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# *EFTA SURVEILLANCE AUTHORITY*

Doc. No. 01-2506-I  
Dec. No. 107/01/COL  
Ref. No. SAM 030.00010

## EFTA SURVEILLANCE AUTHORITY DECISION

OF 11 APRIL 2001

ON INDIVIDUAL REGIONAL INVESTMENT AID TO HARSTAD SKIPSINDUSTRI AS  
(AID NO 00-010)

(NORWAY)

THE EFTA SURVEILLANCE AUTHORITY,

HAVING REGARD TO the Agreement on the European Economic Area<sup>1</sup>, in particular to Articles 61 to 63 of the Agreement,

HAVING REGARD TO the Act referred to in point 1b of Annex XV to the EEA Agreement on aid to shipbuilding (Council Regulation (EC) No. 1540/98)<sup>2</sup>,

HAVING REGARD TO the Agreement between the EFTA States on the establishment of a Surveillance Authority and a Court of Justice<sup>3</sup>, in particular Article 24 and Article 1 of Protocol 3 thereof,

HAVING REGARD TO the EFTA Surveillance Authority's Procedural and Substantive rules in the field of State aid<sup>4</sup>, in particular to chapter 25 thereof,

WHEREAS:

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<sup>1</sup> Hereinafter referred to as the EEA Agreement.

<sup>2</sup> Hereinafter referred to as the Shipbuilding Regulation.

<sup>3</sup> Hereinafter referred to as the Surveillance and Court Agreement.

<sup>4</sup> Guidelines on the application and interpretation of Articles 61 and 62 of the EEA Agreement and Article 1 of Protocol 3 to the Surveillance and Court Agreement, adopted and issued by the EFTA Surveillance Authority on 19 January 1994, published in OJ 1994 L 231, EEA Supplements 03.09.94 No 32, last amended by the Authority's Decision No 78/00/COL of 12 April 2000, published in OJ L 274, 26.10.2000, hereinafter referred to as the "Authority's State Aid Guidelines".

## I. FACTS

### 1. The notification

By letter of 28 November 2000 from the Mission of Norway to the European Union, received and registered on 29 November 2000 (Doc. No: 00-8693 A), the Norwegian authorities notified, pursuant to Article 1(3) of Protocol 3 to the Surveillance and Court Agreement and Article 10 (2) (b) of the Shipbuilding Regulation, regional investment aid to the shipyard Harstad Skipsindustri AS.

By letter dated 22 December 2000 (Doc. No: 00-9395 D), the Authority acknowledged receipt of the notification and informed the Norwegian authorities that the Authority, if necessary, would request additional information before the end of January 2001.

By letter of 26 January 2001 (Doc. No. 01-703 D), the Authority requested further information.

By letter dated 26 February 2001 from the Norwegian State's Industrial and Regional Development Fund (SND), received and registered on 2 March 2001 (Doc. No: 01-1700 A), the Norwegian authorities submitted additional information.

By letter of 23 March 2001 (Doc. No: 01-2215 D), the Authority acknowledged receipt of the notification.

### 2. The contents of the proposed aid

- Introduction

The Norwegian authorities have notified the Authority of their intention to grant NOK 2 million (app. €244.000) as regional investment aid to the shipyard Harstad Skipsindustri AS<sup>5</sup>. The aid will be granted from the Industrial and Regional Development Fund (SND). The aid project consists of building a steel hall over two slipways. The total budget for the project is NOK 16 million (app. €1.9 million). The aid intensity is 12.5%. Harstad Skipsindustri AS is located in the municipality of Harstad in northern Norway (Article 61(3)(c) EEA region).

- Aid beneficiary

Harstad Skipsindustri AS is the holding company in a group of companies. The holding company has 2 employees, while the whole group employs 220 people. The group's turnover in 1999 was NOK 143.0 million (app. €17.4 million), while the pre-tax profit was NOK 5.9 million. The group's total assets constitute NOK 73.9 million (app. €9 million). The group's total operations have included repair, maintenance and reconstruction of ships, offshore-related products, shipbuilding, property management and welding control.

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<sup>5</sup> NACE 35.111 – Building and repair work on ships and hulls that exceed 100 GRT.

The holding company owns the plant where the steel hall will be built and is the recipient of the grant. A subsidiary company, Hamek AS, will utilize the hall through a rent agreement. Hamek AS is therefore considered as the primary beneficiary of the grant.

Hamek AS offers repair, maintenance and reconstruction of ships between 15 and 50 meters. The company has 30 employees and is owned 100% by the holding company. The turnover in 1999 was NOK 22.9 million, profit before tax was NOK 2.0 million and the balance sheet total was NOK 9.9 million. Hamek AS rents facilities from the holding company. These facilities include two slipways for vessels up to 70 meters and 1500 tonnes of weight and one larger slipway that can handle ships up to 100 meters and 3000 tonnes. The new hall is going to be built over the two smaller slipways.

- The aid project

The planned project consists of building a steel hall over two slipways at the shipyard in Harstad. The costs include acquisition of equipment and purchase of goods, site work, environmental measures, administration costs etc. Total estimated investment costs are NOK 16.0 million. The breakdown of the costs, as well as their planned financing, are as shown in table 1 below.

Table 1: Investment costs and financing

INVESTMENT	( NOK 1000)
General items	1331
Site preparation	1727
Walls, ceiling, stairs, etc.	6668
Cranes	2519
Environmental measures	1000
Various costs	2755
<b>TOTAL</b>	<b>16000</b>
<b>FINANCING</b>	
SND Grant	2000
Bank loans	10000
Equity	4000
<b>TOTAL</b>	<b>16000</b>

The Norwegian authorities state that with today's plant, it is impossible at times to maintain the operations of Hamek AS outdoors because of the climatic conditions in the northern part of Norway. The yard is located over 600 kilometres north of the Polar Circle. In addition, a lot of resources have to be spent during the winter to prepare for and clear the slipways of snow and ice. The investment will therefore improve the productivity of Hamek AS, especially during the winter-season.

## II. APPRECIATION

### 1. The presence of State aid and notification formalities

The notified aid is being funded by State resources and will favour certain undertakings in the meaning of Article 61(1) of the EEA Agreement. The benefiting enterprise is actually or potentially in competition with similar undertakings in Norway and other EEA states. As the proposed aid distorts or threatens to distort competition and to affect trade within the EEA, the aid therefore constitutes State aid in the meaning of Article 61(1) of the EEA Agreement.

The Norwegian authorities have, by letter of 28 November 2000 from the Mission of Norway to the European Union, received and registered on 29 November 2000 (Doc. No: 00-8693 A), and by letter dated 26 February 2001 from the Norwegian State's Industrial and Regional Development Fund (SND), received and registered on 2 March 2001 (Doc. No: 01-1700 A), fulfilled their obligation under Article 1(3) of Protocol 3 to the Surveillance and Court Agreement to notify any plans to grant or alter aid. The Norwegian authorities have also complied with the specific notification requirements for aid to shipyards set out in Article 10 (2) (b) of the Shipbuilding Regulation.

The planned financial participation by SND will be arranged under the "Regional Development Grant" Scheme ("Distriktutviklingstilskudd"). The Authority approved the scheme on 5 July 2000 (Dec. No.131/00/COL) after the Norwegian authorities had decided to amend it for the purpose of applying *i.a.*, the rules on aid for shipbuilding. The decision contained the following provision: "*Any aid awards from the "Regional Development Grant Scheme", ("Distriktutviklingstilskudd") to the shipbuilding sector shall be notified to the Authority in advance by the Norwegian authorities and authorised by the Authority before they are put into effect.*" The Norwegian authorities have also complied with this provision.

### 2. Application of the relevant State aid rules

The aid beneficiary is a company engaged in building and repair works on ships and hulls that exceed 100 GRT, an activity that is covered by the Shipbuilding Regulation (cf. Article 1 thereof). The aid must also be assessed under the rules contained in the Authority's State Aid Guidelines on national regional aid.

As the aid has the character of regional investment aid, it must be assessed under Article 7 of the Shipbuilding Regulation. Article 7 of the Regulation as incorporated in the EEA Agreement<sup>6</sup> stipulates:

*"Aid granted for investment in upgrading or modernising existing yards, not linked to a financial restructuring of the yard(s) concerned, with the objective of improving the productivity of existing installations, may be deemed compatible with the functioning of the EEA Agreement provided that:*

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<sup>6</sup> Annex XV, point 1b

- *in regions meeting the criteria for the option contained in Article 61 (3)(a) and complying with the map approved by the competent surveillance authority as defined in Article 62 of the EEA Agreement for each EC Member State or EFTA State for the grant of regional aid, the intensity of the aid does not exceed 22,5%,*
  - *in regions meeting the criteria for the option contained in Article 61 (3)(c) and complying with the map approved by the competent surveillance authority as defined in Article 62 of the EEA Agreement for each EC Member State or EFTA State for the grant of regional aid, the intensity of the aid does not exceed 12.5% or the applicable regional aid ceiling, whichever is the lower,*
  - *the aid is limited to support eligible expenditure as defined in the applicable Community guidelines on regional aid and the EFTA Surveillance Authority's Procedural and Substantive rules in the field of State aid, part VI Rules on regional aid”*
- Objective of the aid

The aid project in question consists of investment in upgrading and modernising of the existing yard with the objective of improving the productivity of existing installations. The condition regarding the objective of the aid as set out in Article 7 of the Shipbuilding Regulation is thus considered fulfilled.

- Geographical conditions

Harstad Skipsindustri AS is located in the municipality of Harstad, in the county of Troms. According to the map of assisted areas in Norway, which was authorised by the EFTA Surveillance Authority Decision No 327/COL of 16 December 1999, Harstad belongs to an Article 61 (3)(c)-region (target zone B). Harstad Skipsindustri AS is therefore eligible for regional investment aid, and the geographical conditions in Article 7 of the Shipbuilding Regulation are thus fulfilled.

- Eligible expenditure

Chapter 25.4(6) of the Authority's State Aid Guidelines states that: *“Initial investment means an investment in fixed capital relating to the setting-up of a new establishment, the extension of an existing establishment, or the starting-up of an activity involving a fundamental change in the product or production process of an existing establishment (through rationalisation, diversification or modernisation).”* Furthermore, Chapter 25.4(8) of the Guidelines states that: *“Aid for initial investment is calculated as a percentage of the investment's value. This value is established on the basis of a uniform set of items of expenditure (standard base) corresponding to the following elements of the investment: land, buildings and plant/machinery.”*

The Authority considers that the investment in the new hall falls within the category of initial investment. With reference to table 1 in point I above, containing information on the project costs, the Authority considers that they all relate to costs in *“buildings and plant/machinery”* and that the aid is thus limited to support eligible expenditure in accordance with Article 7 of the Shipbuilding Regulation and the

Authority's State Aid Guidelines on national regional aid. The eligible investment costs are therefore NOK 16 million.

- Aid intensity

SND proposes to offer an investment grant of NOK 2 million, which corresponds to an aid intensity of 12.5%. Since the regional aid ceiling applicable in target zone B is above the ceiling set in Article 7 of the Shipbuilding Regulation, the lower ceiling of 12.5% applies in the present case. As the aid intensity for the aid project in question is 12.5%, the conditions regarding the aid intensity as set out in Article 7 are also fulfilled.

- Conclusion

It is concluded that the notified aid to Harstad Skipsindustri AS may be considered compatible with the functioning of the EEA Agreement.

**HAS ADOPTED THIS DECISION:**

1. The EFTA Surveillance Authority has decided not to raise objections to the proposed regional investment aid to the shipyard Harstad Skipsindustri AS as notified by the Norwegian authorities by letter of 28 November 2000 from the Mission of Norway to the European Union, received and registered on 29 November 2000 (Doc. No: 00-8693 A), and letter of 26 February 2001 from the Norwegian State's Industrial and Regional Development Fund (SND), received and registered on 2 March 2001 (Doc. No: 01-1700 A).
2. The Norwegian Government is reminded of its obligation to submit to the EFTA Surveillance Authority the relevant reports referred to in Article 11 of the Shipbuilding Regulation.

Done at Brussels, 11 April 2001.

For the EFTA Surveillance Authority

Knut Almestad  
President

Bernd Hammermann  
College Member