

WORLD TRADE ORGANIZATION

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Committee on Subsidies
and Countervailing Measures

SUBSIDIES

Replies to Questions from the United States¹ Regarding the Updating Notification of the European Community²

The following communication, dated 20 October 1998, has been received from the Permanent Delegation of the European Commission.

Austria

Q.1. Regarding the Guarantees by FGG (Co-Financing Facility) programme, please explain what types of projects are financed by the programme and what financing method is used. Also, please explain what types of guarantees are given and provide a more detailed explanation of what types of companies are eligible. (p. 55)

A.1 Eligible are projects of Austrian companies launching an investment project in line with the companies' strategic objectives, which are also financed by international finance institutions or community initiatives of the European Union with similar objectives. The project can consist of the acquisition of a substantial stake (including capital increases) in foreign companies or the provision of shareholder funds.

Guarantees are not provided for investments in the agricultural, forestry, real estate and insurance sectors. The East-West-Fund-Guarantees under the terms of this guideline are primarily intended for equity investments in countries in transition to a market economy and developing countries where financing is provided by the institutions mentioned above.

A co-financing guarantee for equity investment can be provided up to a maximum of 50 per cent of total acquisition costs. In case the guarantee is called upon, East-West-Funds against payment acquires the guaranteed part of the equity. So the guarantee's economic effect is similar to a risk-bearing equity investment by the other financing institutions.

Q.2. Concerning the Innovation and Technology Fund, what are the stipulations that determine the per cent of the project costs that can be covered by the grant, and what industrial firms are eligible for this assistance. (p. 57).

¹G/SCM/Q2/EEC/15.

²G/SCM/N/25/EEC.

A.2. In principle, the amount of the subsidy depends on the degree of innovation, the risk level for research and development, the strategic and economic significance of the project and additional criteria (e.g. cooperation of several firms or firms and universities).

The per cent of the project costs that can be covered by the grants depends on the R&D-stage:

basic industrial research:	max. 50%
applied research and development:	max. 25%
technology transfer:	max. 50%
feasibility studies:	max. 25%, max 50% for SMEs

A bonus of 10 per cent may be provided to SMEs, discriminated areas according to Art. 92 para. 3a of the EU-Treaty, and projects in combination with the EU-framework-programmes. A bonus of 5 per cent may be provided to discriminated areas according to Art. 92 para. 3c of the EU-Treaty.

All types of industrial firms with plants or research site in Austria, which are not publicly owned, are eligible for assistance.

Q.3. That Aid Scheme Under the Business Structure Improvement Act 1969, Regional Component provides aid for business structure improvement of SMEs. In this and other funds, please explain the basis by which you define small- and medium-sized enterprises. (p. 64)

A.3. The definition of SMEs is based on the Commission's note, published in the Official Journal of the European Union No. C 68 of 6 March 1996, as well as on a recommendation of the Commission, Official Journal No. L 107 of 30 April 1996, page 4, to adjust the SME definition to the Community framework for national aid to small and medium-sized enterprises.

Q.4. Your notification of the District Heating Promotion Scheme details aid for district heating projects and their supply systems. Please explain the form of the aid given under this programme. (p. 65)

A.4. The aid given by the Federal Government together with the Regional Governments to promote district heating systems under the District Heating Promotion Act of 1982, as amended, **terminated end of December 1993**. That is why due to the budgetary situation investment grants could be provided until the end of 1996 only for projects which had started **before** 31 December 1993. Interest subsidies were granted until the end of 1998 for projects with aid commitments until 1988. These interest subsidies (with a declining tendency due to repayments) for projects approved until 1988 will finally terminate at the end of 1998.

Q.5. It is stated in your notification that the Innovation and Technology Fund (ITF) - ERP provides assistance to increase the technological efficiency of innovation by supporting projects in the fields of research, development and technology transfer. What is the form of the assistance, what per cent of the project is covered by the aid, and are there any stipulations on how the funds may be spent? (p. 71).

A.5. Theoretically, assistance may take the form of grants, low-interest loans and interest subsidies; in fact, however, only grants are provided.

Concerning the question about the per cent of the project, we refer to question number 2.

The funds may only be spent on R&D-activities within the framework of concerted actions.

Q.6. Please provide a further description for the following programmes, including type of aid, recipient, amount of assistance, and duration.

- Guidelines on the Provision of Non-Repayable Grants (p. 85)
- Research and Development (p.86)
- Staff Quarters (p. 87)
- Participation Scheme within the Framework of the Concept for the Development and Improvement of Carinthian Wintersports Facilities as well as Participation in Other Tourism Facilities (p. 89)
- BABEG Participation Scheme (p. 90)
- ERP-Enhancement Programme of Lower Austria (p. 90)
- Special Tourism Cases (p. 91)
- Lower Austrian Participation Model - Participation in the Tourism Industry (p. 92)
- Pro Tourism Programme (p. 92)
- State Aid for Operational Innovations in Salzburg (p. 105)
- State Aid for the Facilitation of Financing Industrial Property for the Establishment of Enterprises as well as the Foundation of Innovation and Technology Centres (p. 106)
- Fund for the Improvement of the Economic Structure of Salzburg (p. 104)
- State Aid Programme for the Settlement of New Enterprises and the Expansion of Existing Enterprises (p. 108)

A.6. Objectives and reasons for granting aid

- * strengthening/improving the economic structure of the Burgenland (industry and trade, tourism)
- * strengthening the region's internal forces, in particular by promoting existing enterprises and supporting the establishment of enterprises (new enterprises, expansion of existing enterprises and settlement of companies).

Research and Development (p. 86)

Type of aid: Non-repayable grant

Recipients: Recipients can be natural or non-natural persons who have already been granted aid in the form of non-repayable grants or loans on the basis of an existing aid agreement within the framework of an EU approved aid programme by the Research Promotion Fund for Industry and Trade (FFF), the Innovation and Technology Fund (ITF) or another aid facility of the federal government or the EU, on the condition that the project must be carried out in Carinthia.

Amount of assistance: The Carinthian Economic Aid Fund (KWF) grants - in due consideration of the cumulation regulations of EU assistance law - a non-repayable grant of up to 20 per cent of the aid basis recognized by the FFF, ITF or another aid facility of the federal government or the EU. Aid is limited to ATS 5 million per recipient per calendar year.

Duration: As regards control, information, termination and repayment of aid, the applicant must assume the same obligations vis-à-vis the KWF as vis-à-vis the FFF (or the ITF or other aid facilities of the federal government or the EU).

This focus programme will end on 31 December 1999.

Staff Quarters (p.87)

Type of aid: Non-repayable grant

Recipients: Recipient can be natural or non-natural persons who are members of the Carinthian Chamber of Industry and Trade if their activity to be assisted is located in Carinthia, they have at least three non-family employees in their hotel which needs to be open 160 days per calendar year. (Thus, the recipients must be the employers of those who will use the quarters).

Recipients must be or become the owners of the property concerned or must prove their building right. The enterprise to be assisted must mainly be owned by Austrians.

The existence of a need for staff quarters must be corroborated by a statement by the respective local authorities and the Economic Chamber.

Amount of assistance: Assistance consists of a one-time non-repayable grant of 20 per cent of eligible costs.

Duration: The recipient and the successors in title, if any, are obligated to rent the KWF-assisted staff quarters to non-family employees for the duration of 10 years after payment of assistance on the basis of the tenancy agreement specimen which is part of these guidelines.

This impulse programme terminated on 31 December 1996.

Participation Scheme..for ...Carinthian Wintersport Facilities...(P.86)

Type of aid: Participation shares

Recipients: Ski lifts, cable cars and to a limited extent other tourism services

Amount of aid and duration: aid committed 1996 ATS 48.3 mio, 1997 none; the scheme will terminate by the end of 1998

BEBAG Participation Scheme (p. 90)

Type of aid: Temporary dormant equity holding

Recipients: Carinthian small and medium-sized enterprises of the industry, the producing sector and the industry-related services sector, which are future-oriented, capable of expansion, profitable and efficiently operated. Dormant equity holding is not used for consolidating moribund and needy companies.

Amount of assistance: The amount depends on the financing need of the enterprise and ranges between ATS 0.5 million and ATS 10 million.

The holding limit is determined by the company's equity capital as it does not, as a rule, amount to more than 50 per cent of the equity capital available prior to BABEG involvement. However, BABEG is prepared to participate in later capital increases.

Duration: Maximum duration is 10 years.

This guideline was in force until 31 December 1996.

Pro Tourism Programme (p.91)

Objective

Raising the attractiveness of tourist enterprises by

- * increasing the number of beds
- * improving accommodation quality
- * improving the structure of leisure time facilities and/or creating recreational facilities in **existing** enterprises.

Recipients: Recipients can be physical and juridical persons (but no territorial entities) as well as partnerships under civil and commercial law which have a pertinent trading license or another requisite licence by an authority or that exercise appropriate subsidiary rights.

In the case of leased enterprises, the lessee carrying on the trade or, depending on the terms of the lease, the lessor may apply for aid.

Type and amount of assistance: Non-repayable grant amounting to 10 per cent of eligible investment costs.

Duration: The assistance scheme ended on 31 December 1996.

ERP Enhancement Programme of Lower Austria (p. 90)

Objective

- * improving the quality and diversity of tourism activities in Lower Austria
- * improving the competitiveness
- * developing the tourist infrastructure
- * promoting active sport and adventure holidays.

Recipients: Recipients can be physical and juridical persons (but no territorial entities) as well as partnerships under civil and commercial law which have a pertinent trading license or another requisite licence by an authority or that exercise appropriate subsidiary rights.

In the case of leased enterprises, the lessee carrying on the trade or, depending on the terms of the lease, the lessor may apply for aid.

Type and amount of assistance: For the first two years, the Regional Government pays the interest for the enterprise, from the third year onward until termination of the ERP loan or the ERP substitute loan, the subsidized interest rate applies in accordance with the guideline.

Duration: The assistance scheme ended on 31 December 1996.

Special cases in tourism (p. 91)

Objective

- * Assistance for communities

Recipients may be communities that want to invest in the improvement and expansion of their tourist facilities in order to enhance their competitiveness. Condition: the tourist facilities must be open to the public.

* Assistance for investors

Physical, juridical persons and partnerships under civil and commercial law having a pertinent trading license or certificate, that create publicly accessible tourist facilities.

Type and amount of assistance: Interest subsidy of 5 per cent as a rule. Condition: bank credit interest rate must not be more than 0.5 per cent above normal interest rate of latest federal bond issued in Austria (with 10 year minimum duration).

Duration: The assistance scheme ended on 31 December 1996.

Lower Austrian Participation Model (p. 92)

Objective

Provision of low-cost risk participating capital to enable and/or facilitate financing projects in the following areas:

- * setting up new enterprises or taking over existing ones
- * structural adjustment measures
- * providing an independent and distinct range of services
- * optimizing enterprise size
- * setting up a season-extending leisure facility infrastructure

Recipients: Tourist enterprises that are incapable of issuing securities, which have or want to set up headquarters or an operating facility.

Type and amount of assistance: The Lower Austrian Equity Investment Company Ltd. (NÖBEG) participates as a genuine dormant partner in the applicant company.

Investment is limited to 20 per cent of recognized overall investment costs, but not more than ATS 10 million, and must amount to a minimum of ATS 1 million.

In the case of take-overs and reconstruction, investment has a maximum term of 12 years, in the case of new constructions a maximum term of 15 years. As a rule, participation decreases from year 4 onward.

As from year 4, an annual fixed amount of the outstanding investment capital is charged. This fixed amount is defined when the investment contract is concluded and amounts to 5 per cent. Under certain conditions, additional profit-related extra payments exceeding this level may be charged. Within the first three years, the Regional Government takes over this fixed amount entirely .

Duration: Without any time limit.

The Fund for the Improvement of the Economic Structure of Salzburg (p.104)

Type and amount of assistance: Assistance is provided according to priorities, each of the priorities being defined after a thorough review by the Fund's Commission.

Assistance consists of non-repayable grants.

For the various costs (investment, staff, research and development, basic and further training, on-the-job training, acquisition of licences and patents, expert counselling, etc.), a percentage or an amount of maximum assistance must be fixed in the respective priority assistance scheme,

In each case, eligible project costs are the basis for determining the amount of assistance. Overall project assistance from public assistance funds (present values) may amount to a maximum of 50 per cent of eligible project costs.

Recipients: Recipients may only be entrepreneurs who are members of the Salzburg Economic Chamber's divisions for trade, industry, commerce and transport, and who have the requisite trading licence and for whom the pertinent priority assistance scheme has been devised.

Duration: Priority assistance schemes are limited to a maximum of 2 years.

State Aid for Operational Innovations in Salzburg (p.105)

Type and amount of aid: Aid may be provided by:

- (a) increasing the aid granted by the Research Promotion Fund by up to 30 per cent
- (b) increasing the loans granted by the Research Promotion Fund by up to 20 per cent with an annual interest rate of 5 per cent, or
- (c) paying part of the interest (4 per cent) for bank loans of a maximum of ATS 500,000 over a period of 5 years
- (d) increasing interest subsidies granted by the Federal Ministry of Science and Research within the framework of the innovative investment promotion scheme by 1 per cent.
- (e) granting aid to a maximum of ATS 100,000 in special cases of innovation promotion.

Recipients

Aid is granted to

- (a) companies with an operational facility in Salzburg, that are members of the Salzburg Economic Chamber and meet the conditions required under trade law and which carry out the projects submitted for aid in the operational facility in Salzburg
- (b) individual researchers and private research groups that have their permanent residence in Salzburg.

Duration

This aid scheme was adopted by decision of the Salzburg Regional Government on 24 March 1980, and has no time limit.

State aid for the Facilitation of Financing Industrial Property for the Establishment of Enterprises as well as the Foundation of Innovation and Technology Centers (p.106)

Type and amount of aid: Interest subsidies up to a maximum of 4% per year, duration 5 years, for a credit value of ATS 5 million maximum.

Recipients: Trade/industrial enterprises and operators/builders of innovation and technology centres.

Duration: There is no time limit.

State Aid Programme for the Settlement of New Enterprises and the Expansion of Existing Enterprises (p.108)

Period covered: 1 January 1993 to 30 June 1997

Policy objective and purpose (further description): This state aid programme is to support investments by enterprises in the regions concerned with in the framework of an active settlement policy for new enterprises and an active expansion policy of existing enterprises.

The aim is to strengthen the economic growth and power of these regions. The minimum investment volume must be a ATS 120 million, and the projects should be located in the areas of investments, measures for innovation, research and development (RTD) and with this areas combined measures for marketing and qualification.

Types of aid: Lost subsidies, grants, loans and guarantees

Recipients: Enterprises in the of industrial and commercial sectors, industry-related services.

Amount of assistance: Maximum figures are not available. The maximum gross cash grant equivalent is 33 per cent, 15 per cent and 25 per cent for the specified regions.

The budget is ATS 75 million for one year.

For 1996, commitments amounted to ATS 120 million and actual payments for new and current projects to ATS 8.7 million.

In 1996, total eligible investment of the biggest project was ATS 2.1 billion. Committed expenditure was ATS 120 million.

Q.7. Several programmes, including the Scheme to Promote the Establishment of Enterprises and the Job Premium in Assisted Areas No. 1, describe the policy objective as "support of investments". Please explain this phrase in further detail. (pp. 97, 99). Also, in your description of the Lower Austrian Credit Guarantee, you describe the programme policy as "support of investments and equipment media of firms". Please explain what is meant by the latter term. (p. 93)

A.7. "Support of investments" means, that the aid granted is directly linked to investment with the general aim of stimulating investment in a certain field or sector of the economy. To achieve these specific goals, the investment has to meet a number of additional conditions to be eligible for aid under a specific programme.

The term "equipment media" in the description of Lower Austrian Credit Guarantee Scheme means that under this programme aid may also be granted to finance the acquisition of floating assets.
