

Case No: 67278
Event No: 440676
Dec. No: 435/09/COL

EFTA Surveillance Authority Decision
of 30 OCTOBER 2009

to initiate the procedure provided for in Article 1(2) in Part I of Protocol 3 to the Surveillance and Court Agreement with regard to a complaint regarding alleged state aid granted by the Port of Reykjavík to Stáltak hf.

(Iceland)

THE EFTA SURVEILLANCE AUTHORITY¹,

Having regard to the Agreement on the European Economic Area², in particular to Articles 61 to 63 and Protocol 26 thereof,

Having regard to the Agreement between the EFTA States on the Establishment of a Surveillance Authority and a Court of Justice³, in particular to Article 24 thereof,

Having regard to Article 1(2) of Part I and Articles 4(4) and 6 of Part II of Protocol 3 to the Surveillance and Court Agreement,

Whereas:

I. FACTS

1. Procedure

By letter dated 30 April 2004, the Municipality of Hafnarfjörður filed a complaint against alleged state aid granted by the Port of Reykjavík to the company Stáltak hf., later Stálsmiðjan ehf. The letter was received and registered by the Authority on 7 May 2004 (Event No 280698).

By letter dated 13 May 2004 (Event No 281306), the Authority acknowledged the receipt of the complaint and asked the complainant to clarify some points in the complaint.

By letter dated 27 July 2004 (Event No 288061), the Authority sent a request for information to the Icelandic authorities. The Icelandic authorities replied by letter dated 13 September 2004, received and registered by the Authority on 15 September 2004 (Event No 292795).

By letter dated 25 October 2004, the complainant submitted additional information. The letter was received and registered by the Authority on 29 October 2004 (Event No 297677).

¹ Hereinafter referred to as “the Authority”.

² Hereinafter referred to as “the EEA Agreement”.

³ Hereinafter referred to as “the Surveillance and Court Agreement”.

By letter dated 24 May 2005 (Event No 307552), the Authority sent a request for additional information to the Icelandic authorities. The Icelandic authorities answered by a letter dated 25 July 2005, received and registered by the Authority on the same date (Event No 328142).

By letter dated 4 October 2006 (Event No 390775), the Authority again requested additional information from the Icelandic authorities. By letter dated 4 December 2006, received and registered by the Authority on the same date (Event No 400992), the Icelandic authorities submitted their answer to the information request.

Finally, the Authority asked the Icelandic authorities for additional information by letter dated 11 October 2007 (Event No 445490). The Icelandic authorities replied by letter dated 29 October 2007, received and registered by the Authority on 30 October 2007 (Event No 449597).

Moreover, the case has been subject to discussions between the Icelandic Government and the Authority at the state aid package meetings in Reykjavík in 2006, 2007 and 2008.

2. Factual background

2.1 The complaint

The complainant alleges that several transactions⁴ between the Port of Reykjavík,⁴ Dráttarbrautir Reykjavíkur ehf. and Stáltak hf.⁵ (later Stálsmiðjan ehf.) involve state aid to Stáltak. The complainant considers that ever since December 1999, when Dráttarbrautir Reykjavíkur was founded as a private limited liability company established by the Port and Stáltak, the Port has directly and indirectly supported the operations of Stáltak and, on more than one occasion, unduly saved the company from financial difficulties or imminent bankruptcy. The complainant believes the aid granted amounted to several million ISK. In this manner, the complainant considers that the Port has disrupted the competitive position of enterprises that operate in the area, in particular ports that offer slipway services; dry-docking and ship repairs.

The complainant has explained that only three companies, which are situated in the three largest harbours in Iceland, can offer dry-docking and ship repair slipway services. These companies are Stáltak, which operated in the Reykjavík Harbour, and two companies operating from the Hafnarfjörður Harbour and Akureyri Harbour respectively. The complainant has pointed out that through the Port of Reykjavík's financial support, Stáltak has been able to offer the slipway services in question at a lower price than its competitors.

2.2 The Port of Reykjavík

2.2.1 Operations of the Port of Reykjavík

⁴ Hereinafter also referred to as “the Port”. The situation described is that of the Port at the time the alleged state aid measures took place. On 1 July 2003, the Harbour Act No 23/1994, which was in force at the time the alleged measures took place, was replaced by a new Harbour Act No 61/2003. The new Harbour Act brought about considerable changes in harbours' operational environments. On 1 January 2005, the assets and operations of the Port of Reykjavík were transferred to a new port company, Faxaflóahafnir sf. (Associated Icelandic Ports). The company is a partnership (*sameignarfélag*) owned by 5 municipalities including the City of Reykjavík which owns 75% of the company. See Agreement of Partnership for Faxaflóahafnir sf., Event No 400992, attachment 1. Article 8.3 of the current Harbour Act No 61/2003 allows for this operational form for ports.

⁵ Hereinafter referred to as “Stáltak”.

The Port's role is, firstly, to create harbour facilities with shelter, depth and harbour service areas for vessels carrying cargo; secondly, to provide sufficient land in connection with the harbour service areas to facilitate the handling of cargo and, thirdly, to ensure communications with the capital and the national road system. Hence, the Port constructs and operates harbour structures, including docking constructions for ship repair, whereas its customers provide various services related to ships and cargo handling. It follows that the Port of Reykjavík can be described as a "landlord port". In most cases, the customers lease land from the Port for their activities. The customers then own buildings on the sites and operate various structures. The docking constructions are considered to constitute an integral part of the harbour services area, being essential for providing ship maintenance and related services.⁶

2.2.2 Ownership and control over the Port of Reykjavík

At the time of the transactions complained about, the ownership and control of the Port of Reykjavík was laid down in Articles 3 and 4 of the former Harbour Act No 23/1994⁷ and Regulation No 130/1986 on Reykjavík Harbour.⁸

According to Articles 3 and 4 of the 1994 Harbour Act, harbours are owned by municipalities and controlled by harbour boards elected by their respective owners. Article 2.1 of the Regulation then adds that the Port of Reykjavík is owned by the city of Reykjavík and that the Reykjavík City Council is in charge of harbour affairs under the supervision of the Ministry of Transport (*Samgönguráðuneyti*). The Harbour Board (*hafnarstjórn*) and the Harbour Director (*hafnarstjóri*) are, however, responsible for the Port's daily management.

According to Article 2.2 of the Regulation, the Harbour Board is elected by the Reykjavík City Council. The Harbour Board consists of 5 members and 5 alternate members and their term is the same as that of the members of the Reykjavík City Council. According to Article 2.3 of the Regulation, the Harbour Board's Chairman is elected by the City Council from the Harbour Board's members. The Chairman is either a member or an alternate member of the City Council. Article 2.4 of the Regulation states that in addition to the elected members, the mayor, the chief municipal engineer and the port captain have the right to be heard by, and to propose motions to, the Harbour Board.

Article 3.1 of the Regulation provides that the Harbour Board supervises financial affairs, operations, maintenance and the construction of new buildings in the harbour area. The Article, however, obliges the Harbour Board to submit the annual budget of the Harbour Fund to the City Council for approval and to apply to the City Council for authorisation for the Port's service tariff and loans taken by the Harbour Fund or other financial obligations that bind the Fund for a longer period than the current fiscal year. In addition to this, Article 10 of the 1994 Harbour Act prescribed that Harbour Boards must report each year on their annual budget to the Icelandic Maritime Agency (*Siglingastofnun*).

Article 3.2 of the Regulation prescribes that the Harbour Board has the final power of decision relating to the operation of the Harbour, such as lease of the Port's land.

⁶ See letter from the Icelandic authorities of 30 August 2004, Event No 292795.

⁷ *Hafnalög*, Act No 23/1994 of 29 March 1994, with later amendments. Hereinafter referred to as "the 1994 Harbour Act". The Act was replaced by the current Harbour Act No 61/2003 of 27 March 2003 which entered into force on 1 July 2003.

⁸ *Hafnarreglugerð fyrir Reykjavíkurbhöfn*, hereinafter referred to as "the Regulation". The Regulation had its legal basis in Article 5 of the 1994 Harbour Act. Now the Regulation has its legal basis in Article 4 of the current Act.

2.2.3 Financing of the Port of Reykjavík

According to Article 14 of the Regulation, the Reykjavík Harbour Fund is financed through a harbour tariff, as further described in Article 8 of the 1994 Harbour Act,⁹ and through a service charge tariff decided by the Harbour Board and confirmed by the Reykjavík City Council. Articles 8.1 and 8.2 of the 1994 Harbour Act provided that a joint harbour tariff should apply for all Icelandic ports.¹⁰ The tariff was based on proposals from the Harbour Council (*Hafnaráð*), a consultation body for the Minister of Transport, which in return received proposals from the Union of Icelandic Port Authorities (*Hafnasamband sveitarfélaga*). The tariff was then confirmed by the Minister of Transport. According to the Articles, the tariff should suffice to cover harbours' daily operations and reasonable renovation of buildings. The tariff was to be revised at least once a year.

According to the Icelandic authorities, the Port of Reykjavík did not receive additional grants from the State for development and operation of the harbour, as opposed to most other ports in Iceland. The Icelandic authorities have moreover stated that the Port did not receive any grants from the City of Reykjavík for its harbour construction.¹¹ According to the Icelandic authorities, the Port has through the years been fully financed by its own revenues which are channelled into the Harbour Fund and have been used directly for creating facilities for industry and services. The Icelandic authorities thus claim the Port to be financially independent.¹²

2.3 Stálsmiðjan hf., Stáltak hf. and Stálsmiðjan ehf.

Stáltak is a limited liability company which provided ship building and ship repair services in the Reykjavík harbour. It was established in 2000 through a merger of the limited liability companies Slippstöðin hf., Stálsmiðjan hf. and Kælismiðjan Frost hf. The new company Stáltak hf. was registered under the ID number previously used by Stálsmiðjan hf.¹³

In August 2001, Stáltak's operations were split between its three new subsidiaries. The three subsidiaries were private limited liability companies established under the names of the companies which merged into Stáltak hf. in 2000.¹⁴ The new company Stálsmiðjan ehf. continued Stáltak's operations in Reykjavík. Stálsmiðjan ehf. was fully owned by Stáltak until December 2001 when 11 of Stáltak's employees bought the majority of its shares.¹⁵

⁹ The regulation refers to Article 13, but after the 1994 Harbour Act was modified in 1996 the numbering of articles was changed. It seems that the Regulation was not updated accordingly.

¹⁰ The current Harbour Act is different in this respect. The common tariff no longer exists and Faxaflóahafnir sf. now issues its own independent harbour tariff.

¹¹ See letter from the Icelandic authorities of 30 November 2006, Event No 400992.

¹² In this respect it should be mentioned that Article 18 of the 1994 Harbour Act prescribed that harbour operations, including harbour constructions should be financed by harbours' own revenues, by contributions from the harbours' owners and by the state treasury as further described in the Act. Moreover, Article 17 prescribed that all operations financed by the state should be conducted by the Icelandic Maritime Agency (*Siglingastofnun*). According to Article 12.1, Harbour Boards were not permitted to initiate expensive operations in the harbour without the prior consent of the Ministry of Transport.

¹³ ID number 620269-1079. The name change under the ID number was done on shareholders' meeting 13 January 2000.

¹⁴ See Stáltak's letter to its customers, dated 31 August 2001, Event No 328142, attachment 26.

¹⁵ See Stáltak's letter to the Port of Reykjavík, dated 8 February 2002, Event No 328142, attachment 17.

2.4 The foundation and operation of Dráttarbrautir Reykjavíkur

2.4.1 Ownership and payment of share capital

Dráttarbrautir Reykjavíkur¹⁶ was founded in Reykjavík on 6 December 1999. The founders were Stálsmiðjan hf., later Stáltak, the Port of Reykjavík and Gjörvi ehf.¹⁷ According to Article 2 of its founding agreement,¹⁸ DR had the objective to own and operate slipways for shipbuilding and repairing of ships and engage in related activities such as housing management and loan operations.

DR's foundation capital amounted to ISK 97,7 million (approximately EUR 1,3 million).¹⁹ Stálsmiðjan hf. subscribed for ISK 51,2 million, the Port of Reykjavík for ISK 46 million and Gjörvi for ISK 500 000.

According to the complainant, the majority shareholder Stálsmiðjan hf. designated two of the three members of DR's board. A director in Stálsmiðjan hf. was appointed as manager of DR, and it was agreed in Article 9 of DR's founding agreement that Stálsmiðjan would take care of DR's daily operations.

As explained in Annexes A and B to the founding agreement,²⁰ Stálsmiðjan hf. paid its share capital in three different ways. First by a contribution of ISK 16 million in cash, secondly by contribution of ISK 20 million in the form of a 20-year bond and thirdly by transfer of chattels to DR valued at ISK 15,2 million consisting of:

- a) cables for slipway F valued at ISK 3,2 million;
- b) cables for slipway N valued at ISK 3,7 million;
- c) a lift for Slipway F valued at ISK 1,2 million;
- d) conduits for air, gas and water valued at a total of ISK 3,7 million;
- e) two air compressors valued at a total of ISK 2 million;
- f) lighting and electrical gear for the slipways valued at ISK 400 000 and
- g) cable covers and stabilizers valued at ISK 1 million.

¹⁶ Reykjavík slipways, hereinafter referred to as "DR".

¹⁷ Hereinafter referred to as "Gjörvi". Gjörvi ehf. is a machinery workshop providing various services.

¹⁸ "Stofnsamningur", Event No 292795, attachment 10.

¹⁹ The applicable conversion rate between ISK and EUR in 2000, the year when the majority of the transactions took place, was 73,51. There is no official conversion rate for 1999.

²⁰ Event No 292795, attachments 19 and 20. Annex A to DR's founding agreement lists how DR's founders paid their share capital. Annex B is a statement by a certified accountant regarding the value of the chattels transferred to DR as share capital. The statement is in line with the procedure prescribed in Articles 5 and 6 of Act No 138/1994 on private limited liability companies (*Lög um einkahlutafélög*), which provide that if equity is paid by transfer of assets, the value of those assets must be verified by an attorney or a certified accountant. The statement in Annex B provides that the certified accountant is aware of how the assets in question will be used in DR's operations and that he has acquainted himself with the assets' cost price with reference to accounting data and own evaluation. It moreover states that the accountant is familiar with Stálsmiðjan hf.'s operations. According to the statement, the assets' value is considerably lower than their original cost price, non inflation-adjusted. The value does not allow for goodwill. Finally, the accountant specifically states that he is certain that the value price is not too high.

As also explained in Annexes A and B to the founding agreement, the Port paid its share capital by providing two slipways, Slipway N with associated equipment valued at ISK 45 million and Slipway F with associated equipment valued at ISK 1 million.

2.4.2 *Loan connected to slipway investment*

According to the complainant, DR invested in a new slipway F in 2000. The slipway was installed by Stálsmiðjan hf. The investment was valued at approximately ISK 93,8 million. The complainant has claimed that the capital for this investment was mostly provided by the Port.

According to the Icelandic authorities a loan, amounting to ISK 85 million was originally taken by the Port in 1996 for repairing the foundations and a trolley for the slipway, after it had been damaged.²¹ The loan was transferred to DR after its foundation.

The outstanding amount on the loan by the end of 2002 was approximately ISK 56 million. When the Port of Reykjavík assumed the assets and liabilities of DR on 8 December 2003,²² after the company was dissolved,²³ the long-term loans of the company were reported as being almost ISK 43,9 million. The Icelandic authorities have stated that the long-term loans consisted only of the loan for the slipway.²⁴

2.4.3 *Loan from the Port of Reykjavík*

In addition to the above, the complainant has claimed that DR borrowed ISK 55 million from the Port of Reykjavík during its first three years of operation.

2.4.4 *Running of offices, administrative costs*

According to the complainant, DR was run from the Port of Reykjavík's office and therefore had no payroll, administration expenses or other office expenses.

2.4.5 *DR's operating losses*

In 2002, DR made an operating loss of over ISK 9,8 million and its return on equity was minus 11,97%. The company's loss in 2001 was approximately ISK 18,7 million, and in 2000 its loss amounted to more than ISK 8,4 million. In total the losses over these three first years of the company's operations amounted to approximately ISK 37 million.

²¹ See letter from the Icelandic authorities of 30 November 2006, Event No 400992.

²² According to the Icelandic authorities this was done in line with Article 83a of the Act on Private Limited Liability Companies No 138/1994. Upon DR's dissolution, the Port, as then DR's sole owner, became responsible for its financial obligations. Moreover, as its sole owner, the results of DR's annual account for 2003 was entered into the Port's annual account. See letter from the Icelandic authorities of 25 July 2005, Event No 328142.

²³ The Port of Reykjavík sent a statement to the Icelandic Register of Companies in December 2003 stating that the company had been dissolved in accordance with Article 83 of Act No 138/1994 on Private Limited Liability Companies. See statement from *Grant Thornton* dated 13 June 2005, Event No 328142, attachment 14.

²⁴ See letter from the Icelandic authorities of 25 July 2005, Event No 328142.

2.5 The purchase by the Port of Reykjavík of Stáltak’s shares in DR and the rental agreement

2.5.1 The purchase of shares

On 29 October 2000, the Port of Reykjavík bought Stáltak’s (previously Stálsmiðjan hf.’s) shares in DR. The price was ISK 51,2 million, i.e. equal to the nominal value of the shares. According to the share purchase agreement, the purchase price was to be paid in the form of ISK 30 million in cash on signature of the contract, and the remains were to be paid after Stáltak’s customer account with the Port had been balanced and taken into account, no later than 5 November 2000.²⁵

2.5.2 The rental agreement between Stáltak and DR concerning DR’s assets

According to a rental agreement annexed to the share purchase contract of 29 October 2000,²⁶ Stáltak’s lease contract on the use of DR’s equipment was to be valid for two years from the date of the signature of the share purchase contract. The rental period was to be extended for one year at a time if the contract was not terminated with six months notice.²⁷

The rental agreement provided that the rent should be on the same terms as laid down in the agreement between Stáltak and DR when the latter was founded, except that the rent was to be revised in accordance with changes in the building cost index and was to continue to be linked to that index throughout the rental period. The rental agreement moreover provided that Stáltak should be in charge of the operation and maintenance of DR, albeit in full cooperation with DR’s management. Operational and management costs were to be set off against the rent, and if they exceeded the rent, DR was to pay the difference to Stáltak. If the costs were lower than the rent, Stáltak should pay the difference to DR.

In the rental agreement, DR authorised Stáltak to mortgage the leased assets to a bank as security for the payment of Stáltak’s liabilities for up to ISK 40 million. The authorisation was valid for the duration of the rental agreement. On this basis, Stáltak registered a certificate of security against the leased items amounting to ISK 20 million. The security amount was indexed. No fee was paid for the guarantee. The security was never realised.²⁸

According to the rental agreement, Stáltak and DR presupposed that DR’s operations would cease after the rental agreement expired, that is two years after its signing. The rental agreement then stated that upon dissolution of DR, both parties would jointly work on selling DR’s movable equipment at as favourable a price as possible. According to the agreement, the sales amount was to be divided equally between Stáltak and DR. According to the annual accounts of the Port of Reykjavík for the operating year of 2003,

²⁵ See share purchase agreement (“*Kaupsamningur - afsal*”), Event No 280698, attachment 6.

²⁶ Document entitled “*Samkomulag*”, Event No 292795, attachment 18.

²⁷ By letter of 8 February 2002, Event No 328142, attachment 17, Stáltak requested permission from the Port to transfer Stáltak’s rights and obligations under the rental agreement to Stálsmiðjan ehf. This was approved by the Port. In 2005, the slipways were still leased by Stálsmiðjan ehf. See letter from the Icelandic authorities of 25 July 2005, Event No 328142.

²⁸ By agreement of 28 November 2002, Stáltak transferred to Íslandsbanki all rights to 50% of sales revenues upon future selling of DR’s assets, which belonged to Stáltak according to the rental agreement of 29 October 2000. See document entitled “*Yfirlýsing um framsal réttinda*”, Event No 328142, attachment 7. On 9 December 2002 the mortgage had been lifted of DR’s assets. See document entitled “*Samkomulag um uppgjör*”, Event No 328142, attachment 27.

and as confirmed by the Icelandic authorities, ISK 10 million was deposited in Stáltak's business account with the Port after sale of the equipment.²⁹

The income received by DR from its leasing of slipways amounted to ISK 7,1 million in 2002, whereas the income amounted to approximately 4,4 million in 2001 and ISK 7,3 million in 2000. Stáltak was the only lessee during this period.

2.6 Stáltak's transfer of properties in Mýrargata to its subsidiary Stálsmiðjan-Slippstöðin ehf. and subsequent lease agreement

2.6.1 The property transfer agreement

On 27 October 2000, Stáltak entered into an agreement³⁰ with its subsidiary the private limited liability company Stálsmiðjan-Slippstöðin ehf.³¹ under which Stáltak transferred four properties in Mýrargata in Reykjavík to Stálsmiðjan-Slippstöðin. Under the agreement, Stáltak sold the buildings on the sites to Stálsmiðjan-Slippstöðin and transferred to it its rights to the lots according to lot lease agreements concluded with the Port of Reykjavík in 1991 and 1992.³² This transaction was approved by the Port.

In return for the transfer of assets, Stálsmiðjan-Slippstöðin took over mortgage debts on the properties amounting to approximately ISK 174 million and undertook to pay outstanding instalments on a debt on another property amounting to nearly ISK 608 000. According to the contract, the price was decided with due account to the fact that the properties would not yield any rent for the buyer during the first two years, cf. Section I-2.6.2 below.

2.6.2 The lease agreement concerning the properties in Mýrargata

In direct continuation of the property transfer agreement described above, Stáltak and Stálsmiðjan-Slippstöðin entered into a lease agreement³³ on 27 October 2000 under which Stáltak leased from Stálsmiðjan-Slippstöðin the properties in Mýrargata, which were transferred to it by the property transfer agreement. The lease was made for a term of two years, extended automatically by one year unless it was terminated six months before the expiry of the term. The amount of the rent was not mentioned in the agreement, but was paid in full for the next two years at the time of the signature.

2.7 The Port's purchase of Stáltak's subsidiary Stálsmiðjan-Slippstöðin ehf.

2.7.1 The purchase agreement

On 29 October 2000, Stáltak and the Port entered into a purchase contract³⁴ whereby Stáltak sold its entire share capital in the subsidiary Stálsmiðjan-Slippstöðin to the Port. The purchase price was ISK 323 million. The sole assets of the subsidiary were the properties in Mýrargata transferred to it by Stáltak on 27 October 2000.

The purchase price was paid by assuming the mortgage debts on the properties, amounting to circa ISK 175 million. The remainder of the purchase price was to be paid in cash. The

²⁹ Letter from the Icelandic authorities of 25 July 2005, Event No 328142.

³⁰ Document entitled "Yfirlýsing", Event No 292795, attachment 7.

³¹ Hereinafter referred to as "Stálsmiðjan-Slippstöðin".

³² Lot lease agreements of 16 October 1991 and 30 September 1992.

³³ Document entitled "Leigusamningur", Event No 292795, attachment 8.

³⁴ Event No 292795, attachment 15.

contract states that the purchaser is aware of the property transfer agreement and the lease agreement of 27 October 2000, concerning the properties in Mýrargata. The two documents were annexed to the purchase agreement. As has been confirmed by the Icelandic authorities, the Port was aware that it would not receive any rental income from the properties during the first two years after the purchase, as the two years' rent had already been paid in full.³⁵

2.7.2 *Establishment of Hafnarhús ehf.*

At Stálsmiðjan-Slippstöðin's annual meeting on 30 April 2001, the company's articles of association were changed, *inter alia*, because the company was then owned by only one shareholder (the Port of Reykjavík).³⁶ One of the items decided on was changing the company's name to Hafnarhús ehf.³⁷ No changes were made as regards the company's ownership of the properties in Mýrargata.

According to Article 3 of Hafnarhús' articles of association,³⁸ the company's objective was property holding and operations, including leasing out of real estate, floating docks and docking constructions for ship repairs. According to Article 4 of the articles of association, the company's equity amounted to ISK 170 million.

Hafnarhús was wound up on 8 December 2003.³⁹ As the company was fully owned by the Port, the result for 2003 was entered into the Port's annual account. Moreover, in line with Article 83a of the Act on Private Limited Liability Companies No 138/1994, the Port, as Hafnarhús' sole owner, became responsible for its financial obligations.

2.7.3 *Stáltak's lease of properties in Mýrargata*

The Port's purchase of Stálsmiðjan-Slippstöðin (later Hafnarhús) did not result in any amendments to the lease agreement concerning the properties in Mýrargata. The rental income of Hafnarhús with regard to the properties in Mýrargata amounted to ISK 12,2 million in 2002.⁴⁰

By letter of 8 February 2002⁴¹ Stáltak requested permission from the Port to transfer Stáltak's rights and obligations under the lease agreement to Stálsmiðjan ehf. This was approved by the Port.

3. The measures complained about and comments submitted by the Icelandic authorities

As mentioned above, the complainant is of the opinion that the Port of Reykjavík has disrupted the competitive position of ports offering slipway services (dry-docking and ship repairs) in the area near Reykjavík by, ever since 1999 when DR was founded, directly and indirectly supporting Stáltak's operations.

³⁵ See letter from the Icelandic authorities of 30 November 2006, Event No 400992.

³⁶ See minutes of the meeting, Event No 292795, attachment 13.

³⁷ Hereinafter referred to as "Hafnarhús".

³⁸ Event No 292795, attachment 14.

³⁹ The Port of Reykjavík sent a statement to the Icelandic Register of Companies in December 2003 stating that the company had been dissolved in accordance with Article 83 of Act No 138/1994 on Private Limited Liability Companies. See statement from *Grant Thornton* dated 13 June 2005, Event No 328142, attachment 14.

⁴⁰ See letter from KPMG dated 23 July 2003, Event No 280698, Attachment 11.

⁴¹ Event No 328142, attachment 17.

The comments by the complainant and by the Icelandic authorities are described in the following.

3.1 Measures executed by the Port of Reykjavík

3.1.1 Transfer of chattels to DR by the Port and Stálsmiðjan hf.

As described in Section I-2.4.1 above, DR was founded in December 1999. Stálsmiðjan hf. paid a part of its share capital by transfer of chattels valued at ISK 15,2 million. The Port paid its share capital by providing two slipways.

The complainant believes the valuation of the chattels transferred to DR by Stálsmiðjan hf. and the Port to be unsatisfactory. More specifically, the complainant believes that Stálsmiðjan hf.'s assets were valued too high, especially as regards cables and conduits that depreciate quickly and generally have very limited resale value, while the value of a slipway transferred by the Port was underestimated. The complainant points out that on the basis of this valuation, Stálsmiðjan hf. unduly became a majority shareholder in DR and appointed two of DR's three board members.

The Icelandic authorities have rejected the view that the chattels transferred to DR by Stálsmiðjan hf. were valued too high. In that respect, the authorities refer to an evaluation done by a certified accountant in line with the requirements provided in Articles 5 and 6 of Act No 138/1994 on private limited liability companies, which formed Annex B to DR's founding agreement.⁴² The Icelandic authorities have moreover referred to DR's annual accounts which show the chattels' depreciation.⁴³

As regards the transferred Slipway F, the Icelandic authorities have explained that the slipway was valued at only ISK 1 million as it had already been fully depreciated and its durability was subject to uncertainty. Renovation of the slipway, including the rails and the trolley, was considered necessary. The cables used in the slipway, however, were only taken into use in 1998 and were of a high quality. According to the Icelandic authorities there was no uncertainty about the value or the durability of the moveable chattels connected to Slipway F.

3.1.2 The Port's loan to DR during 2000-2002.

The complainant has claimed that DR borrowed ISK 55 million from the Port of Reykjavík during DR's first three years of operation. According to the complainant, the loan was to be repaid, with inflation adjustments and interests, in 30 instalments with six months intervals. The complainant has moreover stated that the loan has not been repaid and that no arrears interests have been calculated. The Icelandic authorities have insisted that no such loan was granted.⁴⁴

3.1.3 Running of DR's offices and administrative costs

According to the complainant, DR was run from the Port of Reykjavík's office and therefore had no payroll, administration expenses or other office expenses. The Icelandic authorities have objected to this as being unfounded and claim that DR did not obtain any

⁴² See footnote 20.

⁴³ The chattels are listed as a whole in the annual accounts as moveable properties. Accordingly, not every item is valued and depreciated. According to the Icelandic authorities, this is in line with good accounting practices.

⁴⁴ See letter from the Icelandic authorities of 30 November 2006, Event No 400992.

advantages in terms of operating costs resulting from the Port's participation in its operation. In that respect the Icelandic authorities point out that it was agreed in Article 9 of DR's founding agreement that Stálsmiðjan hf. would take care of DR's daily operations.⁴⁵ This arrangement was renewed on 29 October 2000, in the agreement under which Stáltak undertook to rent all of DR's assets for two years.⁴⁶

3.1.4 *The Port's purchase of Stáltak's shares in DR*

As described in Section I-2.5.1 above, the Port of Reykjavík bought all of Stáltak's shares in DR on 29 October 2000. The price was ISK 51,2 million, i.e. equal to the nominal value of the shares.

The complainant believes the purchase price in question to be too high. In that respect the complainant has pointed out that it was clear to the Port that DR incurred operating losses.⁴⁷ Furthermore, it followed from the agreement between Stáltak and DR concerning Stáltak's use of DR's assets that the operations of DR were to be wound up within two years from signing the agreement.

The Icelandic authorities have confirmed that the use of DR's slipways was less than predicted and thus DR's operations did not make a profit as had been anticipated. The Icelandic authorities have explained that as no market reference was available, both parties agreed to use the contribution made upon establishment of DR as a benchmark when it came to pricing its assets.⁴⁸

The Icelandic authorities claim that the purchase price for the shares was reasonable, notwithstanding DR's operating losses. The authorities point out that the price was decided taking into account the inflation rate at the time, the increased value of DR's real estate and its other assets due to renewals and price changes to real estate. The authorities moreover state that the Port's objective when buying the shares was not to profit from the investment but to gain control of the sites in question and DR's properties.⁴⁹

In addition to the above, the Icelandic authorities have pointed out that at the time the Port bought the shares in DR, Stáltak had ceased all operations and only owned shares in DR. At the same time Stáltak owed the Port substantial amounts. The Port's buying of the shares was thus a step in concluding all relations between the Port and Stáltak. The authorities have moreover explained that as a pilot project, DR was from the beginning intended to last for a relatively short period of time. If the project had fulfilled expectations, the next step would have been to continue cooperation with the parties involved in establishing DR and thus continue to fulfil the Port's obligation to ensure access to slipway facilities. The Icelandic authorities have explained that the three founders of DR expected that more entities involved in ship repairs and shipbuilding would want to become shareholders and cooperate on DR's operation.⁵⁰ The Port's hope

⁴⁵ Letter of 13 September 2004, Event No 292795.

⁴⁶ Annex to the share purchase contract under which the Port bought all of Stáltak's shares in DR. Document entitled "Samkomulag", Event No 292795, attachment 18.

⁴⁷ DR's operating losses amounted to ISK 8.428.692 in the year 2000.

⁴⁸ See letter from the Icelandic authorities of 25 July 2005, Event No 328142.

⁴⁹ See letter from the Icelandic authorities of 30 August 2004, Event No 292795 and letter from the Icelandic authorities of 30 November 2006, Event No 400992.

⁵⁰ As a prove thereof, the Icelandic authorities have pointed out that in DR's founding agreement, Event No 280698, attachment 1, it says that the Board of Directors is authorised to increase DR's share capital by up to ISK 30.000.000 through the sale of new shares, within 12 months from the establishment of the company. This the Port saw as a prevention of construction of multiple facilities and over investment in the sector.

was that it would eventually sell its shares in DR to interested maritime service providers. Those expectations were not realised.⁵¹

3.1.5 *The Port's purchase of Stálsmiðjan-Slippstöðin*

As explained in Section I-2.7.1 above, Stáltak and the Port on 29 October 2000 entered into a share purchase contract⁵² under which the Port bought all of Stáltak's shares in Stáltak's subsidiary Stálsmiðjan-Slippstöðin. The purchase price was ISK 323 million.

The complainant has insisted that the purchase price was around ISK 150 million above a proper purchase price. This, the complainant bases on the fact that the sole assets of Stálsmiðjan-Slippstöðin were the properties in Mýrargata valued at circa ISK 175 million, which roughly amounts to the price paid by Stálsmiðjan-Slippstöðin for the property when bought from Stáltak two days earlier (by takeover of mortgage debts and payment of outstanding debt instalments). The complainant claims that the Port was well aware of this fact.

Explaining the price paid by Stálsmiðjan-Slippstöðin for the properties in Mýrargata, the Icelandic authorities have pointed out that Stálsmiðjan-Slippstöðin's objective for acquiring the properties was not to make profit but rather to be ready to invest in new residential housing on the sites as soon as a new land use plan had been approved for the area and authorisation given for construction on the sites. According to the Icelandic authorities, it later became clear that the purchase price was very favourable and that the City of Reykjavík could expect a considerable profit when selling the construction rights at the site.⁵³

The Icelandic authorities have moreover explained that when evaluating a reasonable purchase price for all shares in Stálsmiðjan-Slippstöðin, the Port based its calculations and prerequisites on the value of the properties in Mýrargata. Moreover, the authorities point out that by the purchase, the Port ensured its final control over all real estate on the sites in question which meant that it had the sole discretion to decide on the future use of the shipbuilding and ship repair area, in accordance with the general land use plan for Reykjavík. The authorities have pointed out that at the time in question it had become clear that the sites would be intended for residential use in the future and that this had come to the attention of building developers that were prepared to buy them for a much higher price.

The Icelandic authorities claim that the purchase price was based on business views and that the transaction in fact constituted a certain guarantee for the price not being determined by the general property market. The authorities have explained that the purchase price was only based on the value of the property and that Stálsmiðjan-Slippstöðin's operational value was not seen as adding to the price. The authorities have specifically pointed out that the properties' fire insurance value, excluding the lots, was approximately ISK 302 million at the end of 1999.⁵⁴ The parties to the agreement agreed on basing the purchase price on the latest insurance value, including an increase of little under 7%. In that respect, the Icelandic authorities have added that the market price of industrial property is generally somewhat higher than its fire insurance value, especially when it comes to older buildings that have been depreciated due to age. In addition, the

⁵¹ See letters from the Icelandic authorities of 30 November 2006, Event No 400992 and letter of 29 October 2007, Event No 449597.

⁵² Event No 292795, attachment 15.

⁵³ See letter from the Icelandic authorities of 30 November 2006, Event No 400992.

⁵⁴ At the same time the properties' rateable value, including the lots, was ISK 197 156 000.

price was affected by the fact that the buildings in question were steel framed buildings which could easily be transported to a new industrial area for vessel ships. Everything considered, the Icelandic authorities are of the opinion that the purchase price paid by the Port can be regarded as low.⁵⁵

3.2 Measures executed by DR

3.2.1 *The rental agreement between Stáltak and DR concerning DR's assets*

As described in Section I-2.5.2 above, on 29 October 2000, Stáltak and DR concluded a rental agreement⁵⁶ according to which Stáltak's lease contract on the use of DR's equipment would be valid for two years from that date.⁵⁷

The complainant has made the point that no amendments were made to the rental terms to make allowance for investments made by DR in a new slipway F in 2000. More specifically, the complainant claims that DR bought additional equipment valued at ISK 93 million in 2000, which had the effect that the equipment Stáltak had on lease from DR nearly doubled in value while the rent stayed unchanged. According to the complainant, this investment was primarily financed by credit made available by the Port. The complainant has moreover insisted that Stáltak paid the rent almost entirely in the form of maintenance work on the leased equipment.

The complainant has specifically pointed out that the monthly rental price should have been closer to ISK 1,8 million or ISK 2,2 million per month instead of the around ISK 600 000 charged.⁵⁸ This is based on an analysis from an auditing firm, referring to prevailing rent rates for comparable premises and standard return on profits.⁵⁹

The Icelandic authorities have rejected the claim that the rental price was too low. The authorities have described the value of the leased equipment and state that the rental prerequisites did not change during the period in question; no additional equipment or repairs changed the rental basis.⁶⁰ Moreover the Icelandic authorities insist that the market investor principle was respected when the rental price was determined.

As regards the rental agreement's provision on operational and management costs, the Icelandic authorities have pointed out that as a general rule, the lessor is responsible for the quality of leased equipment and that only in exceptional circumstances may the lessor have the lessee covering costs relating to maintenance. In circumstances where the lessee

⁵⁵ See letter from the Icelandic authorities of 25 July 2005, Event No 328142.

⁵⁶ The rental agreement was annexed to the share purchase contract of 29 October 2000 under which the Port bought all of Stáltak's shares in DR. Document entitled "*Samkomulag*", Event No 292795, attachment 18.

⁵⁷ The rental agreement refers to an older lease contract which is to continue its validity. It seems to refer to a slipway lease agreement that was concluded between the Port of Reykjavík and Stálsmiðjan hf. of 10 February 1995. Document entitled "*Leigusamningur*", Event No 292795, attachment 16.

⁵⁸ The income received by DR from its leasing of slipways amounted to ISK 7,1 million in 2002, whereas the income amounted to approximately 4,4 million in 2001 and to ISK 7 268 412 in 2000. Stáltak was the only lessee during this period.

⁵⁹ See analysis from the auditing firm KPMG of 23 July 2003, Event No 280698, attachment 11.

⁶⁰ In that respect the Icelandic authorities first refer to the Port's letter to Skipasmíðastöð Njarðvíkur (the Njarðvík shipyard) dated 4 April 2000 (Event No 292795, attachment 24). The letter states that the slipways were originally bought by the Port for ISK 70 000 000. Until 31 December 1999, the Port put ISK 118 000 000 into improvements of the slipways. It says that according to the original lease agreement (the Port's agreement with Stálsmiðjan of 10 February 1995, Article 5), improvements of the leased assets heightened the income base on which the rent was calculated. Accordingly, the rental price had already been raised. This is also stated in the Port's letter to the Icelandic Competition Authority dated 1 November 2000 (Event No 292795, attachment 25).

has the capacity and knowledge to take care of maintenance and repair, it is common to negotiate on the lessee taking care of the maintenance work considered necessary by the lessor, as that would generally be the most efficient and economic solution. This approach may for instance prevent consequences of default and costs caused by delays in maintenance work.⁶¹

3.2.1.1 *The mortgage clause*

As explained in Section I-2.5.2 above, the rental agreement contained a clause authorising Stáltak to mortgage the leased assets to the bank Íslandsbanki as security for the payment of Stáltak's liabilities for up to ISK 40 million, indexed.

The complainant is of the opinion that the mortgage clause, allowing for a very high mortgage on the leased assets compared to the rental terms, can only have been intended for giving undue direct support to Stáltak's operations.

According to the Icelandic authorities, the mortgage clause is explained by the fact that while the slipways themselves were owned by DR, various items attached to the slipways were mostly owned by Stáltak.⁶² As it was difficult to separate Stáltak's property from that of DR it was decided to mortgage all the assets as a whole. According to the Icelandic authorities, there was an agreement that the mortgage would be transferred to Stáltak's items should the mortgage be foreclosed.⁶³

The Icelandic authorities have moreover explained that the guarantee was necessary to provide Stáltak with a security to ensure minimum operating capital to cover the interim period from the time Stáltak carried out work for customers and until payments were received.⁶⁴ The authorities claim that this was in the mutual interest of Stáltak and DR as it facilitated Stáltak's business and was likely to help the company to start generating income as soon as possible. In this regard, the Icelandic authorities emphasise that Stáltak held the majority of shares in DR at the time in question.⁶⁵

3.1.1.2 *Sale of equipment*

According to the rental agreement, both parties presupposed that DR's operations would cease two years after its signing. Upon DR's dissolution, DR's movable equipment would be sold and the revenue divided equally between Stáltak and DR, even though the equipment was the exclusive property of DR.⁶⁶ On this basis, ISK 10 million was deposited in Stáltak's business account with the Port after sale of the equipment.⁶⁷ The complainant has alleged this constituted direct and undue financial support for the benefit of Stáltak.

On this point, the Icelandic authorities have emphasised that upon the foundation of DR, the Port's slipways and Stálsmiðjan hf.'s moveable equipment were transferred to DR. In

⁶¹ See letter from the Icelandic authorities of 30 August 2004, Event No 292795.

⁶² More specifically this includes rails, trolleys, carriages, winches, winch housings, wires, lifting equipment, keel pads and ladders as well as various systems in the slipways for air, electricity, gas, oxygen and water.

⁶³ See letter from the Icelandic authorities of 25 July 2005, Event No 328142. See also letter from the Icelandic authorities of 30 November 2006, Event No 400992.

⁶⁴ See letter from the Icelandic authorities of 30 August 2004, Event No 292795.

⁶⁵ See letter from the Icelandic authorities of 30 August 2004, Event No 292795.

⁶⁶ The agreement moreover states that DR may continue its operation for some time after the rental period expires, but that will not change the fact that Stáltak will be entitled to 50% of the sales revenues after operation has been ceased.

⁶⁷ See letter from the Icelandic authorities of 25 July 2005, Event No 328142.

addition, DR bought equipment from Stáltak which formed an integral part of the slipways operation and was therefore never to be sold from the slipways operation. However, the equipment transferred by Stálsmiðjan hf. when DR was founded could, according to the Icelandic authorities, possibly be sold in the event Stáltak ceased its operation.⁶⁸ It was the opinion of the parties involved that it would be appropriate to divide the price equally. In that respect the authorities point out that DR wanted to ensure that a new operator would be able to ensure adequate chattels for the operation of the slipways if their operation continued.⁶⁹

3.3 Measures executed by Stálsmiðjan-Slippstöðin (later Hafnarhús)

3.3.1 Lease of properties in Mýrargata

It follows from Section I-2.7 above, that according to a property transfer agreement of 27 October 2000, Stáltak transferred its properties in Mýrargata to its subsidiary Stálsmiðjan-Slippstöðin which leased the properties back to Stáltak. Stálsmiðjan-Slippstöðin (later Hafnarhús) was then taken over by the Port, which did not imply any amendments to the lease agreement concerning the properties in Mýrargata.

According to the complainant, based on an analysis from an auditing firm referring to prevailing rent rates for comparable premises and standard return on profits,⁷⁰ the rent paid for the properties in Mýrargata was too low. More specifically, the complainant has claimed that the rent should have been at least ISK 2,8 million instead of the charged ISK 1 million per month.

The Icelandic authorities have dismissed these allegations stating the auditing firm's analysis, referred to by the complainant, is incorrect and misleading. Particularly, the authorities believe that the analysis is based on the leased property being 1000 m² larger than it actually is and is in addition based on vague average figures for lease of industrial housing.⁷¹

II. ASSESSMENT

1. The presence of state aid

Article 61(1) of the EEA Agreement reads as follows:

“Save as otherwise provided in this Agreement, any aid granted by EC Member States, EFTA States or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, in so far as it affects trade between Contracting Parties, be incompatible with the functioning of this Agreement.”

It follows from this provision that, for state aid within the meaning of the EEA Agreement to be present, the following conditions must be met:

- The aid must be granted through state resources;

⁶⁸ See letter from the Icelandic authorities of 13 September 2004, Event No 292795.

⁶⁹ See letter from the Icelandic authorities of 30 November 2006, Event NO 400992.

⁷⁰ Analysis from the auditing firm KPMG of 23 July 2003, Event No 280698, attachment 11.

⁷¹ See letter from the Icelandic authorities of 30 August 2004, Event No 292795.

- The aid must favour certain undertakings or the production of certain goods, i.e. the measure must confer an economic advantage upon the recipient(s), which must be selective;
- The beneficiary must be an undertaking within the meaning of the EEA Agreement;
- The aid must be capable of distorting competition and affect trade between contracting parties.

The Court of Justice of the European Communities (hereinafter “the Court of Justice”) has consistently held that the concept of an undertaking covers any entity engaged in an economic activity, regardless of the legal status of the entity or the way in which it is financed.⁷² It has also consistently held that “*any activity consisting in offering goods and services on a given market is an economic activity*”.⁷³ Accordingly, Stáltak (as well as Stálsmiðjan hf. before and later Stálsmiðjan ehf.) is an undertaking in the meaning of Article 61(1) EEA.

Whether the remaining conditions are met must be assessed individually with respect to each of the transactions described above.

1.1 Alleged aid measures executed by the Port of Reykjavík

1.1.1 General – presence of state resources

The term “state resources” covers all aid granted from public sources, including municipalities. It can also include aid granted by public or private bodies designated or established by the State, be it central government or municipalities. It is established case law by the Court of Justice that no distinction is to be drawn between cases where the aid is granted directly by the State and those where it is granted by public or private bodies which the State establishes or designates to administer the aid.⁷⁴

At the time the alleged state aid was granted, the Port of Reykjavík was governed by the former Harbour Act No 23/1994 and Regulation No 130/1986 on Reykjavík Harbour. The 1994 Harbour Act prescribed that harbours should be owned by municipalities and controlled by harbour boards elected by their respective owners. The Regulation then provided that the Port was owned by the city of Reykjavík and that harbour affairs were managed by the Reykjavík City Council under the supervision of the Ministry of Transport. The Port’s daily operations were in the hands of a Harbour Director and a Harbour Board which was elected by the Reykjavík City Council. Moreover, the Harbour Board’s Chairman was either a member or an alternate member of the City Council. According to the Icelandic authorities, the Harbour Board can be regarded as a part, although rather loosely connected, of the administrative body of the Municipality of Reykjavík at the time the transactions took place.⁷⁵

⁷² See in particular, Case C-41/90 *Höfner and Elser* [1991] ECR I-1979; Joined Cases C-159/91 and C-160/91 *Poucet and Pistre* [1993] ECR I-637, paragraph 17 and Case C-244/94 *Fédération Française des Sociétés d’Assurance* [1995] ECR I-4013, paragraph 14.

⁷³ See Case 118/85 *Commission v Italy* [1987] ECR 2599, paragraph 7 and Case C-35/96 *Commission v Italy* [1998] ECR I-3851, paragraph 36.

⁷⁴ See in particular Case 78/76 *Steinike & Weinlig* [1977] ECR 595, paragraph 21; Case 290/83 *Commission v France* [1985] ECR 439, paragraph 14; Joined Cases 67/85, 68/85 and 70/85 *Van der Kooy and Others v Commission* [1988] ECR 219, paragraph 35 and Case C-305/89 *Italy v Commission* [1991] ECR I-1603, paragraph 13.

⁷⁵ See letter from the Icelandic authorities of 29 October 2007, Event 449597.

The Harbour Board supervised the Port's financial affairs, operations, maintenance and construction of new buildings in the harbour area. The Harbour Board was to submit the Harbour Fund's annual budget to the Reykjavík City Council for approval and apply to the City Council for authorisation for the Port's service tariff and loans taken by the Harbour Fund or other financial obligations that were to bind the Fund for a longer period than the current fiscal year. Moreover, the Harbour Board was to report its annual budget to the Icelandic Maritime Agency.

According to the 1994 Harbour Act, a joint harbour tariff, based on proposals from the Ministry of Transport' consultation body and confirmed by the Minister, should apply to all Icelandic harbours. The tariff was to suffice to cover harbours' daily operations and reasonable renovation of buildings. The Regulation then provided that the Reykjavík Harbour Fund was financed through this tariff and a service charge tariff decided by the Harbour Board and confirmed by the Reykjavík City Council.

The above shows that the 1994 Harbour Act and the Regulation on Reykjavík Harbour regulated the Port of Reykjavík's operational environment to the extent that the Port's autonomy was significantly restricted. The 1994 Harbour Act and the Regulation explicitly provided that the Port should be owned by the City of Reykjavík. Moreover, the Port's financing was restricted to a harbour tariff decided by the Minister of Transport and a service tariff subject to confirmation by the Reykjavík City Council. Even if the Port had autonomy in its daily operations, it acted under the control of the Reykjavík City Council which also had decisive powers when it came to the Port's annual budget. Moreover, the City Council's presence in the Harbour Board, which according to the 1994 Harbour Act and the Regulation saw to the Port's daily operations, was evident.

Accordingly, based on the above, the Authority's preliminary conclusion is that the disputed measures executed by the Port of Reykjavík were imputable to the Icelandic State and therefore any potential economic advantage granted through those measures is granted through state resources.

1.1.2 The Port of Reykjavík's transfer of chattels to DR

The complainant has alleged that the chattels transferred to DR by the Port of Reykjavík were transferred at too low a price while the chattels transferred to DR by Stáltak were valued too high. According to the complainant, this had the effect that Stáltak unduly acquired the majority of DR's shares.

The Icelandic authorities have rejected these allegations and have in that respect referred to an evaluation of all chattels transferred to DR, done by a certified accountant in accordance with Article 5 and 6 of the Act No 138/1994 on private limited liability companies.⁷⁶ The complainant has not provided any information which gives the Authority reason to doubt the evaluation provided by the Icelandic authorities. The complainant has therefore not established that this measure resulted in an economic advantage for Stáltak.

On the basis of the information available to it, it is the Authority's view that the Port of Reykjavík's transfer of chattels to DR did not constitute an economic advantage in favour of Stáltak. Hence, the Authority's opinion is that the measure does not constitute state aid in the meaning of Article 61(1) EEA.

⁷⁶ Event No. 292795, attachment 20. For information on Articles 5 and 6 of the Act No 138/1994 on private limited liability companies, see footnote 20.

1.1.3 *The Port's loan to DR during 2000-2002*

The complainant believes that DR borrowed ISK 55 million from the Port during DR's first three years of operation. The complainant has not provided the Authority with any documentary evidence regarding the loan.

The Icelandic authorities have expressly stated that the loan was never granted. As the complainant has not substantiated his allegations in any manner, the Authority has no reason to doubt the Icelandic authorities' statement in this regard.

Accordingly, the Authority cannot on the basis of the information available to it establish that a possible loan constituted an economic advantage for Stáltak (as DR's majority shareholder from DR's establishment in December 1999 and until Stáltak's shares were bought by the Port on 29 October 2000). Hence, the Authority considers that the measure does not constitute state aid within the meaning of Article 61(1) EEA.

1.1.4 *Running of DR's offices and administrative costs*

The complainant has claimed that DR was run from the Port's office and therefore did not incur any administration expenses. The complainant has failed to provide the Authority with any evidence thereof.

The Icelandic authorities have rejected the allegations and claim that DR did not obtain any advantages in terms of operations costs resulting from the Port's participation in its operation. In that respect the Icelandic authorities have pointed out that DR's founding agreement provided that Stálsmiðjan hf. would take care of DR's daily operations. This arrangement was renewed on 29 October 2000, in the agreement under which Stáltak undertook to rent all of DR's assets for two years.

As the complainant has not provided the Authority with any evidence for its allegations, the Authority has no grounds on which to doubt the Icelandic authorities' statements regarding this part of the complaint.

The Authority therefore cannot establish that Stáltak (as a majority shareholder in DR from DR's establishment in December 1999 and until Stáltak's shares were bought by the Port on 29 October 2000) obtained any economic advantage from the running of DR's offices. Therefore, the Authority concludes that no state aid within the meaning of Article 61(1) EEA is involved.

1.1.5 *The Port's purchase of Stáltak's shares in DR*

- Selective advantage

The Port of Reykjavík bought all Stáltak's shares in DR on 29 October 2000. The purchase price was ISK 51,2 million, which was equal to the nominal value of the shares. The price was set at nominal value despite the fact that DR had been run at a loss. The complainant is of the opinion that the purchase price was too high taking into account DR's operating losses and the fact that DR's operations were to be wound up within two years from the signing of the agreement.

The Icelandic authorities have, *inter alia*, argued that the purchase price was reasonable notwithstanding DR's operating losses. In that respect the Icelandic authorities have referred to the inflation rate at the time, the increased value of DR's real estate and its other assets due to renewals and price increases in the real estate market. Moreover, the

authorities have pointed out that the Port's objective when buying the shares was not to profit from the investment but to gain control of the sites in question and of DR's properties. In addition, the Icelandic authorities have stated that as no market reference price was available at the time the purchase took place, both parties agreed to use the contribution made upon establishment of DR as a benchmark when it came to pricing its assets. In the Icelandic authorities' correspondence it has also been explained that DR's founders originally had envisaged attracting more companies to become shareholders in DR and that the Port of Reykjavík had planned to eventually sell its shares in the company.

It must be assessed whether the arguments presented by the Icelandic authorities are capable of excluding the presence of state aid. In that regard, it is necessary to consider the market value of Stáltak's shares in DR at the time. If, and to the extent that the price paid by the Port for Stáltak's shares in DR does not reflect the shares' market value, that is to say if the price paid for the shares was above the price a private investor would have paid for the shares, Stáltak obtained an economic advantage in the form of the difference between the market value and the higher price paid. Moreover, the measure would be selective as it only benefits the seller of the shares.

At the time of the conclusion of the contract, DR had been run with operating losses. That in itself may suggest that the market value of the company's shares might at the time in question have been below their nominal value. The Icelandic authorities seem to claim that the increased value of DR's assets and real estate and the Port of Reykjavík's determination to gain control over the sites and properties in question balanced DR's operational losses so that the company's shares kept a value equal to their nominal value.

However, on the basis of the information provided by the complainant and by the Icelandic authorities, the Authority is in doubt as to whether the price paid for Stáltak's shares in DR reflected the shares' market value.

- Distortion of competition and effect on trade between Contracting Parties

Under settled case law, the mere fact that an aid strengthens an undertaking's position compared with that of other undertakings competing in an intra EEA trade is enough to conclude that the measure is likely to affect trade between the contracting parties and distort competition between undertakings established in other EEA States.⁷⁷ If, and to the extent that the transaction in question conferred an economic advantage on Stáltak, its position was strengthened in comparison with that of its competitors.

As already established by the Authority in its Decisions Nos. 658/07/COL and 328/09/COL,⁷⁸ operators of dry docks as ship repair facilities are in international competition. The market for port services has been gradually opened for competition.⁷⁹ In that respect it should be pointed out that the European Commission noted in its

⁷⁷ See Case 730/79 *Philip Morris Holland BV v Commission* [1980] ECR 2671, paragraphs 11 – 12 and Joined Cases E-5/04, E-6/04 and E-7/04 *Fesil and Finn fjord and others v EFTA Surveillance Authority* [2005] EFTA Court Report 121, paragraph 94.

⁷⁸ EFTA Surveillance Authority Decision of 12 December 2007 to initiate the procedure provided for in Article 1(2) of Part I of Protocol 3 to the Surveillance and Court Agreement with regard to the Icelandic Harbour Act and EFTA Surveillance Authority Decision of 15 July 2009 on the Icelandic Harbour Act.

⁷⁹ See Communication from the Commission to the European Parliament and the Council, Reinforcing Quality Service in Sea Ports; A Key for European Transport, COM (2001) 35 final, Section 2.

LeaderSHIP 2015 programme⁸⁰ that commercial shipbuilding and ship repair operate in a truly global market with exposure to world-wide competition.

Against this background, the present aid is liable to threaten to distort competition and affect trade within the EEA.

- Conclusion

On the basis of the above, the Authority is in doubt as to whether the transaction involves state aid within the meaning of Article 61(1) EEA.

1.1.6 The Port's purchase of Stálsmiðjan-Slippstöðin

- Selective advantage

The Port of Reykjavík bought all Stáltak's shares in Stáltak's subsidiary Stálsmiðjan-Slippstöðin on 29 October 2000. The purchase price was ISK 323 million. Stálsmiðjan-Slippstöðin's sole assets were properties in Mýrargata, transferred to it by Stáltak on 27 October 2000 in return for approximately ISK 175 million, paid by taking over of mortgage debts amounting to approximately ISK 174 million and by payment of instalments with regard to debt on another property. The Port paid the purchase price to Stáltak by taking over of the mortgage on the properties and the remainder was paid in cash. Upon the conclusion of the purchase of the shares, the Port was aware that it would not receive any rental income from the properties in Mýrargata during the next two years, as the two years' rent had already been paid in full.

The complainant has argued that the purchase price was too high by about ISK 150 million. In that respect the complainant refers to the difference between the price paid for the assets in Mýrargata by Stálsmiðjan-Slippstöðin, when transferred from Stáltak, and the price paid for all shares in Stálsmiðjan-Slippstöðin by the Port of Reykjavík.

The Icelandic authorities have claimed that the purchase price paid by the Port for the shares in Stálsmiðjan-Slippstöðin was based on business considerations. The authorities have explained that the Port based its calculations on the value of the properties in Mýrargata, more specifically on their fire insurance value, and on the fact that the purchase ensured the Port final control over all real estate on the sites in question. That in turn gave the Port sole discretion to decide on the future use of the area, which was to be transformed into a residential area. The Icelandic authorities have noted that Stálsmiðjan-Slippstöðin's operational value was not considered to add to the shares' purchase price. The Icelandic authorities are of the opinion that the purchase price paid by the Port can be regarded as low.

In this respect, it is necessary to assess whether the arguments presented by the Icelandic authorities suffice to establish that the Port of Reykjavík paid a market price for the shares in Stálsmiðjan-Slippstöðin and thus excluding the presence of state aid. If, and to the extent that the price paid by the Port for Stáltak's shares in Stálsmiðjan-Slippstöðin is above the price a private investor would have paid for the shares, Stáltak has obtained an advantage in the form of the difference between the applicable market value and the

⁸⁰ Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions, LeaderSHIP 2015, Defining the Future of the European Shipbuilding and Repair Industry, Competitiveness through Excellence, COM(2003) 717 final, Section 2.1.

higher price paid. Furthermore, the measure would be selective as it only benefits the seller of the shares.

The real estate in Mýrargata was transferred from Stáltak to Stálsmiðjan-Slippstöðin on 27 October 2000 for a price approximately ISK 150 million lower than that paid by the Port for the shares in Stálsmiðjan-Slippstöðin two days later. On the basis of the facts referred to above, the Authority is at this point of the procedure unable to establish with certainty that the price paid reflected the shares' market value.

- Distortion of competition and effect on trade between Contracting Parties

As set out above, the mere fact that an aid strengthens an undertaking's position compared with that of other undertakings, which are competitors in EEA trade, is enough to conclude that competition is distorted and intra EEA trade is affected.

If, and to the extent that the Port of Reykjavík bought Stáltak's shares in Stálsmiðjan-Slippstöðin above market price, Stáltak's position was strengthened compared with that of its competitors on the EEA market for dry-docking and ship repair slipway services. The transaction may therefore threaten to distort competition and affect trade within the EEA.

- Conclusion

On the basis of the above, the Authority cannot exclude that the transaction involves state aid within the meaning of Article 61(1) EEA.

1.2 Alleged aid measures executed by DR

As described above, the term "state resources" covers state aid granted from public sources. It can include aid granted by public or private bodies designated or established by the State.

As regards the alleged state aid measures complained about that were executed by DR, i.e. the rental agreement between Stáltak and DR concerning DR's assets, it is necessary to establish whether or not DR's actions in this regard were imputable to the State. The complainant has alleged that the rent, the mortgage clause contained in the agreement and finally the sale of equipment at the winding up of the company constitutes state aid. The Authority considers that the first two measures form part of the rental agreement, whereas the last does not, as it seems that the provisions set out in the agreement were not followed. Hence, it must be established whether the rental agreement and the sale of equipment was imputable to the state.

As explained above, DR was a private limited liability company, established by the Port of Reykjavík and Stáltak in December 1999. As of 29 October 2000, when the Port acquired all of Stáltak's shares in DR and became its sole owner,⁸¹ DR must be regarded as a public undertaking within the meaning of Article 2, paragraph 1(b) of the *Transparency Directive*,⁸² in force at the time of the transaction. According to the provision, a public

⁸¹ Save for the small share owned by Gjörvi since DR's founding.

⁸² Commission Directive 80/723 on the transparency or financial relations between Member States and public undertakings, OJ L 195, (date) 1980 p. 35, with later amendments. The Directive was incorporated into the EEA Agreement by means of Article 1 of Annex XV to the EEA Agreement. The Directive has now been replaced by Commission Directive 2006/111/EC of 16 November 2006, OJ L 318, 17.11.2006, p. 17, incorporated into the EEA Agreement by means of Article 1a of Annex XV. See also definition in Article 2 of the Chapter of the Authority's State Aid Guidelines on Rules on public service compensation, state ownership of enterprises and aid to public enterprises (OJ L 231, 3.9.1994, p. 1).

undertaking is any undertaking “over which the public authorities may exercise directly or indirectly a dominant influence by virtue of their ownership of it”, their financial participation therein, or the rules which govern it.

However, as stated by the Court of Justice⁸³ in its judgment in *Stardust marine*,⁸⁴ the mere fact that a public undertaking is under state control is not sufficient for measures taken by that undertaking to be imputable to the State. In that respect, it is also necessary to examine whether the public authorities must be regarded as having been involved, in one way or another, in the adoption of those measures.

The Court then continued by outlining the criteria for imputability to the State of an aid measure taken by a public undertaking. This may, according to the Court, be inferred from a set of indicators arising from the circumstances of the case and the context in which that measure was taken. Examples of such indicators provided by the Court are whether or not the undertaking is able to take the contested decision without taking account of requirements of or directives issued by the public authorities. Moreover, other relevant indicators may according to the Court be the undertaking’s integration into the structures of the public administration, the nature of its activities and the exercise of the latter on the market in normal conditions of competition with private operators, the legal status of the undertaking (in the sense of its being subject to public law or ordinary company law), the intensity of the supervision exercised by the public authorities over the management of the undertaking, or any other indicator showing, in the particular case, an involvement by the public authorities in the adoption of the measure in question or the unlikelihood of their not being involved, having regard also to the compass of the measure, its content or the conditions which it contains.⁸⁵

DR was a private limited liability company established under the Act No 138/1994. In such companies, shareholder’s liability when it comes to the company’s obligations is limited to the share capital contributed. No privileges were attached to the company’s shares and shareholders were not required to submit to redemption of their shares.

The Icelandic authorities have explained that DR’s operations were never under the Port of Reykjavík or the City of Reykjavík’s control, either before or after the Port’s acquisition of Stáltak’s shares. In this respect the authorities have pointed out that no operational issues were ever addressed to the Port of Reykjavík’s Harbour Board. The Harbour Board’s involvement was limited to the appointment of one of DR’s three board members⁸⁶ and the fact that DR’s audited annual accounts were presented to the Harbour Board. Finally, it was the Harbour Board that finally requested DR’s de-registration from the national company registry.

The Icelandic authorities have insisted that the Port or other public authorities were never involved in DR’s daily operations or its management and could in no manner influence its business decisions, such as the decision to rent DR’s assets to Stáltak. Neither Icelandic law nor company practices entitled the Port to influence such a decision in any way.⁸⁷ Furthermore, the complainant has confirmed that DR was not obliged to take account of any directives or requirements from the Port or other municipal authorities in relation to

⁸³ Hereinafter also referred to as “the Court”.

⁸⁴ Case C-482/99 *France v Commission (Stardust marine)* [2002] ECR I-4397, paragraph 52.

⁸⁵ Case C-482/99 *Stardust marine*, cited above, paragraphs 55-56.

⁸⁶ According to the Icelandic authorities, the board member was also the Port of Reykjavík’s financial manager and was responsible for DR’s accounts.

⁸⁷ See letter from the Icelandic authorities of 29 October 2007, Event No 449597.

the rental agreement and the sale of equipment. Neither had the Port of the municipality any influence on DR's decisions in this respect.⁸⁸

Against this background it is the Authority's view that the private limited liability company DR acted irrespective of any requirements or directives issued by the City of Reykjavík or other public authorities. The company was independent in its operations and did not serve as a part of the public administration. The Authority is of the opinion that the criteria for imputability to the State of an aid measure taken by a public undertaking outlined by the Court of Justice in *Stardust marine*, referred to above, are not fulfilled as regards the measures executed by DR.

It is accordingly the Authority's view that DR's decision to continue renting its assets to Stáltak was not imputable to the State. Furthermore, DR's decision to deviate from the rental agreement with regard to the sale of equipment is not imputable to the State. As the presence of state resources thus cannot be established, the Authority is of the opinion that the transaction does not constitute state aid under Article 61(1) EEA.

1.3. Alleged aid measures executed by Stálsmiðjan-Slippstöðin (later Hafnarhús)

Stálsmiðjan-Slippstöðin (later Hafnarhús) was a private limited liability company established by Stáltak and sold to the Port of Reykjavík on 29 October 2000. According to its articles of association, the company's objective was property holding and operations including leasing out of real estate, floating docks and docking constructions for ship repairs. The question here is whether the company's lease of its properties in Mýrargata to Stáltak can be regarded as imputable to the State.

The lease contract concerning these properties was entered into on 27 October 2000, two days before Stálsmiðjan-Slippstöðin was bought by the Port. Hence, at the time the lease contract was entered into, Stálsmiðjan-Slippstöðin was owned by Stáltak, a private company.

On this basis, the Authority is of the opinion that the lease contract concerning the properties in Mýrargata cannot be imputable to the State, as Stálsmiðjan-Slippstöðin was not owned by the State or any state owned company at the time the transaction was concluded. Furthermore, the Authority cannot see that the lease contract constitutes state aid on the basis that Stálsmiðjan-Slippstöðin was later bought by the Port and the lease contract continued running on the same conditions.

Therefore, the Authority has reached the conclusion that Stálsmiðjan-Slippstöðin/Hafnarhús's lease of property in Mýrargata to Stáltak was not imputable to the State. As the presence of state resources thus cannot be established, the Authority is of the opinion that the transaction does not constitute state aid under Article 61(1) EEA.

2. Procedural requirements

Pursuant to Article 1(3) of Part I of Protocol 3 to the Surveillance and Court Agreement, *“the EFTA Surveillance Authority shall be informed, in sufficient time to enable it to submit its comments, of any plans to grant or alter aid. [...] The State concerned shall not put its proposed measures into effect until the procedure has resulted in a final decision”*.

⁸⁸ Letter from the complainant of 4 June 2008, Event No 480567.

The Icelandic authorities did not notify the aid measures described above to the Authority. The Authority has therefore come to the preliminary conclusion that the Icelandic authorities have not respected their obligations pursuant to Article 1(3) of Part I of Protocol 3 to the Surveillance and Court Agreement.

3. Compatibility of the aid

The Icelandic authorities have argued that the transactions described above do not constitute state aid and have not put forward arguments concerning compatibility of possible state aid. However, as stated above, the Authority cannot exclude that state aid may be involved in the Port of Reykjavík's purchase of shares in DR and Stálsmiðjan-Slippstöðin from Stáltak. It must therefore be considered whether any aid involved in the transactions could be compatible with the EEA Agreement under Articles 61(2) or 61(3) EEA.

The exemptions laid down in Article 61(2) EEA are not applicable to the measures in question, as the measures are not designed to achieve any of the aims listed in this provision. Moreover, Articles 61(3)(a) and (b) EEA appear to be inapplicable as the measures in question did not promote economic development in an area where the standard of living is abnormally low or where there is serious underemployment and did not promote a project of common European interest. Furthermore, the information available to the Authority does not indicate that the measures in question had the objective to facilitate the development of certain economic activities as prescribed in Article 61(3)(c) EEA.

Against that background, the Authority has reached the preliminary conclusion that the state aid is not compatible with the EEA Agreement.

4. Conclusion

Based on the information submitted by the Icelandic authorities and by complainant, the Authority cannot exclude the possibility that the Port of Reykjavík's purchase of shares in DR and Stálsmiðjan-Slippstöðin from Stáltak constitutes state aid within the meaning of Article 61(1) EEA. Moreover, the Authority has doubts that these measures can be regarded as complying with Articles 61(2) or 61(3)(a)-(c) EEA. The Authority thus doubts that the above measures are compatible with the functioning of the EEA Agreement.

Consequently, and in accordance with Article 4(4) of Part II of Protocol 3 to the Surveillance and Court Agreement, the Authority is obliged to open the procedure provided for in Article 1(2) of Part I of Protocol 3 of the Surveillance and Court Agreement with regard to these measures. The decision to open proceedings is without prejudice to the final decision of the Authority, which may conclude that the measures in question do not constitute state aid or are compatible with the functioning of the EEA Agreement.

In light of the foregoing considerations, the Authority, acting under the procedure laid down in Article 1(2) of Part I of Protocol 3 to the Surveillance and Court Agreement, requests the Icelandic authorities to submit their comments within one month of the date of receipt of this Decision.

In light of the foregoing consideration, the Authority requires that, within one month of receipt of this decision, the Icelandic authorities provide all documents, information and data needed for assessment of the compatibility of the described transactions with the state

aid rules of the EEA Agreement. It requests the Icelandic authorities to forward a copy of this decision to the potential aid recipient of the aid immediately.

HAS ADOPTED THIS DECISION:

Article 1

The EFTA Surveillance Authority has decided to open the formal investigation procedure provided for in Article 1(2) of Part I of Protocol 3 to the Surveillance and Court Agreement against Iceland regarding the alleged state aid granted by the Port of Reykjavík to Stáltak hf. (later Stálsmiðjan ehf.) through the Port of Reykjavík's purchase of Stáltak hf.'s shares in the private limited liability companies Dráttarbrautir Reykjavíkur ehf. and Stálsmiðjan-Slippstöðin ehf.

Article 2

The EFTA Surveillance Authority considers that the alleged state aid granted by the Port of Reykjavík to Stáltak hf. (later Stálsmiðjan ehf.) through transfer of chattels to Dráttarbrautir Reykjavíkur ehf., through alleged granting of a loan to Dráttarbrautir Reykjavíkur ehf. during the years 2000-2002 and through remission of Dráttarbrautir Reykjavíkur ehf.'s administrative costs does not constitute state aid within the meaning of Article 61 of the EEA Agreement.

Article 3

The EFTA Surveillance Authority considers that the alleged state aid granted by Dráttarbrautir Reykjavíkur ehf. to Stáltak hf. (later Stálsmiðjan ehf.) does not constitute state aid within the meaning of Article 61 of the EEA Agreement.

Article 4

The EFTA Surveillance Authority considers that the alleged state aid granted by Stálsmiðjan-Slippstöðin (later Hafnarhús) to Stáltak hf. (later Stálsmiðjan ehf.) does not constitute state aid within the meaning of Article 61 of the EEA Agreement.

Article 5

The Icelandic authorities are requested, pursuant to Article 6(1) of Part II of Protocol 3 to the Surveillance and Court Agreement, to submit their comments on the opening of the formal investigation procedure within one month from the notification of this Decision.

Article 6

The Icelandic authorities are required to provide within one month from the notification of this Decision, all documents, information and data needed for assessment of the compatibility of the aid measures described in Article 1 of this Decision. In particular, the Icelandic authorities are requested to submit the value assessments necessary in order to evaluate the value of the shares purchased by the Port of Reykjavík in Dráttarbrautir Reykjavíkur and Stálsmiðjan-Slippstöðin.

Article 7

This Decision is addressed to the Republic of Iceland.

Article 8

Only the English version is authentic.

Done at Brussels, 30 October 2009.

For the EFTA Surveillance Authority,

Per Sanderud
President

Kristján Andri Stefánsson
College Member