

II

(Acts whose publication is not obligatory)

COMMISSION

COMMISSION DECISION

of 18 September 2002

on the State aid which the United Kingdom is planning to implement for Vauxhall Motors (UK) Ltd

(notified under document number C(2002) 3340)

(Only the English text is authentic)

(Text with EEA relevance)

(2003/62/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) No 659/1999 of 22 March 1999 laying down detailed rules for the application of Article 93 of the EC Treaty ⁽¹⁾,

Having called on interested parties to submit their comments pursuant to those provisions,

Whereas:

Procedure

- (1) By letter dated 23 August 2001 the United Kingdom authorities notified the proposed aid to the Commission, pursuant to Article 88(3) of the Treaty. On 23 October 2001 the Commission asked additional questions, to which the United Kingdom replied by letter dated 16 November 2001.
- (2) By letter dated 28 January 2002, the Commission informed the United Kingdom that it had decided to initiate the procedure provided for in Article 88(2) of the Treaty in respect of the aid.
- (3) The Commission decision to initiate the procedure was published in the *Official Journal of the European Communities*. The Commission called on interested parties to submit their comments. The Commission received no comments from interested parties.

- (4) By letter dated 1 March 2002, the United Kingdom submitted comments on the opening of the investigation procedure. The United Kingdom sent additional information on 9 July 2002.

Detailed description of the proposed aid

- (5) The recipient of the aid would be Vauxhall Motors (UK) Ltd, which is a wholly-owned subsidiary of the General Motors Corporation. The aid in question is regional investment aid for the transformation of the Ellesmere Port car plant from a single-model production facility to a two-model plant capable of switching production between the two models according to demand. After the investment, the plant would be able to produce a mix of Astras and of the new replacement Vectra passenger car models. According to the information provided by the United Kingdom in the notification, the project would safeguard 771 jobs at Vauxhall Motors and create approximately 530 jobs in the supply chain.
- (6) General Motors Europe considered two alternative sites for the project, Ellesmere Port and Antwerp. The final decision in favour of Ellesmere Port was part of a major restructuring within General Motors Europe, with the objective of returning that company to profitability. As part of that plan, passenger car production in Luton was to cease at the end of the life of the current Vectra

⁽¹⁾ OJ L 83, 27.3.1999, p. 1.

model at the end of the first quarter of 2002. From then on, the remaining Luton facilities would concentrate on commercial and off-road vehicles, while passenger car production would be concentrated at Ellesmere Port. Ellesmere Port would continue to produce the Astra, incorporate the next-generation Vectra and transform the facility into a two-model flexi plant.

- (7) The replacement Vectra is designed to compete in the upper-medium segment of the European passenger car market. The main geographical markets for both the current Astra model and the replacement Vectra model are Germany, the United Kingdom, France, Italy, the Netherlands and Spain, although other smaller Western and Central European passenger car markets are also supplied.
- (8) The total amount of eligible investments amounts to GBP 156,198 million. The net present value of the eligible investments is GBP 153,814 million. These investments are divided into building/construction/land improvements (GBP 8,352 million), machinery and equipment (GBP 131,343 million) and tools and dies (GBP 14,119 million).
- (9) Aid amounting to GBP 10 million (net present value: GBP 9,847 million) would be provided as Regional Selective Assistance, which is an approved scheme based on the 1982 Industrial Development Act. The notified aid intensity is 6,4 %.
- (10) The Ellesmere Port plant is located in the Westminster ward of Ellesmere Port and Neston in Cheshire. This region was recognised by the Commission as a regionally assisted area for the purposes of Article 87(3)(c) of the Treaty, under the regional aid map for the period 2000 to 2006, with a regional ceiling of 15 % net grant equivalent (nge).

Decision of the Commission to initiate the procedure provided for in Article 88(2) of the Treaty

- (11) By letter dated 28 January 2002, the Commission informed the United Kingdom that it had decided to initiate the procedure provided for in Article 88(2) of the Treaty, since it had doubts as to whether the aid was either necessary or proportionate.
- (12) As regards the necessity of the aid, the Commission needed to verify that the Ellesmere Port project concerned a transformation, involving a radical change in production structures on an existing site. Secondly, it needed to determine whether Antwerp was a real alternative in terms of the technical feasibility of carrying out the project there.
- (13) As regards the proportionality of the aid, the Commission expressed doubts on certain elements in the cost benefit analysis (CBA). In particular, the Commission questioned the assumption that training costs in Antwerp would be lower; the estimated inward transport

costs and procurement pattern; and the anticipated repercussions, including sales losses, on the Vauxhall brand image in the United Kingdom, should the project be located at Antwerp.

Comments from interested parties

- (14) The Commission did not receive any comments from interested parties.

Comments from the United Kingdom

- (15) By letter dated 1 March 2002, the United Kingdom submitted to the Commission its comments on the opening of the procedure. By letter dated 9 July 2002, the United Kingdom provided further information. These comments have been taken into account.
- (16) The United Kingdom provided a detailed break-down of the training costs at Antwerp and Ellesmere Port. The main differences are that, by contrast with Ellesmere Port, the Antwerp plant is already Andon trained; it is already familiar with operating as a flexible plant, producing two models on shared facilities; it has recent experience of producing the Vectra, so the learning curve is shorter there; the Antwerp plant and its workforce are already GBOP (Global Bill of Process) ⁽¹⁾ compliant.
- (17) As regards the procurement and inward transportation costs, the United Kingdom explained that the costs in the CBA were based on the figures used by the GM Europe Strategy Board (ESB) when the decision was taken to locate the replacement Vectra project at Ellesmere Port. In the interim period, Vauxhall undertook further calculations based upon actual production volumes at Luton and Ellesmere Port in 2001 and on revised budget volume projections for Ellesmere Port for 2002. Comparison of the estimated CBA figures with those based upon actual production volumes gives a variance of less than 1 %.
- (18) Finally, the United Kingdom provided its comments regarding the possible effects on Vauxhall sales in the United Kingdom, had a location decision been taken in favour of Antwerp. It also commented on the possibility of additional costs resulting from industrial action at the Ellesmere Port plant as a consequence of such a decision.
- (19) As regards potential sales losses, the ESB had considered at the time of the decision that failure to locate new Vectra production at Ellesmere Port might have had a detrimental effect on United Kingdom sales. However, the effect would have been very limited, a view which was confirmed in a GM study provided to the Commission. To mitigate the loss of sales of Vectra models in the United Kingdom market if the project had been awarded to Antwerp, additional marketing costs would have been necessary.

⁽¹⁾ GBOP is a set of common planning specifications and build processes, that enables consistency to be achieved across model platforms in both architecture and equipment.

- (20) As regards the potential threat of industrial action in the United Kingdom if Ellesmere Port had lost a shift of production on top of the Luton closure announcement, the United Kingdom considered it very difficult to estimate the scale of such action. The Luton plant closure had resulted in a one-day stoppage. That was in response to the *complete closure* of the Luton plant and the threat of compulsory redundancies. More disruptive and widespread industrial action was avoided by the voluntary redundancy packages agreed with the unions and Vauxhall. The financial inducement in those packages was far higher than the minimum set by United Kingdom law and the costs entailed have been included in the CBA. Bearing in mind that Ellesmere Port would still have been an ongoing two-shift Astra plant if Antwerp had won the Vectra project, the United Kingdom considers it plausible to assume that a half-day stoppage would have resulted. The total additional costs resulting from the above effects are estimated at GBP 171 000.

Assessment of the aid

- (21) The measure notified by the United Kingdom for Vauxhall Motors (UK) Ltd constitutes State aid within the meaning of Article 87(1) of the Treaty. It would be financed by the State or through State resources. Furthermore, as it constitutes a significant proportion of the funding of the project, the aid is liable to distort competition in the Community by giving Vauxhall Motors (UK) Ltd an advantage over competitors not receiving aid. Lastly, there is extensive trade between Member States in the automobile market.
- (22) The aid in question is intended for an undertaking which manufactures and assembles cars. The undertaking is therefore part of the motor vehicle industry for the purposes of the Community framework for State aid to the motor vehicle industry (hereinafter the relevant Community guidelines) ⁽¹⁾.
- (23) The relevant Community guidelines specify that aid which the public authorities plan to grant to an individual project under an authorised aid scheme for an undertaking operating in the motor vehicle industry must, in accordance with Article 88(3) of the Treaty, be notified before being granted if the total cost of the project amounts to EUR 50 million or if the total gross aid for the project, whether from the State or the Community, amounts to EUR 5 million. In the case covered by this Decision, both the total cost of the project and the amount of aid exceed the notification threshold. Thus, by notifying the proposed aid for Vauxhall Motors (UK) Ltd, the United Kingdom has complied with the requirements of Article 88(3) of the Treaty.
- (24) In view of the character and purpose of the aid, and the geographic location of the investment, the Commission considers that the aid at issue is not covered by Article 87(2). Article 87(3) specifies other forms of aid which may be regarded as compatible with the common market. However, compatibility must be assessed from the standpoint of the Community as a whole and not in a purely domestic context. Moreover, in order to maintain the proper functioning of the common market and having regard to the principle in Article 3(g) of the Treaty, the exceptions provided for in Article 87(3) must be construed narrowly. With regard to points (b) and (d) of Article 87(3), it is clear that the aid in question is not intended for an important project of common European interest or to remedy a serious disturbance in the United Kingdom economy, or to promote culture and heritage conservation. As regards Article 87(3)(a) and (c), the Commission notes that the investment project is to be carried out in a region which qualifies for assistance under point (c). According to the regional map for the United Kingdom for the period 2000 to 2006 the project is located in an area with a regional aid ceiling for large companies of 15 % nge.
- (25) In order to decide whether regional aid is compatible with the common market under Article 87(3)(c) of the Treaty, the Commission must check whether the conditions specified in the relevant Community guidelines have been met.
- (26) In order to authorise aid in accordance with those guidelines, the Commission must, after checking that the region in question is eligible for aid under Community law, verify that the investor could have chosen an alternative site for its project, so as to demonstrate the need for aid in terms of the mobility of the project.
- (27) The Commission has studied the geographic mobility of the project. In order to demonstrate geographic mobility, the automotive group in favour of which the aid is proposed must prove in a clear and convincing way that there is an economically viable alternative location for its project. The United Kingdom authorities have asserted that such a location is available at the car plant in Antwerp, Belgium, which currently produces the Astra model and, until 1998, produced the Vectra model. The Commission notes that, in considering the two alternative sites for the project, General Motors Europe carried out a location study comparing the incremental costs of producing the new Vectra in both locations. That study, as well as other documents from the decision-making procedure of General Motors Europe, were provided to the Commission. In addition, the Commission, together with its external automotive expert, verified, on site, the feasibility of carrying out the project in Antwerp. Until 1998 the Antwerp plant produced the Astra and the previous Vectra model on the same two assembly lines and it still has sufficient space available where the bodies of the previous Vectra model were built. It can therefore be concluded that the

⁽¹⁾ OJ C 279, 15.9.1997, p. 1.

project is mobile in character. Consequently, it may be considered eligible for regional aid, since the aid is necessary to attract the investment to the assisted region.

(28) The Commission and its external automotive expert have verified the nature of the investment on the basis of plant layouts submitted by the United Kingdom and of a visit to the site. The project in question concerns a transformation, involving a radical change in production structures on an existing site with the aim of transforming the site from a single-model production facility to a flexible two-model plant. The investment project is therefore eligible for regional aid.

(29) Together with the notification, the United Kingdom authorities have provided a CBA comparing the costs of the two locations. The CBA indicates a net cost handicap of GBP 18,116 million for the Ellesmere Port location as compared with the Antwerp location. The handicap intensity of the project would be 11,8 %.

(30) With the help of its external automotive expert, the Commission has evaluated the notified CBA, on the basis of the exchange rate at the time of the location decision, with a view to ascertaining to what extent the proposed regional aid is in proportion to the regional problems it seeks to solve. Following the opening of the procedure, the United Kingdom clarified some elements in the CBA on which doubts were raised.

(31) As regards the training cost handicap in the CBA, the Commission received a detailed breakdown of costs at both locations. The regional handicap for training costs in Ellesmere Port amounts to GBP 1,7 million. The Commission considers that the significantly higher training costs in Ellesmere Port can be considered plausible. The difference can be explained by the fact that, in contrast to Ellesmere Port, the plant in Antwerp:

- already had recent experience of producing the Vectra model,
- was already familiar with operating as a flexible two-model plant,
- was already Andon trained and GBOP (Global Bill of Process) compliant.

(32) As the assumptions in the CBA concerning procurement and inward transportation costs have in the meantime been confirmed by data based upon actual production at the Ellesmere Port plant, there is no longer any reason to doubt them.

(33) However, the Commission's doubts have not been dispelled as regards the possible effects on United Kingdom sales of carrying out the project in Antwerp or as regards the possibility of industrial action.

(34) As regards the possible sales losses, the United Kingdom acknowledged that additional marketing costs would have been necessary to mitigate lost sales of Vectra models in the United Kingdom market if the project had

been awarded to Antwerp. However, the Commission considers that such a decision, in combination with the preceding Luton plant closure, would have had a detrimental effect on the Vauxhall brand, affecting United Kingdom sales not only of Vectra models but of all Vauxhall models. It has therefore based its calculation on potential sales losses of all Vauxhall models during 2002. The Commission estimated the necessary additional marketing costs on the basis of its external experts' assessment at GBP 1.284 million. The Commission agrees with the assumption that such an effect would be limited in time and scope, as the 'emotional' customer reaction to a location decision in favour of Antwerp would be dissipated over time.

(35) As regards the possibility of industrial action in the United Kingdom if Ellesmere Port had lost a shift of production, the United Kingdom considers it plausible to assume that a half-day stoppage could have resulted (as the earlier Luton plant closure resulted in only one day of stoppage). That corresponds to the loss of one shift. However, it is difficult to accept that exactly half the workforce would decide for industrial action and the other half against it. It is therefore prudent to assume that there would have been a full-day stoppage at the plant, resulting in costs of GBP 300 000.

(36) If that modification is made to the analysis, the cost-benefit result differs slightly from the one initially notified. Total additional costs if the Vectra were produced in Antwerp, resulting from the two above effects, are estimated at GBP 1,584 million. Consequently, the net present value of the regional handicap amounts to GBP 16,532 million at Ellesmere Port. The net present value of the eligible costs at Ellesmere Port amounts to GBP 153,814 million, giving the project a regional handicap ratio of 10,7 %, compared with Antwerp.

(37) Finally, the question of a 'top-up' remains to be addressed, that is to say, a modification of the regional handicap ratio of between -2 and +4 percentage points, linked to variations in production capacity on the relevant market in the group concerned, and the assistance area status of the region. In this particular case, the results of the cost-benefit analysis obviate the need for this as the difference between the regional handicap ratio (10,7 %) and the planned aid intensity (6,4 %) is 4,3 percentage points, while the highest possible reduction according to the relevant Community guidelines would be -2 percentage points in Article 87(3)(c) regions.

Conclusion

(38) Thus the project is mobile and the aid is necessary for the realisation of the project. The aid intensity of the project (6,4 %) is lower than both the regional handicap ratio identified by the cost-benefit analysis (10,7 %) and the regional aid ceiling (15 % nge). The regional aid of

GBP 9,847 million (net present value) that the United Kingdom plans to grant for Vauxhall Motors Ltd is therefore compatible with the common market under Article 87(3)(c) of the Treaty.

- (39) According to the relevant Community guidelines, handicaps for which a specific aid will be granted under a different objective, such as training, may not be taken into account in the CBA. As a training cost handicap has been taken into account in the CBA, no further, specific training aid may be granted to the project,

HAS ADOPTED THIS DECISION:

Article 1

The State aid amounting to GBP 9,847 million (net present value), which the United Kingdom is planning to grant to Vauxhall Motors (UK) Ltd for investment in its plant at Ellesmere Port, is compatible with the common market within the meaning of Article 87(3)(c) of the Treaty.

Implementation of the aid is accordingly authorised.

Article 2

No further, specific training aid may be granted to the project.

Article 3

This Decision is addressed to the United Kingdom of Great Britain and Northern Ireland.

Done at Brussels, 18 September 2002.

For the Commission

Mario MONTI

Member of the Commission
