

**COMMISSION DECISION****of 7 May 2002****on State aid Spain is planning to implement in favour of Ford España SA***(notified under document number C(2002) 1803)***(Only the Spanish text is authentic)****(Text with EEA relevance)***(2002/899/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 given interested parties notice, in accordance with the abovementioned Articles, to submit their comments <sup>(1)</sup>,

Whereas:

**I. PROCEDURE**

- (1) By letter dated 15 December 2000, registered on 18 December 2000, Spain notified the Commission of a plan to grant regional aid to Ford España S.A. The Commission requested more information on 7 February 2001. After requesting an extension of the deadline for reply on 14 February 2001, the Spanish authorities submitted additional information on 2 April 2001.
- (2) By letter dated 6 June 2001 the Commission informed Spain of its decision to initiate proceedings pursuant to Article 88(2) of the Treaty, since it had doubts about the compatibility of the aid with the common market.
- (3) The Commission decision to initiate the procedure was published in the *Official Journal of the European Communities* <sup>(2)</sup>, with an invitation for comments on the aid from interested parties.
- (4) The Commission received no replies from interested parties.
- (5) On 24 and 26 October 2001 the Commission carried out on-site visits to the Almusafes (Valencia) and Bridgend (United Kingdom) plants, and on 12

November 2001 requested further information. After requesting an extension of the deadline for reply on 19 November 2001, the Spanish authorities submitted the additional information on 14 January 2002.

**II. DETAILED DESCRIPTION OF THE AID**

The I4 project

- (6) The planned aid would be granted to Ford España SA (Ford), a subsidiary of the automotive group Ford Motor Company Inc. The notified project concerns the production of an engine known as 'I4', which has never been produced in Europe before. The I4 is a four-cylinder, 16-valve engine, which comes in 1,8, 2,0 and 2,3 litre versions. A 2,5 litre and a diesel version will be developed at a later stage. Among others, the Focus and new Mondeo models will use the new engine from 2003 onwards.
- (7) According to the company plans, production of the I4 engine at Almusafes will replace production of the smaller HCS and Zetec engines. The former is to be phased out due to obsolescence, and production of the latter is to be concentrated at the group's Bridgend (United Kingdom) factory.
- (8) Capacity for the new I4 engine will be 700 000 engines/year, with a reduction of total capacity in the Almusafes plant by 330 000 units/year from 2000 to 2004. A similar reduction should occur at group level, following an increase in capacity at the Bridgend (United Kingdom) plant, and a decrease at the Cologne (Germany) plant. In all, 79 % of the engines produced at Almusafes will be exported to Ford plants in Germany and Sweden.
- (9) The investment programme covers a three-year period, from August 2000 to August 2003.
- (10) The Spanish authorities affirm that the technologies employed in the current plant do not allow the production of the I4 engine. For this reason, it is

<sup>(1)</sup> OJ C 219, 4.8.2001, p. 14.

<sup>(2)</sup> See footnote 1.

necessary to dismantle the existing production lines, modify radically the lines for production of components, and transform the assembly line.

#### Legal basis; investment and aid amounts

- (11) The notified aid, which takes the form of direct investment aid, is granted under the approved scheme provided for by Royal Decree No 2489 of 5 December 1996 <sup>(3)</sup> <sup>(4)</sup> amending Royal Decree No 883 of 14 June 1989 defining the assisted area in the Community of Valencia <sup>(5)</sup> this was adopted pursuant to Law No 50 of 27 December 1985 <sup>(6)</sup> and Royal Decree No 1535 of 11 December 1987 <sup>(7)</sup> which approved the implementing regulations.
- (12) Ford intends to invest EUR 334 460 000, of which EUR 297 990 000 have been considered eligible investment by the Spanish authorities (real value: EUR 277 320 000, taking 2000 as the base year and assuming a discount factor of 5,7 %). The gross grant equivalent of the proposed aid (real value) is EUR 15 740 000.

#### III. COMMENTS FROM SPAIN

- (13) On 13 July 2001 the Spanish authorities submitted their comments on the initiation of the proceedings; they supplied further information on 14 January 2002. The Commission has taken the comments into account.
- (14) In their comments, the Spanish authorities first reaffirm that the project is mobile, and that Ford seriously considered the alternative site of Bridgend. In their letter of 14 January 2002 the Spanish authorities provided additional documents as evidence of this claim.
- (15) Secondly, in their comments of 13 July 2001, the Spanish authorities reaffirm that the project is to be regarded as a transformation, and invite the Commission to visit the Almusafes plant to verify the ongoing transformation of the production lines.
- (16) Thirdly, the Spanish authorities affirm that the amount eligible for assistance is EUR 297 990 000 (ESP 49 582 million) in nominal terms. In their letter of 14 January 2002 the Spanish authorities give a detailed breakdown of the machinery concerned and the investment amounts.

- (17) Fourthly, the Spanish authorities do not consider that a cost-benefit analysis is necessary for assessing the case, since the aid intensity of the project is lower than the relevant regional ceiling of 20 %. This is the threshold below which a cost-benefit analysis (CBA) is not required by the Community framework for State aid to the motor vehicle sector <sup>(8)</sup> (the framework), since the regional maps for 2000-06 have lower ceilings than those for the 1994-1999 period.
- (18) The Spanish authorities maintain that, although the regional aid ceiling for the region of Valencia increased with the new maps from 30 % to 37 %, the overall ceilings in Spain decreased, and that therefore no CBA is needed if the project's aid intensity is lower than 20 % of the regional ceiling.
- (19) The Spanish authorities also argue that the CBA presented to the Commission was not intended to verify the proportionality of the aid, but exclusively to reinforce the claim that an economically viable alternative for the project was effectively considered.

- (20) Fifthly, the Spanish authorities cleared up the doubts expressed by the Commission concerning the CBA provided with the notification.
- (21) Regarding the costs for equipment and machinery, the Spanish authorities state that the greater distance of Almusafes from the suppliers was only indicated in the notification as a minor inconvenience, while its economic impact is not important. The greater obsolescence of the plant in Almusafes is the reason why a transformation of the existing lines was necessary. The more modern lines in Bridgend would have required a less radical intervention, and thus lower transformation costs. In their letter of 14 January 2002, the Spanish authorities provided a detailed breakdown by machining operation of the investment costs in Almusafes and Bridgend.
- (22) With regard to transport costs, the Spanish authorities provided additional information on the calculation of the costs of shipping the finished engines to the destination assembly plants, including the original estimates of transport costs by Ford that were used to calculate the costs presented in the CBA.

<sup>(3)</sup> BOE No 21, 24.1.1997, p. 2405.

<sup>(4)</sup> Case N 463/94, approved by the Commission by letter dated 7 September 1995. OJ C 25, 31.1.1996, p. 14.

<sup>(5)</sup> BOE No 171, 19.7.1989, p. 22874.

<sup>(6)</sup> BOE No 3, 3.1.1986, p. 790.

<sup>(7)</sup> BOE No 299, 15.12.1987, p. 36729.

<sup>(8)</sup> OJ C 279, 15.9.1997, p. 1. Its validity was extended in OJ C 368, 22.12.2001, p. 10.

- (23) As regards layoff costs, the Spanish authorities affirm that if the project were not carried out in Almusafes, the Spanish plant [...](<sup>\*</sup>). However, the company has not considered the relative layoff costs when studying the alternative locations.
- (24) The Spanish authorities state that the exchange rates used in the analysis are those determined by Ford for its internal studies. This is considered legitimate, since the CBA was presented not to prove the proportionality of the proposed aid, but to demonstrate the economic viability of the alternative location.
- (25) Regarding the reference discount rate, the Spanish authorities provided a CBA in which the figures are updated using a discount rate of 5,7 %.
- (26) Regarding the Ford group's production capacity in 2000—2005, the Spanish authorities provided information both for engines and for cars, including the brands of the Premier Automotive Group and Volvo.
- (29) The aid in question is intended for Ford, which manufactures and assembles cars. The firm is therefore part of the motor vehicle industry within the meaning of the framework.
- (30) The framework specifies that aid which the public authorities plan to grant to an individual project under an authorised aid scheme for a firm operating in the motor vehicle industry must, in accordance with Article 88(3) of the Treaty, be notified before being granted if either of the following thresholds is reached: (i) a total amount for the project of EUR 50 million; (ii) total gross aid for the project, whether State aid or aid from Community instruments, of EUR 5 million. Both the total cost of the project and the amount of aid exceed the notification thresholds. Thus, in notifying the proposed aid for Ford, the Spanish authorities have complied with the requirements of Article 88(3) of the Treaty.
- (31) According to the framework, the Commission should ensure that the aid granted is both necessary for the realisation of the project and proportional to the gravity of the problems it is intended to solve. Both tests, necessity and proportionality, must be satisfied if the Commission is to authorise state aid in the motor vehicle industry.

#### IV. ASSESSMENT OF THE AID

- (27) The measure notified by Spain in favour of Ford constitutes State aid within the meaning of Article 87(1) of the Treaty, since it is 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 Ford an advantage over competitors not receiving aid. Lastly, the fact that the majority of the engines manufactured at Almusafes are exported to other European countries and installed in vehicles sold throughout Europe shows that there is a substantial trade in automobiles between Member States.
- (28) Article 87(2) of the EC Treaty lists the types of aid that are compatible with the Treaty. In view of the nature and purpose of the aid, and the geographical location of the firm, subparagraphs (a), (b) and (c) are not applicable to the plan in question. Article 87(3) specifies other forms of aid that may be regarded as compatible with the common market. The Commission notes that the project is located in the region of Valencia, which qualifies for assistance under Article 87(3)(a), with a maximum regional ceiling of 37 % net grant equivalent for large companies.
- (32) According to point 3.2.(a) of the framework, in order to demonstrate the necessity for regional aid, the aid recipient must clearly prove that it has an economically viable alternative location for its project. If there were no other industrial site, whether new or in existence, capable of receiving the investment in question within the group, the undertaking would be compelled to carry out its project in the sole plant available, even in the absence of aid. Therefore, no regional aid may be authorised for a project that is not geographically mobile.
- (33) The Commission has, with the help of an external automotive expert, assessed the documentation provided by Spain, with a view to establishing whether the project is mobile. The documents provided with the letter of 14 January 2002 prove that in 1998 Ford conducted a study for the selection of a European site for the production of the I4 engine. The study includes a comparative analysis of the Cologne, Bridgend and Almusafes plants. Documents dated June 1999 indicate that Valencia and Bridgend were the most suitable locations for the project, and that the final choice would be between the two sites. In the course of the on-site visit to the Bridgend plant on 26 October 2001, the

(<sup>\*</sup>) Business secret.

Commission was able to verify that the plant had the technical capability to host the project. Official press releases show that the decision to produce the engines in Valencia was announced on 12 November 1999.

the aid intensity of the project is very small. This is because a mobile project located in an assisted area always suffers from disadvantages.

- (34) Regional aid intended for modernisation and rationalisation, which is generally not mobile, is not authorised in the motor vehicle sector. However, a transformation, involving a radical change in production structures on the existing site could be eligible for regional aid. During the on-site visit to the Almusafes plant on 24 October 2001, the Commission was able to verify the considerable investment in machinery needed for the changeover to the I4 engine, which is completely different to the Zetec model produced at the same location. The investment required a complete halt in the production of the old Zetec engine, the dismantling of the lines, and the introduction of completely new or extensively modified machines.
- (35) In view of the above, the Commission concludes that the project is a transformation that is mobile in character and can therefore be considered eligible for regional aid, since the aid is necessary to attract the investment to the assisted region.
- (36) Regarding the eligible costs, the Commission notes that the costs considered eligible by the Spanish authorities amount to EUR 297 990 000 in nominal terms. The communicated eligible costs include EUR [...] in vendor tooling investments, of which EUR [...] arise within Spanish assisted areas. The Commission notes that, under the framework, eligibility of aid is defined by the regional scheme applicable in the assisted region concerned. Furthermore, vendor tooling costs cannot be considered eligible for aid if they arise in non-assisted areas.
- (37) The Commission notes that the approved scheme, which provides the legal basis for the measure<sup>(9)</sup> authorises aid for projects if they satisfy the conditions both on areas and ceilings laid down in the Spanish regional maps. The Commission concludes that the investment that Ford intends to carry out in locations outside Spain cannot be considered as eligible investment under the framework. Therefore, only EUR [...] in vendor tooling investment can be considered as eligible costs. Total eligible costs for the project amount to EUR 234 620 000 in nominal terms, or EUR 217 439 000 in real terms.
- (38) In accordance with point 3.2.(c) of the framework, the Commission needs to ensure that the planned aid is in proportion to the regional problems it is intended to resolve. For that, the Commission requires a CBA, unless
- (39) The Commission notes that the Spanish authorities consider that the threshold below which a CBA is not required in the present case is an aid intensity of 20 %, because the overall regional ceilings in Spain were lower in the 2000—2006 map. The Commission notes, however, that the framework consistently refers to the regional ceiling for the region where the investment takes place, and not to a national average of different regional aid ceilings. The regional ceiling for the Valencia region is higher with the new regional maps (37 %) than with the old ones (30 %). In such cases, under the framework, the threshold below which a CBA is not required is an aid intensity of 10 %.
- (40) The Commission concludes therefore that, since the CBA submitted was not intended primarily for verifying the proportionality of the aid, the maximum aid intensity allowable for the investment in the Valencia region is 10 % of the 37 % regional ceiling, i.e. a grant equivalent of 3,7 % net, or 5,11 % gross.
- (41) Nevertheless, the Commission has analysed, with the assistance of its external automotive expert, the CBA presented by the Spanish authorities, to see whether it can demonstrate the proportionality of the aid in accordance with the rules laid down in the framework.
- (42) The Commission notes that the CBA presented by the Spanish authorities indicates a net cost handicap of EUR 29 900 000 for the location in Almusafes compared with the location in Bridgend. Consequently, the 'regional handicap ratio' of the project reported in the CBA is 10,77 %.
- (43) The Commission notes that in the CBA the Spanish authorities use the same exchange rate forecasts as Ford, i.e. EUR 1 = GBP [...] = ESP [...] for 2000, EUR 1 = GBP [...] = ESP [...] for 2001, and EUR 1 = GBP [...] = ESP [...] for 2002—2005.
- (44) However, it is the Commission's established practice in the assessment of the CBA to use, whenever possible, the historical rates at the time of the location decisions. Only if the time of the location decision is not verifiable, or if no decision has yet been taken, is the applicable rate the rate at the time of notification. The

<sup>(9)</sup> See recital 11.

Commission's practice was explained to the Spanish authorities after the project had been notified. In the present case, the time of the decision can be established as November 1999; the exchange rate at the time was EUR 1 = GBP 0,637 <sup>(10)</sup>.

(45) The Commission notes that the exchange rates used by the Spanish authorities give the euro (and the peseta) a higher value vis-à-vis the pound sterling during the years in question than would be the case under the Commission's practice. The Commission also notes that the exchange rates used by the Spanish authorities are, respectively, [...] and [...] higher than the historical values in the years 2000 and 2001, and that the predicted sharp devaluation of the pound has not occurred in recent years.

(46) The Commission notes that the lower estimated value attributed to the GBP by the Spanish authorities has the effect of making the costs occurring in the alternative site of Bridgend lower than under the Commission's practice. The Commission has calculated that, if the exchange rate of EUR 1 = GBP 0,637 is applied to the operating costs, the regional handicap of the Almusafes location is reduced from the notified EUR 29 900 000 to EUR 15 210 000 (7 % of the eligible costs).

(47) As regards the costs for equipment and machinery, the Commission, with the aid of its external automotive expert, was able to verify that the existing machines in Almusafes are older and less flexible than those in Bridgend. The Bridgend plant could have been adapted to the production of the I4 engine with a lower degree of transformation of the existing lines, and therefore with a lower capital investment. However, these factors do not suffice to justify the entirety of the 17 % difference in investment costs between the two plants.

(48) In this respect, the Commission notes that the investment costs at Bridgend are artificially low because of the exchange rate assumptions. The investment breakdown provided by the Spanish authorities on 14 January 2002 assumes a euro 25 % stronger with respect to the USD and 18 % stronger with respect to the GBP than it actually was in November 1999. This has the effect of reducing all non-euro denominated investment costs, which would largely arise at the alternative location of Bridgend. Assuming, conservatively, that using the correct exchange rate would increase the costs of machinery and equipment in Bridgend by only 7 %, the regional handicap would be reduced further to EUR 2 870 000 (or 1,04 % gge of the eligible costs).

(49) Regarding transport costs, the Commission notes that the original internal estimates carried out by Ford (using the dollar as the reference currency) indicate a slight advantage in unit transport costs for Almusafes (around 2,5 % per engine on average). This would mean an advantage of approximately EUR 370 000 a year, which has not been included in the CBA. The Commission also notes that the advantage for Almusafes would have been greater, if the exchange rate used in the calculations had been that at the time of the investment decision.

(50) As regards layoff costs, the Commission accepts that even without the I4 project, redundancies would have been limited if production of the Zetec engine had continued. However, the Commission is not in a position to evaluate the extra costs deriving from the [...] potential layoffs indicated in the letter of 14 January 2002, as the Spanish authorities have stated that Ford did not take them into consideration when studying the alternative locations. The Commission notes however that, had such costs been considered, they would have increased the costs of carrying out the project in the alternative location of Bridgend, and would therefore have further decreased the cost disadvantage of Almusafes.

(51) Lastly, the Commission considered in its analysis the question of the regional adjustment. Such an adjustment is authorised on condition that the investment does not aggravate existing capacity problems in the motor vehicle industry. The Spanish authorities provided documentation which shows that the Ford group's capacity in the European Economic Area and the countries of central and eastern Europe will decline in 2000—2005 for engines and vehicles alike. In accordance with the framework, the project would have a minimum impact on competition and the intensity of the disadvantage resulting from the CBA would be increased by four percentage points.

(52) In the light of the information submitted and of the considerations above, the Commission concludes that the elements of the CBA presented by the Spanish authorities do not show that the location of Almusafes would suffer a regional handicap higher than 5,11 % gge of the eligible costs, even if a positive regional adjustment of four percentage points is taken into account. For this reason, it concludes that an aid intensity that is higher than the intensity for which no CBA is necessary under the framework would not be compatible with the common market.

(53) The Commission calculates that the maximum aid that can be granted to Ford for the project in question is 5,11 % gross grant equivalent of the total eligible costs

<sup>(10)</sup> Source: Eurostat.

of EUR 217 439 000 at 2000 prices (discount factor: 5,7 %). The maximum aid amount is therefore EUR 11 111 146 gross grant equivalent at 2000 prices (discount factor: 5,7 %).

eligible investment, which is EUR 217 439 000, discounted at a rate of 5,7 % (base year 2000).

Implementation of the aid, amounting to no more than EUR 11 111 146, discounted at the rate of 5,7 % (base year 2000), is accordingly authorised.

#### V. CONCLUSIONS

(54) The Commission finds that the aid for the project in question is compatible with the common market, provided it does not exceed 5,11 % gross grant equivalent of the eligible investment of EUR 217 439 000 at present value, base year 2000, discounted at the rate of 5,7 %. The maximum amount of aid that can be granted is EUR 11 111 146 at present value.

(55) Any additional state aid for the investment projects in question is incompatible with the common market,

HAS ADOPTED THIS DECISION:

#### *Article 1*

The state aid which Spain has planned to implement for Ford España SA for the project relating to the production of the new I4 engine is compatible with the common market within the meaning of Article 87(3)(a) of the Treaty, up to a maximum intensity of 5,11 % gross grant equivalent of the

#### *Article 2*

Any state aid in addition to the aid referred to in Article 1 that Spain plans to grant to Ford for the project relating to the production of the new I4 engine shall be incompatible with the common market.

#### *Article 3*

Spain shall inform the Commission, within two months of the date of notification of this decision, of the measures it has taken to comply with it.

#### *Article 4*

This Decision is addressed to the Kingdom of Spain.

Done at Brussels, 7 May 2002.

*For the Commission*

Mario MONTI

*Member of the Commission*