



EUROPEAN COMMISSION

Brussels, 7.12.2011  
SEC(2011) 1525

**Executive Summary of the Impact Assessment Report on**

**Draft Framework on State Aid to Shipbuilding**

{C(2011) 9051}  
{SEC(2011) 1524}

## Executive Summary

The Shipbuilding Framework ("the Framework") contains the rules on the basis of which the Commission authorizes State aid to the shipbuilding sector. The Shipbuilding Framework expires on 31 December 2011, and the Commission must decide whether it is necessary to maintain Specific State aid rules for this sector, if so whether the current rules should be amended or if the Framework should simply be allowed to expire in which case the sector would be subject to the common State aid regime.

### 1. Problem definition

Specific State aid rules for shipbuilding have existed since the 1970s and have been progressively aligned with the general rules. The reasons for specific rules were linked to historical reasons as well as to the special features of this sector, in particular that of a global market that is subject to cyclical overcapacity, trade distortions and depressed prices. For several decades the EU shipbuilding industry benefitted from production aid ("operating aid"<sup>1</sup>), in order to make-up for the cost and price-difference between ships produced in the EU and ships sold on the global market. However, experience showed that providing operating aid to counter unfair trading practices by others was not the most-cost effective way of encouraging the European industry to improve its competitiveness. Operating aid to shipbuilding was therefore abolished on 1 January 2001.

However, the current Framework maintains a set of specific rules that derogate from the common rules. Some of these rules are a remnant of past regimes, which until the current Commission Framework, were regulated by the Council. For example, given the cyclical overcapacity problems of the sector, under the Shipbuilding Framework *regional aid* is only allowed for investments that aim to modernise existing installations, whereas for other sectors regional aid can be given for the setting-up of a new establishment. *Closure aid* in turn aims to facilitate the closure of economically non-viable capacity. *Innovation aid* is tailor-made for this industry and aims to cushion the risks of innovative projects; under these rules, aid can be given for the building of ship prototypes that are also the final commercial product, whereas aid for building commercial prototypes is normally not allowed for other industries under the common horizontal rules. Aid for the creation of employment (*employment aid*) must be notified for reasons of transparency in a sensitive sector, whereas notification could be exempted (under now expired rules) for other sectors; *export credits and development aid* reflect the OECD Arrangement on export credits and the "Sector Understanding for Ships" which relate to the conditions under which the ship buyer can obtain financing support from the country producing the ship.

#### Market assessment and the EU shipbuilding industry

The reasons for maintaining or not a specific Framework for this industry must be seen in the context of market developments as well as the experience with the application of the rules. The EU shipbuilding industry has been declining in recent years. The number of companies that produce sea-going commercial vessels, de facto the scope of the Shipbuilding Framework

---

<sup>1</sup> In State aid, operating aid is regarded as the most distortive type of aid. Operating aid simply offsets part of a firms' production costs without enhancing efficiency or pursuing any other legitimate objective (i.e. cohesion, RDI, etc.). By reducing production costs, operating aid directly interferes in the market price by distorting the balance of supply and demand.

has gone down from 172 in 2003 to 52 in 2010. Shipbuilding is today a small sector, accounting for 0.13% of the EU's nominal GDP (2009) and employing about 70 000 workers.<sup>2</sup>

As explained above, the sector has a history of cyclical overcapacity and of trade distortions on the world market. During the last decade the EU shipbuilding industry lost considerable market share, in particular in the standard cargo ship types, due mainly to competition from Asian nations, however, at the same time EU shipyards have increased specialisation and concentrated on more sophisticated ship types.

Under the current Shipbuilding Framework, approximately EUR 268 million were granted as aid to this sector. This amount only represents 0,095% of the total aid given to the manufacturing sector during the same period. It also only accounts for 0.3% of the EU shipbuilding industry's turnover. These small amounts of aid granted under the current Shipbuilding Framework question the need for maintaining a separate Framework for this industry.

On the other hand, shipbuilding has certain features that distinguish it from other sectors. It is generally considered a global market, where EU shipyards compete for orders with shipyards all over the world, often against high subsidies given by non EU nations. There are so far no effective instruments for preventing non-EU nations from subsidising their own industries. The EU industry must therefore continuously innovate in order to remain competitive on the global market. The lack of effective instruments for protection of intellectual property rights is also a fundamental problem. The EU industry must innovate faster than it can be copied in order to stay ahead on the market. Some stakeholders argue that aid should be allowed to EU shipyards to balance unfair competition on the global market. However, this seems to conflict with the fundamental principle of State aid policy which is to maintain a level playing field for all enterprises operating in the internal market.

### *The Product concerned*

The Shipbuilding Framework concerns aid for the building, repair or conversion of "self-propelled seagoing commercial vessels" which means both vessels for the transport of goods and/or passengers, as well as tugs and vessels for the performance of a specialised service (for example, dredgers and ice breakers). This product coverage was inherited from previous State aid regimes and merits to be revised. In particular, the representatives of the EU shipbuilding industry, supported by some Member States, requested the Commission to enlarge the product coverage of the Framework as the industry's product portfolio has diversified in recent years from self propelled sea-going commercial vessels to "*floating and movable offshore structures*" for exploring marine resources. Here the imminent development of off-shore wind energy must be noted. In addition, it was proposed to also include *inland waterway vessels*.

The inclusion of "offshore structures" might increase the risk of distortion among companies in the internal market because offshore structures are produced by shipyards but also by companies that do not produce vessels and which are not covered by the Shipbuilding Framework. On the other hand, the indications received from the industry are that the rationale underpinning sector specific rules, namely overcapacity (for regional aid) and incapacity of using horizontal rules on research development and innovation due to the imperative of product commercialisation (for innovation aid) can also be considered to apply

---

<sup>2</sup> Figures provided by CESA referring to (commercial new buildings, de facto the scope of the Framework) Europe-wide, although employment in the sector has tended to decline. The workforce figure is higher (around 120 000) if we include ship repair and naval shipbuilding.

to these market segments. This may justify the inclusion of offshore structures and inland waterway vessels under the scope of a revised Framework.

#### *New environmental aid to shipyards*

Several stakeholders also asked the Commission to introduce a new form of environmental aid to shipyards to encourage the production of "greener" vessels. They claim that the existing environmental aid guidelines (EAG) are not appropriate for this industry. Under these guidelines aid is allowed to the buyer but not the producer, in order to allow for a choice of the most efficient supplier and thus limit the impact of the aid on competition between suppliers. The environmental aid guidelines have been rarely used in the shipbuilding and shipping sector. However, introducing environmental aid to shipyards would discriminate vis-à-vis other industries and would be contrary to the "polluter-pays" principle under the EAG, where only aid to the ship buyer but not the producer is allowed.

#### *Who is affected?*

The report examines the direct impact of the Framework on shipyards in the EU, who are the direct beneficiaries of the main forms of aid used under the Shipbuilding Framework i.e.; regional aid and innovation aid. However, no distinction could be made among shipyards in different Member States, the aid given under the Framework being relatively spread among Member States.

## **2. Analysis of subsidiarity**

State aid control falls under the exclusive competence of the European Commission, therefore the analysis of subsidiarity is not relevant for the present report.

## **3. Policy objectives**

Against this background the main objective of this review is to determine whether specific rules are still necessary or whether the sector could be subject to the common State aid rules. This review must also be seen in a wider context of the EU's policy objectives for shipbuilding and the EU's general policy objectives for State aid. In this regard, the review of the Shipbuilding Framework should lead to: limiting sector specific rules (including the abolition of rules that are not used) in line with the objectives of coherence and simplification of State aid policy; improving the effectiveness and transparency of State aid rules, in particular as regards aid for the promotion of innovation, while limiting distortions of competition; promoting research, development and innovation in the sector; and promoting cohesion objectives, i.e. the economic development of disadvantaged regions while taking into account the specificities of the sector.

## **4. Policy options**

The main options examined are to prolong the Shipbuilding Framework subject to certain modifications or to simply let the Framework expire. These options are examined against the baseline scenario of simply prolonging the Shipbuilding Framework as it exists now, i.e. without any changes. This report takes the approach that any combination of the specific provisions of the Shipbuilding Framework is possible, as the provisions are not interrelated (i.e. different types of aid concern different eligible costs, they are not mutually exclusive etc.). The report then assesses two different sets of modified rules:

- Option C1, where innovation aid (slightly amended in order to improve the effectiveness of the rules), export credits and regional aid are kept in the Framework. Under this option, it is envisaged to apply the new Framework until 31 December 2012, and to integrate the provisions on regional aid and innovation aid in the respective revised horizontal frameworks, after that date.
- Option C2, on the other hand, reflects essentially the preferences of the EU shipbuilding industry, which mainly consist in keeping the provisions that are more favourable (or neutral) by comparison to the general rules and abolishing the others, i.e. extending the scope of the framework, prolonging innovation aid, closure aid, export credit and development aid, but abolishing stricter regional aid rules and adding specific environmental aid to shipyards for promoting greener vessels.

## 5. Assessment of Impacts

The impacts are particularly relevant as regards the specific provisions on innovation and regional aid. The provision on closure aid was not used under the Framework and the impact of allowing this provision to expire appears to be neutral. Employment aid was also not used and has become obsolete because it was linked to general employment aid provisions that have ceased to apply. The expiry of the provisions on export credits and development aid is also not expected to have a significant impact.

As regards innovation aid, and considering the low levels of innovation aid granted under the Framework between 2004 and 2009 (i.e., 0.29% of the industry's turnover during the same period) it can be assumed that even without aid EU shipyards would continue to innovate because innovation is the only driver that allows market players to remain in the market. Innovation aid can also distort competition in the internal market, in particular in the more specialised market segments that are prevalent in the EU (e.g. cruise vessels).

On the other hand, in the absence of innovation aid some projects backed by this aid would probably not materialise, given the low profitability margins of these projects and the risks involved. Innovation aid is also seen by most stakeholders as an incentive for the EU industry to keep a front runner advantage in the global market, in particular in the light of severe trade distortions that have eroded EU's market share in the traditional market segments (e.g. tankers, bulk carriers, containers vessels). The projects backed by innovation aid also have in several cases positive and environmental impacts (e.g. noise reduction, reduced emissions from engines).

As regards regional aid, the report recalls that the general objective of this aid is to attract investments to the less developed regions of the EU. In the case of shipbuilding, given the problems of overcapacity of the sector, currently aid is only allowed for modernisation investments, whereas for other sectors it is allowed for investments in new establishments. The expiry of the regional aid rules contained in the Shipbuilding Framework (and the consequent switch to the general rules) could promote more investments in the shipbuilding sector and the regions where shipyards are located but could also potentially aggravate overcapacity problems. In any event, it is noted that the horizontal regional aid guidelines will be reviewed in 2013 and that it is envisaged to assess how to integrate shipbuilding in these revised guidelines. Therefore, maintaining the current rules until 2013 can be justified in order to avoid that shipbuilding is subject to various transitions of legal regimes during a short period of time.

As regards the proposal for new environmental aid to shipyards, this aid, if authorised, would have positive impacts for environment and could potentially lead to creating new shipbuilding contracts and thus maintaining employment in the sector. On the other hand, the existing State aid rules, including innovation aid, already partly cover this objective. Such provision would also discriminate with regard to other industries, given that environmental aid for green products is not allowed to the producer but only to the buyer. Finally, there is no evidence that such aid is necessary for the shipbuilding industry, which already benefits from exceptional innovation aid provisions.

There were no significant administrative impacts identified with regard to the options assessed.

## **6. Comparison of options**

Overall, Option C1 increases effectiveness and coherence in this policy area by further aligning the shipbuilding rules towards the general rules while only maintaining specific rules that are necessary to cater for the features of the sector (i.e. innovation aid, regional aid and export credits).