COMMISSION DECISION

of 4 July 2006

on State aid which Italy is planning to implement for Cantieri Navali Termoli S.p.A (No C 48/2004 (ex 595/2003))

(notified under document number C(2006) 2972)

(Only the Italian text is authentic)

(Text with EEA relevance)

(2006/948/EC)

THE COMMISSION OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Community, and in particular the first subparagraph of Article 88(2) thereof,

Having regard to the Agreement on the European Economic Area, and in particular Article 62(1)(a) thereof,

Having regard to Council Regulation (EC) No1540/98 establishing new rules on aid to shipbuilding [1] (hereinafter the 'Shipbuilding Regulation'), and in particular Article 3(2) thereof,

Having called on interested parties to submit their comments [2] and having regard to their comments,

Whereas:

PROCEDURE

(1) By letter dated 22 December 2003, registered as received on the same day, the Italian authorities notified the Commission under Article 3(2) of the shipbuilding Regulation [1] of a request to extend the three-year delivery date for a vessel named C.180, for which operating aid has been granted. The ship is being built by Cantieri Navali Termoli SpA. ('the shipyard').

(2) By letter dated 30 December 2004, the Commission notified Italy of its decision to initiate the procedure laid down in Article 88(2) of the EC Treaty in respect of the notified measure.

(3) The Commission decision to initiate the procedure was published in the *Official Journal of the European Union* [2]. The Commission invited interested parties to submit their comments on the measures.

(4) By letters dated 28 January 2005, 1 April 2005, 1 June 2005 and 6 July 2006, registered as received on 2 February 2005, 6 April 2005, 6 June 2005 and 7 July 2005 respectively, Italy requested extensions of the deadline for submitting its comments on the Commission's decision to initiate proceedings. The Commission replied by letters dated 4 February 2005, 8 April 2005, 29 June 2005 and 17 July 2005 respectively.

(5) Italy submitted its comments by letter dated 26 July 2005, registered as received on 29 July 2005. By letter dated 6 January 2006, the Commission requested additional information. The Italian authorities replied by letters dated 23 January 2006 and 2 February 2006, asking for extensions of the deadline, which the Commission granted by letters dated 27 January 2006 and 9 February 2006. By letter dated 6 March 2006, registered as received on the same day, the Italian authorities submitted the additional information requested and completed their submission by letter dated 6 April 2006.

(6) The Commission received no comments from interested parties.

DETAILED DESCRIPTION OF THE AID

(7) Italy asked the Commission to agree to an extension of the delivery limit of 31 December 2003, which is laid down in the Shipbuilding Regulation as a condition for receiving contract-related operating aid for ships. The extension requested concerned the delivery of a vessel named C.180, which was being built by Cantieri Navali Termoli SpA., a shipyard located in the Molise region of Italy. The extension originally requested was until 31 October 2004 (10 months).

(8) The shipbuilding contract was signed on 30 December 2000, and delivery was originally scheduled for 30 June 2003. The ship had been ordered by Marnavi SpA., an Italian shipowner, for the transport of chemical and petroleum products. In accordance with Article 3(1) of the Shipbuilding Regulation, the shipowner was promised operating aid of 9 % for this vessel, equivalent to some EUR 3,9 million.

(9) However, according to the Italian authorities, construction took longer than anticipated because of a combination of factors, namely the impact of the events of 11 December 2001, the subsequent need to modify the ship to meet the changed market demands, and two natural disasters — an earthquake and floods. The shipyard therefore had to

[1] OJ L 202, 18.7.1998, p. 1.
[2] OJ C 42, 18.2.2005, p. 15.

request an extension of the delivery limit for ship C.180 to a date 10 months over the 31 December 2003 limit laid down in the Shipbuilding Regulation.

(10) In their notification, the Italian authorities refer to the Commission decision of 5 June 2002 authorising a similar extension of the 31 December 2003 delivery limit for cruise ships under construction at Meyer Werft, Papenburg, Germany (the 'Meyer Werft decision'). Specifically, they emphasise several basic similarities between the two cases in terms of: (i) the reason invoked for the extension (i.e. the impact of the 11 September 2001 terrorist attack); (ii) the market concerned (i.e. maritime transport of petroleum and chemical products); and (iii) the consolidated commercial relations between the shipyard and the shipowner ([3]). In short, they claim that the Meyer Werft decision sets a clear precedent for an exceptional authorisation in this case. Furthermore, they note that on 13 November 2002 the Commission took another decision granting, for similar reasons, an extension of the delivery limit for a cruise ship under construction at Kvaerner Masa yard, Finland (the 'Kvaerner Masa decision').

(11) The Italian authorities justify their request by referring to what they describe as exceptional factors which were unforeseeable and external to the shipyard and which resulted in unexpected, substantial and defensible disruptions to the shipyard's work programme. More specifically, these delays were attributable to the following events (see overview in Table 1):

(i) *Impact of the 11 September 2001 events*

On 1 October 2001, before construction started, the shipowner asked Cantieri Navali Termoli to suspend execution of the contract until 30 September 2003 rather than cancel it. The shipowner eventually withdrew its request for suspension of the contract on 29 September 2003.

(ii) *Need to modify the ship to meet changed market demands*

In addition to these events, the shipowner, when revoking the suspension order, requested changes to the original contract specifications in order to modify the ship to meet changed market demands. These changes concerned the size and number of the tanks and the overall length and width of the ship: the designs for these changes were submitted to RINA, the Italian naval certification body, for approval. The changes were then set out formally in an addendum to the original construction contract on 10 December 2003.

(iii) *Impact of natural disasters*

On 31 October 2002 an earthquake hit the Molise region, affecting the shipyard, its employees and its suppliers. Subsequently, between 23 and 25 January 2003 the region was hit by floods which had further devastating consequences for the shipyard, its employees and its suppliers. Those two natural disasters caused the shipyard direct injury on account of the inactivity of the labour force and indirect injury following the unilateral revoking of contracts by local undertakings subcontracted for the work on ship C.180 because of the damage caused by the natural disasters to the production infrastructure of their suppliers. In particular, the Italian authorities argued that those events adversely affected the engineering work preparatory to the actual construction work on the ship.

The Italian authorities acknowledge that both events took place during the contract-suspension period but affirm that they still disrupted the shipyard's work programme and emphasise that, for both events, the state of emergency declared by decree of the President of the Council of Ministers lasted until 1 February 2004.

Moreover, the Italian authorities emphasise the urgency of the aid in light of the shipyard's limited financial and industrial resources ([4]) and the fact that the contract price of the vessel was established on the basis of the aid provided for by law. The Italian authorities also affirm that, if the delivery limit is not extended (execution stood at 25,65 % at 16 December 2003) with the result that aid is not granted, the ship cannot be completed without enormous economic damage to the yard, together with job losses at both the yard and the undertakings working for it. The Italian authorities add that the shipowner Marnavi and the shipyard have agreed to cancel the contract for the construction of another ship, C.173, whose construction had been disrupted by the events referred to above, and to transfer the supplies available for that ship to ship C.180.

([3]) Between 2000 and 2004 Marnavi accounted for about 43 % of Cantieri Navali Termoli's turnover whereas, during the earlier period from 1995 to 1999, its share was close to zero.

([4]) The shipyard is a very small company employing 51 people.

Table 1

Overview of the delays incurred for the delivery of ship C.180

Ship	Cause of delay	Responsibility	Problems	Delay (months)	Additional months required
C.180	(i) Events of 11.9.2001: — suspension and late reactivation of order	Marnavi (shipowner)	Suspension of the contract from 1.10.2001 to 30.9.2003 Suspension revoked on 29.9.2003	24	Not specified
	(ii) Technical modifications	Marnavi (shipowner)	Modification of tanks' size and number, ship length and width	Not specified	Not specified
	(iii) Delays due to natural disasters affecting the Molise region: — Earthquake on 31.10.2002 — Floods 23 to 25.1.2003	Force majeure	Impact of natural disasters on the shipyard, its employees and its subcontractors	> 2	> 2
			Total	More than 26 months	More than 2 months
	Extension requested				10 months

GROUNDS FOR INITIATING THE PROCEDURE

(12) In deciding to initiate the procedure, the Commission thought it doubtful that any of the causes of delay invoked in this case complied with Article 3(2), second subparagraph, of the Shipbuilding Regulation and so doubted that the measure was compatible with the common market under Article 87(3)(e) of the EC Treaty.

COMMENTS OF THE ITALIAN AUTHORITIES

(13) In order to allay the doubts expressed by the Commission in the decision to initiate the procedure, the Italian authorities submitted additional explanations and data supporting their views concerning the eligibility of the grounds for extending the delivery limit and the compatibility of the measure in question.

(i) *Concerning the impact of the events of 11 September 2001*

The Italian authorities state that the events of 11 September 2001 were exceptional factors that were unforeseen and external to the shipyard and maintain that, contrary to the Commission's view, these resulted in unexpected, substantial and defensible disruptions to the shipyard's work programme.

In particular, they support their case by arguing that the Commission's appraisal was based on a report drawn up in the autumn of 2003 ([5]) i.e. two years after the events, whereas these events had an impact on the commercial strategies of economic operators who had to take decisions at the time the events occurred, i.e. in September 2001 or the months immediately after.

According to the Italian authorities, it was generally known and further confirmed by the Clarkson reports ([6]) that these events had an impact on the entire maritime goods transportation market, and not just on one type of vessel, i.e. cruise ships. In support of their case, they supplied new information supporting their opinion that the above events affected the building of the vessel in the form of copies of the contracts between the shipowner Marnavi and Novamar, a charter company based in Houston (US), for the chartering of two chemical tankers ordered by the shipowner from Cantieri Navali Termoli ([7]) and the revoking of the contracts by Novamar in the wake

([5]) The Italian authorities state that the Commission's reference to the Clarkson report in footnote 11 of the decision to initiate the procedure is incorrect because it refers to a report of November 2003 instead of October 2003.

([6]) The Clarkson Shipping Review & Outlook, autumn 2003, pp 7-44 and 127; Clarkson: 'Review of Tanker/Chemical/Small LPG Markets and Newbuilding Investment over 2001 and onwards', October 2003, pp.17-20.

([7]) The tankers in question are the C.173 and C.180, discussed below.

of the events of 11 September 2001. The Italian authorities thus maintain that these tragic events had a similar effect on the ship in question, and that contrary to the Commission's view, the impact of these events is not confined to cruise ships. Accordingly, they reiterate their view that the impact of the above events satisfies the provisions of Article 3(2), second subparagraph, third sentence, of the Shipbuilding Regulation.

(ii) *Need to modify the ship to meet changed market demands*

The Italian authorities supplied information concerning the changes made to ship C.180.

In particular, they explained that in 2000 the shipowner had signed contracts with the yard for two chemical tankers, C.173 and C.180, whose initial contract delivery dates were 31 March 2002 and 30 June 2003 respectively. These dates were subsequently postponed to 31 March 2003 and 31 December 2003. The Italian authorities further explained that the impact on the shipyard's work programme of the events of 11 September 2001 and of the two natural disasters described below was such that only one of these vessels could be delivered before 31 December 2003.

Thus, in November 2002 the shipowner decided to abandon construction of one of the ships at the yard so that the yard could focus its efforts on the completion of a single ship. In practice, this was done firstly by rebaptising C.173 as C.180, the larger of the vessels ordered by the shipowner, secondly by asking for substantial changes to C.180's basic structural specifications ([8]), ([9]), ([10]) and, finally, by revoking the contract for C.173. As a result, ship C.180 (ex C.173) is now larger and faster and has an increased capacity and a higher contract price compared with the original C.173, but its overall specifications are inferior to the original C.180 contract. However, the Italian authorities point out that these changes have contributed only indirectly to delaying the construction of the ship and that the delay is, in fact, attributable to the impact of the natural disasters, which led to revocation of the contract by the consulting firm that had been hired to design the modifications to C.180 (ex C.173).

(iii) *Impact of natural disasters (earthquake of 31 October 2002 and floods of 23 to 25 January 2003)*

The Italian authorities underline the importance and impact of the disasters which struck the region where the shipyard is located.

Generally, they recall that, in view of the scale of the natural disasters that had occurred and the high risk to private and public welfare, a state of emergency was declared in the region until 30 June 2003 by the decree of the President of the Council of Ministers of 31 October 2002, which was subsequently extended until 1 February 2004 by the decree of the President of the Council of Ministers of 31 January 2003. The Italian authorities also draw the Commission's attention to the fact that following these events, the Commission authorised, as part of the revision of the regional aid maps, ([11]) the extension of these maps in view of the impact of the natural disasters on the region of Molise and on Termoli, the area where the yard is located.

Concerning the shipyard, the Italian authorities supplied information showing that, in the wake of the above natural disasters, the yard's work programme suffered delays between November 2002 and February 2003 owing to the initial delay and subsequent cancellation of numerous contracts by several contractors supplying the yard with essential services ([12]) and supplies for the construction of the vessel C.180 (ex C.173) ([13]).

(iv) *Suspension of the work on C.180 (ex C.173) in 2004*

In July 2005, responding to the opening of the investigation, the Italian authorities informed the

([8]) These concern mainly the ship's size and number of tanks, and its length and width.

([9]) The Italian authorities say that theses changes concerned both the original C.173 and C.180 (ex C.173) and had been agreed between the yard and the shipowner before suspension of the contract in 2001 following the letter from Novamar of February 2001, which indicated that both ships could be subject to changes. They further state that work on the modified C.180 (ex C.173) was already under way before being formalised in a contract addendum in December 2003.

([10]) According to the Italian authorities' interpretation of Commission Decisions 691/2003 of 9 July 2003 and 727/1993 of 21 December 1993, the type of ship and the changes in question would qualify for the 'technical complexity' exemption accepted by the Commission.

([11]) Commission decision C(2004)3344 fin. cor. of 8 September 2004 concerning Case No 147/2004.

([12]) These subsystems of the hull, the carpentry and outfitting services for the vessel, the supply of stainless steel plate, the supply and installation of electrical fittings, and the supply of consultancy services for the modification of the vessel C.173 subsequently rebaptised C.180 to increase its capacity and power.

([13]) As a result of these contract cancellations, the yard was obliged to invoke the 'force majeure' clause with respect to the shipowner; this eventually prompted the latter's decision to abandon the construction of one of the two vessels it had ordered at the yard.

Commission that approximately 66 % of the construction work on the vessel had been completed but that work had been suspended by the yard and that the vessel had been launched in August 2004 pending the Commission's authorisation of the extension of the delivery limit. Accordingly, in line with the request of the shipowner and the yard, it is argued that the 10 months' extension should start from the Commission's decision to authorise the requested extension.

(14) The Italian authorities conclude that the causes of the delays in this case comply with Article 3(2), second subparagraph, of the Shipbuilding Regulation and that the 10-month extension of the three-year delivery limit as from the date of adoption of the Commission's final decision is compatible with the common market within the meaning Article 87(3)(e) of the EC Treaty.

ASSESSMENT

(15) According to Article 87(1) of the EC Treaty, any 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 is, in so far as it affects trade between Member States, incompatible with the common market. Pursuant to the established case-law of the European Court of Justice, the criterion of trade being affected is met if the recipient firm carries out an economic activity involving trade between Member States.

(16) According to Article 87(3)(e) of the Treaty, categories of aid specified by a decision of the Council acting by a qualified majority on a proposal from the Commission may be considered compatible with the common market. The Commission notes that the Council adopted the Shipbuilding Regulation on this basis on 29 June 1998. Although the Shipbuilding Regulation expired on 31 December 2003, its provisions must still be applied in assessing requests for an extension of the delivery limit since the matter concerns aid granted under that Regulation and since the Shipbuilding Framework does not provide any guidance for such requests ([14]).

(17) The Commission notes that the issue of the extension of the delivery limit is decisive for establishing the admissibility of the contract in question for operating aid under Article 3 of the Shipbuilding Regulation. The operating aid in question consists of financing from state resources for some of the costs that the yard in question would normally have to bear when building a vessel. Moreover, shipbuilding is an economic activity involving trade between Member States. Therefore, the aid in question falls within the scope of Article 87(1) of the Treaty.

(18) According to the Shipbuilding Regulation, 'shipbuilding' means the building of self-propelled seagoing commercial vessels. The vessel built by Cantieri Navali Termoli, a chemical tanker, is a self-propelled seagoing vessel providing specialised maritime services, namely the transportation of chemical and petroleum products, and thus falls within the scope of Article 1(a) of the Regulation.

(19) Article 3(1) of the Shipbuilding Regulation provides for a ceiling of 9 % for contract-related operating aid for ships until 31 December 2000. According to Article 3(2), the aid ceiling applicable to the contract is that in force on the date on which the final contract is signed. However, this does not apply to ships delivered more than three years after the signing of the contract. In such cases, the ceiling applicable is that in force three years before the date of delivery of the ship. Therefore, the last delivery date for a vessel still to qualify for operating aid was, in principle, 31 December 2003.

(20) The proposed aid for the vessel in question would be granted under Article 3 of Law No 88 of 16 March 2001, authorised by the Commission, as state aid No 502/00. It amounts to some EUR 3,9 million for ship C.180, which is no more than 9 % of the contract value.

(21) Article 3(2), second subparagraph, third sentence, of the Shipbuilding Regulation stipulates that: 'the Commission may, however, grant an extension of the three-year delivery limit when this is found justified by the technical complexity of the individual shipbuilding project concerned or by delays resulting from unexpected disruptions of a substantial and defensible nature in the working programme of a yard due to exceptional circumstances, unforeseeable and external to the company.' The Commission notes that the extension is sought because Cantieri Navali Termoli could not finish the vessel referred to above on account of unexpected delays external to the company.

(22) The Shipbuilding Regulation requires that the circumstances justifying the extension of the delivery limit be (a) exceptional, (b) unforeseeable and (c) external to the company. What must also be established is (d) causality between these events and the unforeseen disruptions which caused the delay, (e) their duration and (f) the substantial and defensible nature of these disruptions. The following

([14]) OJ C 317, 30.12.2003, p. 11.

paragraphs set out the assessment of the arguments invoked by the Italian authorities.

(i) *Impact of the events of 11 September 2001*

The Commission has here acknowledged that these events were unforeseeable and external to the shipyard. However, in line with past Commission's decisions, the impact of these events cannot be accepted in this case since, according to settled Commission decision-making practice, 'reduced economic growth, or a worsening of the market situation for a type of ship, cannot be considered an exceptional circumstance in the sense of Article 3(2) of the Shipbuilding Regulation' ([15]). This argument was admitted only for cruise vessels because of the direct effect of these events on such vessels, but not for other types of vessel, where such events are considered to have an indirect impact and a more general effect.

In fact, the Commission noted in the decision to initiate the procedure that, according to a report by Clarkson Research of November 2003, 'The 9/11 event certainly added problems in an already slowing world economy' ([16]). Furthermore, concerning investment in chemical tankers of less than 20 000 dwt such as ship C.180, the same Clarkson Research report states that 'Activity was fairly low over the period 1998 to 2000 and, despite a recovery in early 2001, levels did fall back in the final quarter of 2001 in line with the rest of the industry. However, the level of contracting picked up significantly in early 2002 and has been fairly strong since.'

As regards the argument of the Italian authorities which questions the relevance of the Commission's appraisal of the impact of such events on the basis of an *ex post* report, the Commission notes above all that it relied on a report submitted by the Italian authorities themselves. Secondly, it emphasises that in this procedure the Italian authorities themselves rely on reports dating from late 2003. Finally, the Commission notes that none of the additional reports to which the Italian authorities refer contradict the Commission's assessment of this point.

The Commission notes that its assessment of this argument is in line with other decisions in similar cases notified by Italy concerning extensions of the three-year delivery limit for chemical tankers and LPG tankers.

(ii) *Need to modify the ship to meet changed market demands*

As to the second argument, it is initially noted that the technical modifications were made at the shipowner's request in order to meet changed market demands. Also, as stated in the addendum of 10 December 2003 to the original shipbuilding contract, the shipyard intended to ask the shipowner for a postponement of the delivery date for ship C.180, shouldering all the costs and risks in relation to the awarding/granting of state aid for the latter.

The Commission observes that a shipowner may always demand changes to the shipbuilding contract and that such changes are not uncommon in the shipbuilding sector. Such events are part of the normal commercial activity of the yard. This argument cannot, therefore, be accepted in this instance.

For the sake of completeness, the Commission also notes that during this investigation the Italian authorities explained that the changes in question (concerning both ships C.173 and C.180) had already been flagged by the US charter company Novamar in its letter to the shipowner of February 2001 and were agreed between the yard and the shipowner before the contract's suspension in 2001. It further notes that, as explained by the Italian authorities, ship C.173, according to its original specification, should have been built long before by another shipyard that got into difficulties in the 1990s; and so this ship belonged to an older generation of ships now superseded by a new generation of larger vessels with enhanced capacity.

In light of the above, it is evident that the modifications were neither exceptional nor unforeseeable events. Accordingly, the Commission considers that the argument invoked by Italy here is not admissible.

(iii) *Impact of the natural disasters which hit the Molise region, where the yard is located*

It is acknowledged that earthquakes, floods and other acts of 'force majeure' normally constitute admissible grounds. Similarly, it is acknowledged that such events have had an impact on activity in the Molise region, as confirmed by the declaration of the state of emergency by decree of the President of the Council of Ministers, and potentially on the yard's overall activity.

([15]) See Case No 99/02 (OJ C 262, 29/10/2002), Odense shipyard — Prolongation of three-year delivery limits for two ships (Denmark).

([16]) 'Review of Tanker/Chemical/Small LPG Markets & Newbuilding Investment over 2001 and onwards', Clarkson Research, November 2003, pp. 19 and 20.

Nonetheless, under the Shipbuilding Regulation, an extension of the three-year delivery limit derogates from the normal provisions authorizing the granting of contract-related operating aid, which in turn constitute an exemption from Community state aid rules. Accordingly, the principle that rules governing exemptions are to be interpreted narrowly means that a direct causal link must be established between the circumstances allegedly causing the delay and the delay in the construction of the vessel. However, the information made available to the Commission, including the information submitted by the Italian authorities after the opening of the formal investigation, is rather vague, referring in only general terms to the disruptive effects of the disasters; it fails to demonstrate or quantify the exact impact of those events on the yard's work programme or on the construction of the vessel in question.

The Commission notes that, despite its explicit requests for information and the lengthy extensions of the reply deadlines, no detailed information has been supplied concerning the disruptions caused by these disasters on the shipyard's overall work programme and the precise causal effect on the specific work programme for ship C.180 (ex C.173). The Italian authorities have submitted copies of the letters by which suppliers of components and services to the yard revoked their contracts with the yard. However, they have failed to document in detail the causal link and have not quantified with precision the consequent delay in the yard's work programme and in the construction of ship C.180 (ex C.173) in order to justify the request to extend the delivery limit by 10 months.

(23) Consequently, the Commission considers that the exceptional circumstances described above have not had an impact on the specific programme of work on the ship in question that would justify the requested 10-month extension to the delivery limit. Therefore, the arguments set out in (i) to (iii) cannot be accepted.

(24) Given the lack of substantial evidence, the extension cannot be authorised on these grounds.

(iv) *Suspension of work on C.180 (ex C.173) in 2004*

In addition, the Commission observes that the Italian authorities informed it that construction of vessel C.180 (ex C.173) was approximately 66 %-complete, but that the work had been suspended and the vessel launched in August 2004; therefore, in their opinion, the 10-month extension should now start from the Commission's decision to authorise the requested extension.

First, the Italian authorities' request that the 10-month extension start from the date of the Commission decision cannot be regarded as being in conformity with the Shipbuilding Regulation as it would lead to further unjustified delays. The decision to suspend construction of the vessel was made by the yard under its own responsibility and it generated an additional delay that finds no justification in the Shipbuilding Regulation.

Second, the Commission notes that, according to the notification, ship C.180 (ex C.173) should have been delivered by 31 October 2004. However, considering the Italian authorities' request that the 10-month extension should start from the Commission's decision to authorise the requested extension, taken in conjunction with the fact the yard launched the unfinished ship C.180 (ex C.173) in August 2004, it is clear that the yard would not have been able to deliver the vessel even within the original 10-month extension requested to the delivery limit.

Accordingly Italy's request must, in any event, be rejected because of the unwarranted suspension of work in 2004.

CONCLUSIONS

(25) In the light of the above, the Commission finds that the measure under examination constitutes state aid within the meaning of Article 87(1) of the Treaty. The information submitted by the Italian authorities, including that provided during the formal investigation, has confirmed the Commission's doubts as to whether the causes of delays invoked in this case satisfied Article 3(2), second subparagraph, of the Shipbuilding Regulation, and so the measure under examination is not compatible with the common market under Article 87(3)(e) of the Treaty.

In view of these conclusions, the Commission

HAS ADOPTED THIS DECISION:

Article 1

The three-year delivery limit laid down in Article 3(2) of Regulation (EC) No 1540/98 may not be extended for ship C.180 (ex C.173) built by Cantieri Navali Termoli SpA.

The contract-related operating aid for that ship may not, therefore, be implemented.

Article 2

Italy shall inform the Commission, within two months of notification of this Decision, of the measures taken to comply with it.

Article 3

This Decision is addressed to the Italian Republic.

Done at Brussels, 4 July 2006.

For the Commission
Nelly KROES
Member of the Commission