COMMISSION DECISION

of 18 July 2001

on the State aid which Germany is planning to implement for Automobilmanufaktur Dresden GmbH

(notified under document number C(2001) 2348)

(Only the German text is authentic)

(Text with EEA relevance)

(2002/143/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 those provisions [1],

Whereas:

I. PROCEDURE

(1) After a meeting on 8 July 1999, Germany gave notification by letter dated 5 July 1999, registered as received on 9 July, of planned aid in respect of an investment project by Automobilmanufaktur Dresden GmbH (AMD), a wholly owned subsidiary of Volkswagen AG (VW).

(2) The Commission addressed additional questions to Germany by letter dated 3 August 1999. After a request from Germany for an extension of the deadline for a reply, Germany partly answered the questions by letter dated 5 October 1999 (registered as received on 6 October) 1999. By letter dated 21 October 1999, the Commission gave its comments. By letter dated 17 November 1999 (registered as received on 18 November 1999), Germany provided additional information.

(3) By letter dated 3 February 2000, the Commission informed Germany that it had decided to initiate the procedure laid down in Article 88(2) of the EC Treaty in respect of the aid. Its objections relate to the claim by Germany that the exemption in Article 87(2)(c) of the EC Treaty applies, the mobility of the investment, a number of assumptions in the cost-benefit analysis submitted by Germany that do not appear to comply with Commission practice, and the notified amount of aid and aid intensity.

(4) The Commission decision to initiate the procedure was published in the *Official Journal of the European Communities* [2]. The Commission called on interested parties to submit their comments.

(5) The Commission received no comments from interested parties.

(6) By letter dated 3 April 2000 (registered as received on 4 April 2000), Germany submitted comments on the opening of the investigation procedure. After a letter requesting clarifications was sent to Germany on 13 September 2000, an on-site visit on 28 and 29 November 2000, a reminder from the Commission dated 22 December 2000 and a request from Germany for an extension of the deadline for a reply dated 17 January 2001, to which the Commission agreed on 23 January 2001, Germany sent additional information by letter dated 2 February 2001 (registered as received on 7 February 2001).

II. DETAILED DESCRIPTION OF THE AID

(7) The Volkswagen group is active in the motor vehicle sector and sells passenger cars through its four main brands: Volkswagen, Audi, Seat and Skoda. In the European Union and the central and eastern European countries (CEECs), Volkswagen operates plants in Germany, Belgium, Spain, Portugal, Slovakia, Hungary and the Czech Republic. The company decided to produce under the brand Volkswagen a completely new model that would compete with the Audi A8, the Mercedes S Class, the BMW 7 Series and Jaguar (limousine).

(8) The beneficiary of the aid is AMD. VW developed a concept known as 'gläserne Manufaktur' (transparent factory) which allows the customer to observe the final assembly of his vehicle on site by highly skilled personnel. The assembly plant is to be built in a town which is characterised by a combination of engineering, tradition and culture. Germany announced that, following a comparative assessment of different sites, VW had decided to locate the transparent factory in Dresden.

[1] OJ C 78, 18.3.2000, p. 8.

[2] See footnote 1.

(9) The investment will take place in several places: the bodyshop and paintshop will be located in Mosel on a previously used and now abandoned site next to VW's existing plant. An intermediate storage centre will be established in Dresden-Friedrichstadt and the transparent factory in which the assembly takes place is to be built close to the historical centre of Dresden, on the Straßburger Platz. Germany notified all of the investments as 'greenfield' investments within the meaning of the Community framework for State aid to the motor vehicle industry [1] (hereinafter the 'motor vehicle framework') and stated that the project does not entail the creation of an overall project within the meaning of point 2.1(e) of the motor vehicle framework.

(10) According to Germany, the investment could be carried out at alternative sites, namely in Prague and the VW group's existing Kvasiny plant in the Czech Republic. On completion of the project, installed capacity in Dresden will be 37 500 units per year. According to Germany, a total of approximately 2 000 new jobs will be created in AMD.

(11) According to the initial notification of 5 July 1999, the planned aid amounts to DEM 194 million (net present value: DEM 174 million), resulting in an aid intensity of 13,42 %. The cost-benefit analysis in the notification puts at 37,1 % the intensity of the locational handicap, comparing both Mosel and Dresden with a comparable investment made at the alternative sites identified in the Czech Republic. According to the additional information submitted by Germany on 5 October 1999, Mosel would face a 180,4 % handicap in relation to Kvasiny, while Dresden would face one of 19,7 % in relation to Prague.

(12) Following the opening of the investigation procedure, Germany provided updated figures on the planned aid and revised the data in the cost-benefit analysis. On the basis of these figures, Mosel faces a 35,2 % locational handicap in relation to Kvasiny, while Dresden faces one of 21,8 % in relation to Prague. Regional aid amounting to around DEM 190,5 million (net present value: DEM 171 million) is to be granted to AMD under the approved 'Gemeinschaftsaufgabe Verbesserung der regionalen Wirtschaftsstruktur' (GA) — 27. Rahmenplan (27th outline plan for the joint Federal Government/Länder scheme for improving regional economic structures) and under the approved 'Investitionszulagengesetz 1999' (1999 Investment Allowance Law). The aid will be paid over time in the light of progress with the investment project.

(13) Mosel is situated in an assisted region for the purposes of Article 87(3)(a) of the EC Treaty that has a regional aid ceiling of 35 % gross grant equivalent (gge). Both locations in Dresden are also located in an Article 87(3)(a) region but have a lower regional aid ceiling of 28 % gge for large enterprises. Germany has asserted that the aid is also compatible with the common market under Article 87(2)(c), whereby aid granted to the economy of certain areas of the Federal Republic of Germany affected by the division of Germany is deemed compatible in so far as it is required in order to compensate for the economic disadvantages caused by that division.

III. COMMENTS FROM GERMANY

(14) By letter dated 3 April 2001, Germany submitted comments on the opening of the investigation procedure which it considered sufficient for the Commission to be able to conclude the evaluation of the case.

(15) Germany explained in more detail the conditions under which the site on which the plant in Dresden is being constructed, was sold by the city of Dresden to AMD and submitted additional documents, such as the purchase contract (extracts) and its implementing agreement (Durchführungsvertrag).

(16) With regard to the exemption provided for in Article 87(2)(c) of the EC Treaty, Germany restated its view that this provision applies in the present case.

(17) With regard to the mobility of the project, Germany provided additional information and stated that the production of the model in the Czech Republic was a viable and sound alternative. Given that the marketing concept provides for observation of the assembly of the car by the customer as well as a tour of the city, Prague was considered as attractive in cultural and tourism terms as Dresden. In addition, VW basically assumes that the location of the production site would not affect sales. Moreover, Germany stated that the locational choice had become less crucial as the company has managed to replace a locational image by a brand image ('Made by Volkswagen'). However, should an image-induced risk to sales arise, then, according to Germany, it would be compensated for by additional marketing expenditure. With regard to the quality of production, it is emphasised that the 'objective' quality of production is the same in all VW production locations. The 'subjective'

[1] OJ C 279, 15.9.1997, p. 1.

perception of the quality of cars produced by VW in the Czech Republic, such as Skoda, reaches the level of other brands in the VW group. Mention is also made of the existing production of the Audi TT model in Hungary and the assembly of the Porsche Boxster in Finland.

(18) As regards the nature of the investment, Germany states that it considers all investments in Dresden and Mosel as new investments. A number of elements used in the cost-benefit analysis for the purpose of calculating the locational handicap were modified and quantified, such as tangible and intangible risks/factors.

(19) Finally, Germany states that the additional production capacity for the D1 model, which is at the higher end of the range is 37 500 vehicles a year. In practice, it could not be assumed that all VW vehicles were perfectly substitutable. In this market segment there are four other major players (BMW 7 Series, Mercedes S Class, Audi A8, Jaguar) and a few smaller producers (such as Toyota Lexus). Production of the D1 model would thus have positive effects as it increases competition in this segment. The effects of the project on capacity within the meaning of the motor vehicle framework are considered small by Germany.

(20) Following an on-site visit on 28 and 29 November 2000, Germany submitted additional information by letter dated 2 February 2001. This comprised separate, revised cost-benefit analyses for Dresden and Mosel; several points raised by the Commission when the procedure was initiated were enlarged upon. Additional documents relating to the intention to evaluate different sites were provided, together with updated figures on the investment costs, operating costs and amounts of aid. The revised cost-benefit analysis gives a locational handicap for Dresden of 21,8 % and for Mosel of 35,2 %.

IV. **ASSESSMENT OF THE AID**

(21) The aid measure notified by Germany for AMD constitutes state aid within the meaning of Article 87(1) of the EC 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, it is liable to distort competition in the Community by giving AMD an edge over competitors. Lastly, there is extensive trade between Member States in the motor vehicle market.

(22) The aid is intended for a firm which manufactures and assembles cars. The firm is therefore part of the motor vehicle industry within the meaning of the motor vehicle framework.

(23) The aid is to be granted under the 'Investitionszulagengesetz 1999' (1999 Investment Allowance Law) and the 'Gemeinschaftsaufgabe Verbesserung der regionalen Wirtschaftsstruktur (GA) — 27. Rahmenplan' (27th outline plan for the joint Federal Government/Länder scheme for improving regional economic structures), which were both approved by the Commission.

(24) The motor vehicle framework stipulates 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 at least one of the following thresholds is reached: (i) total cost of the project equalling EUR 50 million or (ii) total gross aid for the project, whether State aid or aid from Community instruments, equalling EUR 5 million.

(25) Both the total cost of the project and the amount of aid exceed the notification threshold. Thus, in notifying the proposed aid for AMD, Germany has complied with the requirement arising out of Article 88(3) of the EC Treaty.

(26) Article 87(2) of the EC Treaty specifies certain types of aid that are compatible with the common market. Germany relies on Article 87(2)(c), whereby aid granted to the economy of certain areas of the Federal Republic of Germany affected by the division of Germany is compatible with the common market in so far as such aid is required in order to compensate for the economic disadvantages caused by that division. According to settled case-law [1], the phrase 'division of Germany' refers historically to the establishment of the dividing line between the two occupied zones in 1948. Therefore, the 'economic disadvantages caused by that division' can mean only the economic disadvantages caused by the isolation which the establishment of that physical frontier entailed, such as the breaking of communication links or the loss of markets as a result of the breaking off of commercial relations between the two parts of German territory. Germany has not shown that the aid is necessary to compensate for such an economic disadvantage caused by the division of Germany. The Commission therefore considers that Article 87(2)(c) is not applicable to the planned regional aid for AMD. Article 87(2)(a) and (b) is not applicable either, in view of the nature and purpose of the aid and the location.

[1] Judgment of the Court of Justice of the European Communities of 19 September 2000 (Case C-156/98 Germany v. Commission [2000] ECR I-6857).

(27) Under Article 87(3) of the EC Treaty, certain other forms of aid may be regarded as compatible with the common market. Compatibility must be assessed from the standpoint of the Community as a whole and not from that of an individual Member State. In order to safeguard the proper functioning of the common market and to respect the principle in Article 3(1)(g) of the Treaty, the exceptions in Article 87(3) must be construed narrowly. With regard to Article 87(3)(b) and (d), it is clear that the aid in question is not intended to promote the execution of an important project of common European interest, to remedy a serious disturbance in the economy of a Member State or to promote culture and heritage conservation. As regards Article 87(3)(a) and (c), the Commission notes that the different investment projects are carried out in areas of Saxony which qualify for assistance under point (a). According to the new regional-aid map in Germany, approved by the Commission on 29 July 1999 for the Article 87(3)(a) regions, the projects are located in areas with a regional-aid ceiling for large companies of 35 % gge (Mosel) and 28 % gge (Dresden).

(28) As regards the land transaction between the city of Dresden and AMD, Germany provided additional documents and explained in its comments, on the opening of the procedure, the conditions on which the land was sold. An assessment of the value of the land was carried out by an independent evaluation committee commissioned by the city of Dresden under the applicable German law (§192 Baugesetzbuch). The value of the land ('erschließungsbeitragsfreies baureifes Land') was estimated at DEM [...] (*) per m^2 minus the costs necessary to render the area usable for investment (such as redevelopment, anti-pollution measures and clearance of ammunition and the like remaining from the war) and minus the loss in value due to restrictions on future use. According to the purchase contract and its implementing agreement, the site was sold at a price of DEM [...] per m^2 and AMD undertook to pay the necessary costs for cleaning up and preparing the site for redevelopment (amounting to DEM [...] per m^2), which would otherwise have had to be borne by the city. As the total costs incurred by AMD amount to DEM [...] per m^2, the Commission considers that AMD has not received any aid related to the purchase of the land.

(*) Confidential information.

(29) In order to decide whether regional aid under the exception in Article 87(3)(a) of the EC Treaty is compatible with the common market, the Commission must check whether the conditions specified in the motor vehicle framework have been met.

(30) In order to authorise aid under the motor vehicle framework, the Commission, after checking that the area in question is eligible for aid under Community legislation, establishes whether the investor has considered an alternative site for its project, the aim being to ascertain the need for the aid, with particular reference to the mobility of the project.

(31) The Commission has studied the mobility of the project. In this respect, the automotive group which is to receive the aid must prove, in a clear and convincing way, that there is an economically viable alternative to the planned location. The Commission has taken into account in its assessment that the project in question involves entirely new investment (greenfield project) in Dresden as well as the expansion, without replacement, of existing operating installations in Mosel, where a new bodyshop and paintshop are being built on a previously used and now abandoned site next to VW's existing plant. This has been confirmed by the Commission's external automotive expert following an on-site visit.

(32) In addition, the Commission received several documents, such as copies of minutes of VW's decision-making body which show the company's intention to assess alternative sites for the production of the new model, a document comparing the two sites (Machbarkeitsstudie und Standortuntersuchung — Volkswagen D1), a site plan of the available area in Prague as well as detailed information on cost elements based on VWs actual costs at its existing plants in the Czech Republic.

(33) Since VW already operates several car plants in central and eastern Europe, it would be technically possible to carry out the investment for the production of the new D1 model in VWs Kvasiny plant and to start assembly work at a greenfield site in Prague. As to whether Prague can be considered as a credible commercial alternative, the Commission notes that, according to the sales promotion concept of VW, the customer should combine a visit of a city possessing a rich cultural heritage with a viewing of the car assembly and delivery

at the plant. Both Saxony and the Czech Republic have a long tradition of car manufacturing. In addition, it can be assumed that both Dresden and Prague are equally attractive in cultural terms and would therefore fit into the planned marketing concept. Audi already assembles a top-of-the-range model (Audi TT) in Hungary.

(34) However, where producing the D1 model in the Czech Republic is concerned, there still remains a possible image risk as the sales concept envisages that the customer will become acquainted with the location in central/eastern Europe. Germany acknowledged that, as a location, Prague might have an influence on potential buyers of the car and that there could be a risk that the sales volume and price could be lower compared with Dresden as a result of customers' subjective expectations. This risk, according to Germany, could however be compensated for by increased marketing expenditure. The Commission, having consulted its external automotive expert, considers it plausible that such an image risk could be mitigated by additional marketing measures. Taking into account in the cost-benefit analysis the increased marketing expenditure needed, the Prague or Kvasiny option can be considered as a credible commercial alternative. The Commission concludes therefore that the project is mobile and so can be considered eligible for regional aid since the aid is necessary to attract investment to the assisted region.

(35) Regional aid intended for modernisation and rationalisation measures, which are generally not mobile, is not authorised in the motor vehicle sector. However, it could be granted for a transformation involving a radical change in production structures at the existing plant. The external automotive expert consulted by the Commission has confirmed that the investment in the new paintshop and bodyshop in Mosel, in an abandoned building next to VW's main operating plant in Mosel, in which the existing bodyshop and paintshop could not have been used for the completely new D1 model, qualifies as a transformation. The investments in Dresden concern greenfield projects.

(36) The Commission has, with the help of its external automotive expert, evaluated the cost-benefit analysis presented with a view to ascertaining to what extent the proposed regional aid is suited to resolving the regional problems it seeks to alleviate. The in-depth evaluation has made it possible to clarify the points which were raised when the procedure was launched. The principal reason for the locational handicap of Dresden is the significantly higher level of wage costs in Germany compared with the Czech Republic. Taking into account the additional information received from Germany following the opening of the procedure, the cost-benefit analysis, based on the exchange rate applicable at the time of notification, was modified in the manner described below.

(37) In opening the procedure, the Commission expressed doubts as to whether it would be appropriate, as notified by Germany, to examine in the assessment of the proportionality of the aid, Saxony's locational handicap relative to the Czech Republic only on the basis of an aggregated analysis. In view of the different types of investment (greenfield in Dresden and expansion in Mosel) and in particular the different regional-aid ceilings for Dresden (28 % gge and Mosel (35 % gge), it has based its assessment of the proportionality of the aid on two separate cost-benefit analyses, one for the Dresden and Prague and one for Mosel and Kvasiny.

(38) Germany has considered all investments in Dresden and Mosel as greenfield investments. A new plant within the meaning of the motor vehicle framework would mean a plant on a new site which has not yet been developed. In such cases, compared with plant expansion, companies are faced with the problems resulting from a lack of adequate infrastructure, organised logistics, an appropriately skilled workforce and subcontracting structures. If, however, such facilities can be provided by a unit of the same group located in close proximity to the site, the Commission regards the project as an expansion even if it is actually built on a greenfield site. Following the on-site visit, the Commission noted that the investment in the new bodyshop and paintshop is taking place in existing buildings previously used by VW Sachsen GmbH, near to its main plant in Mosel. As AMD can profit from the existing infrastructure and logistics, the Commission considers that the project is to be regarded as an expansion. Consequently, the operational handicaps in Mosel were assessed in the cost-benefit analyses over a period of three years.

(39) On the other hand, the investments in Dresden involve greenfield projects. The Commission has noted that these investments are carried out on completely new sites, creating new jobs, and that jobs are not being transferred from VWs existing plant in Mosel. The operating handicaps in Dresden were accordingly assessed over a period of five years.

(40) The Commission opened the procedure under Article 88(2) of the EC Treaty also in order to verify to what extent additional marketing expenditure would be needed to compensate for image risks were the vehicle to be produced in the Czech Republic. Germany acknowledged, in principle, that, if the new luxury D1 car were produced in Prague, VW might have to accept lower prices at the outset and/or the start-up curve might be lower as a result of customers' subjective expectations with regard to quality differences. Germany estimated the additional marketing expenditure to compensate for this risk at DEM [...] million in the average scenario and at DEM [...] in the worst-case scenario. As a precaution, the Commission has based its analysis on the worst-case scenario and assumed that the expenditure, which will have a significant impact on the locational handicap, would occur in particular at the start of production. Germany has allocated these additional costs to the Prague and Kvasiny sites according to the value added. Given the underlying marketing concept of the 'transparent factory', where the customer combines a visit to a city possessing a rich cultural heritage with a viewing of the final assembly of his car, the Commission considers however that these marketing costs are closely linked to the sale of the car at the assembly plant and should therefore be fully allocated as necessary additional marketing costs to the two comparator sites where the vehicles are to be assembled and delivered, i.e. Dresden and Prague.

(41) Volkswagen acknowledged that transfer of the car from the Czech Republic could give rise to additional costs which it put at DEM [...] million. These costs were included in the calculations, it being taken into account that they might arise in particular in the years before accession. As regards quality management, Volkswagen acknowledged that, in a worst-case scenario, additional personnel costs of DEM [...] million might arise for the Prague site during a transitional period. A further DEM [...] million was included for possible start-up difficulties in Prague. All these costs were included in the cost-benefit analysis.

(42) As regard wage costs, it has been the Commission's standard practice in cases where the comparator plant is located in central or eastern Europe to apply a convergence factor. The Commission indicated when opening the procedure that it had been its previous practice in similar cases to incorporate an annual convergence factor of 5 % in the cost-benefit analysis. Although Germany does not agree with this, the Commission considers that wages and salaries in the Czech Republic and Germany are expected to converge as the labour market in the Czech Republic expands in view of the forthcoming EU enlargement. Consequently, on the basis of the information provided by Germany, additional costs of some DEM [...] million have been taken into account for the siting of production in the Czech Republic. Even though productivity risks in the Czech Republic are considered to be relatively low by Volkswagen, the company has included in the cost-benefit analysis risk-induced costs of an estimated DEM [...] million for the worst-case scenario.

(43) With regard to investment costs, Germany acknowledged that the [...] reduction in costs initially assumed for the Prague scenario as a result of the procurement of material from suppliers in the Czech Republic does not hold as such differences would be eliminated within the overall procurement activities of the VW group. Such cost reductions were not therefore taken into account in the assessment of the comparative handicaps of Dresden with respect to the Czech Republic.

(44) The comparative handicaps were calculated on the basis of the eligible investment costs under the aid schemes approved by the Commission. Cost disadvantages associated with the purchase of the site in Dresden were excluded from the cost-benefit analysis. The same applies to building investments in Mosel, which Germany included in the cost-benefit analysis as non-eligible costs. As regards machinery/equipment costs in Mosel, which Germany considered to be only partly eligible, the handicap was thus reduced proportionally. As regards supplier tooling costs, the Commission has considered as eligible only those pertaining to the assisted areas in the new Länder. Following the opening of the procedure, Germany provided an estimate of supplier-tooling investments to be carried out in those areas until 2004 and the Commission has taken only these amounts into account in its assessment. This has lead to a reduction in eligible costs in both locations, increasing both the 'regional handicap ratio' and the aid intensity of the project. As Germany failed to provide sufficient proof, the Commission has not taken any locational handicaps into account with regard to supplier tooling.

(45) The above modifications in the cost-benefit analysis produce results that differ from those of the analysis initially submitted by Germany. The net present value of the locational handicap thus amounts to DEM 86,7 million in Dresden and DEM 200,46 million in Mosel. The net present value of the eligible costs in Mosel amounts to DEM 334,59 million, giving a handicap of 59,91 % as compared with Kvasiny. The net present value of the eligible costs in Dresden amounts to DEM 652,81 million, while the handicap compared with Prague is 13,28 %.

(46) Following the opening of the procedure, Germany provided updated figures on the aid to be granted to AMD under the approved 'Gemeinschaftsaufgabe Verbesserung der regionalen Wirtschaftsstruktur (GA) — 27. Rahmenplan' (27th outline plan for the joint Federal Government/Länder scheme for improving regional economic structures) and under the approved 'Investitionszulagengesetz 1999' (1999 Investment Allowance Law). The net present value of the aid to be granted for the project in Dresden amounts to DEM 105,87 million, resulting in an aid intensity of around 16,22 % gge, and the net present value of the aid to be granted in Mosel amounts to DEM 64,85 million, resulting in an aid intensity of some 19,38 % gge.

(47) In view of the sensitive character of the motor vehicle industry, the Commission also examines whether an adjustment of between − 2 and + 4 percentage points can be made to the allowable aid intensity in the light of the effects on the industry and competition (in particular, variations in production capacity on the relevant market in the group concerned) and in the light of assisted-area status of the relevant location. The impact on the industry is 'high' where the ratio between the capacity of the group after the investment (C(f)) and the capacity of the group before the investment (C(i)) is 1,01 or over. According to the information provided by Germany, the production capacity of the VW group amounts to [...] (**) before the investment and to [...] after the investment. Taking into account the location's assisted-area status under Article 87(3)(a) area of the EC Treaty and the high impact on the industry of the variation in the production capacity of the group, the Commission has reduced the allowable aid intensity for the projects by one percentage point, to 58,91 % for the investment in Mosel and to 12,28 % for the investment in Dresden.

V. **CONCLUSION**

(48) The Commission considers that the investment project is mobile and that the aid is necessary for the realisation of the project. With regard to proportionality, it has based its assessment on two separate cost-benefit analyses for both sites, given in particular the different regional-aid ceilings in Dresden and Mosel. As regards the investment in Mosel, the expected aid intensity is lower than both the regional handicap and the regional-aid ceiling. In such a case, the motor vehicle framework stipulates that the automotive company must not receive an unjustified amount of aid; the aid should serve to compensate to a certain extent for the financial disadvantage of the choice of location. The Commission can therefore authorise the aid up to the amount of DEM 64,85 million (net present value) as it is compatible with the common market under Article 87(3)(a) of the EC Treaty.

(49) As regards the investment in Dresden, the aid intensity planned by Germany is 16,22 % gge. Even though this is lower than the regional aid ceiling of 35 % gge, it is higher than the locational handicap costs, as calculated in the cost-benefit analysis and modified by the downward adjustment of one percentage point to 12,28 % of the eligible investments costs. Consequently, the Commission can authorise aid equivalent to only 12,28 % of the eligible investment costs of DEM 652,81 million, which corresponds to a net present value of DEM 80,17 million. The planned aid of DEM 25,7 million is incompatible with the common market and may not be implemented,

HAS ADOPTED THIS DECISION:

Article 1

1. The aid amounting to DEM 64,85 million (net present value) which Germany is planning to implement for Automobilmanufaktur Dresden GmbH (AMD) for its investment project in Mosel is compatible with the common market within the meaning of Article 87(3)(a) of the Treaty.

2. Up to the amount of DEM 80,17 million (net present value), the aid which Germany is planning to implement for AMD for its investment project in Dresden is compatible with the common market within the meaning of Article 87(3)(a) of the Treaty.

Of this aid, an amount of DEM 25,7 million (net present value) is incompatible with the common market. It may accordingly not be implemented.

Article 2

This Decision is addressed to the Federal Republic of Germany.

Done at Brussels, 18 July 2001.

For the Commission

Mario MONTI

Member of the Commission

(**) Confidential information; increase of some 4 %.