

# Framework on State aid to shipbuilding

OJ C 317 30.12.2003

# Framework on State aid to shipbuilding

- Specific regime for shipbuilding since 1970s
- Why still some sector-specific rules?
- Clear policy to gradually abolish sector-specific rules, the Framework attempts to do so to the largest extent possible
- ECOM recognised factors:
  - over-capacity
  - features of the industry: short production series, prototypes used commercially
  - trade distortions in the world shipbuilding market and the difficulty to apply the international trade instruments in the sector
  - specific OECD regime (export credits, development aid)

# Framework on State aid to Shipbuilding

- Temporary scope: 1 January 2004 until 31 December 2006
- Material scope: aid to any shipyard or related entity, shipowner or third party, granted directly or indirectly for building, repair or conversion of self-propelled seagoing commercial vessels (defined in the Framework)

# Framework on State aid to shipbuilding

- **Guiding principle:** horizontal State aid rules apply unless otherwise provided in the Framework
- Previous Regulation had a logic of a genuine sector-specific instrument: aid was compatible only if allowed by the Regulation (e.g. specific provisions on R&R aid)

# Framework on State aid to shipbuilding

- Specificities of the State aid control in the shipbuilding sector are the following:
  - Some rules are **stricter** than horizontal rules: regional aid
  - Some **procedural requirements** differ from the horizontal rules: employment aid, monitoring obligation
  - Some rules are more **permissive** and sector-specific: innovation aid, closure aid

# Framework on State aid to shipbuilding

Most used horizontal rules

The background is a solid blue color with several faint, concentric circular patterns in a lighter shade of blue, resembling ripples in water, scattered across the lower half of the slide.

# Framework on State aid to shipbuilding

- Horizontal provisions most used in practice:
  - Community Guidelines on State aid for rescuing and restructuring firms in difficulty (OJ C 244, 1.10.2004)
  - Commission notice on the application of Articles 87 and 88 of the EC Treaty to State aid in the form of guarantees (OJ C 71, 11.3.2000)
  - Community framework for State aid for research and development (OJ C 45, 17.2.1996)

# Framework on State aid to shipbuilding

Innovation aid

The background is a solid blue color. In the lower half, there are several decorative elements consisting of concentric circles, resembling ripples in water. These circles are centered at various points and vary in size and opacity, creating a subtle pattern.



# Framework on State aid to shipbuilding

- reason for sector-specific innovation aid: difficult application of R&D rules to the sector
  - short production series, size, value and complexity of the products, prototypes usually used commercially (not possible under R&D)

# Framework on State aid to shipbuilding

- Innovation = industrial application of products and processes the implementation of which carries a risk of technological or industrial failure, and which are technologically new or represent a substantial improvement over the state of the art in the shipbuilding industry within the European Community

# Framework on State aid to shipbuilding

- limited eligible expenditure (investments; design, engineering and testing activities – directly and exclusively related to the innovative part of the project; production costs strictly necessary to validate the technological innovation)
- maximum aid intensity: 20%

# Framework on State aid to shipbuilding

- 3 schemes approved so far:
  - Germany (N 452/2004, decision of 16/2/2005, OJ C 235, 23/9/2005)
  - France (N 429/2004, decision of 16/3/2005, OJ C 256, 15/10/2005)
  - Spain (N 423/2004, decision of 16/3/2005, OJ C 250, 8/10/2005)
- these schemes have a similar structure with regards to the eligibility of the beneficiaries and projects, eligible costs and procedural requirements (e.g. the innovative project is assessed by an independent expert competent in the area of shipbuilding)

# Framework on State aid to shipbuilding

Closure aid

The background is a solid blue color. In the lower half, there are several decorative elements consisting of concentric circles, resembling ripples in water. These circles are in various shades of blue and are positioned in the bottom right and bottom center areas of the slide.

# Framework on State aid to shipbuilding

- related to the concern of over-capacity in the sector
- designed to address social problems due to closures
- support of normal costs resulting from closures:
  - redundancy payments, counselling services, vocational training, redevelopment of the yard's facilities for use other than shipbuilding
- if total closure, under certain conditions:
  - aid for working capital to complete unfinished works
- both total and partial closure can be supported, at least for 10 years

# Framework on State aid to shipbuilding

Employment aid

The background is a solid blue color. In the lower half, there are several decorative elements consisting of concentric circles of varying sizes and opacities, creating a ripple effect. These circles are centered at different points, with one prominent one near the bottom center and others scattered towards the right and bottom edges.

# Framework on State aid to shipbuilding

- horizontal rules apply: Commission Regulation (EC) No 2204/2002 of 12 December 2002 on the application of Articles 87 and 88 of the EC Treaty to State aid for employment (OJ L 337, 13.12.2002) - *Employment BER*
- BUT notification is necessary



# Framework on State aid to shipbuilding

Regional aid

The background is a solid blue color. In the lower half, there are several decorative elements consisting of concentric circles, resembling ripples in water. These circles are in various shades of blue and are positioned in the bottom right and bottom center areas of the slide.

# Framework on State aid to shipbuilding

- stricter than horizontal rules: Regional aid guidelines, OJ C 74, 10.3.1998
- limited eligible project: only investment in **upgrading** and **modernising** EXISTING yards, with the objective of improving the productivity
- limited aid intensity: 12.5% in 87(3)c) regions and 22.5% in 87(3)a) regions or the applicable regional aid ceiling, whichever is lower

# Framework on State aid to shipbuilding

Export credits and development  
aid



# Framework on State aid to shipbuilding

- Framework refers to existing OECD rules applicable to these forms of aid
- OECD Arrangement on Guidelines for Officially Supported Export Credits and its Sector Understanding on Export Credits for Ships in the version applicable at the time of the assessment
- only end-financing is covered by the OECD Arrangement, i.e. risk-coverage on the side of shipowners and only where export is present

# Framework on State aid to shipbuilding

## Export credits

- several schemes on CIRR financing (interest compensation to banks that finance the purchase of a vessel) approved by the Commission
  - N 591/02 Aid to Shipbuilding CIRR Finland, OJ C 221, 17/09/2003)
  - N 811a/02 Spanish CIRR ship financing scheme, OJ C 115, 30/04/2004
  - N 286/03 CIRR ship financing scheme for the export of ships Denmark, OJ C 313, 23/12/2003
  - N 20/04 CIRR Ship financing Germany, OJ C 133, 31/05/2005
- other instrument used: end-financing (post-delivery) guarantees

# Framework on State aid to shipbuilding

## Development aid

- aid for building or conversion of a vessels as part of development assistance to a developing country
- OECD rules apply
- development content is verified
- open tender for the offer for assistance

# State aid to shipbuilding

Final remarks



# State aid to shipbuilding

## Operating aid

- contract-related **operating aid** was abolished as of 1 January 2001 by Council Regulation 1540/98
- some residual application: extension of the three-year delivery limit for ships for which operating aid was granted



# State aid to shipbuilding

- TDM Regulation (Council Regulation 1177/2002 of 27 June 2002 as amended by Council Regulation 502/2004 of 11 March 2004) expired on 31 March 2005
- no longer a legal basis for contract-related operating aid
  - container ships, product tankers, chemical tankers, LNG carriers; 6%; competitive bid from a Korean yard offering a lower price
  - mixed trade and State aid instrument, following the failure of South Korea to implement the so-called Agreed minutes relating to world shipbuilding

# State aid to shipbuilding

## Production guarantees

- ship-financing production **guarantees** often used in the sector (whether in support of production loans to the yards or of advanced payments by the owners) have to comply with the Notice on guarantees, have to be free of aid
- in particular, firms in difficulty are excluded from eligibility
- applied by the Commission on three occasions:
  - N 512/03 German ship financing guarantee schemes, OJ C 62, 11/03/2004
  - C 28/03 Guarantees for ship financing Italy
  - N 253/05 Guarantee schemes for ship financing Netherlands