COMMISSION DECISION
of 6 June 2001
on State aid which Italy is planning to implement for Iveco SpA

(notified under document number C(2001) 1545)

(Only the Italian text is authentic)

(Text with EEA relevance)

(2001/780/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 called on interested parties to submit their comments pursuant to the provisions cited above [1],

Whereas:

I. PROCEDURE

(1) By letter dated 2 November 1999, registered as received on 10 November 1999, Italy notified a plan to grant R & D aid to Iveco for a project carried out between 1994 and 1999. Following a preliminary analysis, the Commission registered the case as notified aid N 670/1999. On 7 January 2000 it asked for further details. After Italy requested an extension of the deadline for its reply, a meeting was held on 29 February 2000. After a further extension of the deadline, Italy sent additional information by letters dated 31 March, 8 May and 18 May 2000.

(2) By letter dated 4 August 2000, the Commission informed Italy that it had decided to initiate the procedure in Article 88(2) of the EC Treaty in respect of the proposed aid measures and invited it to submit any comments it might have and to provide the information required to assess the compatibility of the aid with the common market.

(3) After requesting an extension of the deadline for the reply by letter dated 16 August 2000, Italy sent the Commission the information required by the latter in order to complete its examination of the case by letter dated 24 October 2000 and registered as received on 30 October 2000.

(4) The Commission decision to initiate the procedure was published in the *Official Journal of the European Communities* [2]. The Commission invited interested parties to submit their comments on the aid. No comments were received.

II. DETAILED DESCRIPTION OF THE AID

(5) The planned aid would be granted to Iveco SpA, a subsidiary of the Fiat group. Iveco designs, manufactures and sells mainly light commercial vehicles, lorries, buses and diesel engines under the trade marks Iveco, Astra, Iveco-Ford Truck, Iveco Magirus and Iveco Pegaso. In 1999 Iveco employed 36 000 workers, and sold 149 900 vehicles and 405 000 engines. It achieved a turnover of EUR 7,4 billion and an operating income of EUR 311 million.

(6) The aid is for research and development activities under an approved scheme provided for by Law No 46/1982, which aims to provide an incentive for the development of production processes and products presenting a significant technological innovation. The Law also provides for a retroactive period of 24 months from the date on which the application was made. The project was carried out in the period 1994 to 1999 and Iveco applied for aid in 1996.

(7) The notified project concerns the renewal and expansion of Iveco's range of light vehicles in the 2,8 t to 6,5 t range, with a loading capacity of between 7 m^3 and 17 m^3. The goal was to develop a completely new 'vehicle system' for the Iveco S 2000 range that would introduce substantial innovations into the product and the production process.

[1] OJ C 27, 27.1.2001, p. 25.

[2] See footnote 1.

(8) The investments amounted to ITL 214,485 billion (approximately EUR 110,8 million), of which ITL 139,646 billion was regarded as eligible by the Italian authorities. The investment schedule was as follows:

(in billion ITL)

	1994	1995	1996	1997	1998	1999	Total
Planned	0,597	8,793	21,169	71,687	75,329	36,910	214,485
Eligible		7,602	13,232	46,483	51,232	20,736	139,646

(9) The project was regarded as 'highly innovative' by the Italian authorities. As a result, 55 % of the eligible investment qualified for aid under Law No 46/1982. Total R & D aid worth ITL 31,249 billion (EUR 16,14 million) in nominal terms was earmarked.

(10) The proposed aid includes a grant of ITL 15,926 billion (EUR 8,23 million) and a reduced-interest loan of ITL 38,402 billion (EUR 19,83 million). The interest rate on the loan amounts to 15 % of the industrial reference rate during the pre-amortisation period, to 36 % of the industrial reference rate during the amortisation period if the investment takes place in an assisted area and to 60 % of the industrial reference rate during the amortisation period if the investment does not take place in an assisted area. The nominal aid resulting from the loan is ITL 15,323 million (EUR 7,91 million).

(11) No other aid is planned for the project.

(12) When the Commission decided to initiate the procedure on 19 July 2000, it expressed doubts as to the compatibility of the aid. In particular, doubts were raised regarding the necessity for the aid, its incentive effect, the dissemination of the results of the project, the innovative nature of the research, the definition of the investments as R & D activities and the proportion of the investments devoted to industrial research and pre-competitive development.

III. COMMENTS FROM THE ITALIAN AUTHORITIES

(13) The Italian authorities submitted their comments on the initiation of procedure by letter dated 30 October 2000.

(14) The comments relate first to the need for the aid and to the fact that the project was started before the application for aid under the approved scheme provided for by Law No 46/1982 was made. The Italian authorities pointed out that the Law provides for retroactive application to eligible investments and that it is common practice among Italian firms applying for R & D aid to exercise that option. Iveco was aware of Law No 46/1982 in 1994 and was certain to qualify for the benefits it provided for, given the nature and objectives of its R & D activities.

(15) Second, the Italian authorities pointed out that Iveco launched a very ambitious project at a critical moment for the motor vehicle industry, with a significant risk of failure. In their opinion, the proposed aid was crucial to the decision to design a completely new product rather than upgrade and improve existing ones. The fact that R & D expenditure did not increase as a percentage of turnover in the period 1994 to 1998 was said to be due to the unexpected increase in turnover, and did not reflect the scale of the investment programme.

(16) Third, the Italian authorities stated that the project included industrial research and pre-competitive development activities in line with the criteria specified in Annex I to the Community framework for State aid for research and development [3]. They provided a breakdown of the activities classified as industrial research and pre-competitive development for each subproject and a description of the main features of the subprojects.

(17) Fourth, as regards the dissemination of the results of the project, Italy supplied information on the subprojects carried out with in partnership with component suppliers, both Italian and international. According to the Italian authorities, dissemination of the results is guaranteed by the fact that Iveco's partners in the project can use the know-how acquired to supply any other client worldwide with better products.

(18) Last, Italy provided a recalculation of the aid contained in the interest-rate subsidy on the loan, using the Commission reference rate of 5,61 % to calculate the present value of the aid.

[3] OJ C 45, 17.2.1996, p. 5.

IV. **ASSESSMENT OF THE AID**

(19) The measure constitutes State aid within the meaning of Article 87(1) of the EC Treaty as it would be financed by the State or through State resources; moreover, given that it represents a significant proportion of the project funding, it may distort competition within the Community by giving an advantage to Iveco over other companies not receiving aid. Finally, the market for motor vehicles is characterised by extensive trade between Member States.

(20) Article 87(2) of the EC Treaty lists certain 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) of the Treaty specifies other forms of aid which may be compatible with the common market. As the region of Turin is not experiencing serious underemployment or an abnormally low standard of living, exemption under Article 87(3)(a) is not possible. Moreover, the project does not promote culture and heritage conservation, and thus the aid cannot be exempted under Article 87(3)(d). As the project does not remedy a serious disturbance in the Italian economy, the aid does not qualify for exemption under Article 87(3)(b) either. As regards the exemption relating to an important project of common European interest, the Commission's standard practice ([4]) has made any benefit deriving from Article 87(3)(b) dependent on all four of the following criteria being met:

— the aid must promote a project, 'promote' being taken to mean action which contributes to implementation of the project,

— it must be a specific, precise and clearly defined project,

— the project must be important both quantitatively and qualitatively, especially qualitatively,

— the project must be 'of common European interest' and, as such, be of benefit to the whole of the Community.

In this case, the project is not qualitatively important and is not of common European interest. It is not therefore eligible for exemption under Article 87(3)(b).

([4]) See, in particular, Commission Decision 96/369/EC of 13 March 1996 concerning fiscal aid given to German airlines in the form of a depreciation facility (OJ L 146, 20.6.1996, p. 42); see also paragraphs 3.3 and 3.4 of the Community framework for State aid for research and development.

(21) As regards the exemption under Article 87(3)(c), Italy has not notified the project as a regional aid measure in accordance with the framework for State aid to the motor vehicle sector ([5]) and has never argued that the conditions set out in that framework with respect to regional investment aid had been met. The aid may, however, qualify for exemption under Article 87(3)(c) as aid to facilitate the development of certain economic activities.

(22) The aid in question is intended for an R & D project carried out by a firm which manufactures motor vehicles. The firm is part of the motor vehicle industry within the meaning of the Community framework for State aid to the motor vehicle industry ([6]) (the 'motor vehicle framework'). According to that framework, aid for research and development is to be assessed under the Community framework for State aid for research and development ([7]) (the 'R & D framework').

(23) Both the total cost of the project and the amount of aid exceed the notification thresholds laid down in the motor vehicle framework (paragraph 2.2(a)) and in the R & D framework (paragraph 4.7) for an individual project under authorised aid schemes. Thus, in notifying the plan to grant aid to Iveco, the Italian authorities have satisfied the requirement in Article 88(3) of the EC Treaty.

(24) To determine whether the proposed aid measures are compatible with the common market under the exemption provided for in Article 87(3)(c) of the Treaty, the Commission must therefore ascertain whether the conditions specified in the R & D framework have been complied with.

(25) When it assesses the compatibility of R & D aid, the Commission pays particular attention to the type of research carried out, the aid recipients, the accessibility of the results, the planned intensity and the incentive effect of the aid.

(26) The R & D framework takes a positive view of aid to research and development. However, the closer the R & D activity is to the market, the more significant may be the distortive effect of the State aid. In this context, a distinction must be made between fundamental research, industrial research and pre-competitive development activity (see paragraph 2.2 of the R & D framework).

([5]) OJ C 279, 15.9.1997, p. 1.
([6]) OJ C 279, 15.9.1997.
([7]) OJ C 45, 17.2.1996.

(27) Pursuant to paragraph 6.2 of the R & D framework, aid must induce firms to pursue research which they would not otherwise have pursued or could not have pursued within the same period. R & D aid should therefore serve as an incentive for firms to undertake R & D activities in addition to their normal day-to-day operations. Member States are therefore required, when notifying R & D aid, to demonstrate that the aid is necessary as an incentive and is on no account operating aid. Where this incentive effect is not evident, the Commission may consider such aid less favourably than it usually does.

(28) The Commission attaches particular importance to the incentive effect of R & D aid in the case of individual, close-to-the-market research projects to be undertaken by large firms and in all cases in which a significant proportion of the R & D expenditure has already been made prior to the aid application.

(29) The Commission notes that Iveco has the characteristics of a large firm. According to the firm's plans, production resulting from the research would start at the end of 1999, some three months before the marketing of each model. The new paint shop was first used experimentally to paint vehicles in the old range in 1998 and then came fully on stream when the first vehicles in the new range were produced. Iveco's suppliers, which produced components for which Iveco carried out the research, started production between November 1998 and April 1999. Given the nature of the project and the subsequent start of production and marketing for the vehicles resulting from the research project, the Commission concludes that the research is close to the market and thus attaches particular importance to the incentive criterion with which the R & D aid must comply in this case.

(30) The project is divided into subprojects that relate to innovations in the vehicle and production systems. The vehicle system subproject concerns the chassis, front and back suspension, transmission and axle, cab and body, brakes and engines. The production system subproject concerns a new paint shop. The Commission has analysed the subprojects with the technical assistance of an independent automotive expert.

(31) When initiating the procedure, the Commission expressed doubts concerning the innovative character of the research and whether the investments constituted R & D activities. However, it has not received any additional information proving that the investment in question constitutes research within the meaning of the R & D framework.

(32) The main chassis development was the extension of the gross vehicle weight range to 2,8 to 6,5 tonnes. The choice of an extended size range can be explained by the necessity to compete with other products that offer similar weight ranges. The weight extension has been achieved through the use of a ladder chassis instead of the unitary steel body (monocoque) construction. The ladder chassis is commonly used for lorries, and its adaptation to a light van does not involve significant R & D efforts.

(33) The new technical solutions adopted for suspensions, driveline, bodywork and brakes match the new extended weight range of the van. The new independent front suspension, control unit for the rear suspension, pneumatic rear suspension, gearbox, braking system and electronic management control unit do not contain significant innovations in relation to existing products. The parts have often been developed in partnership with firms that supply Iveco with components for the new light van range. In the motor vehicle industry it is common practice for suppliers to design and develop systems for manufacturers. Although such collaboration has led to improvements on previous design, their R & D content is no greater than is usual for the development of a new model.

(34) According to Italy's comments when the procedure was initiated, the light van is powered by a common rail fuel injection system (CRFS). Although the new engine constitutes an improvement on previous models, it cannot be regarded as a significant innovation. The Fiat group was the first motor vehicle manufacturer to introduce CRFS in 1997, soon followed by other manufacturers. CRFS is still state-of-the-art and is used by virtually every diesel engine manufacturer.

(35) The new paint shop is an improvement on the previous one, leading to reduced consumption of water, energy and chemical products. However, this does not prove that significant innovations have taken place. Paint shops have to be renewed on a regular basis in order to be able to meet stricter requirements with regard to the environment standards and the quality of the finished product. Furthermore, from the information submitted by Italy it appears that the new paint shop utilises a water-based technique instead of the more innovative powder-based processes.

(36) As regards the nature of the subprojects described above, the Commission, with the aid of its independent expert, analysed the incentive effect of the planned aid. It concluded that the proposed aid has no incentive effect.

(37) First, Italy's claim that the R & D activities in the project are in addition to day-to-day operations is not substantiated. The outcome of the project is a new light commercial vehicle that replaces an old model dating back to the 1970s. The Commission, in line with the view of the independent expert, therefore concluded that it was urgent for Iveco to replace the old model. The company itself has presented the new light van to the public as a response to a change in demand that the old model was not able to satisfy ([8]). Moreover, the investment in the design, development and marketing of the new Iveco van is no higher than the investments made by competitors to bring out similar products.

(38) Furthermore, the subprojects described above are part of the usual procedures for designing and developing new models. In the motor vehicle industry, such procedures are carried out periodically as part of the normal activities of the company involved and must therefore be considered normal day-to-day operations. Similarly, partnerships with component suppliers are common practice in the automotive industry and are also to be considered normal day-to-day operations.

(39) Second, the Commission rejects Italy's claim that the aid addressed an unusual risk in the relevant market because the project coincided with a particularly difficult period for Iveco and the industry. The expert noted that the commercial vehicle market is an extremely cyclical market with regular ups and downs and that car manufacturers cannot afford to postpone or cancel investments because of a low point in the cycle. The aid cannot therefore be regarded as necessary to address a market failure.

(40) Third, the Commission has looked at quantifiable factors such as R & D spending, R & D staff and R & D spending as a proportion of turnover. Average annual R & D expenditure increased in nominal terms from EUR 121 million in 1990 to 1993 to EUR 136 million in the period 1994 to 1998 ([9]). The number of people assigned to R & D rose from 907 on average in 1990 to 1993 to 945 in the period 1994 to 1998. However, in every single year during the period 1994 to 1998, the number of R & D staff was always lower than in 1990 (1 091).

([8]) See, for example, the commercial information at http://www.madeinfiat.com/feb00/briefa.htm.

([9]) 1998 is the last year for which figures were provided by the Italian authorities.

(41) The change in R & D expenditure and staff numbers seems to be related to Iveco's general performance. Decreases in these indicators in the period 1991 to 1993 coincided with a period of decreasing turnover and net losses for Iveco, implying a need to cut costs. An improved financial situation, in terms of revenue and profitability, from 1994 onwards coincided with increased R & D commitments.

(42) A more precise indicator of the company's position is R & D expenditure as a proportion of total turnover. This indicator fell from an average of 4,81 % in 1990 to 1993 to an average of 4,16 % in 1994 to 1998. Furthermore, Iveco's R & D expenditure as a proportion of total turnover is in line with that of comparable motor vehicle manufacturers.

(43) In the Commission's view, the quantifiable factors do not indicate that the proposed aid served as an incentive for Iveco to carry out R & D activities which it would not have pursued otherwise.

(44) Fourth, although the Commission notes that there was some cross-border cooperation on the project with component suppliers, it doubts that the cooperation involved additional costs that Iveco would not have incurred had it chosen national instead of international partners. Cross-border cooperation is certainly normal practice in the global market for motor vehicle components.

(45) The Commission concludes that the R & D activities carried out by Iveco are normal for a motor vehicle manufacturer and thus considers that Italy has failed to demonstrate the incentive effect of the notified R & D project. The planned aid is therefore not compatible with the common market.

(46) In addition to the points set out above, the Commission notes that the fact that the project was started before the aid application points to the conclusion that the aid was not necessary. It is aware that Law No 46/1982, which had been approved previously, allows for a 24-month retroactive period for costs incurred by the applicant. However, the aid in question was subject to a prior notification requirement under both the R & D and the motor vehicle frameworks and should therefore have been scrutinised by the Commission. Given the nature of the project, the Commission finds that Iveco could not be certain that the project would qualify for aid and could not therefore take it for granted that such aid would be approved. Nevertheless, it started the project in 1994 and applied for State aid only in 1996.

(47) Given that the aid has no incentive effect, the Commission does not consider that further analysis of the case, in particular of the specific industrial research and pre-competitive development content of the subprojects, as well as the admissible aid intensities is necessary.

V. **CONCLUSION**

(48) The Commission concludes that the R & D aid which the Italian authorities plan to grant to Iveco is not necessary in order to achieve the objectives referred to in Article 87(3)(c) of the Treaty, in particular that of facilitating the development of certain economic activities. The aid in question has therefore to be regarded as being incompatible with the common market,

HAS ADOPTED THIS DECISION:

Article 1

The State aid which Italy is planning to grant to Iveco SpA, amounting to ITL 31,249 billion in nominal terms, is incompatible with the common market.

The aid may accordingly not be implemented.

Article 2

Italy shall inform the Commission, within two months of notification of this Decision, of the measures taken to comply herewith.

Article 3

This Decision is addressed to the Italian Republic.

Done at Brussels, 6 June 2001.

For the Commission

Mario MONTI

Member of the Commission