



State aid: Commission confirms most Greek measures for Hellenic Defence Systems do not involve aid; orders recovery of some public support for civil activities

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The European Commission has concluded that Greek measures for Hellenic Defence Systems fall outside the scope of EU State aid control because they protect Greece's essential security interests.

Greece however has to recover up to €55 million of public support for civil activities of Hellenic Defence Systems, which distorted competition in breach of EU State aid rules.

Hellenic Defence Systems S.A. (or Ellinika Amyntika Systimata A.E. - **HDS**) is a Greek company, which is almost fully-owned by the Greek State. HDS manufactured both defence-related products (e.g. infantry weapons, ammunition, weapon systems, aircraft fuel tanks) as well as civil-use products (e.g. small pistols, explosives for construction works, fireworks).

During the period 2004-2011, Greece granted a number of support measures to HDS. These measures included a direct grant by the State of €10 million, a capital increase of €158 million and several State guarantees for loans of up to €942 million.

The EU Treaty fully recognises the right of Member States to take measures they consider necessary to protect their **essential security interests** in connection with the production of military products (Article 346 of the Treaty on the Functioning of the European Union). Such measures are excluded from assessment under EU State aid rules. At the same time, public support for **civil activities** of defence companies have to comply with EU State aid rules. The requirements for companies in difficulty are set out in the applicable EU Guidelines on State aid for the rescue and restructuring of companies in difficulty.

The Commission's [in-depth investigation](#) of the Greek measures in favour of HDS has concluded that:

- **The vast majority of Greek measures for HDS fall outside scope of EU State aid control because they served Greek security interests.**

The Commission concluded that a large proportion of the measures (namely the full €10 million direct grant by the State, and most of the capital increase and State guarantees) supported HDS's military production and concerned exclusively products necessary for the protection of Greece's essential security interests. Therefore, the Commission concluded that the measures are exempted from State aid assessment.

- **Some Greek measures (worth up to €55 million) for HDS' civil activities amounted to illegal State aid in breach of EU rules.**

The Commission also concluded that, on the other hand, a small proportion of the Greek measures supported the civil activities of HDS. These are therefore subject to conditions under EU State aid rules. Since HDS was a company in financial difficulties, these conditions are set out in the then applicable [2004 EU Guidelines on State aid for the rescue and restructuring of companies in difficulty](#). In particular, they would have required Greece to submit a credible restructuring plan to restore the company's long-term viability as well as propose compensatory measures to mitigate the distortions of competition created by the aid.

In the absence of such a restructuring plan and compensatory measures, the Commission concluded that these measures constitute illegal State aid, which now needs to be recovered by Greece.

In mid-2013, in the context of the regular review of its past EFSF financial assistance programme, Greece undertook to adopt an irrevocable decision about the future of HDS. As a result, Greece has effectively split the previous HDS entity into a company for defence-related products and a separate company for civil activities. The first company for defence-related products is called Hellenic Defence Systems Industrial Commercial Ltd (HDS military). The separate company for civil activities alone is liable to repay the illegal State aid and is due to be liquidated. This effective split of HDS military should help ensure that any eventual future support necessary for the essential security interests

would not be subject to review under State aid rules.

Background

Hellenic Defence Systems S.A. is 99.8% owned by the Greek State, 0.18% by Piraeus Bank (a private financial institution) and 0.02% by private individuals. Since 2004, the company has been in financial difficulties.

Under EU State aid rules, companies in difficulty may receive State aid only under certain strict conditions, set out in the applicable Commission Guidelines on State aid for the rescue and restructuring of companies (now the [2014 Rescue and Restructuring Aid Guidelines](#) (see full text [here](#)), and previously the [2004 Rescue and Restructuring Aid Guidelines](#) (see full text [here](#))). This is to avoid that companies rely on public money instead of running an effective business and competing on the merits.

As a matter of principle, EU State aid rules require that illegal State aid is recovered in order to remove the distortion of competition created by the aid. There are no fines under EU State aid rules and recovery does not penalise the company in question. It simply restores equal treatment with other companies. The Commission has set out in its decision the methodology to calculate the value of the aid to be recovered from HDS.

The non-confidential version of the decision will be made available under the case numbers [SA.34308](#) in the [State Aid Register](#) on the [Commission's Competition website](#) once any confidentiality issues have been resolved. The [State Aid Weekly e-News](#) lists new publications of State aid decisions on the internet and in the EU Official Journal.

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