

# WORLD TRADE ORGANIZATION

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**Committee on Subsidies  
and Countervailing Measures**

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## **SUBSIDIES**

### Replies to Questions from the United States<sup>1</sup> Regarding the Updating Notification of the European Community<sup>2</sup>

The following communication, dated 9 July 1998, has been received from the Permanent Delegation of the European Commission.

On 30 April 1998, the United States, in document G/SCM/Q2/EEC/15, submitted a number of questions on the European Community's update notification of subsidies (document G/SCM/N/25/EEC). These questions are reproduced below, accompanied by the answers which are currently available to the Community.

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<sup>1</sup>G/SCM/Q2/EEC/15.

<sup>2</sup>G/SCM/N/25/EEC.

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## **Member State Programmes**

### **Austria**

A. To follow

### **Belgium**

**Q.8. Regarding the Prototype Advances, please specify who the aid recipients are. (p. 141)**

A. The main prototype advances sectors in the Brussels region are:

- Chemical and pharmaceutical industries;
- metal and mechanical manufactures, instruments;
- electronics and computer industries;
- construction.

### **Denmark**

**Q.9. For the Grant Scheme for Reimbursement of CO<sub>2</sub> Tax Expenses to Enterprises with a High Energy Consumption Programme, would you please define how "high energy consumption" is calculated. In addition, how is the aid allocated? (p. 160)**

A. Enterprises can qualify for partial reimbursement of CO<sub>2</sub>-taxes in two different ways:

- (a) The enterprise has so-called "energy intensive processes". An energy intensive process is an industrial process with high energy consumption relative to value added. The energy intensive processes are listed in an appendix to the CO<sub>2</sub>-tax law.
- (b) The overall CO<sub>2</sub>-tax burden on the enterprise is more than 3 per cent of value added.

If an enterprise qualifies for reimbursement, it has to conclude an agreement on energy efficiency with the Energy Agency before it receives the reimbursement. The reimbursement is allocated in proportion to energy consumption.

**Q.10. For the Promille Levy Funds and Production Levy Funds, would you please explain what per cent of the funds is applied toward each "common activity"? (p. 187)**

A. The breakdown of the funds budgeted for the last three years is as follows:

	1996	1997	1998
Sales promotion	31.3%	28.6%	30.8%
Research	25.7%	24.7%	23.6%
Product development	16.9%	15.0%	10.5%
Consultancy	8.5%	7.9%	14.8%
Training	1.3%	1.0%	1.0%
Prevention of disease	8.8%	10.7%	7.0%
Disease control	4.2%	4.4%	4.7%
Control	0.8%	2.8%	2.9%
Special measures	1.8%	4.3%	4.1%
Auditing	0.1%	0.1%	0.1%
Administration	0.6%	0.5%	0.5%
Total expenses	100.0%	100.0%	100.0%

**Q.11. For the Structural Aid to Fish-Process Industry, Development of the Aquaculture Industry, Modernization of Facilities in Fishing Harbours, and the Modernization and New Construction of Fishing Vessels programmes, please describe what are considered to be relevant capital investments (pp. 208-212)**

A. Danish capital investments to the Danish fisheries sector are given in accordance with EEC Regulation 3699/93.

The programmes in question are as follows:

Modernization of fishing vessels: investments shall relate to rationalization and improvement of the quality of products caught and preserved on board, cf. Article 10 and Annex III, 1.4.

Aquaculture: investments shall involve modernization and expansion of aquaculture installations, cf. Article 11 and Annex III, 2.1.

Fishing port facilities: investments shall relate in particular to improvement of installations and equipment, cf. Article 11 and Annex III, 2.3.

Fish-process industry: investments shall relate in particular to new equipment and installations needed for the processing and marketing of fishery, cf. Article 11 and Annex III, 2.4.

## **Finland**

**Q.12. Your description of the Start-Up Loan Programme for Entrepreneurs (KERA Ltd.) states that the subsidy is "granted by Kera Ltd. (a state-owned company)." What type of company is this and what is its role in this programme? (p. 223)**

A. Kera Ltd. finances and develops small and medium-sized enterprises (SMEs) in Finland. Kera's main targets for financing are enterprises in the manufacturing industry and tourism as well as business services. Financing is also granted to all kinds of service enterprises. Only agriculture and construction cannot be financed by Kera.

Kera's operations focus on SMEs (as defined by the EC Commission). By granting loans against collateral which would not be sufficient for other finance corporations, Kera helps to promote the establishment of new businesses and new jobs as well as growth, development and internationalization of already operating SMEs.

Kera's biggest shareholder is the Finnish Government, and Kera implements the Government's business and industry policy goals.

### **France**

**Q.13. Regarding the Land-Use Management Premium (PAT) programme, under form of subsidy, it appears that the sentence was incomplete. Please provide further information on the type of aid given under this programme. (p. 259)**

A. The PAT is a regional aid system which consists of the payment of grants to investors.

**Q.14. Could you please detail the type of tax concessions given and who the recipients are of this aid for the Long-Term Tax Treatment in the French Overseas Departments programme? (p. 264)**

A. The long-term tax scheme in the French Overseas Departments Programme.

To encourage exploitation of the subsoil of the four Overseas Departments, Decree No. 58-558 of 29 June 1958 instituted on a temporary basis a long-term tax scheme to assist mining and mining research companies. The scheme was extended under Article 13 of Law No. 60-1368 of 21 December 1960 and, under Article 10 of the same Law, to agricultural, forestry and industrial companies operating in French Guyana. The above-mentioned provisions, as amended by Article 38 of Law No. 65-566 of 12 July 1965 were codified in Article 1655 *bis* of the General Tax Code.

Furthermore, Article 16-11 of Law No. 66-935 of 17 December 1966 extended the provisions of Article 1655, paragraphs I to III, to companies exclusively intended to engage in the Departments of Guadeloupe, Martinique and Réunion in an industrial activity involving the execution of a minimum investment programme. The minimum amount for the programme was established at F 20 million by an Order of 19 January 1967 (General Tax Code, Annex IV, Article 121-V (xi)).

Temporary in character, the long-term tax treatment programme has been extended a number of times. Article 44 of Law No. 96-1182 of 30 December 1996 extends application up to 31 December 2001.

Only companies in the form of public companies, limited partnerships with a share capital or limited companies may, after authorization by an order of the Ministry of Economic Affairs, Finance and the Budget, benefit from this system, which means:

- Payment of corporation tax for the period of the authorization, in accordance with the tax base and levy rules and rates in force on 1 January of the year of the authorization;
- exemption from such tax on reinvested profits;
- exemption from import and export duties on certain products.

The Ministerial Order issuing the authorization establishes the initial date and duration of the various benefits, with a maximum period of 25 years, increased where appropriate by the periods of installation, which may not exceed five years.

The long-term tax scheme cannot be combined with the system of exemption established in Article 208 quarter of the General Tax Code.

Since 1990, only seven authorizations have been issued.

## Greece

**Q.15 In your Law 1892/90 notification you list your programmes regionally detailing sector and cost, but you do not list programme names, purpose of the programme, type of aid given, subsidy amount by programme, and who the aid recipients are (e.g. what do you mean by "primary" and "secondary". Please provide this information for each notified programme (pp. 293-307).**

A. Law 1892/90 (which as from 15 April 1998 has been replaced by Law 2601/98) provided the overall aid framework for all productive investments in Greece by all types of businesses in all sectors of the economy. Thus, provided an investment (in any sector) met the definition of a « productive investment » set out in Article 1 of the Law (such as construction of facilities, modernization of equipment etc), it would be eligible for aid. There were , therefore , no further sub-programmes other than the general framework of the Law itself.

The purpose of the Law was to contribute to regional development and to increase the competitiveness of Greek businesses. It provided for various types of aid (grants, interest contributions, tax exemptions, accelerated depreciations) although in practice only grants were available.

The distinction made in Greece's past notifications among primary, secondary, services and tourism sectors was made for mainly statistical purposes. Primary sector covers agriculture (ie the production of agricultural products) ; secondary sector covers all processing industries including the processing of agricultural goods.

## Italy

**Q.16. Regarding the Technological Innovation Fund (FIT) and Applied Research Fund (FRA) and the Coordination of Industrial Policy, Restructuring Reconversion and Sectorial Development, please explain who receives this aid, what per cent of the project is covered by the aid, and whether there are any stipulations on how the funds may be spent? (pp. 329, 331)**

A. **Law No. 46/82: F.I.T. (artt. 14 and followings).**

Law No. 46/82 established a Special Fund for Technological Innovation - managed by the Ministry of Industry – to support firms which develop in the long term programs for production of goods and services, through significative technological innovations, new products or improvement of the existing methodologies or products.

Aid shall not exceed in any case 25 per cent of the real cost of the programme as ESL (equivalent gross subsidy). FIT programmes should be consistent with the notion of “development” included in Annex 1 of EU guidelines on R&D aid.

The scheme of aid consists basically in a soft loan covering 35-55 per cent of the eligible costs. These - according to the EU legislation on R&D aid - are: human resources involved in the innovative programmes; general costs for innovation; activities of third persons; instruments; materials; trips. Soft loans are conceded in principle for 15 years: 5 for utilization and pre-sinking fund, 10 for sinking fund.

The level of interest rates of the loan can vary according to the size of firms: big firms could benefit from 40 per cent reduction of the interest reference rate; small firms, 50 per cent; interest rates may also depend on geographical dislocation: for big firms – situated in areas of Objectives 1, 2 and 5b – interest rates could reach 36 per cent of the reference rate; for small firms, 25 per cent. Firms may opt partially for a grant corresponding to not more than 50 per cent of the aid.

### **Law No. 46/82: F.R.A.**

The Special Fund for Applied Research (FRA) was set up according to law 1089/1968 as modified by law 46/1982 – with reference to forms of intervention and size of financing – and by the Decision of Ministry for University, Education and Scientific and Technological research of 8/8/1997.

The programme covers:

- (1) Applied research and professional training projects defined independently by industrial firms (product and process research including realisation of prototypes and pilot facilities);
- (2) Applied research activities performed in public or private laboratory listed in the register of facilities authorized by the Ministry of Universities and Scientific and Technological Research (MURST);
- (3) National Research and Training Programs aimed to the development of innovative and strategic technologies able to be industrialized in the medium term;
- (4) Applied research projects conducted in the framework of international and EU cooperation (EUREKA Projects, law n. 22/87);
- (5) Equity investments in research companies.

### **Forms and measures of the intervention**

In conformity with WTO and EU rules , the level of aid varies according to the nature of projects and programmes (basic research, precompetitive activities).

Activities of industrial research can benefit from a contribution in the form of grants or soft loans up to 50 per cent in ESL of the cost of the project.

For precompetitive activities maximum aid rate is 25 per cent in ESL.

For mixed projects, aid shall not exceed 35per cent in ESL.

**Additional aid rates** (no more than 25 per cent in ESL) can be recognized in the following cases:

- for projects performed by SMEs;
- in areas eligible for regional aid under art. 92, paragraph 3, lett. a) and c) of the European Treaty;
- for projects linked with the IV Framework Programme of Research and Technological Development of EU;
- for projects run in cooperation between firms, public entities and Universities.

Eligible costs include salaries, works and supplies by third parties, technical assistance and recruitment expenses up to 60 per cent of general costs.

If the MURST grants the financing, IMI can stipulate a contract with the beneficiary where terms and conditions of the assistance and the technical obligations are established.

**Law 675/77: Coordination of industrial policy, Restructuring Reconversion and Sectorial Development.**

Financing only concerns residual payments, since the programme is no longer in force.

**Q.17. Concerning the Production Aids to Shipyards programme, please explain (a) how "bridging the between the most competitive EU shipyard and the market price" is determined, (b) whether the subsidy is available only once, or annually, and (c) who the actual recipient of the subsidy is. (p. 335)**

A. Production Aids to Shipyards programme

The information requested refers to the rules on subsidization which are governed by the seventh directive No. 90/684/CEE.

The purpose of the subsidy is "to bridge the gap" between the most competitive EU shipyard and market prices.

According to the above mentioned directive, every year the European Commission carries out a study of the shipbuilding market to determine the "gap" between the most competitive European yard and the prices of the price-leader yards on the international market. This gap is currently valued at about 19 per cent and the subsidies for contracts stipulated by the Italian shipbuilding industry are those provided by the seventh directive (9 per cent of the contract value before aid for new large ships and 4,5 per cent for ship conversions and small ships).

The yard's subsidies are available only once; they are granted in a lump sum payment.

The actual recipients of the grants provided in accordance with law N.132/94, which implements the seventh directive, are the Italian shipyards.

**Luxembourg**

**Q.18. Regarding your System of Regional Aid programme, would you further explain what is meant by capital subsidies and to whom they are available. (p. 338)**

A. The expression "Capital Subsidies" is a literal translation of what was called in the original notification in French "subside en capital". These are in fact cash grants, expressed as a percentage of a company's investment in fixed assets. Such grants are available to manufacturing – and to certain service companies – that are located in specific regions of the country. These regions have undergone less structural development than the country average and therefore exceptionally qualify for state aid based on article 92.3c) of the EC treaty.

**Q.19. For the System of Aid for R&D programme, please provide what per cent of the project is covered by the aid, whether there are any stipulations on how the funds may be spent. (p. 339)**

A. Aid for R&D activities is expressed as a percentage of a company's expenses in R&D considered to be eligible expenses – these may include depreciation of equipment used, but they mainly consist of the cost of human resources. As the scheme covers fundamental and industrial research as well as competitiveness development, the aid intensity depends upon the degree of research as well as research comprised in a specific project. Aid intensities can go up to 25 per cent for pre-competitive development, up to 50 per cent for industrial research and up to 75 per cent for fundamental research projects.

## **Netherlands**

**Q.20. For the following programmes, please specify who the aid recipients are and whether there are any stipulations on how the funds may be spent:**

- T.O.K. (Decision Technical Development Loans (p. 341)

A. Aid recipients are technologically advanced companies with less than 20,000 employees. In 1996, 55 loans were awarded to 52 companies.

- P.B.T.S. (Decision Subsidies for Programmatic Firm-Oriented Technology Stimulation) (p. 341)

A. Aid recipients are companies that conduct industrial or precompetitive research projects. In 1996, subsidies were awarded to over 60 companies for more than 130 projects.

- T&U (Subcontracting and Outsourcing) (p. 342)

A. Aid recipients are companies that cooperate in a technological project. In 1996, subsidies were awarded to 30 companies for 15 projects.

- B.T.O.C. (Firm-Oriented Support for Research by Collective Bodies) (p. 343)

A. Aid recipients are collective bodies that conduct projects of industrial research. A collective body should include at least three unrelated companies. In 1996, subsidies were awarded to 16 collective bodies for 19 projects.

- B.T.I.P. (Decision Subsidies Firm-Oriented Encouragement of Technological Development -International Programme) (p. 344)

A. Recipients of the BTIP scheme can be companies, research institutes or universities who enter an international technological collaboration with one or more partners in another country. In 1996, subsidies were awarded to 36 companies, 3 research institutes and 2 universities.

- Subsidieregeling Maritiem Onderzoek 1996 (Subsidy scheme maritime research) (p. 355)

A. Recipients of the SMO scheme can be industries and research institutes that carry out research projects in the maritime field, i.e. linked to the production and exploitation of vessels and off shore installations, or to waterborne transport. In 1996, subsidies were awarded to over 20 projects.

## **Stipulations**

Subsidies are awarded to projects which fulfill the conditions of the different aid schemes. Only costs directly related to the R&D project are eligible costs. Subsidy is paid only after the company has proven that it has incurred and paid the costs of the project.



## **Portugal**

**Q.21. In your description of the Retex Operational Programme, the System of Financial Incentives for Investment in Tourism (SIFIT III), the Regional Incentive System (SIR), and the International Development Support Programme for Trade and Services (PAIEP 2), you describe the form of aid as either risk capital funds, grants, repayable joint participation and non-repayable subsidy. Please explain under what circumstances the subsidy is repaid and how the non-repayable subsidy amount was determined. (pp. 358-361)**

### **SIR**

A. The incentive to be given by SIR schemes takes either the form of grants to eligible investment projects in tangible assets, of an amount lower than Esc. 80,000,000 or, the mixed form of grants and reimbursable subsidy, if the tangible assets investment has an amount above that value. The eligible investment projects in tangible assets with an amount above Esc. 80,000,000 are supported, up to that amount, by grants and, in excess of that amount by a reimbursable subsidy. The maximum amount to be received by the beneficiary of the grants stands between 40 per cent and 70 per cent of the eligible investment, depending on established objective selection criteria. The reimbursable subsidy corresponds to 70 per cent of the amount of the eligible investment over Esc. 80,000,000. The period for the reimbursement loan can be established from 4 to 8 years and the period to begin the reimbursement can be delayed from 1 to 5 years.

### **RETEX**

A. The RETEX scheme takes the form of grants in the following measures: Measure B1 – “Marketing and design programmes in internationalization initiatives”.

The maximum amount of subsidy is 40 per cent of the eligible investment, up to a limit of Esc. 30,000,000 per project.

Measure B3 - “Collective initiative of markets researching and image promotion”.

The maximum amount of subsidy is 70 per cent of the eligible investment, or 75 per cent in case of candidatures supported by associative structures or non-profit making entities. The upper limit is up to a maximum of Esc. 70,000,000 depending on the type of the project.

Measure C1- “Initiatives that aim at the diagnostic of the enterprises and the definition of strategies”.

The maximum amount of subsidy is 70 per cent of the eligible investment, or 75 per cent, in case of candidatures supported by associative structures or non-profit making entities. The upper limit is up to a maximum of Esc. 20,000,000 depending on the type of the project.

Measure C2 - “Support to initiatives that aim at improving productivity”.

The maximum amount of subsidy is 60 per cent of the eligible investment, and the upper limit is up to a maximum of Esc. 90,000,000 depending on the pattern of the project.

The incentive assumes the form of reimbursable subsidy with zero interest rate in the following measures:

Measure A2 - “Access to financing”.

This measure provides the access to bank credit, for financing projects of modernization or internationalization.

The incentive consists of the concession of a reimbursable loan with zero interest rate, and an upper limit of Esc. 150,000,000 per project. In cases of projects that are presented by a group of enterprises, the share of the loan without interest can reach 40 per cent, with an upper limit of Esc. 180.000.000 per project.

The reimbursable loan to be given should fulfill the other conditions settled by the credit institution for the share that it supports, and the total duration should be between 3 and 7 years.

#### Measure B2 - "Internationalization Projects".

This measure aims to support the implementation of pluriannual projects of commercial internationalization and marketing strategies of enterprises that represent a "Know-how" in the fields of quality, design, marketing or international management, involving distribution channels and the use of their own brands.

The incentive consists of the concession of a reimbursable loan with zero interest enterprises, the share of the loan without interest can go up to 50 per cent, with an upper limit of Esc. 180.000.000 per project.

The reimbursable loan to be given should fulfill the other conditions settled by the credit institution for the share that it supports, and the total duration should be between 3 and 6 years.

Measure A1 - "Access to Reorganization and Internationalization Enterprise Funds" (FRIE): according to this measure 3 FRIE's were developed, for participation in the social capital of enterprises.

The objective of this measure is to make available the necessary own capital to obtain a balanced implementation of the projects from a financial point of view, in cases where the gap cannot be covered by the enterprise's own assets.

The intervention of the FRIE's will be made, in general, within the scope of a financial syndicate, and its limit can never exceed 50 per cent of the enterprise's social capital.

### **PAIEP**

A. PAIEP subsidies take the form of a grant in the following initiatives:

#### Action A - "Diagnostic and strategy studies for enterprise internationalization".

The maximum amount of subsidy is 70 per cent of the eligible investment, or 80 per cent in case of candidatures supported by a group of enterprises, up to a limit of Esc. 10,000,000.

Action B - "Annual programs of international marketing, and opening of representation offices".

The maximum amount of subsidy is 40 per cent of the eligible investment, or 60 per cent in case of candidatures supported by a group of enterprises, up to a limit of Esc. 40,000,000.

Action C - "Internationalization Projects" - The incentive takes the form of a reimbursable subsidy with a zero interest rate.

The incentive is the concession of a reimbursable loan with zero interest rate, and an amount limited by the equivalent of 40 per cent of the bank financing, with an upper limit of Esc. 200,000,000 per project. In case of projects presented by a group of enterprises, the part of the loan with no interest can go up to 50 per cent, and the upper limit to Esc. 240,000,000 per project.

The reimbursable loan to be given should fulfill the other conditions settled by the credit institution for the share it supports, and the total duration should be between 3 and 6 years.

## **SIFIT**

The incentive to be given assumes the form of either a grant or a reimbursable subsidy.

The grant is available only to investment projects aiming at the recovery of real estates, with relevant historical, cultural or architectural value, in order to install hotels, undertakings of touristic animation or traditional touristic restaurants.

The maximum amount of subsidy is limited to between 25 per cent and 50 per cent of the eligible investment, depending on the nature and location of the undertaking.

The reimbursable subsidy applies to all other projects, and amounts to between 10 per cent and 50 per cent of the eligible investment, depending on the nature and location of the undertaking.

The attribution of this subsidy is given in the following conditions:

Reimbursement starting 3 years after the date of the contract, with a deadline of 10 years

## **Spain**

**Q.22. Your notification of the Aid to Improve the Processing and Marketing of Fish and Aquaculture Products programme states the economic effects of the programme lasted until 31 December 1996 and the regulation was derogated with the entry into force of Council Regulation 3699/93 of 21 December 1993. Does this in effect mean the programme has been terminated or is being phased out? (p. 388)**

A. The Ministerial Order of 4 July 1991, specifying the procedure for administering aid under EEC Regulations 4042/89, 866/90 and 867/90, on improvement of marketing and processing conditions for fish and aquaculture products, agricultural products and forestry products respectively, has been derogated. Accordingly, the programme has been terminated and the Order no longer applies since the Regulation mentioned therein has also been derogated (R.4042/89).

At the present time, the operative regulations are Regulation 3699/93 of 21 December, establishing the criteria and conditions for community intervention for structural purposes in the fish and aquaculture sector and the processing and marketing of such products, and Royal Decree 798/1995, bringing Spanish law into line with the above-mentioned Regulations.

**Q.23. Regarding the Competitiveness Plan for the Textile and Clothing Sector Programme, you state the subsidy is available to (a) industrial enterprises, or groups of enterprises; and (b) public or private entities and organizations. Would you please provide more information on who the actual recipients of the aid are, how areas are selected for the granting of aid, and whether the programme was terminated as of 1996. (p. 414)**

A. The competitiveness programme for the textile and clothing sector was operative during the period 1992-1996.

The measures under the programme were applied exclusively to areas which met all the following requirements:

- They were Objective 1, 2 or 5 areas, in accordance with EU Structural Funds criteria.

- they had a minimum of 2,000 employees in the textile/clothing sector;
- such employment accounted for more than 10 per cent of industrial employment.

**Q.24. In your description of the Industrial Technology Development Centre (CDTI) programme, you state that the purpose of the subsidy is to promote technical innovation in Spanish companies by granting loans at interest below the market rate in order to fund R&D projects. Please provide information regarding what per cent of the research is covered, and what stipulations apply to funds given (p. 424)**

A. In the Industrial Technology Development Centre (CDTI) programme, the CDTI finances a maximum of 50 per cent of the eligible cost. In practice, the percentage covered by the CDTI was in 1996 36.2 per cent.

The recipients are all enterprises with sufficient technical capacity to develop a R&D project and financial capacity to cover their part of the overall project budget.

### **Navarra**

**Q.25. You state that Aid for the Acquisition and Conversion of Buildings and Machinery for Processing and Marketing and Aid to Afforestation and Forestry Improvements are available in the form of a capital subsidy. Please explain what is meant by a capital subsidy. (pp. 628, 631)**

A. Capital subsidies means direct subsidies and premiums granted from public funds for sunk costs, as compared to normal subsidies which are intended for operational purposes.

**Q.26. Concerning the Aid for the Restructuring and Enhancement of the Competitiveness of Agricultural Cooperatives Programme, would you please specify who the recipient cooperatives are? (p. 634)**

The recipient cooperatives were the following:

- Incentives to merge or absorb: 2,307,470 pesetas were granted to 2 recipient cooperatives;
- aid for new partners: 12,725,537 pesetas were granted to 4 recipient cooperatives.

**Q.27. You state that your programme Reorganization and Revival of Enterprises in Crisis is available to enterprises based in Navarra. Is there any restricted eligibility for recipients in this programme? (p. 637)**

A. There is no restricted eligibility for enterprises in the Community of Navarra.

### **Canary Islands**

#### **Programmes notified by the Government of the Canary Islands**

**Q.28. With regard to your identification of "small and medium enterprises" in such programmes as Improvement of Banana-Growing Sector Structures in the Canary Islands (Production Phase) Under Banana Operation Programme II, As Part of Community Support 1994/99 and Subsidies for Industrial Modernization or Technological Innovation Projects, would you please identify the criteria used to determine small or medium enterprises? (pp. 472, 479)**

A. The European Community definition of "small and medium enterprise" is set out in Article 3.2 "Definition of SME" in the Community guidelines on state aid to small and medium enterprises published in the OJEC of 23 July 1996. SME is taken to mean an enterprise employing less than 250 persons and with a turnover of not more than ECU 40 million or an overall balance of not more than ECU 27 million, and meeting the independence requirement.

**Q.29. Regarding the Structural Aid to Fisheries, Aquaculture and the Processing and Marketing of Fish Products, would you please explain in what form the aid is given? (p. 474)**

A. Under Article 30 of the Regulations, "part of the financial aid, up to a maximum of 50 per cent, may be used to reduce the interest on loans granted to owners of new fishing vessels by the various loan bodies".

**Cantabria**

**Programmes notified by the Autonomous Community of Cantabria**

**Q.30. Regarding the Aid to Promote Forestry Investment on Farms and the Development and Exploitation of Forests in Rural Areas, would you please describe how the "ceiling" is determined? (p. 486)**

A distinction has to be drawn between the two chapters in Decree 31/1996, of 3 April:

- In the case of afforestation aid for farm land and improvement of forested areas (Chapter 1 of the Decree), the amount of the aid is established in terms of the species used in the case of afforestation; or the type of work to be done in other cases. The regulations establish a ceiling per unit of work. If the ceiling is exceeded, only the amount up to the ceiling is subsidized.
- In the case of aid for forestry development and exploitation in rural areas (Chapter 2 of the Decree), the law establishes a maximum subsidizable investment per work unit. A percentage (also established in the regulations) is applied to this, and depending on the kind of work to be done, ranges from 40 to 75 per cent of the approved investment, thereby yielding the amount of the aid. As in the above paragraph, if the approved investment is lower than the maximum subsidizable investment, the percentages for calculating the aid apply to that approved investment.

**Q.31. Regarding the Support to the Mining Industry and Utilization of Mineral and/or Thermal Subsidies, would you please explain whether those who receive the aid are individuals, companies, or enterprises? (p. 492)**

A. Article 31, approving announcements of aid for mining, defined the recipients, who must in any case be small and medium enterprises.

**Q.32. In the Subsidy to Small-Scale Industry, would you please explain how a "small-scale industry" is defined? (p. 493)**

A. The original notification was in Spanish and there is a mistake in translation because "industrias artesanas" are not small-scale industries but handicraft industries.

Article 2 of the Order of 13 May 1997, approving announcements of aid to handicraft industries, defined possible recipients as "individual, company or cooperative handicraft industries in the Autonomous Community of Cantabria that are included in the Register of Handicraft Industries of Cantabria". Access to the Register is regulated by a Ministerial Order of 22 July 1968, concerning the

list of handicraft industries and, for the purposes of registration, the enterprise in question must have less than 12 workers and its products must have a high manual input.

**Q.33. With regard to the Support Measures for the Preparation and Marketing of Traditional Food Products of Cantabria, you state that "the aid is available to natural or legal persons or groups thereof which make investments or incur costs eligible for subsidies." Would you please explain what types of "investments" or "costs" are eligible? (p. 494)**

- A.
- Investments and operating costs of Regulatory Councils of Appellations of Origin and Quality and their Associations. Under the criteria adopted by the Commission in working paper No. VI/503/88, such aid must not exceed the administrative operating costs in the first year, is degressive in form (20 per cent per year) and no aid is paid after a maximum period of seven years from establishment of the firm.
  - Small enterprises producing handicraft products (with a ceiling of 2 million pesetas) investments and civil engineering, machinery, equipment and installations for bringing technical and sanitary standards into line with those of the EU; new installation, expansion, and organization of packaging, preservation, and packaging; and protection of the environment by waste control.
  - Technical assistance and advice on holding fairs, in accordance with the Commission's accepted practice, may be eligible up to 100 per cent of the cost.

**Q.34. In several of your programmes, such as Financial Aid to SMEs and Regional Incentives Fund, you designate that funds are distributed to small and medium-sized enterprises. Please explain the criteria used to determine small and medium-sized companies . (pp. 491, 495)**

- A. The criteria are those defined by the European Commission in provisions adopted for that purpose, as mentioned above.

### **Castilla-La-Mancha**

#### **Programmes notified by the Autonomous Community of Castilla-La Mancha**

**Q.35. In many of your programmes, such as Aid for Early Retirement in the Agriculture Sector; Aid to Food Enterprises to Attend Agri-Foodstuffs Fairs, and Aid to Promote Improvements in the Quality of Sheep and Goat Breeding, you state that the form of the subsidy is "direct". Would you please explain in what form the "direct" aid in these and other programmes in your notification is given? (pp. 499-501)**

- A. The direct aid, or non-repayable subsidy, is granted by paying a percentage of the capital invested or the cost incurred and a bank transfer is sent to the party concerned.

With respect to early retirement in the agriculture sector, all regulations governing aid and compensation are laid down in R.D. 1695/95 and the Order of the Regional Ministry of Agriculture and the Environment of 8 March 1996. The assistance consists in compensation in amounts set forth in the R.D. according to whether or not the beneficiary has a dependent spouse, as well as aid per hectare transferred with a maximum ceiling of 500,000 ptas. per year.

In the case of aid to attend fairs, the percentage of the subsidy granted varies between 20 and 50 per cent of expenditure incurred depending on assessment criteria set forth in the Order of the Regional Ministry of Agriculture and the Environment of 8 February 1996, which regulates such aid.

The percentage granted for aid to promote improvements in the quality of sheep and goat breeding is set forth in the Order of the Regional Ministry of Agriculture and the Environment of 11 January 1996, which sets a maximum ceiling for each type of activity covered.

**Q.36. In Aid to Promote the Agri-Foodstuffs Sector in the Castilla-La Mancha Region, please explain what type of "support" is intended? How may this aid be used? (p. 507)**

A. This is a non-repayable subsidy covering 10 to 30 per cent of the capital invested depending on assessment criteria set forth in the Order of the Regional Ministry of Agriculture and the Environment of 8 February 1996.

**Q.37. In Support to the Bee-Keeping Sector Through Pollination Premiums, please describe to whom the aid is available, e.g., is the aid available to individuals, as well as corporations, industries and enterprises? Is there a limit to the aid granted per recipient? (p. 508)**

- Individual aid to the farmer.
- The limit is 500 beehives per recipient.

**Q.38. In Measures to Encourage and Support the Promotion of New Technology in Agriculture Machinery and Equipment, would you please explain on what the interest rate reduction is based? How is the level of reduction determined? (p. 509)**

This is a non-repayable subsidy, the amount of which varies between 15 to 40 per cent of the capital invested, depending on assessment criteria set forth in the Order of the Regional Ministry of Agriculture and the Environment of 10 September 1993.

**Q.39. For the programme Supplementary Compensation in Disadvantaged Areas, would you please explain how the amount provided to each recipient is determined? (p. 513)**

A. By a calculation of the assessable units (defined in Royal Decree 466/909), multiplied by the amount of the mountainous or unpopulated area bonus.

### **Castilla - Leon**

#### **Programmes notified by the Autonomous Community of Castilla-Leon**

**Q.40. In Aid for the Promotion of Alternative Livestock-Raising Activities in Castilla-Leon, you state that aid is provided for "promotion of certain small animal farmers." Would you please specify how a "small animal" farmer is determined? In addition, please describe in what form the aid is given and whether the subsidy is repayable. (p. 522)**

A. The minimum requirements for applicants or their farms in order to obtain such aid will be the following:

1. General:

- (1) When there is an Official Register of Farms (bee-keeping, rabbits, poultry or any others that may be created, farms must be included therein.
- (2) The current legislation on hygiene and sanitary matters for each of the species for which a subsidy is applied for must be observed.

Similarly, where appropriate, an application must be made for inclusion in the Register of Hunting Species Farms of the Regional Ministry for the Environment and Regional Development.

Compliance with the registration formalities does not remove the obligation to prepare a file of classified activities, where appropriate, especially in the case of new farms.

(3) Installation or improvement plans must be economically viable and technically warranted. For this purpose, applicants shall submit a detailed memorandum of the installation or improvement project and a technical and economic study.

(4) Owners of farms to be helped under this Order shall be required to carry on the activity for a minimum of five years and, in the event of a change of ownership, for any reason, the recipient of the subsidy shall be obliged to ensure that the new owner takes over his commitments set out in the present Article.

Similarly, recipients shall be required to provide the Regional Ministry's competent bodies throughout this period with any technical and economic data on the recipient farm that may be deemed of value in monitoring the proposed improvements and for preparing livestock development studies.

2. Specific: These depend on the sector concerned. Normally there are a number of criteria, including the number of animals. Application of this criterion is set out below.

(1) Bee-keeping farms: utilization of moveable beehives.

(2) Goose farms: the size of the farm shall be such that each phase of the forced feeding involves a minimum of 150 birds.

(3) Rabbit farms: they must have more than 150 reproductive females.

(4) Mink farms: the minimum size to receive aid must be 300 reproductive females.

(5) Red-legged partridge farms: the minimum size of new farms shall be 200 couples and shall include the laying, incubation and chick-breeding phases.

(6) Pigeon lofts: pigeon lofts shall be in rural areas where they are traditional.

(7) Amphibians: In connection with breeding installations, preference shall be given to vertical systems in view of cost and maintenance savings.

(8) Fish farms: If the farms produce trout, the volume of production may not be increased and aid will be used for improvements and technological advances.

The aid consists of a subsidy that is not repayable.

**Q.41. For Aid for Owners of Sheep and Goat Farms, would you please explain what the specific activities are for which "direct" subsidies? In addition, describe in what form the "direct subsidy" takes? (p. 524)**

A. The following activities may be subsidized:

(1) Purchase of stud animals.

(2) Sales of stud animals at any of the auctions included in the official schedule of livestock fairs approved by the Ministry of Agriculture, Fisheries and Food or any other, of a public character, sponsored by the Select Livestock Breeding Associations responsible for breed quality, with the mandatory participation of the Regional Ministry of Agriculture and Livestock.



- (3) Artificial insemination and gestation diagnosis in species falling within the purview of this Order.
- (4) Facilities to handle livestock and purchase of equipment to monitor individual production.

The aid consists of non-repayable subsidies.

**Q.42. Regarding Aid for Agricultural Training and Rural Development Courses, what is the limit to the amount of aid to which each entity is allowed? (p. 527)**

A. The amount of the subsidies, within available resources, may amount to 100 per cent of the budget, but in no case may it exceed the following ceiling per student per hour:

- (a) Instruction, 625 ptas. per student per school hour;
- (b) operational, 375 ptas. per student per school hour;
- (c) assistance to students, 700 ptas. per student per school hour.

Board and lodging may be budgeted only when the student is a boarder or attends morning and afternoon, or in the case of a technical trip connected with the course, and with the established ceiling, without exceeding the overall budget adopted under item (c) "Students".

**Q.43 Regarding Rural Development Aid, would you please explain in what form the aid is given? (p. 533)**

**I. Aid to develop initiatives to adapt the Casas Rurales or offices for the purposes of rural tourism.**

A. The amount of the aid may not exceed 50 per cent of the fixed investment budgeted or 40 per cent of the investment in furnishings and non-permanent facilities, with a ceiling of 4 million ptas. per applicant.

**II. Aid to non-profit-making local entities and associations to improve villages and provide small-scale infrastructure in rural areas.**

A. The aid may not exceed 60 per cent of the investment, with a ceiling of 3 million ptas. per entity or community making an application.

**Q.44 In Support Plan for the Beet Sector, please explain in what form the "direct aid" is given. (p. 535)**

A. Direct Aid for Production consists of a maximum of 800 ptas. per tonne of 16° polarization type beet delivered to sugar factory, within the A + B Quota in the 1995/1996 season for each individual farm, up to a minimum of 2,000 t.

**Q. 45. Regarding Aid to the Trade Promotion of Agricultural and Food Industries, would you please specify how a small or medium enterprise is defined. (p. 537).**

A. A small or medium enterprise is taken to mean such an enterprise as defined by the European Community, in other words, it meets each and every one of the requirements mentioned above.

**Q.46. In Subsidies for Investment in Modernizing the Commercial Sector in the Autonomous Community of Castilla and Leon, would you please define for which specific types of investment the aid is provided? In addition, is there a limit to the amount of aid given per company, enterprise or organization?**

A. The aid will consist of subsidies with a ceiling of 20 per cent of the agreed investment, of new fixed assets, intended exclusively for commercial activities:

- (a) Work on renovation or re-equipment of the trade premises.
- (b) Purchase of stock of assets intended exclusively for commercial activity, except computer equipment;
- (c) Preparation and optional management of technical projects.

For the purposes of funding the corresponding projects, the following will not be considered as investments costs:

- (a) Purchase of land.
- (b) Purchase and construction of premises;
- (c) Tax on transfers and tangible fixed assets in general;
- (d) Renewal of cash and the like;
- (e) Building inventories;
- (f) Taxes incurred;
- (g) Vehicles and adaptation of vehicles;
- (h) Investment in computer equipment;
- (i) Investment not intended strictly for commercial purposes;
- (j) Work done for tangible assets and for self-consumption.

The ceiling on the investment accepted will be 15,000,000 (fifteen million) pesetas, with a floor of 1,000,000 (one million) pesetas.

### **Extremadura**

#### **Programmes Notified by the Autonomous Community of Extremadura**

**Q.47. Regarding Non-Payable Subsidy to Promote Productive Investment by SMEs in Extremadura, would you please specify the criteria for a small or medium-sized enterprise? In addition, how is the subsidy for the "percentage of the investment made" determined? (p. 559)**

A. Article 2 of Decree No.108/96 of 2 July, regulating the system of investment incentives for small and medium enterprises (Official Journal No.79 of 9 July), establishes that:

"Recipients shall be small and medium enterprises **in accordance with the European Union's definition thereof**, especially those which take the form of cooperatives

and labour corporations engaged in investment projects for an amount not exceeding 15 million pesetas...".

Article 6 of Decree 108/96 of 2 July, regulating the investment incentive system for small and medium enterprises (Official Journal No.79 of 9 July), establishes that:

"The aid shall consist of non-repayable subsidies, for the following amounts:

For the purposes of calculating the subsidy, account shall be taken of aid from any national or community public authority obtained or applied for by the enterprise for the same project.

Exceptionally, and on a case-by-case basis, the Ministry of the Economy, Industry and Finance may supplement the subsidy granted for a project for other development purposes up to a maximum of the amount legally established for the territory of the Autonomous Community. The amount of the project, the jobs to be created, sectoral strategic reasons and socio-economic reasons shall be assessed for the purposes of such supplementary aid."

**Q.48. Regarding Subsidized Interest on Loans or Leasing Operations for SMEs in Extremadura, is there a limit to the subsidy for individual recipients? (p. 560)**

A. Article 7 of Decree No.90/1994 of 14 June, regulating aid for investments by small and medium enterprises in the social economy funded by leasing (Official Journal No.75 of 30 June), establishes that:

"The maximum fundable amount shall be 100 per cent of the subsidizable investment. The amount of the non-financial leasing shall not exceed 100 million pesetas per recipient."

**Q.49. Regarding System of Aid to Improve Marketing Conditions for Agri-Products, how are "certain limits" defined? (p. 562)**

A. Decree 20/1993 of 24 February, amending Decree 4/1992 of 28 January, regulating a system of aid to improve marketing conditions for agri-products, establishes that:

"The aid shall consist of:

A subsidy of 60 per cent, 40 per cent or 20 per cent of the cost of establishment and operations in the first, second and third year, up to a ceiling of 10, 6 and 4 million pesetas respectively;

A subsidy of up to 50 per cent of the cost of market studies, promotion campaigns and creating and publicising marks".

**Sweden**

**Q.50. In your notification of the Support for Research and Development, you stated that the duration of the programme was from 1 July 1993 to 1 January 1997, but that the programme would be prolonged. Is there a new termination date for this programme? (p. 661)**

"Support for Research and Development" is not a programme as such but a heading of Chapter 2. The programme "Support for Technological R&D", however, if this is the programme referred to in the question, has been prolonged until 1 January 2002.

**Q.51. Several of your programmes, including Support for Technological R&D through NUTEK, Project Financing through the Fund for Industry, the Regional Development Companies, ALMI, Temporary Support to Small Companies, and Project Financing through the Fund for Swedish-Norwegian Governments are aimed at SMEs. How do you define small- and medium-sized enterprises? (pp. 661, 662, 670, 671 and 668)**

A. The programme “Support for Technological R&D through NUTEK” has the following definition for SMEs. An SME is a company that has:

- No more than 250 employees; and
- either an annual turnover not exceeding ECU 40 million (7 million for small) or a balance sheet total not exceeding ECU 27 million (5million for small); and
- no more than 25 per cent of the company is owned by one or more companies not falling within this definition.

The definition used with regard to the “Project Financing through the Fund for Industry”, the “Regional Development Companies”, “ALMI”, “Projects Financing through the Fund for Swedish-Norwegian Governments” is a company that has:

- No more than 250 employees; and
- either an annual turnover not exceeding ECU 20 million (7 million for small) or a balance sheet total not exceeding ECU 10 million (5 million for small); and
- no more than 25 per cent of the company is owned by one or more companies not falling within this definition.

The definition for small companies in the ordinance “Support for Small Companies” (which is the new name of the ordinance since beginning 1997) is a company with:

- No more than 50 employees; and
- either an annual turnover not exceeding ECU 7 million or a balance sheet total not exceeding ECU 5 million; and
- no more than 25 per cent of the company is owned by one or more companies not falling within this definition.

**Q.52. Your notification of the Temporary Support to Small Companies states that the programme was prolonged until 31 December 1997. Does this mean this programme has been terminated or is being phased out? (p. 671)**

A. Regarding “Support to Small Companies”, Sweden notified the prolongation of the programme to the European Commission on 30 September 1996. The Commission has accepted the prolongation.

**Q.53. Concerning your notification of the Swedish Council for Work Life Research (formerly the Swedish Work Environment Fund), you state that the programme has a primary objective of improvement of work conditions and quality of work, and a secondary objective of aid for R&D. Is there a certain portion of aid that must go to the primary objective or can a majority of funds be used toward R&D with Council approval? For the portion of the aid that concerns R&D activity, what portion of the R&D project is covered and are there any stipulations on how the funds can be spent? (p. 675)**

A. The Swedish Council for Work Life Research is an organisation responsible for research and development of work life conditions. The aim is to improve work life conditions through research and development. Consequently, the entire programme is a R&D programme. Most of the work relates to development and not research and a large part of the work is other than technical R&D and it is only technical R&D which is being notified to the Commission.

The programme has a budget of Skr 205 million. Out of the Skr 205 million Skr 75 million is aimed for R&D on work life conditions, 75 million on work organization, 35 million on labour market research and 20 million for overall measures. Out of the 75 million Skr for R&D on work life conditions 15 per cent is used for research projects and out of these 15 per cent only 4 millions and technical research and has been notified in the 1997 update while 7 million is not technical research.

The main part of the applicants are researchers, Universities and Research Institutions and not undertakings.

**Q.54. In the notification of State Subsidy for Civil Emergency Preparedness Supply, you state that the programme was to be terminated in May 1996. Has this programme been terminated or phased out? (p. 693)**

A. During the years authorities and industry in Sweden have used different tools to reassure a necessary national production capacity in order to survive in times of war and crises. One of the tools were the State Subsidy for Civil Emergency Preparedness Supply programme. The programme was aimed to support the textile industry but has been phased out. The ordinance was abolished 1 July 1996.

**Q.55. You state in the description of Export Promotion for Processed Food Products that the support commenced in 1992 and was originally scheduled for a four year period. Has this programme been terminated? (p. 701)**

A. No, the programme has not been terminated.

In Sweden 60,000 employees are working within the processed food industry. The processed food industry is the second largest sector when looking on the turnover. Looking on the amount of employees it is the third largest sector in Sweden. The sector is scattered all over Sweden and consequently it is very important for regional purposes.

Since 1992 Food From Sweden has received 88 million SEK for export promotion. The activities have mainly consisted of measures to improve knowledge and competence, participation in conferences and exhibitions and the profiling of Swedish agriculture and processed food in general.

**Q.56. With regard to the Aid for Fleet Renewal and Modernization of Fishing Vehicles and Investment Aid to Aquaculture Enterprises, what is the determination for an "economically viable" enterprise? (pp. 727-728)**

A. Before selecting a project, an application must be considered to be in compliance with the relevant EU and national legislation as well as internal guidelines.

The European Community's Monitoring Committee for objective 5a Fisheries has approved a set of formal requirements and priorities. These formal requirements, partly based on a national ordinance (1988:764), stipulate as regards investments in enterprises (e.g. fleet renewal and modernisation and investment in aquaculture) that the projects must offer a satisfactory profit. The competent authority responsible for granting aid shall also make sure that an economic analysis of the company as well as a cost-benefit analysis of the project as such is made.

**United Kingdom**

**Q.57. Regarding the Home Shipbuilding Credit Guarantee Scheme, you state that "the objective of the scheme is to finance the construction, completion or alteration of ships and mobile offshore installations at a yard first approved by the Secretary of State ...". Would you please clarify to how many shipyards this scheme applies? (p. 748)**

A. There are currently 27 "active" approved yards. Many of these yards will not be constructing HCS vessels at the present time but remain eligible to do so.

**Q.58. Regarding the Link Initiative programme, would you please clarify what are included in eligible costs. (p. 750)**

A. Eligible costs under LINK are those costs directly attributable to the project and can include:

- salaries of personnel working directly on the project;
- materials consumed in the course of the project;
- capital equipment purchased or constructed for the project, less the estimated value to the business of the equipment at the end of the project in accordance with normal accounting conventions. (In certain circumstances the costs of employing capital equipment that is already owned may be supported);
- licensing fees paid to third parties for acquiring new technology;
- sub-contract charges and consultancy fees, fees for trials and testing and preparation of technical manuals;
- project management costs, such as travel, office space, etc that are additional to those normally involved;
- training that is specific to the project including that of members of management;
- costs of patenting, where this would otherwise fall on smaller firms;
- an allowance for overheads to be supported by a breakdown and justification;
- output VAT (defined as the charge made by taxable persons on all goods and services they supply, with the exception of those goods and services that are taxable at the zero rate or exempt).
- Costs which are not eligible for support under LINK and should therefore be excluded are:
  - input VAT (defined as the charge made on goods and services purchased for business purposes by taxable persons);
  - interest hire purchase interest and any associated service charges arising from hire purchase, bad debts, marketing costs;
  - profit earned by a subsidiary or an associated company on work sub-contracted under the project;

- inflation and contingency allowance expressed as an arbitrary percentage overall addition to eligible costs. However, applicants may include realistic estimates of the likely rise in labour costs. Foreseen increases (e.g. on specific material items) may also be taken into account.”

Source: LINK Best Practice Guidelines (1997).

**Q.59. Regarding Regional Selective Assistance, on what basis are the "special hardship" areas determined? (p. 750)**

A. Special hardship areas are determined on the basis of current employment; other factors taken into consideration are structural unemployment, long-term unemployment, future jobs gap, occupational structure, activity rate, peripherality, VAT growth and population density..

**Q.60. Regarding Complete Programme (NI), please specify for what types of projects the aid can be used. (p. 752)**

A. IRTU's Compete Programme provides support to manufacturing companies and internationally tradeable service companies, including the software sector, to develop innovative products and manufacturing processes.

**Q.61. In numerous programmes, such as Cardiff Bat Development Corporation and Development Board for Rural Wales, would you please specify what criteria are used to determine small- and medium-sized enterprises? (pp. 753-754)**

A. The criteria used are those set down for the definition of an SME in the European Commission's SME Guidelines. These define an SME as having not more than 250 employees or a turnover not exceeding 20 million ECU. Within this definition, the definition of "small" firms is not more than 50 employees or 5 million ECU turnover.

**Q.62. Regarding Local Challenge, please specify on what basis the intermediate organizations base their selection of recipients. (p. 756)**

A. Initial selection is "on demand" (e.g. companies seeking advice from an intermediate organization). Subsequent selection is made only to the extent that advisers within intermediate organisations act to recommend most appropriate services.

**Q.63. Regarding Offshore Supplies and Service Company Assistance for Research, would you please specify what the criteria are for a project to "involve significant innovation"? (p. 758)**

A. The service or product to be developed in the project must not be available from other suppliers in the sector or must not be available in the form put forward in the proposal except at unacceptable cost.

The service or product to be developed in the project must not be purely a refinement or extension of an existing product or service.

A project can be acceptable if the applicant holds a patent and the project aims at the development of a prototype commercial version of the work.

A project which is transferring scientific, engineering or technological results from university research work into a prototype aimed at commercial use is acceptable.

A project which is transferring and modifying a service or product from another industrial sector into a prototype for commercial use in the oil and gas sector is acceptable.

**Q.64. Concerning the Single Regeneration Budget, please clarify which types of business are eligible for aid. (p. 765)**

A. Support is not sector specific, but can assist a range of local regeneration initiatives. Assistance to businesses mainly goes to SMEs; and is within EC state aid limitations.

**Q.65. Regarding Milk Development Council, please define the term "liable" producer? Also provide the percentage of R&D covered by the aid and any stipulations on how the funds may be spent. (p. 778)**

A. In relation to the Milk Development COUNCIL (MDC) Order 1995, a 'liable producer' means a person who produces milk in Great Britain and sells it by way of business. All of the Council's R&D is funded by way of the levy while 61% of the Council's levy income is spent directly on R&D. Below is a copy of Schedule 1 of the MDC Order which lists the functions on which funds may be spent.

### **SCHEDULE 1**

#### **Functions of the Milk Development Council**

1. Promoting or undertaking scientific research.
2. Promoting or undertaking inquiry as to materials and equipment and as to methods of production, management and labour utilisation, including the discovery and development of new materials, equipment and methods and of improvements in those already in use, the assessment of the advantages of different alternatives, and the conduct of experimental establishment and of tests on a commercial scale.
3. Promoting or undertaking research for improving arrangements for marketing and distributing products.
4. Promoting or undertaking research into matters relating to the consumption or use of goods and services supplied by the industry (including the range of factors affecting that consumption or use).
5. Promoting or undertaking the collection and formulation of statistics.
6. Advising on any matters relating to the industry (other than remuneration or conditions of employment) as to which the Ministers may request the Council to advise, and undertaking inquiry for the purpose of enabling the Council so to advise.
7. Undertaking arrangements for making available information obtained, and for advising, on matters with which the Council are concerned in the exercise of any of their functions.

**Q.66. With respect to crofting programmes, such as Working Capital Loans and Aids to Crofters and Other Agricultural Producers in the Crofting Counties of Scotland, would you please specify the terms on which the loans are made? (pp. 778 and 780)**

A. With regard to Working Capital Loans, (which is not technically a crofting programme, being in operation in England and Wales, outside of the Scottish crofting counties: see question 67 below) loans are subject to interest at 0.5 per cent above the rate set by central Government for the period of



the loan. Loans may be made or guaranteed by the smallholdings authority for not more than 75% of the aggregate working capital for the smallholding. The remaining 25 per cent must be found by the tenant, either from his/her own capital or other borrowing. It is for individual smallholdings authorities to decide whether or not to make these loans available. They also determine how much capital is needed for the proper working of the farm and, where loans are made by the smallholdings authority itself, agree repayment terms with the borrower.

With regard to Aid to Crofters and Other Agricultural Producers in the Crofting counties of Scotland loans are made on the following terms:

(a) Crofting Counties Agricultural Grants

Grants are made towards the cost of croft improvements at the following rates: - shelter belts at 85 per cent of total eligible cost; land improvements (excluding heathland and moorland) by reseedling, reconditioning and access tracks to improved areas of 70 per cent; drainage at 65 per cent; bracken control, provision or improvement of silos, of facilities for sheltering or feeding of livestock, of livestock husbandry equipment, of water supplies, of electrical equipment, of roads, bridges, culverts or boat-slips at 60 per cent; the provision of fences, hedges, walls, gates and cattle grids at 55 per cent; the provision or improvement of agricultural buildings and associated works, of electricity or gas supplies or electrical generators at 50 per cent.

(b) Loans to ingoing tenants of crofts

Loans up to a maximum of £2,200 may be made towards the cost of compensating outgoing tenants for permanent improvements, at an interest rate of 7 per cent, repayable by half-yearly instalments over a period of up to 20 years. Such loans are only available to crofters newly occupying a croft which is being re-let following renunciation by or removal of the previous tenant.

Reference Rate for Loans:

It is not practicable to establish a general reference rate for UK farmers. Credit worthy farmers may borrow from their banks at a rate of interest generally within a range of 2-4 per cent above bank base rates.

**Q. 67. In addition, concerning other programmes involving crofting, such as Livestock Aids in Crofting Counties and Aids to Crofters and Other Agricultural Producers in the Crofting Counties of Scotland, would you please clarify which types of recipients are eligible for aid, e.g., business, families, individual or cooperative farms, or others. (p. 780)**

A. Concerning programmes such as Livestock Aids in Crofting Counties and Aids to Crofters and Other Agricultural Producers in the Crofting Counties of Scotland recipients are largely individual or family enterprises. Crofters, of whom there are over 14,000, are small landholders predominantly working the land on a part-time basis. They hold their crofts under a form of agricultural tenure peculiar to the farmer counties of the Highlands and Islands of Scotland (Argyll, Inverness, Ross and Cromarty, Sutherland, Caithness, Orkney and Shetland). Around 1,700 occupiers of small non-croft holding who are in an economic position comparable to that of crofters are eligible for certain of the crofting aid. The main crofting areas can be found in the Western Isles, Skye, Shetland and the north-western and northern seaboard. Crofts in these areas typically form townships with crofters having rights to shared common grazings.

**Q.68. Regarding the crofting programmes, such as New Entrants to Crofting (North West Sutherland) Scheme, Ross and Cromarty Croft Entrants Scheme and Shetland Croft Entrant Scheme, would you please explain what percent or amount of aid is given to each recipient? (pp. 781-784)**

A. As regards the New Entrants scheme, a management premium is paid, calculated on the final approval cost of a plan acceptable to the authority paying the aid. This is worth 35 per cent of the net cost of the plan, i.e. once all other assistance has been deducted \*. The maximum payable to a new entrant is £3,000. New entrants may also qualify for the usual range of grants and loans available to crofters.

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