Innovation aid to the shipbuilding industry

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1. Introduction

In 2003, the LeaderSHIP (1) initiative was established to address questions of competitiveness for EU shipyards in the areas of trade, research and innovation, financing, maritime safety, naval shipbuilding, intellectual property rights, skills and industry structure. The initiative shows the way forward for the EU shipbuilding sector, in order to ensure technological leadership, to strengthen customer focus and to facilitate the move to more knowledge-based products, services and production methods.

Taking into account the basic issues of European industrial policy, the European Commission has in its 'Framework on state aid to shipbuilding' (2) set out the conditions, under which it will consider aid to the shipbuilding industry, including aid for innovation, compatible with the common market. The objective of the framework is to encourage greater efficiency and competitiveness of European Community shipyards, in particular through the promotion of innovation.

Certain features make shipbuilding unique and distinguish it from other industries such as short production series, the size, value and complexity of the units produced as well as the fact that prototypes are generally used commercially. Consequently the Commission regards the shipbuilding sector as eligible for innovation aid.

The Framework aims at improving support to innovation, by taking into account notably the difficulties of applying previous provisions on innovation aid in the shipbuilding sector. While aiming at providing effective support, innovation aid must not lead to any distortion of competition in the Common Market. The procedure must be transparent and allow for sufficient monitoring, while limiting the administrative burden to the minimum necessary.

Recently the Commission approved schemes for innovation aid to shipbuilding for Germany, France and Spain. The schemes follow a similar structure concerning their requirements for the procedures to be respected and the eligibility of the beneficiaries.

2. Common criteria for eligibility and procedures

Innovation aid may, if in accordance with the conditions set out in the Framework for state aid to shipbuilding, be granted to shipbuilding companies, ship repair companies, and ship conversion companies. Eligible applications are innovative products and processes, which are technologically new, or substantially improved products and processes when compared to the state of the art that exists in the shipbuilding industry within the European Community. The implementation of the innovative product or process must carry a risk of technological or industrial failure.

Type of applications

In the schemes, three different types of applications are eligible for innovation aid: Innovation aid may be granted for the development and design of a new class of vessel as defined by the first vessel of a potential series of ships (prototype). The three Member States intend to grant the aid also for innovative components and systems of a ship, which can be isolated from the vessel as a separate element. Finally new processes for the development and implementation of innovative processes regarding the production, planning, logistics or design may benefit from the aid.

Eligible costs

As a general condition, innovation aid for products and processes must be limited to supporting expenditure on investments, design, engineering and testing activities directly and exclusively related to the innovative part of the project and incurred after the date of application for innovation aid.

Eligible costs include costs of the shipyard as well as costs for the procurement of goods and services from third parties (e.g. system suppliers, turnkey suppliers, subcontractor companies), to such an extent that these goods and services are strictly related to the innovation.

For a new class of vessel design costs (e.g. concept development and design; functional design; costs for studies, testing, mock-ups; the planning of the

implementation of the design; tests and trials of the product) are eligible. A further important cost item are incremental labour and overhead costs for a new class of vessel (learning curve). These are additional production costs that are strictly necessary to validate the technological innovation; they are eligible to the extent they are limited to the minimum necessary amount.

Additional production costs are defined as the labour costs and associated overhead costs according to normal practice in the shipbuilding industry, for a new class of vessel, compared to the production costs of the subsequent vessels of the same series (sister ships). Usually, due to the technical challenges associated with constructing a prototype, production costs of the first vessel normally exceed production costs of the subsequent sister ships (1).

For new components or systems of a ship, design and development costs, costs for the testing of the innovation part, mock-ups, material and equipment and in exceptional cases, the costs of construction and installation of a new component or system are eligible to the extent that they are strictly related to the innovation.

Finally, for new processes eligible for innovation aid, design and development costs, costs for material and equipment, if applicable costs for the testing of the new process and costs for feasibility studies undertaken within 12 months prior to the aid application may be supported.

The maximum aid intensity is 20% of the eligible costs. In case the shipyard includes the costs for the procurement of goods and services of suppliers, these items must not include similar aid elements granted to the suppliers.

All projects exceeding EUR 150 per cgt for a ship or EUR 5 million for new processes have to be notified to the European Commission as ad hoc aid for individual assessment.

Common procedures to follow in Germany, France and Spain

An application for aid under this scheme must be submitted by the beneficiaries to the national authorities prior to the applicant entering into a binding agreement to implement the specific shipbuilding, ship repair or ship conversion project for which innovation aid is sought.

— to the applicant starting to implement a new process in relation to shipbuilding, ship repair or ship conversion for which innovation aid is sought.

The application for innovation aid must include a description of the innovation, both in qualitative and quantitative terms. The national authorities shall seek confirmation from an independent entity that the aid is sought for a project that represents a technologically new or substantially improved product or process compared to the state of the art that exists in the shipbuilding industry within the European Community, and that it falls into one of the above mentioned eligible categories of products and processes (qualitative appraisal).

The national authorities will seek confirmation from an independent, certified and technically competent entity that the aid is sought for a project that represents a technologically new or substantially improved product or process compared to the state of the art that exists in the shipbuilding industry within the European Community. Such independent entity shall furthermore confirm that the eligible costs have been calculated, exclusively, to cover the innovative parts of the relevant project (quantitative appraisal).

Ex-post monitoring

In order to ensure transparency and effective monitoring, the three Member States will provide the European Commission with summary information on each project including the evidence and risk of the innovation and an overview of the eligible costs. Such information should also include a copy of the initial aid application.

3. Specific aspects in Germany, France and Spain

Germany

The German scheme, having a maximal duration of 6 years, provides a budget of nearly EUR 27 million in total for the period of 2005 to 2008. Subject to certain conditions, the beneficiary may have to reimburse the granted innovation aid. Reimbursement should start as soon as the benefit or objective of the aid has been achieved. Such benefit is considered to be achieved if the applicant uses the innovation a second time.

(1) Accordingly, in exceptional, duly justified cases, a maximum of 10% of the labour and overhead costs associated with the construction of a new class of vessel can be considered as eligible costs, if necessary to validate the technical innovation. Labour costs include wages and social costs. A case is considered to be duly justified if the additional production costs, as defined above, are estimated to exceed 3%.
Since the Framework on state aid to shipbuilding is only applicable until 31 December 2006, the Commission may ask for appropriate measures should the Framework be amended.

Applications for the aid should be sent to the Bundesamt für Wirtschaft und Ausfuhrkontrolle (BAFA), which has been appointed by Germany to carry out the administrative task of the scheme. The applications have to be accompanied by a confirmation of an independent expert that the project is eligible for innovation aid. Before the applicant may issue a formal request for the expert's project verification it has to ask for the BAFA's agreement on both the selection of the expert and the expert's task description.

**France**

The French scheme, with an annual budget of EUR 25 million, provides innovation aid in the form of grants and will expire at the latest six years after its approval by the Commission. Like the case for Germany, the Commission may ask for appropriate measures should the relevant Community rules be modified after 31 December 2006.

Applicants shall send their request for innovation aid to the Direction Générale de l'Industrie, des Technologies, de l'Information et des Postes of the Ministère de l’Industrie (DIGITIP), which will take into account the conclusions from an independent, certified and technically competent expert.

Such independent expert shall confirm that the project is eligible for the aid according to the criteria as provided by the scheme. The DIGITIP will carry out an open call for tender to establish a list of competent experts, which will include their qualifications. In particular, the call for tender will focus on the main classification societies for ships. For each project France will select the expert on the basis of its specific qualifications and of the expert's availability as well as in agreement with the applicant for innovation aid.

With regard to Alstom Marine, the shipbuilding branch of Alstom (France), no innovation aid will be granted to Alstom on the basis of the scheme before 7 July 2006 (two years after the Commission's decision on the restructuring of Alstom was taken and in application of this decision).

**Spain**

The scheme will expire on 31 December 2006. Further to innovation aid, it also allows for aid to shipbuilding companies for regional investment, and for research and development (R&D). For all types of aid, the scheme's total budget amounts to approximately EUR 20 million annually for the next two years.

Gernecia Naval, which Spain will charge to carry out the administrative tasks for the projects, will handle applications for the aid.

Spain will not grant such aid to IZAR before the Commission's state aid decisions related to this company have been implemented. Furthermore, no such aid will be granted to the civil activities of the new company Navantia.