COMMISSION

COMMISSION DECISION

of 22 September 2004

on the State aid which the United Kingdom is planning to implement for Peugeot Citroën Automobiles UK Ltd

(notified under document number C(2004) 3349)

(Only the English text is authentic)

(Text with EEA relevance)

(2005/301/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 16 December 2002, the United Kingdom notified the Commission of a plan to grant regional aid to Peugeot Citroën Automobiles UK Ltd (hereafter PCA UK). The Commission requested further information on 7 February 2003, which was provided by the UK by letter dated 7 March 2003.

(2) By letter dated 30 April 2003, the Commission informed the United Kingdom that it had decided to initiate the procedure laid down in Article 88(2) of the EC Treaty as it found that doubts were raised as to 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 Union* [2]. The Commission called on interested parties to submit their comments. The Commission did not receive any comments from interested parties.

(4) After requesting an extension of the deadline to submit comments on 25 July 2003, the United Kingdom submitted its comments to the opening of the procedure on 5 September 2003. A meeting between the Commission, the United Kingdom and the beneficiary took place in Brussels on 17 October 2003, after which the Commission addressed a new request for information to the United Kingdom on 20 October 2003. The information was provided by the United Kingdom on 19 February and 4 May 2004.

II. DESCRIPTION OF THE MEASURE AND ITS RECIPIENT

(5) The planned aid would be granted to PCA UK, a subsidiary of the French group PSA Peugeot Citroën (hereafter PSA). PSA designs, manufactures and sells motor vehicles. In 2003, PSA sold 3 286 100 vehicles worldwide, achieving a turnover of EUR 54,238 billion, and an operating margin of EUR 2,195 billion.

The project

(6) The notified project concerns the investment necessary for the production of a new model that will replace the current Peugeot 206 and derivatives.

(7) The current capacity at the Ryton plant is 183 500 vehicles/year. The current 206 model will be phased out from 2008, with the introduction of a new model that will use a new platform. Capacity at the plant is foreseen to remain constant at 183 500 vehicles/year.

[1] OJ C 147, 24.6.2003, p. 2.
[2] See footnote 1.

(8) The planned start of the notified project is 2005, and the planned completion date is 2010. According to the United Kingdom, the project involves the installation of new (paintshop, metal finish) or transformed (bodyshop retooling for the different platform, final assembly) lines for the production of the new model. Infrastructure works will include improved environmental, working and safety conditions, and a new car park for finished vehicles. According to the United Kingdom, total required investment will amount to GBP 187,760 million in nominal terms.

(9) According to the United Kingdom, the project is mobile, and PSA is considering the alternative site of Trnava, in Slovakia, for the project. PSA announced in January 2003 that Trnava has been chosen as the location for a greenfield investment. The new Trnava plant will start production in 2008, and will produce 300 000 small cars/year of the same type as the new model that will replace the Peugeot 206. According to the United Kingdom, PSA is considering whether to expand projected capacity at Trnava, while phasing out production at Ryton.

Legal basis, investment and aid amounts

(10) The project takes place at the existing PSA plant in Ryton, in the West Midlands region. Ryton-on-Dunsmore is an Article 87(3)(c) area, whose regional ceiling is 10 % net grant equivalent for the 2000 to 2006 period.

(11) The notified aid is granted under the approved Regional Selective Assistance scheme [3] with the legal basis in Section 7 of Industrial Development Act 1982.

(12) The proposed aid takes the form of a direct grant, and would be paid over the 2005 to 2010 period. It amounts to nominal GBP 19,100 million gross grant equivalent, with an actualised value of GBP 14,411 million gross grant equivalent (base year 2002, discount rate 6,01 %). Eligible investments amount to GPB 187,760 million in nominal values and to GBP 146,837 million in actualised values. Therefore, the aid intensity notified by the United Kingdom is 9,81 % gross grant equivalent.

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

III. GROUNDS FOR INITIATING THE PROCEDURE

(14) In its decision of 30 April 2003 to initiate the procedure laid down in Article 88(2) of the Treaty [4], the Commission expressed doubts on the necessity and proportionality of the proposed aid. In order to allay these doubts, the Commission asked for additional clarifications and documents.

(15) Regarding the necessity of the aid, the Commission doubted that Trnava had been considered as a viable alternative to Ryton for the project in question. It requested additional circumstantial evidence, e.g. the location study, to show that the project is actually mobile within the meaning of the car framework.

(16) Regarding the proportionality of the aid, the Commission expressed doubts on:

— the exact calculation of the eligible costs,

— the inclusion of investment in vendor tooling within the eligible costs,

— the justification for the higher investment costs for land, buildings, machinery and equipment in Ryton with respect to Trnava,

— the justification for lower operating costs for components and materials in Trnava,

— the exact calculation of redundancy costs in Ryton.

(17) Finally, the Commission expressed doubts on the calculation of capacity variations put forward by the United Kingdom in the context of the determination of the 'top-up'.

IV. COMMENTS FROM THE UNITED KINGDOM

(18) The United Kingdom submitted its comments on the opening of the procedure on 5 September 2003, and additional information on 19 February and 4 May 2004.

(19) On the necessity of the aid, the United Kingdom reaffirmed that the project is mobile. To that end, the United Kingdom provided documentary evidence showing that Trnava is a viable technical alternative to Ryton for the project.

(20) The United Kingdom also provided additional information on the doubts expressed by the Commission in the opening of procedure as regards the proportionality of the aid.

[3] Commission Decision of 25 April 2001 not to raise objections on the case N 731/00 (OJ C 211, 28.7.2001, p. 48).
[4] See footnote 1.

(21) By letter of 5 September 2003, the United Kingdom submitted a new cost-benefit analysis (CBA) that differed from the one initially notified in many important aspects, including higher investment costs in Trnava for machinery and equipment, but lower operating costs in Ryton for labour, and lower operating costs in Trnava for energy and water as well as for inward and outward transport. Some of the changes regarded items for which the Commission did not express doubts in the opening of procedure.

(22) With the letter of 19 February 2004, the United Kingdom submitted a new version of the CBA, which was broadly in line with the one of September 2003, with some exceptions (for instance, the figures on labour costs in Ryton and outward transport costs in Trnava were changed back to the initially notified ones). The United Kingdom clarified the items on which the Commission had expressed doubts in the opening of the procedure and the items that were modified after the opening of the procedure. By letter of 4 May 2004, the United Kingdom communicated to the Commission that the project may not commence until the very end of 2004 or the beginning of 2005. The CBA of February 2004 was amended accordingly, with 2005 as the first year of the investment.

(23) Regarding the cost of land in Trnava, the United Kingdom claimed that no cost should be included, as the project could be carried out within the existing confines of the site. Indicatively, the project would require 30 hectares of land, whose cost is GBP 0,512 million in actualised values.

(24) Regarding the investment costs for buildings, machinery and equipment, the United Kingdom adapted the CBA of February 2004 to take into account the Commission's remarks. While the originally notified CBA only took into account the costs strictly necessary in Trnava in order to accommodate the project, the modified version also takes into account the share of the overall fixed and common costs that can be imputed to the project. As a consequence, the Trnava alternative results more expensive than the transformation of the Ryton plant.

(25) Regarding the investment costs for vendor tooling, the United Kingdom affirmed that they have not been considered as eligible costs and they have not been included in the CBA of February 2004, as they will be necessary under both scenarios and therefore would not affect the handicap for Ryton.

(26) Regarding the operating costs for components and materials, the United Kingdom provided copies of PSA's internal planning document dated May 2003 that reports the component cost differentials between various production sites of the group. The principal difference between component costs at Ryton and Trnava arise from significantly lower hourly wage rates at Trnava, that translate in lower costs for locally sourced large components such as, for example, bumpers, fascias, seats, door boards and dashboards.

(27) The United Kingdom also provided documents supporting a decrease in the operating costs foreseen in Trnava for energy and water, as well as for inward transport. Regarding the inward transport costs, the United Kingdom provided a copy of the update to the internal planning document for the Trnava site, version November 2003, in which the initial cost estimate is reduced to account for a higher estimated share of locally sourced components.

(28) As regards the redundancy costs, the United Kingdom clarified that they had been taken into account, in the CBA of February 2004, as additional costs to the Trnava solution, similarly to the costs relating to the closure of the Ryton plant. The United Kingdom also provided more detail on the calculation of these costs. Conversely, the United Kingdom did not include any maintenance investment in Ryton in the CBA, as general maintenance investment would have to be carried out in both scenarios.

(29) Finally, regarding the 'top-up', the United Kingdom reaffirmed that the + 2 % factor should be applied to the regional handicap resulting from the CBA of February 2004, because no increase in production will occur as a consequence of the aided project.

V. **ASSESSMENT OF THE MEASURE**

(30) The measure notified by the United Kingdom in favour of PCA UK constitutes State aid within the meaning of Article 87(1) of the 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, the aid is liable to distort competition in the Community by giving PCA UK an advantage over competitors not receiving aid. Lastly, there is extensive trade between Member States in the automobile market where PSA is a major player.

(31) Article 87(2) of the 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) of that Article are not applicable to the plan in question. Article 87(3) of the Treaty specifies other forms of aid, which may be regarded as compatible with the common market. The Commission notes that the project is located in the area of Ryton-on-Dunsmore, which qualifies for assistance under Article 87(3)(c) of the Treaty with a regional aid ceiling of 10 % net grant equivalent.

(32) The aid in question is intended for PCA UK, which manufactures and assembles motor vehicles. The firm is therefore part of the motor vehicle industry within the meaning of the Community framework for State aid to the motor vehicle industry [5] (hereinafter the car framework).

(33) The car framework specifies at paragraph 2.2(a) that all aid which the public authorities plan to grant to an individual project under authorised aid schemes 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) total cost of the project equalling EUR 50 million, (ii) total gross aid for the project, whether State aid or aid from Community instruments equalling EUR 5 million. Both the total cost of the project and the amount of aid exceed the notification thresholds. Thus, in notifying the regional aid proposed for PCA UK, the United Kingdom has complied with the requirements of Article 88(3) of the Treaty.

(34) According to the car 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 intends to solve. Both tests, necessity and proportionality, must be satisfied if the Commission is to authorise State aid in the motor vehicle industry.

(35) According to paragraph 3.2(a) of the car 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.

(36) The Commission has assessed the documentation and information provided by the United Kingdom, and concluded that the layouts of the Trnava plant and documents relating to the site selection process and technical characteristics show that the plant has the possibility of hosting the project under scrutiny. Indeed, the production currently foreseen at the plant is of 55 cars/hour from 2006 onwards. However, the plant could produce up to 87 cars/hour through the implementation of a new production line of 32 cars/hour. There is sufficient land available for such an expansion within the current plant perimeter, and all infrastructural installations are already compatible with the higher production volumes.

(37) Additionally, the Commission notes that, according to press reports, the Trnava plant is still being considered by the PSA group as a possible alternative to Ryton for the project under scrutiny.

(38) Based on the information referred to in recitals 36 and 37, the Commission concludes that Trnava is effectively a viable alternative to Ryton for the project under consideration.

(39) The Commission has also verified that the project involves the complete dismantling of the old production lines, and the installation of completely new machinery and equipment in an overall production structure that is clearly different from the previous one. The project qualifies therefore as a transformation under the car framework.

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

(41) According paragraph 3.2(b) of the car framework, eligible costs are defined by the regional scheme applicable in the assisted region concerned. Having analysed the additional information provided by the United Kingdom on the calculation of the eligible costs and on the vendor tooling investments, the Commission has verified that the costs amounting to GBP 146,837 million in actualised values can be considered eligible for aid.

(42) According to paragraph 3.2(c) of the car framework the Commission needs to ensure that the planned aid is in proportion to the regional problems it is intended to resolve. For that, a CBA is used.

[5] OJ C 279, 15.9.1997, p. 1. The car framework expired on 31 December 2002, but still applies to State aid notified to the Commission before that date. See Communication of the Commission to Member States (OJ C 258, 9.9.2000, p. 6).

(43) A CBA compares, concerning the mobile elements, the costs that 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. Through this comparison, the Commission determines the specific handicaps of the assisted region concerned. The Commission authorises regional aid within the limit of these regional handicaps.

(44) In accordance with paragraph 3.2(c) of the car framework, the operating handicaps of Ryton, as compared to Trnava, are assessed over three years in the CBA since the project in question is not a greenfield site. The period covered in the final version of the CBA submitted by the United Kingdom is 2008 to 2010, that is three years from the beginning of production in compliance with paragraph 3.3 of Annex I to the car framework. Using 2002 as the reference year, the notified CBA indicates a net cost handicap of GBP 18,772 million for the location in Ryton in comparison with the location in Trnava. The resulting 'regional handicap ratio' ([6]) of the project is 12,78 %.

(45) The Commission has analysed the additional information and documents submitted by the United Kingdom after the decision to initiate the procedure laid down in Article 88(2) of the Treaty. Regarding the costs of land, the Commission does not accept the United Kingdom's argument that no such cost should be included in the CBA, as the project could be carried out within the existing confines of the Trnava site. The land in question has been recently purchased by PSA with the expressed aim to accommodate the project, should the final choice be for Trnava instead of Ryton. It must therefore be included in the costs related to the Trnava solution, that are consequently increased by GBP 0,512 million.

(46) As regards the investment costs for buildings, machinery and equipment, and vendor tooling, the Commission can accept the figures presented in the CBA of February 2004, that show that the Ryton transformation would require an actualised GBP 4,522 million lower investment than the extension of Trnava.

([6]) $\frac{\text{Net cost handicap}}{\text{Eligible investment}} = \frac{18,772}{146,837} = 12,78\ \%$ (see recital 11 above).

(47) Regarding the operating costs for components and materials, internal documents provided after the opening of procedure show that the Ryton plant suffers a cost disadvantage for the sourcing of selected components that are locally sourced and for which added value from local manpower is relevant. Conversely, no cost differences have been recorded in the CBA for components (e.g. engines or gearboxes) that are sourced worldwide from the same supplier. Having analysed the new information, the Commission concludes that the figures relative to this item can be accepted for the purposes of the CBA.

(48) Similarly, the new information provided is sufficient to demonstrate that the updates in the CBA of February 2004 as regards energy and water, inward transport costs as well as redundancy costs is based on documentary evidence and reflects acceptable estimates of the evolution of such costs during the period covered by the CBA.

(49) The CBA resulting from the Commission analysis differs only marginally from the one submitted by the United Kingdom after the opening of proceedings, while the differences with the one initially notified are more important. According to the Commission, the CBA indicates a net cost handicap for Ryton of GBP 18,260 million at 2002 values ([7]) (compared to GBP 18,772 million according to the United Kingdom). The resulting regional handicap ratio of the project is 12,44 % ([8]) (compared to 12,78 % according to the United Kingdom).

(50) Finally, the Commission in its analysis considers the question of a 'top up', which takes into account the expansion or reduction in capacity for the motor vehicle producer in question during the investment period. An increase in the regional handicap ratio resulting from the CBA is authorised on condition that the beneficiary of the aid does not increase the capacity problems facing the motor vehicle industry. Conversely, the regional handicap ratio resulting from the CBA is reduced if the aid beneficiary potentially aggravates the overcapacity problem of the industry.

([7]) Original net cost handicap as presented by UK (GBP 18,772 million) — costs of land in Trnava (GBP 0,512 million) (see recital 44 above) = GBP 18,260 million.

([8]) $\frac{\text{New net cost handicap}}{\text{Eligible investment}} = \frac{\text{GBP 18, 26 million}}{\text{GBP 146, 837 million}} = 12,44\ \%$.

(51) The Commission does not accept the argument by the United Kingdom that the change in capacity should be calculated only looking at the project under scrutiny and not at PSA's European production capacity. According to the car framework, the CBA compares identical projects, which means among other things projects for the production of the same number of vehicles. Therefore it is true but irrelevant that the project under scrutiny would not influence PSA's overall production capacity. However, as it is clearly stated in paragraph 3.2(d) of the car framework, the aim of the top-up analysis is to capture the effects on competition of the investment project looking at variations in production capacity in the group concerned. To this end, the Commission has consistently compared total European production capacity of the motor vehicle producer in question before and after the project. According to the documents provided, PSA's capacity will be considerably expanded with the new facilities in operation at Kolin (200 000 cars/year for PSA) and in Trnava (300 000 units), while no corresponding capacity cuts at other European plants are foreseen. Consequently, the regional handicap ratio resulting from the CBA will be reduced by 2 % (high impact on competition for an investment project in an 87(3)(c) region, resulting in a final ratio of 10,44 %.

VI. **CONCLUSION**

(52) The aid intensity of the project (9,81 % gross grant equivalent) is less than both the disadvantage identified by the cost-benefit/top up analysis (10,44 %) and the regional aid ceiling (10 % net grant equivalent). The regional aid that the United Kingdom plans to grant for PCA UK therefore fulfils the criteria to be considered compatible with the common market under Article 87(3)(c) of the Treaty,

HAS ADOPTED THIS DECISION:

Article 1

The State aid which the United Kingdom is planning to implement for Peugeot Citroën Automobiles UK Ltd in Ryton, amounting to nominal GBP 19,100 million gross grant equivalent, with an actualised value of GBP 14,411 million gross grant equivalent (base year 2002, discount rate 6,01 %) for an eligible investments of GPB 187,760 million in nominal values (GBP 146,837 million in actualised values) is compatible with the common market within the meaning of Article 87(3)(c) of the Treaty.

Article 2

This Decision is addressed to the United Kingdom of Great Britain and Northern Ireland.

Done at Brussels, 22 September 2004.

For the Commission

Mario MONTI

Member of the Commission