## STATE AIDS (SHIPBUILDING): COMMISSION STATEMENT

Subject: "Temporary Defensive Mechanisms"

Industry: Shipbuilding; liquefied natural gas carriers

Source: Commission Statement IP/03/895, dated 25 June 2003

*(Note. State aids are rightly regarded as one of the Commission's bugbears: they distort competition and are generally prohibited under the European Community's state aid rules – except, that is, when they are deemed necessary in the interests of the industry. There is constant pressure on the Commission to make exceptions to the rules on competition: in the bad old days of the 1970s, the Commission even supported what were cynically known as "crisis cartels"; and it appears from press reports that even now the Commission is relaxing its views on airline restrictions, in view of the crisis in the airline industry. The Commissioner for Competition makes the best of a bad job in his statement below; and at least there is a specific time limit in the shipbuilding sector, ostensibly designed to give time for the World Trade Organisation to reach a decision in this field.)*

The Commission has decided to extend the granting of temporary and limited state aids in the shipbuilding sector (so-called temporary defensive mechanism-TDM) to liquefied natural gas carriers (LNGs). The EU Trade Commissioner Pascal Lamy said: "Today's decision offers a temporary relief to European LNG shipyards which are facing serious difficulties, while Korea continues to price ships below cost. I trust the WTO will soon condemn these unfair practices and that Korea will put an end to them." The EU Commissioner for Competition, Mario Monti said: "While State aid is certainly not the way forward to make EU shipbuilding more competitive globally, today's decision does show that the Commission recognises the exceptional circumstances in this case where Community interests are at stake".

This decision takes place after an in-depth investigation in the framework of the Trade Barriers Regulation has confirmed that Korean unfair practices have injured EU shipyards in this sector. Direct aid in support of contracts for the building of LNG carriers will now be authorised in accordance with the provisions of Council Regulation EC/1177/2002 of 27 June 2002 concerning a temporary defensive mechanism for shipbuilding. Since October 2002, such aid is already authorised for containerships and product and chemical tankers.

The principal provisions of the temporary defensive mechanism are the following:

- maximum aid intensity of 6% of contract value;
- scope now covering container ships, product and chemical tankers and Liquefied Natural Gas (LNG) tankers;
- expiry of the Regulation on 31 March 2004 to take account of the time necessary for a WTO panel to reach its conclusions. ■