. In addition, under point 5.4 of the R&D&I Framework, the young innovative enterprises aid cannot be cumulated with any other State aid other than R&D&I aid and risk capital aid until 3 years after the granting of the young innovative enterprise aid.

As indicated above (point 2.6), the cumulation rules of the measures comply with the R&D&I Framework.

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4.4. Incentive effect, necessity of aid and transparency

(49) According to section 6 of the R&D&I Framework, State aid must have an incentive effect, i.e. result in the recipient changing its behaviour so that it increases its level of R&D&I activity. The R&D&I activity should not have commenced prior to the aid application by the beneficiary to the national authorities. As indicated above (point 2.7), the schemes comply with the incentive effect requirement.

(50) As for aid schemes, section 6 of the R&D&I Framework stipulates that the incentive effect is automatically met for aid for young innovative enterprises and for aid for innovation advisory services and innovation support services. The Commission therefore considers the conditions related to the incentive effect are satisfied and the measures comply with section 6 of the R&D&I Framework.

(51) The maximum aid amounts, as specified above (paragraphs 17 and 24), are below the individual notification thresholds indicated in point 7.1 of the R&D&I Framework. The Commission therefore considers the conditions related to the individual notification requirement are satisfied and the measures comply with section 7 of the R&D&I Framework.

(52) The reporting and monitoring provisions of the schemes, as indicated above (point 2.8), are in line with point 10.1 of the R&D&I Framework.

(53) The Commission can therefore conclude that the schemes comply with the incentive effect, individual notification and transparency requirements of the R&D&I Framework.

4.5. Conclusion

(54) The Commission can therefore conclude that the aid granted under the schemes complies with the applicable competition rules and it is therefore compatible with the common market.

5. Decision

(55) The Commission finds that the aid granted on the basis of the notified schemes the Aid for Innovation Advisory services and Innovation Support Services for SMEs and the Aid for Young Innovative Enterprises is compatible with the common market in accordance with Article 87 (3) (c) of the EC Treaty and Article 61 (3) (c) of the EEA Agreement and has accordingly decided not to raise objections to the notified measure.

(56) The Commission reminds the Finnish Government that, in accordance with Article 88 (3) of the EC Treaty, all plans to refinance, alter or change these aid schemes have to be notified to the Commission.

(57) The Commission reminds the Finnish Government that prior to implementing the schemes, the full text of the final aid schemes on the internet shall be published and also communicated to the Commission.

(58) The Commission further reminds the Finnish Government to submit annual reports on the implementation of the notified schemes.
(59) If this letter contains confidential information, which should not be disclosed to third parties, 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 should be sent by registered letter or fax to:

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

Yours faithfully,
For the Commission

*Neelie Kroes*
Member of the Commission