STATE AID — UNITED KINGDOM

Aid C 62/2002 (ex N 221/2002) — Ad-hoc aid to ClydeBoyd under the freight facilities grant scheme (FFG)

Invitation to submit comments pursuant to Article 88(2) of the EC Treaty

(2002/C 269/03)

(Text with EEA relevance)

By means of the letter dated 2 October 2002, reproduced in the authentic language on the pages following this summary, the Commission notified United Kingdom of its decision to initiate the procedure laid down in Article 88(2) of the EC Treaty concerning the abovementioned aid.

Interested parties may submit their comments within one month of the date of publication of this summary and the following letter, to:

European Commission
Directorate-General for Energy and Transport
Directorate A
B-1049 Brussels
Fax (32-2) 296 41 04.

These comments will be communicated to United Kingdom. Confidential treatment of the identity of the interested party submitting the comments may be requested in writing, stating the reasons for the request.

SUMMARY

Procedure

By letter of 14 March 2002, the United Kingdom Government notified to the Commission an ad-hoc aid to ClydeBoyd (Fort William) Ltd in accordance with the extended FFG scheme, which was approved by the Commission on 20 December 2001. The notification was registered by the Secretariat General of the European Commission on 15 March 2002 under No N 221/2002. The notification was considered incomplete and on 26 April 2002, the United Kingdom authorities were asked to provide additional information. The Commission received the requested information on 28 May 2002, registered under DG TREN A/59418. The Commission sent a second request of information on 1 July 2002. The reply was received by letter registered on 17 July 2002.

Description of the aid measure

In line with the aims of FFG scheme to secure a modal shift from road to water transport, ClydeBoyd (Fort William) Ltd wishes to provide a larger berth and freight handling facilities at Corpach Pier, near Fort William, Scotland. ClydeBoyd (Fort William) Ltd is a limited company. Its shareholders are Boyd Brothers Ltd (road haulage company) and Clydeport plc (port operator), who own 50% each. Clydeport plc also owns and operates several ports on the Clyde estuary and the Firth of Clyde, i.e. Hunterston, Ardrossan, Greenock and Glasgow.

The existing facility has severe limitations due to the size of the pier (31 m) and the lack of adjacent storage and handling facilities. ClydeBoyd believe that any further loss of existing volumes will render the current facility uneconomic and lead to closure. In such circumstances ClydeBoyd would be forced to close the facility and around 40 000 tonnes per annum of timber, pulp and wood chip would revert to road transport. The work to be carried out with grant assistance would not only safeguard this existing traffic but also make it possible to secure an additional 50 000 tonnes per year.

Financial analysis of the case in accordance with the rules of the scheme by the UK authorities has determined that aid is required at the level of 85 % (GBP 3,332 million) of the eligible costs at Corpach (GBP 3,92 million), while the environmental benefits calculated by the UK competent authorities in line with the rules of the scheme are GBP 5,4 million.

In accordance with the Commission approval of the extended UK FFG scheme, which states that the aid intensity should not be higher than 50% of the total project costs, ClydeBoyd has been offered a 50% grant of GBP 1,96 million. They have declined to undertake the project at this level of grant because it does not cover the additional cost they would incur in securing a modal shift from road to water.
Assessment of the aid

Under the proposed measure, ClydeBoyd (Fort William) Ltd will receive a commercial advantage from State resources and the measure is therefore selective in nature. A possible distortion of competition cannot be excluded in relation to other modes of transport or existing coastal/short-sea shipping services. Therefore, a possible effect on intra-Community trade cannot be excluded.

In view of the above, the Commission finds that the notified project involves aid within the meaning of Article 87(1) and is hence, in principle, prohibited unless it may be deemed compatible with the common market by virtue of any of the exemptions provided for in the Treaty or secondary legislation.

The Commission considers that none of the exemptions of Article 87(2) of the EC Treaty apply to the notified aid. In addition, the State aid under question is not destined to promote the execution of an important project of common European interest or to remedy a serious disturbance in the economy of a Member State in the meaning of Article 87(3)(b), nor to promote culture and heritage conservation in the meaning of Article 87(3)(d). Furthermore, Article 80 of the EC Treaty excludes the application of Article 73 of the Treaty to the maritime sector. However, the development of activities shifting traffic from road to other modes is in the common interest within the meaning of Article 87(3)(c) of the Treaty (1).

The creation of a timber product hub at Corpach appears to be appropriate given the location of a number of forest product industries immediately adjacent to the site.

Regarding the proportionality of the aid, the Commission normally considers State aid beyond 50% aid intensity for transport infrastructure as not compatible with the EC Treaty, unless a detailed and neutral commercial and financial analysis shows that the main beneficiary of the facilities is not capable of financing a higher amount without State intervention (2).

It has to be noted that ClydeBoyd has declined a 50% grant of GBP 1.96 million to undertake the project. Therefore, the Commission at this stage has doubts as to whether the proposed aid intensity is necessary and proportional for the realisation of the project. In particular the Commission has doubts that the aid offered is the least necessary to realise such port facilities and that the relevant market would not have provided a cheaper offer. It also has doubts as to whether the proposed aid is necessary to enable the improvement of the Corpach port and also as to whether it could involve a distortive effect on competition contrary to the common interest.

TEXT OF THE LETTER

The Commission wishes to inform the UK authorities that, having examined the information supplied by your authorities on the measure mentioned above, it has decided to initiate the procedure laid down in Article 88 (2) of the EC Treaty.

I. PROCEDURE

1. By letter of 14 March 2002, the United Kingdom Government notified to the Commission an ad-hoc aid to ClydeBoyd (Fort William) Ltd in accordance with the extended FFG scheme, which was approved by the Commission on 20 December 2001. The notification was registered by the Secretariat General of the European Commission on 15 March 2002 under No N 221/2002. The notification was considered incomplete and on 26 April 2002 the United Kingdom authorities were asked to provide additional information. The Commission received the requested information on 28 May 2002, registered under DG TREN A/59418. The Commission sent a second request for information on 1 July 2002. The reply was received by letter registered on 17 July 2002.

II. DESCRIPTION OF THE AID


2. The extended FFG scheme will grant aid to operators of freight handling facilities for coastal/short-sea shipping. Such facilities may include quays, moorings and loading/unloading equipment and will be provided to all existing and potential users under non-discriminatory terms. The aid is intended to tip the balance in favour of short-sea shipping and to financially support investments in expensive and specialised equipment required for sending freight by water, which would not be needed if the goods went by road. By contributing to the cost of such facilities, grants will enable coastal/short-sea shipping to compete in financial terms with road transport.


3. Grant intensity will be calculated by the UK competent authorities for each individual scheme following the FFG rules. The FFG scheme first assesses the environmental benefit using a standard formula which takes into account the lorry-miles that will be saved over the agreed period of the individual scheme and their monetary value which is the environmental benefit to be gained. This monetary environmental benefit, calculated by the UK competent authorities using the FFG formula, forms the maximum amount of grant that can be offered by the UK Government to the applicants.

4. The Commission’s decision of 20 December 2001 stated that the aid intensity would not be higher than 50 % of the total project cost for facilities that will be accessible on non-discriminatory terms for all existing and potential operators. Where access to the infrastructure is limited to one or more specific operators, the latter will need to be chosen through a transparent, fair and non-discriminatory public tendering procedure. Exceptionally, if the authorities can prove that the requested objectives cannot be met through the aid amounts as described above, higher percentages may be granted after prior notification and approval by the Commission.

5. On receipt of the formal application, the competent authority (1) may decide to seek independent engineering advice to examine the design and specification of the project. A visit to the site of the proposed facility, either by the staff of the competent authority or by an appointed consultant, will normally be necessary.

6. In addition, the United Kingdom authorities will carry out a market analysis to assess any possible competitive impact of the applicant project on existing infrastructures before deciding to make an award under the FFG scheme.

7. In any case, a grant would not be paid if the project can be commercially justified without a grant and/or would proceed in any event without it.

8. Annual reports provided by the beneficiaries to the competent authority and verified by public audit will establish if the operator has achieved the previously agreed tonnage target for each project. If traffic does not reach anticipated levels in the agreed period, the Secretary of State will examine the circumstances to establish whether to extend the original time period in order to obtain the full environmental benefit or to recover a proportionate part of the grant.

II.2. The notified ad-hoc aid to ClydeBoyd (Fort William) Ltd

9. In line with the aim of the FFG scheme to secure a modal shift from road to water transport, ClydeBoyd (Fort William) Ltd wishes to provide a larger berth and freight handling facilities at Corpach Pier, near Fort William, Scotland. ClydeBoyd (Fort William) Ltd is a limited company. Its shareholders are Boyd Brothers Ltd (road haulage company) and Clydeport plc (port operator), who own 50 % each. Clydeport plc also owns and operates several ports on the Clyde estuary and the Firth of Clyde, i.e. Hunterston, Ardrossan, Greenock and Glasgow.

10. The existing facility has severe limitations due to the size of the pier (31 m) and the lack of adjacent storage and handling facilities. ClydeBoyd believe that any further loss of existing volumes will render the current facility uneconomic and lead to closure. In such circumstances ClydeBoyd would be forced to close the facility and around 40 000 tonnes per annum of timber, pulp and woodchip would revert to road transportation. The work to be carried out with grant assistance would not only safeguard this existing traffic but would make it possible to secure the transport of additional 50 000 tonnes per year.

11. In order to do this, the port must be extended to allow vessels of up to 6 000 tonnes dwt to berth safely, and the pier must be extended to accommodate two vessels at the same time. A greater area is needed close by the quayside for goods handling and placement during loading and unloading, plus a covered area for short term storage of vulnerable products. Finally, mobile freight handling equipment is required to load and unload the larger vessels quickly and efficiently.

12. In addition, this project will be also able to unlock the potential for significant further volumes in the near future. ClydeBoyd has identified a number of specific traffic flows which they are actively pursuing with the relevant customers, and should be in position to finalise these proposals shortly. Bear Scotland have indicated that the salt required to maintain the road network in the vicinity of Corpach will be shipped by water and stored at Corpach. Otherwise, it will be transported to the Corpach area by road from Inverness.

13. A grant would be awarded against an annual tonnage commitment of 90 000 tonnes to be moved by water for 10 years. In accordance with the terms of the general FFG scheme, no aid is repayable if this tonnage or a greater amount is achieved. In the event that the target is not achieved, or of failure by the recipient to comply with grant conditions, the grant may be recovered or a further agreed period of water movement may alternatively be agreed.

14. The local authority in granting the planning permission has placed as a condition that the new enhanced facilities shall be operated with no undue restriction on access and with no discrimination against any potential user, subject only to normal commercial rates and functional arrangements. The whole of the site of the proposed terminal is nevertheless within the ownership of the parties.

15. Apart from the aid intensity, the proposal complies fully with the conditions of the approved FFG scheme (N 649/2001).

16. The UK authorities will pay half the grant as investment takes place and the remaining half in direct relation to volumes actually achieved in the first two years of full operation.

17. One full-time and six part-time jobs (equivalent to four full-time jobs) would be maintained with this development. It is expected that a further two part-time jobs will be created if the traffic projections are fully realised.

(1) The UK Department of Transport, local government and the regions, or the Scottish Executive in respect of FFG grants in Scotland.
II.2.1. The Port of Corpach and its existing traffic

18. The site was first developed during the 1940s, when a slipway was built by the Royal Navy. In 1964 a jetty was built to the west of the site, which carried a pipeline for the export of woodchip. This was however only used for about five years and is now in a state of disrepair.

19. In 1995 Boyd Brothers started the import and export of timber through the site, using barges. During 1997 and 1998 they gradually extended the pier to its present dimensions and started to develop the present trade, utilising small ships generally 1 500 dwt or less. The method of construction was however only temporary and the existing pier, built in 1997, is not suited for continued and expanded use.

20. The additional timber is internal UK traffic, which otherwise would be moved by road. The baled pulp is imported into the UK through a number of different ports, but is now being brought mainly through Greenock (owned and operated by ClydeBoyd, one of the partners in the Corpach project). The estimate of the average of the annual tonnage handled by the various ports is as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Predicted</th>
<th>Of which is new traffic</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>8 180</td>
<td>15 155</td>
</tr>
<tr>
<td></td>
<td>14 379</td>
<td>23 000</td>
</tr>
<tr>
<td>2000</td>
<td>9 000</td>
<td>13 540</td>
</tr>
<tr>
<td></td>
<td>25 091</td>
<td>25 000</td>
</tr>
<tr>
<td>2001</td>
<td>4 000</td>
<td>3 000</td>
</tr>
<tr>
<td></td>
<td>6 000</td>
<td>30 000</td>
</tr>
<tr>
<td></td>
<td>13 622</td>
<td>24 000</td>
</tr>
<tr>
<td></td>
<td>600</td>
<td>4 170</td>
</tr>
<tr>
<td></td>
<td>4 558</td>
<td>8 000</td>
</tr>
<tr>
<td>Total</td>
<td>26 400</td>
<td>37 200</td>
</tr>
<tr>
<td></td>
<td>61 500</td>
<td>86 000</td>
</tr>
</tbody>
</table>

22. In accordance with the Commission approval of the extended UK FFG scheme, which states that the aid intensity should not be higher than 50% of the total project costs, ClydeBoyd has been offered a 50% grant of GBP 1,96 million. They have declined to undertake the project at this level of grant because it does not cover the additional cost they would incur in securing modal shift from road to water.

II.2.2. Type of aid

21. Non-reimbursable subsidy. Financial analysis of the case in accordance with the provisions of the FFG scheme has determined that aid is required at the level of 85% (GBP 3,332 million) of the eligible costs at Corpach (GBP 3,92 million). The environmental benefits calculated by the UK competent authority in line with the scheme rules are GBP 5,4 million.


III. ASSESSMENT OF THE AID

III.1. Presence of aid

24. According to Article 87(1) EC Treaty, aid granted by a Member State 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 Member States, be incompatible with the common market.

25. State financing of infrastructure open to all potential users in a non-discriminatory way and managed by the State may not fall under Article 87(1) EC Treaty(4) provided, in particular, that no advantage is conferred to an undertaking in the sense of Article 87(1).

26. However, if the body managing the infrastructure is carrying out an economic activity, public financing may come within State aid scrutiny if all elements of Article 87(1) of the Treaty are met(5).

27. From the point of view of existing or potential competitors any financial benefit provided to such undertakings may, in principle, distort competition.


(5) The Court of First Instance in its Judgment in the case Aéroports de Paris v Commission of the European Communities (Case T-128/98 of 12 December 2000) considered that the management and provision of facilities may constitute an economic activity to which Article 87(1) may apply.
28. Nevertheless, if the State support granted to an infrastructure manager for the construction of transport infrastructure represents the market price to achieve the desired result, the financing may under certain circumstances not be covered by Article 87(1) of the EC Treaty.

29. Under the proposed measure, ClydeBoyd (Fort William) Ltd will receive a commercial advantage from State resources and the measure is therefore selective in nature. A possible distortion of competition cannot be excluded in relation to other modes of transport or existing coastal/short-sea shipping services. Therefore, a possible effect on intra-Community trade cannot be excluded.

30. In view of the above, the Commission finds that, at this point in time it cannot be excluded that the notified project involves aid within the meaning of Article 87(1) and that it would hence, in principle, be prohibited unless it may be deemed compatible with the common market by virtue of any of the exemptions provided for in the Treaty or secondary legislation.

III.2. Exemption of the aid measure

31. The Commission considers that none of the exemptions of Article 87(2) of the EC Treaty apply to the notified aid. In addition, the State aid under question is not destined to promote the execution of an important project of common European interest or to remedy a serious disturbance in the economy of a Member State in the meaning of Article 87(3)(b), nor to promote culture and heritage conservation in the meaning of Article 87(3)(d). Furthermore, Article 80 of the EC Treaty excludes the application of Article 73 of the Treaty to the maritime sector as long as the Council has not decided otherwise, which is not the case.

32. However, the development of activities shifting traffic from road to other modes is in the common interest within the meaning of Article 87(3)(c) of the Treaty (9). According to this Article aid may be deemed compatible with the common market if it:

‘Facilitates the development of certain economic activities or of certain economic areas, where such aid does not adversely affect trading conditions to an extent contrary to the common interest.’

33. The Commission finds that Article 87(3)(c) of the Treaty is the appropriate legal basis to analyse aid for investments in the infrastructure for coastal/short-sea shipping and to assess its compatibility with the common market.

34. It is thus necessary to verify if these requirements are fulfilled in order to apply Article 87(3)(c).

35. The Community has for some time pursued a policy of achieving a balanced intermodal transport system and a policy of fostering the transfer of goods from road to other more environmentally friendly modes (10). The Commission’s White Paper on transport policy (11) states that water transport is not expensive and does less damage to the environment than road transport. Intra-Community maritime transport is a key component of intermodality which must provide a means of coping with the growing congestion of roads. It must be considered as a real competitive alternative to land transport. Therefore, efforts must be made to harness the advantages of short-sea shipping, for example installing transhipment equipment and encouraging shipping routes between European ports to create networks.

36. The Commission’s view is that in order to achieve an intermodal and sustainable transport system for the future, priority should be given to infrastructure investments. In this respect the Commission takes note of the fact that coastal/short-sea shipping transhipment facilities are, by its very nature, nodal points for intermodal transport operations.

37. Sending freight by water can require expensive and specialised equipment which would not be needed if the goods went by road. Under certain circumstances government contributions to the cost of such facilities are indispensable to enable coastal/short-sea shipping to compete in financial terms with road transport. Moreover, in certain cases, if there were not public sector co-financing of intermodal terminal infrastructures, operators performing economic activities might not invest in them, as their viability might not be ascertained without State funding (12).

38. The creation of a timber product hub at Corpach appears to be appropriate given the location of a number of forest product industries immediately adjacent to the site.

39. Regarding the proportionality of the aid, the Commission normally considers State aid beyond 50 % aid intensity for transport infrastructure as not compatible with the EC Treaty, unless a detailed and neutral commercial and financial analysis shows that the main beneficiary of the facilities is not capable of financing a higher amount without State intervention (13).

40. It has to be noted that ClydeBoyd has declined a 50 % grant of GBP 1,96 million to undertake the project. Nevertheless, the UK authorities have not proved that no other operator was willing to develop the project (or an equivalent one) with the mentioned State aid support.


41. At this stage of the procedure and after a preliminary assessment, the information available does not allow the Commission to determine whether a State contribution of 85% (£3,332 million) is absolutely necessary to allow the improvement of the Port of Corpach.

42. A non-proportional State aid support could have a negative competitive impact on existing infrastructures and competitive modes of transport. This risk is especially important in this case considering that one of the two shareholders of the beneficiary owns and operates several other facilities in the area.

43. Therefore, the Commission has, at this stage doubts as to whether the proposed aid intensity is necessary to enable the improvement of the Corpach port and also as to whether it could involve a distortive effect on competition contrary to the common interest.

IV. CONCLUSION

In the light of the foregoing considerations, the Commission, acting under the procedure laid down in Article 88(2) of the EC Treaty, request the UK to submit its comments and to provide all such information as may help to assess the measure, within one month of the date of receipt of this letter. It requests your authorities to forward a copy of this letter to the potential recipients of the aid immediately. Concretely:

1. Detailed information is needed that aid to the intended port facilities is necessary and proportional for the realisation of the project. In particular information is needed which shows that the aid offered is the least necessary to realise such port facilities and that the relevant market would not have provided a cheaper offer.

2. Please provide information showing that the subsidised investment project does not affect, in a manner contrary to the common interest, existing transport infrastructures in the area. Please provide a market analysis to this effect.

The Commission wishes to remind the UK that Article 88(3) of the EC Treaty has suspensory effect, and would draw your attention to Article 14 of Council Regulation (EC) No 659/1999, which provides that all unlawful aid may be recovered from the recipient.’