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**Monitoring of shipbuilding restructuring programmes in Germany and Spain**

**Second Commission Report to the Council, July 1998**

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Pursuant to Council Regulation 1013/97<sup>1</sup>, the Commission has approved aid to certain shipyards under restructuring in Germany and Spain.

Article 2 of the Council Regulation states that there shall be established a programme for the monitoring of the actual use of the operating and investment aid, compliance with the restructuring plan and enforcement of capacity limitations which is acceptable to the Commission. This programme shall include on-site monitoring by the Commission assisted if necessary by independent experts. Article 2 further stipulates that the Member States concerned shall supply the Commission until the end of June 1999 with quarterly reports on progress towards completing the restructuring programmes benefiting from aid and information on the specific beneficiary yards. This information shall include the following elements: use of aid; investments; productivity performance; capacity reductions and limitations; employment reductions; financial viability. On the basis of the information received, the Commission shall provide to the Council twice yearly reports, which may also be discussed with national experts.

A first such report was submitted to the Council in January 1998. The Commission's second report to the Council, based on information received up to June this year, is attached.

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<sup>1</sup> Official Journal L 148, 6.6.97, p1

## Monitoring of the restructuring of the public shipyards in Spain

### Second Commission Report, July 1998

#### I. Introduction

By letter 6715 dated 6 August 1997, the Commission informed the Spanish Government of its decision (State Aid case C 56/95, Official Journal C354 of 21 November 1997, page 2), pursuant to Council Regulation 1013/97 of 2 June 1997, to approve state aids totalling PTA 229.008 billion in support of the restructuring of the publicly owned yards in Spain.

The aid was made up as follows:

- interest payments of up to 62.028 billion pesetas in 1988 to 1994 on loans taken to cover unpaid previously approved aid;
- social aids of up to 80 billion pesetas (plus a further 3.98 billion pesetas that had been paid in 1991 and 1993 to cover costs arising from previous restructuring);
- investment aids of up to 10 billion pesetas;
- tax credits in the period 1995- 1998 of up to 58 billion pesetas;
- a capital injection of up to 15 billion pesetas.

These aids were in addition to a sum of up to 89.104 billion pesetas approved by Commission letter dated 22 January 1996(OJ C 75 of 15 March 1996, page 2) to cover unpaid, previously authorised loss compensation aid plus interest.

Under the terms of the Commission's decision, the aids were approved subject to various conditions, particularly as regards capacity reductions and production limitations.

In accordance with the provisions of Article 1.4 of Council Regulation 1013/97, Spain was required to carry out a genuine and irreversible reduction of capacity of 30,000 cgrt in the public yards. This was to be achieved through the following measures:

- the cessation of newbuilding at Astander;
- the closure of a dry dock (146.6m x 21.8m) at Sestao;
- the non-utilisation of a dry dock (148.7m x 22.5m) at Sevilla;
- the closure of a slipway (60m x 15m) at Sevilla;
- the closure of a slipway (67m x 14m) at Barreras.

Annual production shall not exceed the remaining level of capacity (210,000 cgrt) for a period of 10 years.

Furthermore, the Astano yard shall not re-open to shipbuilding (although it will continue its FPSO activities, but without receiving contract-related aid); and Astander shall, in addition to ceasing newbuilding, not engage in ship conversions while it remains in public ownership.

In addition, Spain was obliged to co-operate fully in the monitoring arrangements established by the decision pursuant to article 2 of Council Regulation 1013/97. Quarterly reports to the Commission shall be submitted, the first falling due by 15 September 1997(covering the period up to 30 June 1997), by 15 December 1997 (covering the next quarter up to 30 September 1997) and so on up until 15 September 1999(covering the period up to 30 June 1999).

In approving the aid, the Commission stressed the finality and exceptional nature of the aid package , taking note of the undertakings made by the Spanish government in that regard. Should any public yard, each of which is to be a separate profit centre on full cost basis, not achieve viability by the end of 1998, no more restructuring aid( including loss compensation, guarantees and rescue aid) will be possible for the yards or their legal successors (eg if privatised).

## **II. The monitoring report**

The Commission's first monitoring report(essentially covering the period up to 30 September 1997) was submitted to the Council in January 1998.

This latest (second) Commission report reflects the position as at 31 March 1998. It is based on information provided by the Spanish authorities in quarterly reports submitted on 18 March and 16 June together with supplementary information provided during monitoring visits by the Commission services and their consultants in February and May. These monitoring visits included meetings in Madrid as well as on-site visits to the yards at Astander, Barreras, Astano and Juliana. Full co-operation was provided by the yards and the Spanish authorities.

### **Privatisations**

During the period covered by this report, negotiations were under way for the privatisation of the Astander and Barreras yards. The Commission understands that the sale of the latter, to a consortium of private interests (including the existing yard management), was finally concluded in early June. This will be reported on in further detail as necessary in the next monitoring report.

### **Use of Aid**

In total the overall package of aid approved by the Commission amounted to 318.112 billion pesetas. Of this amount, 66.008 related to aids already paid prior to implementation of the current restructuring plan (62.028 billion pesetas to cover interest payments made in the period 1998 - 1994; and 3.98 billion pesetas in social aids paid in 1991 and 1993). The Commission's monitoring therefore focuses on the balance of the package, amounting to a total of 252.104 billion pesetas, directly linked to the restructuring plan.

As at 31 December 1997 the following aids have been paid since 1995:

Bn PTA

AID	bn PTAs
Unpaid previously approved loss compensation	87.37
Social aids	79.05
Investment aids	10.00
Tax credits	39.549
Total	215.969

No aids have been paid so far in 1998. This means that aids amounting to 36.133 billion pesetas have still to be paid, as can be seen from the following table:

bn PTAs

Aid	approved	paid up to end 1997	to be paid in 1998
loss compensation	89.104	87.37	1.734
social aids	80	79.05	0.95
investment aids	10	10	0
tax credits	58	39.549	18.449
capital injection	15	0	15
Total	252.104	215.969	36.133

The yards have not received any bank loans or state guarantees since the first report.

Details of contract prices have been provided by the Spanish authorities. These appear to be within the normal range for the market.

## Investments

Expenditure to date and forecasts for the remainder of the plan are as follows:

	Million PTAs					
<u>YARD</u>	<u>1996</u>	<u>1997</u>	<u>31/3/1998</u>	<u>1998</u>	<u>1999</u>	<u>TOTAL</u>
Puerto Real	167	409	103	666	508	1750
Cadiz	54	133	85	163	-	350
Sevilla	2	158	8	132	58	350
Sestao	37	364	61	1285	1614	3300
Astander	43	54	35	153	-	250
Astano	303	1141	113	301	105	1850
Juliana	39	146	18	165	-	350
Barreras	190	102	8	8	-	300
Corporate Services	670	553	15	277	-	1500
<u>TOTAL</u>	<u>1504</u>	<u>3060</u>	<u>445</u>	<u>3150</u>	<u>2285</u>	<u>10000</u>

During the yard visits undertaken, the nature and status of projects were appraised. No discrepancies were identified.

## **Productivity performance**

On the basis of actual production in 1997(see below), overall productivity in terms of cgt/man hours slipped back somewhat in comparison with 1996, which had marked a significant improvement on previous years. At this stage it is not yet possible fully to see the benefits of the investments carried out or underway. It is also difficult to draw definitive conclusions about relative performance at the level of individual yards given the variety of shiptypes under construction. However where yards are engaged in series building the trend is generally positive, although performance is variable. In some cases the improvements are significant; in others the gains are more limited.

## Capacity reductions and production limitations

In the first report it was noted that the on-site inspections at Puerto Real, Sestao and Sevilla had confirmed that the required capacity reductions there had been achieved. The subsequent visit to Barreras has confirmed that the slipway concerned there has also effectively been closed to shipbuilding activity. Similarly the visit to Astander confirmed that the yard is not engaged in shipbuilding or ship conversion activities. The Commission can therefore conclude that at this stage the conditions of the decision in this regard have been respected. It will continue to monitor the situation to ensure that this remains the case.

As regards production, the overall level attained in 1997 at the five yards engaged in shipbuilding (Barreras, Juliana, Puerto Real, Sestao and Sevilla) was, according to the Commission's consultants, 185,073 cgrt, broken down by yard as follows:

	Cgrt
Puerto Real	51490
Sestao	66711
Sevilla	22000
Juliana	22693
Barreras	22179

The overall level of production was well within the annual production limitation of 210,000 cgrt. However according to the estimates of the Commission's consultants the forecast outturn for the current year is significantly above that level. This issue will require further technical examination. Nevertheless the Commission has in the meantime reiterated its concerns that steps be taken to ensure that the limitation is respected. The situation will continue to be kept under very close review and will be covered further in the next monitoring report.

### Employment reductions

As at 31 March 1998, 78% of the total workforce reduction under the plan (which foresaw a reduction from 10017 in 1994 to 6100 at the end of 1998) had been achieved. The total workforce at that date was 6976. The following table shows the evolution against the final target:

	1994	31/3/98	End 1998
Puerto Real	2031	1618	1390
Sestao	2458	1484	1230
Sevilla	679	424	315
Juliana	720	485	450
Barreras	454	357	355
Astano	1971	1274	1180
Cadiz	615	490	390
Astander	433	332	292
Corporate Services*	656	512	449
<b>Total</b>	<b>10017</b>	<b>7273</b>	<b>6200</b>

\* includes Manises diesel

### Financial Viability

As foreseen under the restructuring plan the yards have been established as separate profit/cost centres.

As regards financial results, in 1997, on an overall turnover of 139.607 billion pesetas the group suffered an ordinary loss before tax of 23.996 billion pesetas, about 45% lower than the loss in 1996 but much higher than foreseen under the restructuring plan (which forecast a before tax ordinary loss of 4.539 billion pesetas).



The breakdown by yard was as follows:

	Turnover	Bn PTA Result
Puerto Real	25.051	(7.320)
Sestao	32.885	(3.633)
Cadiz	32.787	(3.655)
Juliana	12.557	(2.003)
Astander	5.600	0.199
Astano	11.196	(4.185)
Barreras	11.136	(0.025)

On the basis of these data and performance in the first quarter of 1998 there will have to be a significant improvement in performance if all of the yards are to achieve the break-even target by 31 December 1998.

### III. Conclusions

It appears that to date the conditions laid down in the Commission's decision are being respected, although there are a number of aspects of the plan that will continue to need close monitoring. The main areas of concern are the forecast level of production in 1998, which, if attained, would be in breach of the annual production limitation; and the risk that several yards will fail to achieve viability by the end of this year.

## **Monitoring of the restructuring of MTW-Schiffswerft and Volkswerft Stralsund Germany (Land Mecklenburg-Vorpommern)**

**Second Commission Report, July 1998**

### **Introduction**

In the reporting period, which covers the time between December 1997 and June 1998, both shipyards were sold and reprivatized. Due to this, the monitoring activities of the Commission focused on the examination and assessment of the privatization agreements from a state aid perspective, and in particular of their compliance with the rules set out in Council Regulation 1013/97.

The Commission approved the privatization of Volkswerft Stralsund and a second tranche of restructuring aid to this yard in February 1998.

The Commission was not yet in the position to take a decision on the state aid aspects of the privatization of MTW-Schiffswerft, although the new owners AKER RGI took over control of the yard in March 1998. The reason for the delay is that AKER intends to buy the shipbuilding assets of Elbwerft Boizenburg as well which went bankrupt in 1997. It needs still to be clarified, how supplies from Elbwerft to Aker-MTW-Schiffswerft (in the further text MTW) are to be treated with respect to the capacity limitations.

### **Monitoring reports and site visits**

Pursuant to Article 2 of Council Regulation quarterly monitoring reports shall be submitted by the German Government to the Commission. The Commission received two further monitoring reports for each of the yards covering the period until end of March 1998. Additional extensive information was provided in the notifications of the privatizations which include the privatization contracts. The Commission and their consultants undertook monitoring visits to both yards in the period. The third monitoring visit took place end of January 1998 with a focus on Volkswerft, and the fourth in mid March 1998 to MTW and Elbwerft. Further, the Commission had a number of discussions on the privatizations in Brussels and Berlin with the parties concerned.

This second Commission report is based on the above mentioned information in the various reports and collected during the site visits. As the developments in the two yards are no longer fully parallel, the rest of this report discusses the developments in Volkswerft and MTW separately.

### **Volkswerft**

#### **1. Privatisation**

In the open bidding procedure under involvement of an investment bank 36 potential investors were contacted of which 5 showed serious interest. In the end, however, only two bidders remained of which one decided to withdraw for lack of sufficient free management resources required for the restructuring. After intensive negotiations BvS and the Land Mecklenburg-Vorpommern (MVP) decided to sell the yard to the Danish firm Odense

Steelshipyard A.S. (Odense). The Commission accepted from the explanations given that the selection of Odense is the result of an open and transparent bidding procedure.

The main features of the privatisation contract from a state aid perspective are as following:

- The transaction has the form of an "asset-deal" in order to avoid that the buyer is burdened with obligations and liabilities of the Bremer Vulkan period. In future "Volkswerft GmbH" will be a residual company, while the buyer will create a new legal entity for operation of the yard;
- The new company will complete the eight ships under the existing orderbook as subcontractor to the residual company. For seven of the ships a fixed price is agreed, one specialized vessel close to delivery will be completed on a cost-basis. The residual company remains liable towards the shipowners, except for technical risks of ships completed by the new company. In particular the old company will retain the risks related to the financial performance guarantees provided by the yard for containerships financed under the "KG-Model".
- The seller will meet the costs of the completion of the investments for modernization of the yard up to the total amount of 679 m DM. The investments will follow the agreed programme which is now part of the privatization contract. Any excess over the total 679 m DM plus 8.7 m DM contingencies will have to be met by the buyer. (This corresponds to the planned budget and includes investments made during the first privatization) The buyer will not take over the concessional loan of 147 m DM linked to the investments.
- The buyer pays 25 m DM for the yard.
- The envisaged level of employment on the yard is unchanged to the original restructuring programme. The buyer guarantees a minimum employment of 800 in the period until end 2002 on the yard. The operation of the yard is guaranteed until end 2003; in the last three years this condition can be waived in case of very severe crisis on the market.

The sale in form of an "asset deal" changed the aid programme for the restructuring, presented in the Commission document COM(97) 132 final of 14 March 1997. Therefore, the Commission had to make sure that the condition that no aid must be given for the restructuring and privatisation in addition to the amounts foreseen under the restructuring programme presented in 1997 to the Council, is not circumvented by the "asset deal", in which all liabilities and guarantee risks of the old Volkswerft remain with the old company.

The Commission therefore examined the expected financial results of the residual company under consideration of all pending risks. In the context of privatisation the foreseen concessional investment loan will be waived. This is compensated by a corresponding reduction of operating aid. Potential expenses to honour guarantees provided by the shipyard to shipowners are to be covered from the cash flow from the residual company, the sales price received and, to the extent necessary from reserves under the operating aid budget. After a conservative examination of the financial risks of the residual company the Commission concluded that it can be expected that the condition will be respected, that no aid must be given in addition to the amount foreseen under the restructuring programme notified in February 1997. The remaining aid and own assets can be regarded as sufficient to cover the various risks embodied in the residual company which will continue to exist during the remaining restructuring period.

Monitoring of the restructuring programme and of the capacity limitation will continue. Provisions to this respect are included in the privatisation agreement. The arrangements of the privatisation agreement are hence neither violating the aid limits set by Council

Regulation 1013/97 or its monitoring covenant nor the provisions on investment aid under Article 6 of the Seventh Directive. The Commission raised therefore no objections to the privatisation.

## **2. Progress of the restructuring and respect of the conditions set in Article 2 of Council Regulation 1013/97**

From the information received the Commission can conclude that the aid received by the yard was used as specified. The reduction of personnel and the implementation of the investments are in line with the restructuring plan. While the physical productivity targets were achieved, production was lower than expected and substantially below the capacity limit. In 1997 the yard faced persistent organization and marketing problems which were partly influenced by the uncertainty over the privatization. The privatization concept submitted shows that Odense will address these problems without delay. The further viability of the restructuring seems therefore to be given.

## **3. The second tranche of restructuring aid**

### **3.1 Investment Aid**

The two principal installations, the shipbuilding hall and the shiplift were completed in 1997. However, the investment programme will continue until at least late 1999. Also after privatisation the investments will follow the agreed restructuring programme. All investment measures are now specified, and it is evident that the budget will be tight. It is to be expected that the full budgeted amount of 679 m DM will be spent for investments. From the list of pending claims from contractors submitted it must also be assumed that the full 8.7 m DM earmarked for contingencies has to be spent. By end of 1997 contracts had been placed for a total amount of 585 m DM.

The German government informed that in 1996 Volkswerft financed investments on an amount of 25.7 m DM from own funds. Consequently the Commission decided that the investment aid budget needs to be reduced by this amount.

Expected expenses in 1998 will amount to 35 m DM to be financed from grant aid. As described in the privatisation arrangements above, in addition the amount of 86.4 m DM released in the first tranche on a concessional loan basis is now transferred into a grant. The corresponding aid equivalent for this transaction is 62.7 m DM.

Hence the Commission released under the second tranche a total of 72.0 m DM investment aid.

### **3.2 Operating aid**

The restructuring concept notified on 13 February 1997 and the Commission decision of 12 August 1997 on the authorization of a first tranche of aid were based on a „stand alone“ concept and included therefore full provisions for depreciations necessary to ensure the financial balance of Volkswerft. Due to the privatization in the form described above, this concept has changed. As the residual company will cease to operate, part of the aid authorized in the first tranche will not be needed in this form. The German government confirmed that an amount of 45.3 m DM foreseen for loss compensation / excess production cost 1997 and 11.8 m DM from claims against BvS (cp. previous report) was not disbursed and will not be disbursed in future. Therefore, these amounts are available, if necessary, to cover some of the further existing risks of the residual company, which mainly result from shipbuilding

contracts. Another allocation which will not be needed due to the privatisation is the allocation in form of a contingency of 60 m DM to increase the working capital.

For financing of the residual ships to be built the residual company will continue to need operating aid in the form of contract related aid under the „Wettbewerbshilfe“ scheme available to all German yards and in the form of state guarantees as foreseen under the original programme.

In consideration of these changes and the expected needs the second tranche of operating aid amounts to 57.6 m DM, of which a share of 14.5 m DM consists of social aid. The total amount of the first and second tranche after consideration of the various reallocations is 268.4 m DM.

Council Regulation 1013/97 stipulates that operating aid for the period from 1 March 1996 until 31 December 1998 may be considered compatible with the Treaty up to an amount of 395 m DM. The transfer of the investment loan into a grant has an aid equivalent of 107.3 m DM. These 107.3 m DM have to be deducted from the maximum of operating aid allowed, in order to avoid that the overall amount of aid given for the restructuring is increased. This results in a reduced budget of operating aid of 287.7 m DM.

The Commission assessed the aid related transactions linked to the privatization, in the light of the considerations and provisions of the above Council Regulation 1013/97. It came to the conclusion that the restructuring now to be continued after privatization is virtually unchanged in terms of its technical and economic contents to the programme notified before, and therefore in line with the Regulation. From the information provided the Commission concluded that the operating aid including the social aid foreseen under the second tranche of 57.6 m DM for Volkswerft respects the conditions of Article 1 of the Regulation and that the maximum amount is not exceeded. The Commission therefore approved this second tranche of operating aid.

#### **4. Potential third tranche of restructuring aid**

The Commission will examine the necessity of a third tranche of operating aid for the restructuring once the placement and financing of shipbuilding orders is adequately advanced, and it is ensured by information submitted as required by Article 2 of Council Regulation 1013/97 that the conditions for the granting of restructuring aid are fully respected.

## MTW-Schiffswerft

### 1. Privatization

The open bidding procedure was carried out in parallel with the one for Volkswerft. Again five potential investors showed serious interest. Of the group of five, two originally decided not to make an offer, Odense decided to buy rather Volkswerft Stralsund and one was not considered because of unacceptable financial conditions and doubts about his qualification in the sector. This left the Norwegian enterprise Ulltveit Moe, as the only bidder from this group. A second bid was received which envisaged an MBO in combination with three German enterprises. In the last minute of bid evaluation, the Norwegian company AKER RGI ASA (AKER), which before had renounced from bidding, made a bid with a 10% higher price than the one offered by Ulltveit Moe. The owners of the yard (BvS and MVP) decided therefore to reopen the tender procedure and requested all bidders to submit new bids by 11 January 1998. The MBO group renounced from further bidding while AKER further improved their bid further by offering a purchase price of 85 m DM and a guaranteed employment of 1600 staff. BvS and MVP decided therefore in January 1998 to accept the offer from AKER and the privatisation agreement was signed on 31 January 1998. The German government provided to the Commission a copy of the privatisation contract certified by the notary. The main features of the contract from a state aid perspective are as following:

- The transaction has the form of an "asset-deal" in order to avoid that AKER is burdened with obligations and liabilities from the past. The shares of MTW in the machine builder IMG, Rostock and Neptun Reparaturwerft, Rostock had been sold before to other buyers. The buyer created a new legal entity "Aker MTW-Schiffswerft GmbH" for operation of the yard;
- The new company will complete the 14 ships under the existing orderbook as subcontractor to the residual company on a fixed fixed price. The residual company remains liable towards the shipowners, except for technical risks of ships completed by the new company. In particular the old company will retain the risks related to the financial performance guarantees provided by the yard for ships financed under the "KG-Model".
- The seller will meet the costs of the completion of the investments for modernisation of the yard up to the total amount of 598.2 m DM plus 20 m DM contingencies. The investments will follow the agreed programme which is now part of the privatisation contract. (These figures correspond to the planned budget and include the investments made during the first privatisation) The buyer will not take over the concessional loan of 129.4 m DM linked to the investments. Hence this loan has to be written off and its aid equivalent of 93.6 m DM is to be regarded as a grant.
- AKER paid 85 m DM for the yard.
- The existing social plan for the staff made redundant due to the restructuring of the yard remains unchanged. The expenses made under the social plan in favour of this staff will be reimbursed up to fixed limits from state resources.
- The buyer guarantees a minimum employment of 1550 at the yard in end 1998. From 1999 until end 2002 AKER guarantees 1600 full time jobs in its enterprises in MVP. The operation of the yard is guaranteed until end 2007. In the last four years this condition can be waived in case of very severe crisis on the market.

The German government declared that the commercial activities of the residual company are limited to the wind-up of the 14 shipbuilding contracts of the existing orderbook, certain activities related to the completion of the investment programme and to the liquidation of the residual assets and liabilities. The German government gave the undertaking to inform the Commission of any further changes in the shipbuilding contracts.

The privatization contract entered into force in March 1998. The contract contains, however, a clause that the sale will be revoked if the Commission does not give its agreement to it.

## **2. Progress of the restructuring and respect of the conditions set in Article 2 of Council Regulation 1013/97**

From the information received the Commission can conclude that the aid received was used as specified. The reduction of personnel is more advanced than foreseen in the restructuring plan and in the privatisation contract. The implementation of the investments is on schedule and the very limited works left will be completed in 1998. The physical productivity targets were achieved in 1997. The financial result for the year is about 20 m DM lower than planned, nevertheless the financial viability of the restructuring is not at risk. The deviation results exclusively from the higher risk provisions for the performance guarantees provided due to the strong decrease of charter rates for container ships. According to the production monitoring reports, the production in 1997 amounted to 98275 cgt, hence it was in line with the reduced capacity of 98360 cgt set for 1997 in the the Commission's decision of 12 August 1997 (SG(97) D/6980). While the Commission has no reason to doubt this figure, it is provisional, as the final figure will be only available once the official tonnage measurements for the last of the three ships under construction at end 1997 will be available. Planned production for 1998 is 100000 cgt.

The viability of the restructuring seems to be given. The focus of future monitoring will lie on the supervision of the respect of the capacity limitation.

## **3. The planned second tranche of restructuring aid**

### **3.1 Investment aid**

The measures for the modernization of the yard are meanwhile virtually completed. By end of March 1998 orders on an amount of 588.6 m DM had been placed under the investment budget of 592.2 m DM. The residual is fully specified, and it is expected that the full budgeted amount plus 6.8 m DM of the 20 m DM earmarked for contingencies will be spent. According to the calculations submitted, expected expenses in 1998 will amount to 66.6 m DM, which are to be financed from grant aid. As described above, in addition the amount of 69.6 m DM released in the first tranche on a concessional loan basis is now transferred into a grant. The corresponding aid equivalent for this transaction is 50.3 m DM.

Hence the total amount of investment aid foreseen under the second tranche is 116.9 m DM.

### **3.2 Operating aid**

The restructuring concept of February 1997 and the Commission decision of 12 August 1997 on the authorisation of a first tranche of aid were based on a „stand alone“ concept and included therefore full provisions for depreciations necessary to ensure the financial balance of MTW. Due to the privatization in the form of an "asset deal", this concept has changed. As the residual company will cease to operate, part of the aid authorised in the first tranche will not be needed in this form. The German government confirmed that an amount of 18.5 m

DM foreseen for loss compensation / excess production cost 1997 was not disbursed and will not be disbursed in future. Therefore, this amount is still available under the budget. For financing of the residual ships to be built the residual company will continue to need operating aid in the form of operating aid in the form of contract related aid under the „Wettbewerbshilfe“ scheme available to all German yards and in the form of state guarantees as foreseen under the original programme.

In consideration of these changes and the expected requirements for operating aid until the end of the restructuring the envisaged second tranche of operating aid amounts to 58.2 m DM, of which a share of 9.1 m DM consists of social aid. The total amount of the first and second tranche is 238.7 m DM.

Council Regulation 1013/97 stipulates that operating aid for MTW for the period from 1 March 1996 until 31 December 1998 may be considered compatible with the Treaty up to an amount of 333 m DM. This amount was reduced by 0.7 m DM because of the capacity excess in 1996. In addition 93.6 m DM have to be deducted because of the transfer of the intended investment loan into a grant. The revised budget of operating aid amounts consequently to 238.7 m DM. The envisaged second tranche of operating aid of 58.2 m DM would therefore represent the maximum which could be considered as compatible with Article 1 of Council Regulation 1013/97.

#### **4. Forthcoming decision**

Once the residual issues are resolved, the Commission will take position on the privatisation procedure and the privatisation contract. In its decision it will assess the aid related transactions linked to this contract in the light of the considerations and provisions of Council Regulation 1013/97.

#### **Conclusions**

Notwithstanding the privatisation of both yards, the monitoring provisions under Article 2 of Council Regulation 1013/97 continue to apply. On the basis of monitoring to date it can be concluded that the conditions attached to the authorisation of the aid are being respected. The German government will continue to supply progress reports on the restructuring of MTW and Volkswerft and production monitoring reports for all yards in Mecklenburg-Vorpommern. As the physical restructuring of the yards is nearing completion, the site visits of the Commission will focus on supervision of the capacity limitation.