STATE AIDS (MOTOR VEHICLES): COMMISSION STATEMENT

Subject: State aids

Industry: Motor vehicles; cars

Source: Commission Statement IP/00/604, dated 13 June 2000

(Note. This is a useful re-statement of the criteria applicable to the granting of state aids to the motor vehicle industry. Some of the individual cases reported in previous issues may have left readers wondering how, and in what permissible circumstances, Member States can subsidise or otherwise support the relatively prosperous corporations which manufacture motor vehicles. The short answer is that support which qualifies as "regional aid" tends to receive a fair wind, even though the Commission formally recognises that other factors, such as the effect on the industrial sector, as distinct from the geographical area, have to be taken into account. State aids in the interests of rescuing or restructuring an industry are the subject of separate rules, referred to briefly at then of the present Statement.)

The Commission has decided to extend the period of validity of the existing Community framework for State aid to the motor vehicle industry (the "car framework") by a period of one year until 31 December 2001. The car framework imposes a strict discipline in the granting of aid in order to reduce distortions of competition in the car sector to a minimum. Until 2001, the Commission will assess a possible replacement of the car framework by the rules of the so-called multisectoral framework.

During the period 1970-80, several European governments injected massive amounts of aid into the modernization and development of their domestic car industry. As a result, the Commission introduced a Community framework for State aid to the motor vehicle industry in 1989, (the Car framework) with the twofold aim of increasing the transparency of aid flows and imposing strict discipline in the granting of such aid in order to reduce distortions of competition in the Community industry to a minimum.

The risk of undue distortion of competition is particularly high in the automotive sector because the level of globalization and the structural over-capacity affecting most manufacturers leads to a fierce price competition. This intense competition reduces the profit margins which in turn forces the industry to make permanent cost reductions. Consequently, any over-compensation of regional handicaps may have adverse effects on unaided competitors. The risk of undue distortion of competition is also high because Member States and regions are put into competition by multinational automotive companies for the location of large-scale investment projects. Hence, there is a tendency for disproportionate aid allocation to such projects.

The motor vehicle industry, according to the car framework, may benefit from regional aid to assist new plants and the extension of existing ones in the assisted areas of the Community, thus making a contribution to regional development.

However, the Commission has to compare the advantages from the standpoint of regional development with any unfavourable consequences for the sector as a whole. The purpose of the comparison is to ensure that other factors affecting the Community, such as respect for fair competition and over-capacity, are also taken into consideration. Notification of aid measures is required if aid is to be granted from an approved scheme, involving either: a total investment costs of € 50m or total aid of € 5m. It is also required if aid is granted as an ad hoc measure where all aid is above the de minimis limit of € 100,000 over 3 years.

Before the Commission can authorise regional aid in favour of a car manufacturer, it has to conduct an analysis, which concentrates on the following issues:

- The necessity of the aid: which means that the aid recipient must clearly prove that it has an economically viable alternative location for its project or sub-part(s) of a project (mobility of the project); that, 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; and that, if the project is not mobile, no aid can be authorised by the Commission.

- The eligibility of the costs: which means that only those costs eligible for aid under the Regional Scheme may be eligible for the Commission.

- The proportionality of the aid: to assess whether the aid is proportional, the Commission carries out a cost-benefit analysis, comparing the costs which an investor would bear in order to carry out the project in the region in question with the costs for an identical project in a different location, thus making it possible to determine the specific handicaps of the assisted region concerned and enabling the Commission to authorise regional aid within the limit of the regional handicaps resulting from the investment in the plant with which the comparison has been made.

- An analysis of the effects on the industry and on competition: which means that the Commission studies the effects on competition of every investment project, looking in particular at variations in production capacity at group level on the relevant market (for instance, if capacities are increased, the allowable aid intensity is reduced).

Rescue and restructuring aid to the car sector is assessed in accordance with the guidelines on state aid for rescuing and restructuring firms in difficulty (OJ, C.288, 09.10.1999) which apply to all sectors. The Commission usually requires a reduction in installed capacity (in proportion to the aid intensity). Rescue and restructuring aid which leads to a capacity increase will be prohibited. ■