

State aid: Commission prohibits Italian shipbuilding guarantee scheme

After an in-depth investigation, the European Commission has prohibited the implementation of an Italian aid scheme designed to cover the risk of loans for the construction and conversion of ships in Italian yards, because it is incompatible with EC Treaty state aid rules that prohibit aid liable to distort competition within the Single Market (Article 87).

Competition Commissioner Neelie Kroes, said: "I will continue to insist on a strict application of the competition rules in the shipbuilding industry in Europe. The operation of this guarantee scheme would have had a significant negative effect on competing European yards, because it does not impose an adequate premium and does not involve any proper risk differentiation".

In April 2003, the Commission opened a formal state aid investigation (see [IP/03/604](#)) as it had doubts about the compatibility of the scheme with the specific state aid rules for the shipbuilding sector. Despite an intensive dialogue between the Commission services and the Italian authorities, the Commission's initial doubts were not allayed.

In May 2001, the Italian authorities had notified to the Commission the adoption of a Decree implementing the Shipbuilding Guarantee Fund ("the Fund"), already formally established by law in 1997. The Fund – which is not yet operative - is intended to cover the risk of loans for the construction and conversion of ships, granted by banks to Italian and foreign ship owners for works carried out in Italian yards. The Fund was supposed to provide second-priority end-financing guarantees, with a one-off premium set at 2.3% of the guaranteed amount, for 12-year loans, which corresponds to an annual premium of 0.5%.

According to the special rules for shipbuilding, state-granted guarantee schemes can only be implemented if they contain no aid element. General rules on whether a guarantee or a guarantee scheme involves aid are laid down in the Commission Notice on Guarantees¹. The Commission found that the Fund did not meet the conditions provided for in this Notice.

In particular, the premium paid by the beneficiaries was not market conform and insufficient to cover all costs of the scheme. Moreover, the Fund would have charged the same premium to all users, independently of the individual risks of the project.

This is the second time that the Commission has taken a decision on a ship financing scheme. In 2003, the Commission approved German schemes for ship financing guarantees (see [IP/03/1740](#)), since these schemes apply adequate premiums and differentiate premiums by risk.

¹ OJ C 71 of 11.03.2000