II

(Acts whose publication is not obligatory)

COMMISSION

COMMISSION DECISION

of 8 July 1999

on State aid which Italy plans to grant to Fiat Auto SpA for its plant at Piedimonte San Germano, Cassino

(Notified under document number C(1999) 2267)

(Only the Italian text is authentic)

(Text with EEA relevance)

(2000/317/CE)

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 invited the parties concerned to submit their comments in accordance with the abovementioned provisions [1],

Whereas:

I. PROCEDURE

(1) Between October and December 1997 the Italian Government notified the Commission, pursuant to Article 88(3) of the Treaty, of six planned measures under which it proposed to grant State aid to Fiat Auto SpA (Fiat) [2], one of which concerned the plant at Piedimonte San Germano, Cassino, Lazio (Fiat Cassino), registered by the Commission under N 729/97 on 29 October 1997. Requests for further information and a number of reminders were sent to the Italian authorities to elicit the data required for a Commission decision. On 23 April 1998 a meeting was held with representatives of the Italian authorities and Fiat to clarify various points connected with examination of the case. Finally, in a letter of 20 November 1998, the Italian authorities supplied partial replies to the questions raised by the Commission.

(2) By letter of 2 March 1999 the Commission informed Italy that it had decided to initiate the procedure laid down in Article 88(2) of the Treaty in respect of the proposed aid measures, allowing Italy one month to supply all the documents, information and data required to assess the compatibility of the aid with the common market. In the absence of any reply, the Commission would reach a decision on the basis of the information in its possession.

(3) The decision to initiate the procedure was published in the *Official Journal of the European Communities* [3], and interested parties were invited by the Commission to submit comments.

The Commission has not received any comments from interested parties.

(4) Representatives of the Commission went to Mirafiori on 24 February 1999 to discuss the Fiat Cassino plan among other matters. Finally, on 17 May 1999 an on-site visit was arranged at Cassino.

[1] OJ C 113, 24.4.1999.

[2] Four of these measures related to motor vehicle production: Cassino-Piedimonte San Germano, Mirafiori Carrozzeria (C 5/99, ex N 728/97), Pomigliano (C 4/99, ex N 727/97) and Rivalta (C 8/99, ex N 834/97); while two concerned enginge production: Termoli (C 7/99, ex N 730/97) and Mirafiori Meccanica (C 9/99, ex N 838/97).

[3] See footnote 1.

II. DETAILED DESCRIPTION OF THE AID MEASURE

(5) The aid proposed by the Italian authorities would be granted to Fiat, which has plants in Italy, Poland, Turkey and South America. In 1997 Fiat produced 2,8 million vehicles of the Alfa Romeo, Ferrari, Fiat, Lancia and Maserati makes, 1,8 million of which in Italy. In 1997 it employed around 62 000 people in Italy, 7 000 of them at Cassino, where cars of the Fiat make are produced. A significant share of Fiat's sales, roughly one third, is recorded in other Member States.

(6) The investment notified is at Fiat Cassino, in an area qualifying for assistance under Article 87(3)(c) of the Treaty, where the maximum aid intensity for large firms is 10% net grant equivalent (nge). The investment started in 1993 and was completed in 1997; it amounted to ITL 677,8 billion (present value: ITL 548,7 billion, or EUR 233 million) and enabels the new Fiat Bravo/Brava models to be produced. However, following very extensive modifications to the plant, production capacity has fallen from 1 750 to 1 400 cars per day with the elimination of a half shift.

(7) According to the Italian authorities, the aid, worth a nominal ITL 56,4 billion (EUR 29 million) would be granted under the approved scheme provided for by Law No 488 of 19 December 1992 on the refinancing of Law No 64/86 [4] (Law No 488/92), approved by Commission decision of 24 March 1995. The discounted aid intensity would thus be 3,52% nge or 4,30% gross grant equivalent (gge).

(8) The Commission decided to initiate the formal investigation procedure in respect of the proposal aid measure, and informed the Italian Government accordingly, for the following reasons in particular:

(a) it had doubts as to the nature of some of the investments, which possibly in fact involved a modernisation of the production lines;

(b) it had doubts, given the approved scheme that was being applied, about the eligibility of investments made between the end of February 1993 and 1 May 1994;

(c) it had doubts about the need for the aid, and in particular the alleged mobility of the investment;

(d) it had doubts about the level of aid that could be authorised, since the Italian authorities had not provided the necessary information for a cost-benefit analysis (CBA).

(9) The Commission enjoined Italy to supply within one month all the information required to assess the compatibility of the aid measure in question and to provide certain specific documents, including:

(a) a location study demonstrating that the project was geographically mobile;

(b) a cost-benefit analysis based on the identification of a reference (comparator) plant in a non-assisted area of the Community in order to compare the operating costs (labour, components/materials, rent, inventory carrying costs, energy/water, telecommunications, inward and outward transport, training, etc.), over a period of three years from the beginning of commercial production and the investment costs (including land purchase, building/construction, machinery/equipment, tools and dies, supplier tooling, etc.) in both locations;

(c) data on the production capacity of the group before and after the investment.

In the absence of any reply, the Commission would reach a decision on the basis of the information in its possession.

III. COMMENTS BY ITALY

(10) On 9 April 1999 the Italian authorities requested an extension of the deadline for their reply, and on 16 April they sent a letter to the Commission containing the information deemed necessary to conclude the examination of the six cases notified between October and December 1997 for which the Commission had decided to initiate the formal investigation procedure on 3 February 1999.

(11) First, the Italian Government stressed what it saw as the failure of the study carried out by the Commission to reflect the economic reality of the decision on plant location, in particular as regards the interconnected themes of mobility and performance of the cost-benefit analysis. The comments made in this context go beyond the specific case of Fiat Cassino and relate to all of the six Fiat cases mentioned.

(12) As far as the assembly plants are concerned [5], Italy noted that Fiat had in particular drawn up a coherent investment programme for the period 1993 to 1998 after considering two scenarios: carrying out the investments concerned giving preference to production in its Italian plants or, alternatively, to its Polish plants (maximising transfers of production to Tichy and

[4] Italian Official Gazette No 299 of 21 December 1992.

[5] Cassino, Mirafiori Carrozzeria, Pomigliano and Rivalta.

Bielsko-Biala). The diagrams attached to the letter of 16 April 1999 illustrate the capacity allocations to each plant according to the scenario under consideration. A number of studies carried out by Fiat demonstrated that the option of installing production capacities in Poland for segment B, C and D vehicles of the Fiat and Alfa Romeo makes would have been more profitable than the option which Fiat finally decided on and which limited production in Poland exclusively to segment A. By investing the same or only slightly higher amounts in Poland, it could have obtained a higher return thanks to lower labour costs, cheaper transport to the markets being served [6] and lower component costs, since Fiat's network of local suppliers, which was already well organised, would have been further developed.

(13) Italy pointed out that Fiat could have achieved the workforce reduction necessary for relocating production to Poland through staff turnover, in particular by deciding not to replace the many workers that were due to retire given the shape of the age pyramid at the various plants belonging to the group. On the other hand, a fall in employment in areas of Italy in industrial decline or in the south of the country would have been seen as a negative consequence by Fiat as well.

(14) The expected regional aid would not be sufficient to offset the additional costs entailed by the decision to carry out this investment in Italy, but it was undoubtedly a factor in the decision.

(15) The Italian Government therefore believed that the Fiat Cassino, Mirafiori Meccanica, Pomigliano and Rivalta projects satisfied the geographical mobility criterion.

The Fiat Cassino project was mobile for the general reasons already given. Italy added that the real choice that Fiat had to make for the Bravo/Brava models was between (i) allocating 1 200 cars per day to Fiat Cassino and 200 to the Rivalta plant and (ii) allocating 1 000 cars per day to Fiat Cassino and an equivalent [7] of 400 cars per day to the Bielsko-Biala plant.

(16) Second, Law No 488/92 did not allow aid to be granted in the six cases concerned to a single horizontal aid programme, requiring instead that grant applications be separated. Because six sites were interested in the first two calls for applications used to select projects eligible for aid, Fiat submitted six separate applications. The six cases were therefore notified to the Commission separately. The handling of these cases was further complicated by the fact that the projects were notified at two different times, in October 1997 and December 1997. This led the Commission to apply the two different versions of the Community framework for State aid to the motor vehicle industry (the relevant Community framework) in force at the time of the notification [8]. Under the first of these, the comparator site in the cost-benefit analysis had to be located in a non-assisted region of the Community, whereas the second allows the use of a comparator site situated in Europe or the countries of central and eastern Europe.

(17) This artificial distinction did not reflect the economic reality of the investments and overlooked the interdependence of the different production plants and the resulting synergies. The Italian authorities therefore considered it impossible to apply the two CBA methods separately, as required by the Commission, since such an approach was not consistent with the integrated nature of the investment programme and of the resulting financial calculations. The cost-benefit analyses should have been examined together by the Commission. The letter of 16 April 1999 provided a set of data on the basis of which cost-benefit analyses could have been carried out for the Mirafiori Carrozzeria, Rivalta, Cassino and Pomigliano plants, in comparison with Bielsko-Biala, in a context of optimum allocation of production between Italy and Poland.

(18) Nevertheless, in response to the Commission's decision to initiate the procedure with regard to the Fiat Cassino project, in which it stated that the relevant Community framework prohibited reference to an alternative site in an assisted area of the Community, Italy prepared two cost-benefit analyses comparing the plants at Cassino and Rivalta for production of the Bravo/Brava model. One was based on the assumption that mobile production amounted to 200 cars per day and the other on 300 cars per day. The period for which the comparative operating disadvantages were calculated was identical: 1995 to 1997. Italy pointed out that Rivalta was not located in an assisted area at the time of the investment decision.

(19) The cost-benefit analyses carried out by the Italian Government concluded that the comparative disadvantage of Cassino was 15,4% (on the basis of the 200 cars per day assumption) or 15,2% (on the basis of the 300 cars per day assumption); this was sufficient to authorise the aid under examination, which would have an intensity of 3,52%.

[6] The markets of central Europe (Germany, France, Belgium and the Netherlands) and eastern Europe.

[7] The number of cars produced per day in Poland would in fact have been 374, because more days are worked there than in Italy: when spread over a year, the production of 374 cars per day for 246 working days is equivalent to the production of 400 cars per day for 230 working days.

[8] OJ C 123, 18.5.1989, p. 3 and OJ C 279, 15.9.1997, p. 1.

(20) Third, as far as investments made between February 1993 and May 1994 are concerned, the Italian authorities pointed out that Ministerial Order No 527 of 20 October 1995 [9], which laid down the arrangements for implementing Law No 488/92, allowed it to be applied retroactively for a period of 24 months to investments in respect of which the initial request for aid had been presented to the authority responsible after 20 August 1992. Since Fiat presented the first request for aid under Law No 64/86 of 11 July 1994, the investments could be considered eligible going back to July 1992. They in fact began in 1993 and should therefore be deemed eligible in full.

(21) Fourth, Italy stressed that no investment covered by the notification was connected with modernisation of production of the Tipo or Tempra model. Those models were mentioned in the letter of 20 November 1998, in reply to a question by the Commission, solely in order to illustrate the differences between the old production techniques, which involved a high degree of automation, and the new ones, which followed the principles of integrated manufacturing.

(22) The Italian authorities stressed that the project was accompanied by a reduction in production capacity at the Cassino plant and that it did not therefore have a significant effect on competition since it did not involve any increase in capacity.

IV. ASSESSMENT OF THE AID

(23) The measure notified by the Italian authorities for Fiat Cassino constitutes State aid within the meaning of Article 87(1) of the Treaty. It would be financed by the State or through State resources; moreover, since it represents a significant proportion of the project funding, it is likely to distort competition within the Community, giving an advantage to Fiat over other companies not receiving aid. Finally, the motor vehicle market is characterised by extensive trade between Member States.

(24) The State aid in question, to be granted under the approved scheme provided for in Law No 488/92, is intended for a firm operating in the motor vehicle production and assembly sector. The proposal should therefore be examined in the light of the relevant Community framework. Given that the Italian Government notified the plan on 28 October 1997, the relevant framework is that of 1989, as amended and extended. This is confirmed by the subsequent framework [10], which has applied since 1 January 1998 and point 2.6 of which expressly states that, 'the preceding framework, which entered into force on 1 January 1996 for two years, will serve as a basis for the assessment of aid proposals which were notified before 1 November 1997 but which have not yet been declared compatible by the Commission or are the subject of proceedings under Article 93(3) of the Treaty initiated before that date'. Italy has not contested that understanding of the matter in the course of the present proceedings.

(25) The Commission also notes that the aid would be granted under an approved scheme and that the cost of the project exceeds EUR 17 million. The Italian authorities have therefore complied with the notification requirement. However, the Commission deplores the long delay between the signing of the ministerial order granting the aid in question, on 20 November 1996, and the official notification at the end of October 1997.

(26) Article 87(2) of the Treaty identifies a number of types of aid which it declares to be compatible with the common market. Given the nature and purpose of the aid and the geographic location of the investment, the project does not fall within any of the categories listed in points (a), (b) and (c) of that paragraph. Paragraph 3 of the same Article defines types of aid that may be considered to be compatible with the common market. Their compatibility has to be assessed in the overall context of the Community and not in a purely national context. To safeguard the smooth running of the common market and comply with the principles laid down in Article 3(g) of the Treaty, exceptions such as those in Article 87(3) must be interpreted strictly. Looking first at Article 87(3)(b) and (d), the aid in question is clearly not intended for a project of common European interest or for a project likely to remedy a serious disturbance in the Italian economy. Nor is it intended to promote culture and heritage conservation. Turning to the exemption provided for in Article 87(3)(a) and (c), only point (c) is relevant as Cassino is located in an area which qualifies for assistance under this provision.

To determine whether the proposed regional aid measures are compatible with the common market under the exemption provided for in Article (3)(c) of the Treaty, the Commission must therefore check compliance with the conditions specified in the relevant Community framework.

(27) The Commission accepts that new investment in disadvantaged regions can contribute to regional development. It thus takes a generally favourable attitude towards aid to investment granted to redress the structural disadvantages suffered by the depressed regions of the Community. However, when assessing regional aid

[9] Italian Official Gazette No 292 of 15 December 1995.
[10] OJ C 284, 28.10.1995, p. 3.

proposals, the Commission must compare the benefits in terms of regional development (e.g. contribution to the long-term development of the region by creating or safeguarding steady jobs, and linkages with the local and Community economy) with any adverse effects on the sector as a whole (such as the creation or maintenance of substantial excess capacity). The purpose of such an assessment is not to deny the essential contribution made by regional aid to Community cohesion but to ensure that other factors affecting the Community, such as a development of the sector at Community level, are taken into account. It is thus standard Commission practice to proceed as follows when examining regional aid measures for the motor vehicle industry, in the light of the relevant Community framework.

(1) The Commission establishes first and foremost whether regional aid may be granted. To this end, it considers in particular whether the region in question is eligible for aid under Community law and whether the investor could have chosen an alternative site for its project, so as to demonstrate the need for the aid, with particular reference to the mobility of the project.

(2) The Commission checks the eligibilty of the costs relating to the mobile aspects of the project.

(3) It then checks that the planned aid is in proportion to the regional problems it is intended to help solve. To this end, it checks that the project promotes the long-term development of the region and usually carries out a cost-benefit analysis.

(4) Finally, it considers the question of a 'top-up', which is an increase in the allowable aid intensity intended as a further incentive to the investor to invest in the region in question. Such top-ups are authorised on condition that the investment does not increase the capacity problems facing the motor vehicle industry.

(5) The sum of the figures established in the last two stages of the calculation represents the total amount of aid that the Commission may authorise within the regional ceiling.

(28) The procedure is familiar to the Italian Government and to Fiat, which have been involved in many previous instances of aid to the motor vehicle industry. The Commission supplied appropriate replies to the methodological questions raised at the meetings between officials of the Competition Directorate-General and the Italian authorities, who were accompanied by representatives of Fiat.

(29) The plant in question is located in a region qualifying for assistance under Article 87(3)(c) of the Treaty, at least in the early 1990s, for which regional aid could normally be authorised up to a net grant equivalent of 10 % for large firms.

(30) In order to demonstrate the need for regional aid, the Italian authorities must, among other things, show that the project is mobile, that is to say that there exists an economically viable alternative location for the project or parts of the project. If there were no other new or existing industrial site within the group capable of receiving the proposed investment, the firm would be compelled to carray out its project in the sole plant available, even in the absence of the aid.

(31) As stated in recital 15, the Italian Government notes that the choice that Fiat had to make for the Bravo/Brava models was between (i) allocating 1 200 cars per day to Fiat Cassino and 200 to Rivalta and (ii) allocating 1 000 cars per day to Fiat Cassino and an equivalent of 400 cars per day to Bielsko-Biala. This capacity allocation, for which there is an economic logic, is partly confirmed by diagrams showing (a) the Cassino plant, with a capacity of 1 400 cars per day, used entirely for the production of Fiat segment C and D cars, the Rivalta plant, producing Fiat models in segments C and D, and a Polish plant, with a capacity of 2 000 cars per day, used for producing 700 Fiat segment A cars per day and (b) the Fiat Cassino plant, with a capacity of 1 400 cars per day, used for producing only 1 000 Fiat segment C and D cars per day, the Rivalta plant, not producing any Fiat models in segments C and D, and a Polish plant, with a capacity of 2 000 cars per day, used to full capacity, among other things for producing Fiat segment C and D cars.

(32) The Commission consulted independent experts on this subject (IMO-Leuven) who accompanied it on a visit to the Fiat Cassino plant.

(33) The Commission also notes that, although the documentation supplied by the Italian authorities shows that Fiat had studied the overall mobility of the Mirafiori Meccanica, Rivalta, Cassino and Pomigliano projects, the real economic alternative would not have required it to transfer production capacity simultaneously from those four Italian plants; it would have been possible to

relocate only part of the capacity (in particular according to the platforms involved) of one or more of those plants in a technically and economically rational manner.

(34) The capacity of the Cassino plant is in fact currently 1 200 cars per day. A capacity of 1 400 cars per day would require an additional part-shift.

(35) The Commission concludes that the mobile part of the investment at Cassino is limited to 220 cars per day, i.e. the difference between options (i) and (ii) in recital 31 as far as the Cassino plant alone is concerned.

(36) The fact that the investment at Fiat Cassino began more than a year before the initial request for aid was made would normally mean, as the Commission stated when it gave notice of its decision to initiate the procedure, that the aid was not necessary to the implementation of the project. However, in keeping with Commission decisions of 18 November 1997 ([11]), 30 September 1998 ([12]), and 7 April 1998 ([13]), there are very specific aspects in the follow-up to Law No 64/86 and the implementation of Law No 488/92 which may, exceptionally, justify a time lag between the start of a project and the request for aid. It also has been ascertained that, when the investment began in February 1993, Fiat was firmly expecting regional aid to be granted. Obviously, it had no way of knowing exactly how much aid might be available.

(37) The Commission therefore concludes that the regional aid was necessary for the implementation of the investment project at Fiat Cassino.

(38) The Commission has checked that the costs were eligible under the relevant aid scheme. Although the investment does not result in increased production capacity, the Commission takes the view that the notified project constitutes an initial investment within the meaning of the guidelines on national regional aid ([14]) since it involves a fundamental change in the structure of production at the plant. It can find no evidence of modernisation.

(39) It also notes that under Order No 527/95 investment expenditure may be allowed retroactively, going back as much as two years prior to the initial application for regional aid. This is an exceptional procedure introduced as a transitional measure to fill the legal vacuum caused by the expiry of the previous Law No 64/86 and the delay in enacting Law No 488/92. In the case of the project under consideration, the investment started in February 1993 and Fiat submitted the application for aid to the Italian authorities in July 1994. The Commission concludes that the whole of the investment of ITL 677,8 billion is eligible for regional aid under Law No 488/92.

(40) However, the Commission can allow only mobile investment.

(41) The direct consequences of the project (nominal investment of ITL 677,8 billion and maintenance of some 1 100 jobs at Fiat) as well as the secondary effects represent significant benefits for the local economy. The Commission concludes that the proposed aid, which part-finances the project, will contribute to the long-term development of the Cassino area.

(42) The relevant Community framework requires the project notified to be compared with an analogous project carried out in a non-assisted region of the Community, in order to identify the additional costs arising from the structural shortcomings of the assisted region chosen for the investment. The Italian Government claims that the application of this principle does not reflect the economic choice Fiat faced. In its view, the Commission should carry out an assessment that takes account of the integrated nature of the projects: in other words, the Commission should use the comparator sites that the investor actually considered, in this case Poland and Tichy/Bielsko-Biala.

(43) If, in the case of Fiat Cassino, the Commission were to authorise the use of comparator sites not situated in non-assisted regions of the Community, it would violate the principle of equal treatment. It would be using a method of assessment completely different from that applied in other cases legally subject to the same procedure, i.e. in all the cases examined in the light of the relevant Community framework in force prior to 1998, for which the comparator site had to be in a non-assisted area, as in Commission Decision 96/666/EC ([15]).

(44) Moreover, at the time when Fiat carried out its study of possible sites, which was also when it took into account the possibility of obtaining State aid, in early 1993 at the latest, the Commission's practice required the use of a comparator site located in an area not eligible for regional aid. The Italian authorities and Fiat were familiar with this methodology at the time, for example in the case of Fiat Mezzogiorno ([16]), a typical example of the application of the cost-benefit analysis. The only aid Fiat

([11]) OJ C 70, 6.3.1998, p. 7.
([12]) OJ C 409, 30.12.1998, p. 7 and OJ C 384, 12.12.1998, p. 20.
([13]) OJ C 240, 31.7.1998, p. 3.
([14]) OJ C 74, 10.3.1998, p. 9.
([15]) OJ L 308, 29.11.1996, p. 46.
([16]) Case C 45/91 (ex N 255/91).

could have taken into consideration in the financial analysis relating to the location decision would have been that based on a comparison between the plant which might potentially benefit from regional aid and an alternative site in a non-assisted region of the Community. Reference to an alternative plant in Poland, as called for by Italy, became possible only after the entry into force of the relevant Community framework in January 1998, some five years after the investment decision was taken.

(45) In conclusion, the Commission cannot accept the Italian Government's argument that the analysis of Fiat's integrated investment programme should be based on a comparison of the Italian options with sites in Poland.

(46) The relevant Community framework requires the operating and investment costs to be compared only in respect of the mobile part of the project. If it had been possible to use the real alternative site (which is not the case), the best solution for the Commission's analysis would have been to carry out a more general comparison in order to identify more precisely the additional costs resulting from the decision to locate more capacity at Fiat Cassino.

(47) It is clear from the information supplied by the Italian authorities that the plant at Rivalta ([17]) which at the time of the investment decision was located in a non-assisted area of the Community where the Fiat Bravo model is also produced, can serve as a comparator site for the cost-benefit analysis needed in order to assess the aid intensity that can be authorised by the Commission.

(48) Italy nevertheless submitted two different cost-benefit analyses to the Commission: the first, which Italy regards as valid, is based on the assumption that mobile production amounts to 200 cars per day, while the second is based on an assumption of 300 cars per day. The resulting disadvantages for Fiat Cassino are very similar and work out at 15,4% and 15,2% respectively. Given the preceding conclusion that genuinely mobile capacity is limited to 200 cars per day, the Commission takes the view that the cost-benefit analysis should be based on the first of the two assumptions. The Commission experts have accordingly studied the information supplied by Italy to calculate the net additional costs for carrying out the project at Fiat Cassino instead of Rivalta, for a maximum output under normal conditions of 200 cars per day. The advantages and disadvantages are assessed over three years, beginning with the start of commercial production. Commercial production of the Bravo/Brava models began in 1995; the three-year reference period for the cost-benefit analysis thus began in 1995. These principles have not been contested by Italy.

(49) The Commission has to take its decision on the basis of the information in its possession, in particular that provided by the Italian authorities in response to its letter of 3 February 1999 enjoining them to supply the necessary data and documentation. The letter of 16 April 1999 contains statements that are not substantiated or sufficiently detailed or the consequences of which are not precisely worked out. The Commission cannot include such elements in its assessment of the comparative disadvantages of Fiat Cassino with respect to Rivalta since it has to construe the exemptions provided for in Article 87(3) strictly.

(50) The Commission takes issue with the cost-benefit analysis supplied by Italy on a number of points.

First, as regards inward transport costs, there appears to be a mathematical error in the calculation of the unit cost disadvantage over the reference period.

Second, the extremely thorough investigations carried out by the Commission and the data gathered, in particular during the visit to Cassino, have pinpointed uncertainties regarding the financial repercussions of the choice facing Fiat between using labour and investing in automation.

One of Fiat's basic problems is the difficulty in finding skilled workers who are able to look after the technical maintenance of modern production facilities (e.g. robots). The Commission notes that the project reduces the level of automation at the Fiat Cassino plant. Furthermore, careful examination of the investments that were to be made at Fiat Cassino and Rivalta has revealed that the Italian authorities arrived at two different assessments of the disadvantages of investing at Cassino for mobile production of 200 cars per day. The Commission takes the view here that the amount of the mobile investment to be taken into consideration for Rivalta is a nominal ITL 130 billion (present value: ITL 107,1 billion), in line with the most recent detailed assessments supplied by the Italian authorities.

According to the Commission experts, the investments that would have been made at Fiat Cassino and Rivalta would have resulted in greater difference in assembly times than those indicated by Fiat. However, given the nature of the investments specified for Rivalta, the production time would not have exceeded 28 hours per vehicle. The Commission has corrected accordingly the labour requirements at Rivalta for the production of 200 cars per day.

([17]) The letter setting out details of the investment project at Cassino (recital 17) seems to refer mistakenly to Arese as a comparator site.

Third, the intensities of the disadvantage and of the aid must be calculated in relation to investments that are deemed eligible by the Commission, with special reference to mobility. These amount to ITL 208,6 billion (discounted).

(51) The corrections introduced by the Commission produce cost-benefit results that differ greatly from those of the Italian authorities. According to the Commission, the disadvantage of Fiat Cassino compared with Rivalta works out at over 40%.

(52) The nominal aid of ITL 56,4 billion is equivalent to discounted aid of ITL 23,6 billion at the applicable discount rate of 14%. The intensity of the planned aid is thus in fact 11,3% gge, or 9,5% nge. The regional maximum is 10% nge for large firms.

(53) In view of the sensitivity of the motor industry, the Commission usually examines the effects on competition of every investment project, looking in particular at variations in production capacity on the relevant market in the group concerned. Under the terms of the relevant Community framework, the allowable intensity can then be increased by an adjustment factor (top-up) of 0 to 3 percentage points.

In this particular case, the results of the cost-benefit analysis obviate the need for such an examination.

V. **CONCLUSIONS**

The aid intensity notified by Italy is less than both the disadvantage identified by the cost-benefit analysis and the regional maximum. The regional aid that the Italian Government plans to grant for Fiat Cassino is therefore compatible with the common market under Article 87(3)(c) of the Treaty,

HAS ADOPTED THIS DECISION:

Article 1

The State aid that Italy plans to grant to Fiat Auto SpA for the plant at Piedimonte San Germano (Cassino), up to a maximum of ITL 23,6 billion, discounted at the rate of 14% (base year 1993), is compatible with the common market under Article 87(3)(c) of the Treaty.

The aid is accordingly authorised.

Article 2

Italy shall present, in June each year until the project is completed, a report on the state of progress and financial implementation of the project and general compliance with the conditions set out in the notification of the aid in question.

Article 3

This Decision is addressed to the Italian Republic.

Done at Brussels, 8 July 1999.

For the Commission

Karel VAN MIERT

Member of the Commission