II

(Acts whose publication is not obligatory)

COMMISSION

COMMISSION DECISION
of 2 October 2002
on the State aid granted by Italy to Iveco SpA

(notified under document number C(2002) 3580)

(Only the Italian text is authentic)

(Text with EEA relevance)

(2003/310/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) By letter dated 21 June 2001 the Italian authorities notified a plan to grant regional aid to Iveco SpA (Iveco). On 27 July the Commission requested further information, which the Italian authorities provided by letter dated 5 October, received on 17 October.

(2) On 19 December 2001 the Commission decided to initiate the formal enquiry procedure laid down in Article 88(2) of the Treaty, as it had doubts as to the compatibility of the measure with the common market. Italy submitted its comments on the initiation of proceedings by letter of 12 February 2002, received on 19 February 2002. On 12 April 2002 the Commission carried out a visit to the plant in Foggia, Italy, and on 22 April 2002 requested further information, which was provided by Italy by letter of 11 June, received on 12 June.

(3) The Commission decision to initiate the procedure was published in the *Official Journal of the European Communities* [2], with an invitation to interested parties to submit their comments. No comments were received.

II. DETAILED DESCRIPTION OF THE MEASURE

The project

(4) The notified project concerns the production of a new family of diesel engines to be known as the F1, with 2,3-litre and 3,0-litre versions. Production started in 2001; the engine replaces the ageing 8140 model, and will power light commercial vehicles of the Fiat group and other motor vehicle manufacturers.

(5) The project is taking place at the existing Iveco plant in Foggia, in the region of Puglia. Puglia is an Article 87(3)(a) area, with a regional ceiling of 35 % for the 2000 to 2006 period.

[1] OJ C 53, 28.2.2002, p. 2.

[2] See footnote 1.

(6) The project started in August 2000 and is to be completed by December 2003. The Italian authorities state that it involves the installation of completely new lines for the production of the F1 engines, with the 8140 engine being phased out gradually at the same time. When the project is complete the capacity of the plant will be 290 000 engines a year, comprising 230 000 F1s and 60 000 8140s. The plant will also be producing about 120 000 stand-alone crankshafts, mainly to be sold to a competing engine producer.

(7) According to the Italian authorities the project is a mobile one. In 1998 a site owned by the Fiat group in Bielsko-Biała, Poland, was chosen for the same project. Car assembly at the Polish site had been discontinued, thus freeing space for a new investment that could have exploited the existing infrastructure and part of the workforce. Production at the Foggia site was to be reduced as the 8140 engine was phased out. At the end of the project Foggia would still be producing 60 000 engines a year of model 8140, to satisfy demand in less developed markets. A centre for the renovation of old engines would also be opened in Foggia.

(8) The Italian authorities state that Iveco informed them of its decision to scale down production in Foggia at the beginning of 2000. They asked Iveco to reconsider its choice, offering State aid as partial compensation for the extra costs in Foggia. Following negotiations with the Italian authorities, and the approval of the new regional aid map for Article 87(3)(a) regions in March 2000 ([1]), Iveco decided to move the project to Foggia, and work started during the summer break of August 2000. The formal application for aid was made in July 2000, and approved by the Italian authorities in December 2000.

Legal basis and amount of aid

(9) The notified aid is being granted under schemes already authorised ([2]), set up by the Act of 19 December 1992, No 488 (Act No 488/92) ([3]) and the Act of 23 December 1996, No 662 (Act No 662/96) ([4]).

(10) Iveco intends to invest a nominal EUR 323 270 000 (EUR 304 600 864 at current values, base year 2000, discount rate 5,70 %), of which EUR 265 610 000 is considered eligible by the Italian authorities.

(11) The planned aid takes the form of an outright grant, and amounts to a nominal EUR 121 658 000 in gross grant equivalent (gge), equal to EUR 108 915 621 at current values. The aid intensity notified by the Italian authorities is 35,76 % gge.

(12) No other aid or Community financing has been allocated to the project.

Grounds for initiating the procedure

(13) In its decision to initiate the proceedings, taken on 19 December 2001 ([5]), the Commission expressed doubts as to the mobility of the project, and whether it represented a 'transformation'; it said it needed to verify that there was evidence to show that Iveco considered Bielsko-Biała a viable alternative location.

(14) The Commission also doubted a number of elements in the cost-benefit analysis, and particularly:

— the inclusion of ineligible investment costs in the cost-benefit analysis,

— the justification for the higher investment costs for machinery and equipment in Foggia as opposed to Bielsko-Biała,

— whether investment costs for vendor tooling were provided for in the project, and if so the exact amount of these investments, the location of the investments, and the names of the suppliers involved,

— the exact calculation of outward transport costs,

— the number of workers needed for production at the two sites,

— labour costs in Foggia.

III. **COMMENTS FROM ITALY**

(15) On 12 February 2002 the Italian authorities sent their comments on the initiation of proceedings. Additional information was provided during the visit to Foggia on 12 April 2002, and by letter dated 11 June 2002.

([1]) Commission decision of 1 March 2000 on case N 792/99: OJ C 175, 24.6.2000, p. 11.
([2]) Commission decision of 12 July 2000 to raise no objection in case N 715/99: OJ C 278, 30.10.2000.
([3]) Converting into statute, with amendments, the Decree-law of 22 October 1992, No 415, amending the Act of 1 March 1986, No 64, with respect to the organisation of the special measures for the South and rules for measures to facilitate production activities.
([4]) On measures to rationalise public finances.
([5]) See footnote 1.

(16) In their comments, the Italian authorities first reaffirmed that the project was mobile. They provided internal documents showing that the final decision to carry out the investment in Foggia was taken in July 2000, and that the Bielsko-Biała plan was abandoned at the same time.

(17) Second, the Italian authorities affirmed that the figure of EUR 323 270 000 nominal investment in the cost-benefit analysis represented all the mobile costs incurred by Iveco for the project. Of this figure, EUR 265 610 000 was considered eligible under Act No 488/92, which constituted the legal basis for the aid. According to the Italian authorities, the former figure gave a better understanding of the economic choice the company had to make between the chosen location and the alternative site, and it was for that reason that it had been referred to in the cost-benefit analysis. But they supplied detailed information on the nature and timing of expenses for mobile eligible investment, and for the depreciation methods used for the eligible investment in machinery and buildings.

(18) Third, the Italian authorities provided detailed information and supporting evidence on the investment in machinery and equipment that made the costs in Foggia higher than those in Bielsko-Biała. While the work stations were very similar at both locations, significant differences were identified in Foggia in the transfer lines, in the technical solutions selected for the machinery, and in the adaptation of the site to summer climatic conditions. During the visit of 12 April 2002, the Italian authorities provided additional evidence supporting their claims.

(19) Fourth, the Italian authorities provided clarification of the difference in vendor tooling investment costs for the supplier Teksid. The costs of such investment would have been lower in Poland, they said, owing to lower prices and a lower degree of automation at the supplier's plant.

(20) Fifth, the Italian authorities repeated that the engines produced in Foggia would be shipped to the destination plants by road; from Bielsko-Biała they would have been shipped by rail. To substantiate this claim, they provided documents showing the logistics facilities currently operating in the departure and destination plants. They also provided more detailed information on transport routes and times.

(21) Sixth, the Italian authorities provided detailed evidence of the number of workers employed in engine production, and the number of lost production hours. They also supplied material confirming the reported labour costs in Foggia.

(22) Seventh, the Italian authorities provided more detailed information on the redundancy costs that would have occurred in Foggia had the project been carried out in Bielsko-Biała, and on the redundancy costs that did occur in Bielsko-Biała as a consequence of the choice of Foggia.

(23) In the case of Foggia, the Italian authorities estimated that in the absence of the project, taking account of natural turnover and of requirements for the residual production of the old engine, 950 workers would have been made redundant by 2004. Of these, 200 would have received incentives to leave the job. The remaining 750 could have been transferred at little cost to other plants operated by Iveco, the Fiat group, or component suppliers. If necessary, 150 could have qualified for a special mobility scheme (istituto della mobilità) for workers reaching retirement age. The Italian authorities estimated that the total cost of the redundancies in Foggia would be between EUR 6 500 000 and EUR 8 070 000 at current values.

(24) In the case of Bielsko-Biała, the Italian authorities confirmed that the redundancy costs reported in the notification were only those directly and unequivocally linked to the decision not to carry out the project in Poland. They also provided evidence of layoff costs amounting to EUR 7 230 000 for 1 250 of the 1 600 workers who became redundant in connection with the project.

(25) Finally, the Italian authorities supplied data showing that European production capacity for light commercial vehicles in the segments for which the engines were intended would remain constant over the lifetime of the project at the Fiat group level.

IV. **ASSESSMENT OF THE AID**

(26) The measure notified by Italy in favour of Iveco constitutes State aid within the meaning of Article 87(1) of the Treaty. It would be financed by the State or through State resources. As it constitutes a significant proportion of the funding of the project, the aid is liable to distort competition in the Community by giving Iveco an advantage over competitors that do not receive aid. There is extensive trade between Member States in the automobile market.

(27) Article 87(2) of the EC Treaty lists certain types of aid that are compatible with the EC Treaty. In view of the nature and purpose of the aid, and the geographical location of the firm, none of its subparagraphs (a), (b) or (c) applies to the plan in question. Article 87(3) specifies other forms of aid which may be considered to be compatible with the common market. The project is located in the region of Puglia, which qualifies for assistance under Article 87(3)(a), up to a regional ceiling which for large companies is 35 % net grant equivalent (nge); this corresponds to 53,50 % gge.

(28) The aid is to be granted to Iveco, which manufactures and assembles engines, light commercial vehicles and lorries. Iveco therefore operates in the motor vehicle industry within the meaning of the Community framework on State aid to the motor vehicle industry (the framework) ([1]).

(29) The framework states that all aid which the public authorities plan to grant towards individual project under an authorised aid scheme to a firm operating in the motor vehicle industry must be notified before being granted, in accordance with Article 88(3) of the Treaty, if either of the following thresholds is reached: (a) the total cost of the project is no less than EUR 50 million, and (b) the total gross aid for the project, whether State aid or aid from Community instruments, is no less than EUR 5 million. In the case under consideration both the total cost of the project and the amount of aid exceed the notification thresholds. By notifying the proposed aid to Iveco, the Italian authorities have complied with the requirements of Article 88(3) of the Treaty.

(30) According to the framework, the Commission is to 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.

(31) Paragraph 3.2(a) of the framework states that 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. Thus no regional aid may be authorised for a project that is not geographically mobile.

(32) With the help of its outside automotive expert, the Commission has assessed the documentation and information provided by Italy, and concluded that the project is indeed mobile.

(33) First, the Italian authorities have shown that Bielsko-Biała was a viable alternative location for the project. The documents provided demonstrate that Bielsko-Biała was chosen to host the project in April 1999, and that preparatory work started at the Polish site in the course of that year. The preparatory work was suspended in March 2000, following official contact between Iveco and the Italian authorities, and pending a final decision on the location. In March 2000 Iveco held a meeting with machinery supplier Comau during which the possible alternatives of Bielsko-Biała and Foggia were considered. In July 2000 Iveco finally decided to carry out the investment in Foggia, and at the same abandoned the Bielsko-Biała plan. The official application for aid was submitted to the Italian authorities on 24 July 2000. The aid was approved, subject to the Commission's authorisation, on 21 December 2000.

(34) Second, at the visit to the site on 12 April 2002, the Commission verified that the project involved the complete dismantling of the old production lines, and the installation of completely new machinery and equipment in an overall production structure that was clearly different from the previous one. The project therefore qualifies as a 'transformation' under the framework.

(35) The Commission concludes that the project is mobile, and can accordingly be considered eligible for regional aid, since the aid is necessary to attract the investment to the assisted region.

(36) Regarding the eligible costs, paragraph 3.2(b) of the framework states that eligibility is defined by the scheme applicable in the assisted region concerned. The eligible costs form the basis on which both regional handicaps and aid intensities are calculated, and are compared with the regional aid ceiling. In the present case, the eligible costs as defined by Act No 488/92 amount to a nominal EUR 265 610 000, corresponding to EUR 247 763 583 in current values, base year 2000 and discount rate 5,70 %. The aid intensity notified by the Italian authorities is 43,96 % gge.

([1]) OJ C 279, 15.9.1997, p. 1 and OJ C 368, 22.12.2001 p. 10.

(37) According to point 3.2(c) of the framework the Commission has to ensure that the planned aid is proportional to the regional problems it is intended to solve. The method used is cost-benefit analysis.

(38) A cost-benefit analysis is made which compares, with regard to the mobile elements, the costs which an investor would bear in order to carry out the project in the region in question with those it would bear for an identical project in a different location; this makes it possible to determine the specific handicaps of the assisted region concerned. The Commission authorises regional aid within the limit of the regional handicaps resulting from the investment in the comparator plant.

(39) In accordance with point 3.2(c) of the framework, the cost-benefit analysis assessed the operating handicaps in Foggia and Bielsko-Biała over three years, since the project in question is a transformation, and not a greenfield development. The period covered by the cost-benefit analysis submitted is 2002-2004, or three years from the beginning of production, in compliance with section 3.3 of Annex I to the framework.

(40) The Commission has taken into account the additional information received from Italy following the initiation of proceedings. Based on this new information, and with the help of its external automotive expert, the Commission has modified some elements of the cost-benefit analysis, as detailed below.

(41) Regarding the higher investment costs for machinery and equipment in Foggia, the information provided by Italy, and the evidence gathered during the visit to the site, have demonstrated that the difference in costs between Foggia (a nominal EUR 286 650 000) and Bielsko-Biała (a nominal EUR 241 290 000) is justified. Although the production process and production machines are the same, the installation of transfer lines is more costly in Foggia, owing to the layout of the buildings and the lack of available space. In some cases overhead trolleys had to be installed in Foggia for the transfer of components between work stations. Additional though smaller costs arose in Foggia as a result of the necessity to upgrade the cooling systems for electric and electronic units.

(42) Investment costs for vendor tooling were not included in the nominal EUR 265 610 000 considered eligible by the Italian authorities. For this reason they do form part of the basis on which the handicap and aid intensities are calculated and compared with the regional aid ceiling.

(43) As regards outward transport costs, the Commission has verified the new information provided by Italy, and concluded that Iveco had the logistic capability to ship engines by rail from Bielsko-Biała to the destination plants. This would have allowed substantial savings in transport costs per engine per kilometre as compared with the road transport to be used in the Foggia solution. But the greater distance between the Polish site and the destination plants would have outweighed those savings. Based on the information provided, the Commission calculates that Foggia enjoys an advantage in outward transport costs equal to EUR 28 000 at current values in the 2002-2004 period.

(44) Regarding the forecast employment levels, the additional Iveco internal documents provided by Italy clearly demonstrate that the number of workers to be taken on for the project is indeed as reported in the cost-benefit analysis. The documents also confirm the relatively high incidence of lost hours in the total hours necessary for engine production. Lost hours are due to two main factors: a high level of absenteeism at the plant, and the difficult transition between the production of the old and new engine models. The Commission concludes that the employment levels have been correctly reported in the cost-benefit analysis.

(45) Regarding labour costs in Foggia, the additional figures provided by the Italian authorities show that wage costs in Foggia are in line with those in other Italian plants of the Fiat group. The Italian authorities state that in recent years the differential between labour costs in Northern and in Southern Italy has decreased, owing to the phasing out of fiscal incentives for employment in the South. The proportion of specialised, highly skilled workers is higher in an engine production plant like Foggia than in car assembly plants. The Commission concludes that the labour costs reported in the cost-benefit analysis can be accepted.

(46) The Commission takes the view that potential redundancy costs in Foggia have to be considered in the cost-benefit analysis in order to assess the comparative disadvantages of Foggia with respect to Bielsko-Biała. The Commission has verified the figures provided by the Italian authorities, and it has concluded that figures on natural turnover, residual workforce needs in Foggia, and early retirement through mobility (istituto della mobilità) can be accepted. However, the Commission finds that the Italian authorities have not sufficiently demonstrated that 750 of the workers made redundant could be easily transferred to other plants belonging to Iveco, the Fiat group or component suppliers.

(47) To support the claim that workers could have been transferred to Iveco plants in the north of Italy, the Italian authorities provided a copy of a 1996 agreement between the company and the unions, whereby a number of workers in Foggia were transferred to other Iveco plants. The Commission however doubts that a similar agreement could have been reached in connection with the partial shutdown of the Foggia plant. The 1997 workforce transfer took place at a time when Iveco was investing heavily at the Foggia plant, but also faced a temporary drop in demand for the engines produced. The agreement stipulated that the company would provide incentives for the return of the transferred workers to Foggia as the requirements of production allowed. It is doubtful that the workers' unions would have agreed to a similar arrangement in the event of a very important and permanent cut in production at the plant.

(48) To support the claim that workers could have been transferred to other plants of the Fiat group, the Italian authorities provided figures for staff recruitment in Fiat Auto's plants in the region. The figures, however, show that the great majority of new workers were hired either on a temporary basis or under contracts designed to reduce the indirect costs of employing young workers (contratti di formazione-lavoro). The Commission considers that no convincing evidence has been provided to show that these plants would have been ready to hire workers made redundant in Foggia, who, according to the Italian authorities, were on average relatively old, and enjoyed high wage levels. Nor is it clear that these workers would have accepted a transfer to a new place of work offering contractual conditions that were not as good. As for the capacity of component suppliers to hire workers made redundant in Foggia, the Italian authorities have not provided evidence that would prove this claim.

(49) Based on the information in its possession, in particular that provided by Italy in response to the initiation of the inquiry proceedings, the Commission concludes that in the absence of the project the number of workers made redundant in Foggia would have been 950. Of these, 150 could have benefited under the special mobility scheme for workers close to retirement age (istituto della mobilità). The remaining workers would have had to be compensated for leaving their jobs. On this basis the Commission estimates the redundancy costs that would have arisen in Foggia in the absence of the project over the period 2002-2004 at EUR 21 870 000.

(50) As regards the potential redundancy costs in Bielsko-Biała, redundancies have in fact taken place as a direct consequence of Iveco's decision to carry out the project in Foggia. The downsizing of the Polish plant has resulted in several thousand redundancies in recent years, and the F1 project would have made it possible to maintain 1 600. The Commission concludes that the redundancy costs relating to these jobs can be imputed entirely to the decision not to carry out the project in Poland. The Italian authorities have provided sufficient documentation to show that the costs related to the redundancy of 1 250 workers in the years 2000-2001 was EUR 7 230 000, and that a further 350 workers are being made redundant in the short term. On the basis of the information in its possession the Commission estimates the total redundancy costs in Bielsko-Biała over the period 2000-2002 at EUR 9 264 000.

(51) These changes to the analysis produce cost-benefit results different from those initially notified by Italy. The modified cost-benefit analysis indicates a net cost handicap for Foggia of EUR 128 381 000 at 2000 values, as compared with EUR 139 280 000 initially notified. This brings the handicap ratio of the project to 51,82 %, as compared with 45,72 % initially notified. In absolute values the regional handicap is lower than that notified by Italy, but the ratio increases, because the costs considered eligible under the framework amount to only EUR 265 610 000.

(52) Finally, the Commission has considered the question of a 'top-up', which is an increase in the allowable aid intensity intended as a further incentive to invest in the region in question. The documentation provided shows that European production capacity for light commercial vehicles in the segments for which the engines are intended will remain constant over the lifetime of the project at the Fiat group level. The regional handicap ratio resulting from the cost-benefit analysis should accordingly be increased by two percentage points, giving a final ratio of 53,82 %.

V. **CONCLUSION**

(53) The aid intensity of the project, at 43,96 % gge, is less than both the disadvantage identified by the cost-benefit/top-up analysis, which is 53,82 %, and the regional aid ceiling, which is 35 % in net grant equivalent, a figure which allows a gross grant equivalent of up to 53,50 %. The regional aid that the Italy plans to grant to Iveco therefore can therefore be considered compatible with the common market under Article 87(3)(a) of the Treaty,

HAS ADOPTED THIS DECISION:

Article 1

The State aid which Italy plans to grant to Iveco SpA in Foggia, amounting to EUR 121 658 000 gross grant equivalent at nominal values (corresponding to EUR 108 915 621 at current values, base year 2000, discount rate 5,70 %), towards an eligible investment of EUR 265 610 000 in nominal terms (corresponding to EUR 247 763 583 at current values), is compatible with the common market within the meaning of Article 87(3)(a) of the Treaty.

Article 2

This Decision is addressed to the Italian Republic.

Done at Brussels, 2 October 2002.

For the Commission

Mario MONTI

Member of the Commission