

**E U R O P E A N   E C O N O M I C   A R E A**

**S T A N D I N G   C O M M I T T E E  
O F   T H E   E F T A   S T A T E S**

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Brussels

**WORKING GROUP ON STATE AID**

**Comments by the EFTA Working Group on the proposal for a Council Regulation  
establishing new rules on aid to shipbuilding**

1. The EEA EFTA States have assessed the proposal for a Council Regulation establishing new rules on aid to shipbuilding within the framework of the EEA Agreement. In general, the EEA EFTA States consider that all types of distortive state aid to the shipbuilding industry should be abolished. Indeed, Iceland does not grant operating aid and Norway has unilaterally decided to reduce the applicable aid ceilings for 1998 from 9 to 7 percent for new shipbuilding contracts with a value of 10 mill. ECU or more, and from 4,5 to 3,5 percent for smaller vessels and major conversions. Until now, Norway has applied the same aid ceilings as used in the Community.

2. In light of the above, the EEA EFTA States strongly support the Commission's proposal to remove contract related aid to shipbuilding as of 1 January 2001. Furthermore, these States would be in favour of an earlier removal of this type of aid, should this prove possible. However, instead of maintaining the aid ceilings unchanged until the contract related aid is removed, as proposed by the Commission, the EEA EFTA States consider that it would be better to introduce a gradual reduction of the aid ceilings to provide the shipbuilders with a smoother transition to a situation without such aid. This gradual reduction should be applied as soon as possible after the adoption of the Council Regulation.

3. The EEA EFTA States welcome the fact that the objective of the proposed regulation is to develop a strong and competitive industry rather than simply providing operating aid to the construction and conversion of ships. Nevertheless, the EEA EFTA States consider that the introduction of aid to innovative products and processes makes the proposal inconsistent with the idea of bringing the conditions of the shipbuilding industry more into line with the conditions for other industries. In order to be competitive in the long term, the shipbuilding industry has to take the required innovative actions independent of governmental aid schemes. However, if it is decided to introduce this type of aid, it is important to ensure that it will only be used for genuinely innovative processes and products introduced for the first time in the EEA, i.e. that it will not be used for other purposes by the shipyards.

4. According to the proposal, regional investment aid not contingent upon capacity restrictions, aid for restructuring on a one time/last time basis, including contract related aid and aid for environmental protection will be introduced to the shipbuilding industry. In general, such a wide range of possible state aid schemes may lead to the increased misuse of aid. The suggested applicability of the regional investment aid criteria to the shipbuilding industry is of particular concern due to the overcapacity in the sector and the relatively high level of regional investment aid generally allowed in certain regions. If applied, regional investment aid should be limited to SMEs in assisted areas and the maximum aid ceilings should be reduced.

5. Furthermore, the fact that the above-mentioned types of aid can be granted together with contract related aid during the period in which contract related aid is still allowed, could lead to a temporary increase of the aid intensity to the shipbuilding industry. In the EEA EFTA States' opinion this is not in accordance with the standstill provisions to the Final Act of the OECD Agreement and should, therefore, be reconsidered.

6. Because of the overcapacity in the international shipbuilding market, the Seventh Council Directive on aid to shipbuilding focused on the importance of limiting the shipbuilding capacity. Since this situation is likely to prevail in the near future, the EEA EFTA States find it important to keep the capacity development of the shipbuilding industry under close scrutiny to avoid growth based on state aid schemes. There is a danger of increased capacity both in the short and long term if several different types of aid schemes are made available to the shipbuilding industry.

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