
Policy on State Aid and Accounting Separation

State Aid Policy

 The Irish Agriculture and Food Development Authority		
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Approvals

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1 Introduction

As a Research Performing Organisation (RPO), Teagasc is required to comply with the relevant provisions of the European Commission's Framework for State aid for Research, Development, and Innovation (RDI) ("EC Framework") as laid out in Article 107(1) of the Treaty on the Functioning of the European Union¹; as clarified in the Commission Notice on the notion of State aid as referred to in Article 107(1) of the Treaty on the Functioning of the European Union C/2016/2946² and as further clarified in Communication from the Commission Framework for State aid for research and development and innovation 2022/C 414/01³.

2 Purpose

The purpose of this policy is to ensure that State aid granted to Teagasc by the Irish government complies with European Union (EU) rules regarding the separation of economic and non-economic activities. This is to prevent the distortion of competition and trade within the EU by ensuring that public funds are used appropriately and do not provide unfair advantages to entities engaged in economic activities.

3 Policy Objectives

The objective of this policy is to ensure clear delineation between economic and non-economic activities, to prevent cross-subsidisation between economic and non-economic activities and to ensure compliance with EU State aid rules, particularly regarding transparency and the avoidance of distortion of competition.

4 Definitions

State Aid: A Commission decision⁴ noted that a measure constitutes state aid if the following four cumulative conditions are met:

- (a) The measure confers a selective economic advantage upon an undertaking.
- (b) The measure is imputable to the State and financed through state resources.
- (c) The measure distorts or threatens to distort competition.
- (d) The measure has the potential to affect trade between Member States.

Economic Activities: Any activity consisting in offering goods or services on a market is an economic activity. Note that the application of the State aid rules does not depend on whether the entity is set up to generate profits. Non-profit entities can also offer goods and services on a market.²

Non-Economic Activities: Activities that do not involve offering goods or services on a market.

Note that according to Communication from the Commission Framework for State aid for research and development and innovation 2022/C 414/01³, the Commission considers that the following activities are generally of a non-economic character:

- (a) primary activities of research organisations and research infrastructures, in particular:
 - (i) education for more and better skilled human resources..... public education organised within the national educational system, predominantly or entirely funded by the State and supervised by the State is considered as a non-economic activity;
 - (ii) independent R&D for more knowledge and better understanding, including collaborative R&D where the research organisation or research infrastructure engages

¹ https://eur-lex.europa.eu/eli/treaty/tfeu_2008/art_107/oj/eng?

² [https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52016XC0719\(05\)](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52016XC0719(05))

³ https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=oj%3AJOC_2022_414_R_0001

⁴ https://eur-lex.europa.eu/legal-content/EN/TXT/?toc=OJ%3AL%3A2015%3A089%3AFULL&uri=uriserv%3AOJ.L_.2015.089.01.0037.01.ENG

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in effective collaboration (provision of R&D services and R&D carried out on behalf of undertakings are not considered as independent R&D);

- (iii) wide dissemination of research results on a non-exclusive and non-discriminatory basis, for example through teaching, open-access databases, open publications or open software;
- (b) knowledge transfer activities, where they are conducted either by the research organisation or research infrastructure (including their departments or subsidiaries) or jointly with, or on behalf of other such entities, and where all profits from those activities are reinvested in the primary activities of the research organisation or research infrastructure. The non-economic nature of those activities is not prejudiced by contracting the provision of corresponding services to third parties by way of open tenders.

This communication further clarifies:

Where a research organisation or research infrastructure is used for both economic and non-economic activities, public funding falls under State aid rules only insofar as it covers costs linked to the economic activities. Where the research organisation or research infrastructure is used almost exclusively for a non-economic activity, its funding may fall outside State aid rules in its entirety, provided that the economic use remains purely ancillary, that is to say corresponds to an activity which is directly related to and necessary for the operation of the research organisation or research infrastructure or intrinsically linked to its main non-economic use, and which is limited in scope. For the purposes of this framework, the Commission will consider this to be the case where the economic activities consume exactly the same inputs (such as material, equipment, labour and fixed capital) as the non-economic activities and the capacity allocated each year to such economic activities does not exceed 20 % of the relevant entity's overall annual capacity.

Effective collaboration: means collaboration between at least two independent parties to exchange knowledge or technology, or to achieve a common objective based on the division of labour where the parties jointly define the scope of the collaborative project, contribute to its implementation and share its risks, as well as its results. One or several parties may bear the full costs of the project and thus relieve other parties of its financial risks. Contract research and provision of research services are not considered forms of collaboration.

5 Compliance

Teagasc is responsible for ensuring compliance and must provide a declaration of that compliance to research funding agencies. Teagasc will limit economic activity to a maximum of 20% of its overall annual capacity. Where Teagasc is in receipt of State aid, the funding agency may conduct regular audits to verify compliance with the separation of economic and non-economic activities. This audit may examine financial records, cost allocation methodologies, and the overall functioning of Teagasc to ensure that State aid is not used to support economic activities.

6 Periodic Review

This policy will be reviewed every 2 years to ensure it remains aligned with EU State aid regulations and addresses any emerging challenges or changes in the regulatory environment.

7 Approval and Modification of this Policy

Any modification to the State Aid Policy shall be approved by the Teagasc Authority.

8 Separation of Economic & Non-Economic Activities

8.1 Functional Separation

Teagasc performs both economic and non-economic activities and therefore maintains separate functional operations for these activities. This includes separate accounting

records and management of activities, to ensure that economic activities do not benefit from State aid intended for non-economic activities. This is achieved in the financial system by maintaining separate project codes which are then tagged as either economic or non-economic.

8.2 Identification of Economic Activities

Teagasc shall on commencement of a new project or activity, create a new project code. The setup process shall include the recording of the activity as either economic or non-economic. All project set-ups are reviewed and approved by a committee including Finance, Research and Knowledge Transfer management.

8.3 No Cross Subsidisation

Any new and existing projects / activities which are classified as economic shall not be subsidised by non-economic activities or State Grant. Teagasc will enforce this principle by:

- (i) All new economic activities will be fully costed and priced in accordance with the policy on “Pricing and Management of Industry Funded Research Projects”. The principals of this policy will apply to all relevant activities (not just research projects) so that sufficient Overheads and Margin are applied when pricing any new activity.
- (ii) Income and expenditure of all activities or where appropriate, groups of activities, will be reviewed on an annual basis to ensure no cross-subsidisation exists. This will include the allocation of indirect costs so that a full cost view of a project can be obtained.

8.4 Licence & Royalty Income

Teagasc policy on the management and commercialisation of IP Rights is set out in the Teagasc IP Policy. Furthermore, Teagasc operates in accordance with Ireland’s National IP Protocol (KTI National IP Protocol - Knowledge Transfer Ireland).

As per section 8.3 above there can be no cross subsidisation of economic activities from non-economic activities. Surpluses from Licence and Royalty income shall be used to support Teagasc’s core non-economic activities and will not be used for any economic activity.

8.5 Hosting of Companies

As per section 8.3 above there shall be no cross subsidisation of economic activities from non-economic activities. When hosting any entity, Teagasc will consider all applications equitably and fairly and without conferring any advantage on one entity over another. Such criteria will be transparent and non-discriminatory and applied uniformly and consistently. Furthermore, the price charged to hosted entities shall correspond to a market price, or in the absence of a market price, full cost and margin or a price resulting from arm’s length negotiations.

8.6 Schedule of Economic & Non-Economic Activities

Appendix B sets out Teagasc’s main activities and a determination as to whether they constitute economic or non-economic activities.

8.7 Cost Allocation

Where the activity takes place in Teagasc clear and transparent methods for allocating costs between economic and non-economic activities should be established. The allocation should be based on objective criteria such as time spent, resources used, and

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personnel involved in each activity. Cross-subsidisation of economic activities by non-economic activities is strictly prohibited.

8.8 Overheads

Teagasc will on an annual basis, calculate an overhead rate to be applied to relevant economic activities to ensure that those activities bear the full economic cost. The methodology used to calculate the overhead rate(s) in addition to the rate(s) applicable for the following year will be included in an Appendix to this Policy.

8.9 Reporting

Teagasc will on an annual basis, based on its draft Financial Statements, available in January following the year end, prepare an analysis of its accounts into economic and non-economic activities and provide this to the Finance and Operations Committee of the Authority.

Appendix A - Overheads

1. Overhead Calculation Methodology

- Identify Department, Enterprise, Directorate Management and Operations Costs, to compute total Overheads.
- Express this as a percentage of Pay and Human Resource costs (Permanent Pay, Contract Pay and Walsh Scholar costs).
- To allow for certain projects having different resource weightings and in accordance with normal overhead conventions adjust this percentage to express it as a percent of Project Pay costs and Non-Pay Direct costs.

This Overhead rate is to be used in (a) pricing of economic activities and (b) allocation of costs at a high level to economic activities.

2. Overhead Rate

The rate of **55%** is to be applied to all economic activities from the period commencing 1st January 2026.

Appendix B - Schedule of Economic & Non-Economic Activities

Economic Activities

- Contract Research
- Consultancy, Analysis, Product Development
- Rental Income
- Vocational Training
- Joint Programmes
- ACREs, TAMS, Derogation, NMPs etc
- Soils Sampling and Analysis
- Farming

Non-Economic

- Core Advisory Services
- Education
- Grant Aid funded Research Projects
- Collaborative Research Projects
- Licencing & Royalty Income