II

(Acts whose publication is not obligatory)

COMMISSION

COMMISSION DECISION

of 19 January 2005

on the State aid which Italy is planning to implement for Società Consortile De Tomaso srl and UAZ Europa srl, both part of the De Tomaso group

(notified under document number C(2005) 40)

(Only the Italian version is authentic)

(Text with EEA relevance)

(2006/260/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 18 December 2002 the Italian authorities notified to the Commission a plan to grant regional aid to Società Consortile De Tomaso srl and UAZ Europa srl. The Commission requested further information on 4 February 2003. After requesting extensions of the deadline for replying on 12 March and 22 April 2003, the Italian authorities provided the information by letter dated 26 May 2003.

(2) By letter dated 24 July 2003, the Commission informed Italy that it had decided to initiate the procedure laid down in Article 88(2) of the EC Treaty in respect of the aid.

(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.

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

(5) Italy submitted its comments in response to the decision opening proceedings on 13 October 2003. On 6 February 2004, the Commission requested clarifications from Italy. On 17 February 2004 a meeting took place between Commission officials, the Italian authorities and representatives of the company. Italy sent further information by letter dated 23 April 2004. On 30 April 2004, the Italian Minister for Production Activities addressed a letter to the Commission asking for an early decision on the case. The Commission replied to this letter on 18 June 2004.

II. DETAILED DESCRIPTION OF THE AID

(6) The planned aid would be granted to Società Consortile De Tomaso srl and UAZ Europa srl, which form part of the De Tomaso group ('De Tomaso'). De Tomaso is currently active in the production of a very limited number of high performance sports cars. According to Italy, De Tomaso qualifies as a small or medium-sized enterprise under the definition given in Commission Regulation (EC) No 70/2001 of 12 January 2001 on the application of Articles 87 and 88 of the EC Treaty to state aid to small and medium-sized enterprises [3] ('the SME Regulation').

The project

(7) De Tomaso plans to set up a new greenfield production plant that when completed will have an installed capacity for:

[1] OJ C 227, 23.9.2003, p. 2.
[2] See footnote 1.
[3] OJ L 10, 13.1.2001, p. 33. Regulation last amended by Regulation (EC) No 364/2004 (OJ L 63, 28.2.2004, p. 22).

(a) final assembly of around 40 000 units/year of the Simbir model, an off-road vehicle produced by the Russian motor vehicle manufacturer UAZ;

(b) production of around 8 000 units/year of the Vallelunga, a sports sedan model, and 300 units/year of the Pantera, a luxury sports model.

The project is planned to start as soon as the Commission authorises the state aid and completion is scheduled for 2006. Motor vehicle production would start in 2005.

(8) The project would be carried out in Cutro, Calabria. Calabria is an Article 87(3)(a) area whose regional aid ceiling is 50 % gross grant equivalent (*) ('gge') for the period 2000-06.

(9) According to the Italian authorities, the project is mobile and De Tomaso is considering the alternative sites of Timisoara (Romania) for the Simbir model and Modena (Italy) for the Vallelunga and Pantera models. The investment at Timisoara would be carried out on a greenfield site, while the investment at Modena would consist in the expansion of an existing De Tomaso plant that currently produces a very limited number of the Guara model, a high performance sports car.

(10) According to the notification, De Tomaso intends to invest a nominal amount of EUR 218 760 000 (EUR 206 912 337 in present values, calculated using 2003 as the base year and a discount rate of 5,06% [4]). The entire investment amount was considered eligible by the Italian authorities.

Legal basis and aid amounts

(11) The notified aid was granted, subject to approval by the Commission, in two phases to two companies belonging to De Tomaso. A first direct grant was approved in April 2001 in favour of UAZ Europa srl, for a nominal amount of EUR 9 518 817. A second direct grant was approved in August 2002 in favour of Società Consortile De Tomaso srl, for a nominal amount of EUR 168 490 000. The grants would be paid over the period 2004-08. The aid would be granted under schemes approved by the Commission [5] and provided for by the Law on measures to promote production activities in depressed areas ('Law No 488/1992') and the Law on measures to rationalise public finances ('Law No 662/1996').

(12) Since the two grants relate to the same project, the Italian authorities notified them jointly. Total aid to De Tomaso would therefore amount to a nominal EUR 178 008 817 (EUR 155 640 104 in present values, calculated using 2003 as the base year and a discount rate of 5,06 %). The aid intensity notified by the Italian authorities is 75,22 % gge.

(13) According to Italy, no other Community aid or financing has been allocated to the project.

Grounds for initiating the procedure

(14) In its decision of 23 July 2003 to initiate proceedings, the Commission expressed doubts as to whether De Tomaso qualified as an SME. It also expressed doubts concerning a number of elements of the Cost Benefit Analysis (CBA), and in particular:

(a) the comparability of the projects in the chosen and alternative locations;

(b) the comparison of investment costs in the CBA;

(c) the comparison of operating costs in the CBA, with special reference to labour and outward transport costs.

III. COMMENTS FROM ITALY

(15) On 13 October 2003, Italy sent its comments in response to the decision opening proceedings. Further information and documents were supplied to the Commission during the meeting that took place on 17 February 2004 and with the letters of 23 and 30 April 2004.

(16) Regarding the SME status of De Tomaso, Italy provided detailed information on the ownership structure as well as the financial statements for the enterprise Alejandro S.A. and an extract of Mr De Tomaso's last will.

(17) On the comparability of the projects in the chosen and alternative locations, Italy affirmed first of all that the projects compared identical productions, in identical numbers, for the same product mix and with identical prices. The difference in the investments necessary in the alternatives could be explained by considering the specificity of the chosen location, which was similar to the northern part of Italy from the standpoint of labour costs and social, safety and environmental legislation, but lacked a skilled workforce and a solid industrial tradition.

(18) The situation in the alternative locations was, according to Italy, very different: a highly skilled workforce was available at Modena, as was a dense network of automotive suppliers and producers. At Timisoara, skilled labour was available at a fraction of the cost it would command at Cutro. Timisoara also presented a logistic advantage for the production of the Simbir model.

(*) Factual error: should read 'net grant equivalent'.

(4) The rate of 5,06% is taken from the table 'State Aid - Reference and discount rates (in %) since 01.08.1997' (see http://europa.eu.int/comm/competition/state_aid/others/reference_rates.html) and corresponds to the rate for 2002, which was the year of notification.

(5) Commission Decision of 12 July 2000 not to raise objections in case N 715/99, published in OJ C 278, 30.9.2000, p. 26.

(19) Italy reaffirmed the strategic value of the Cutro project for the industrial development of the area. In this context, the technological choices aimed at establishing an advanced production facility that incorporated the most innovative techniques and equipment and allowed De Tomaso to carry out in-house research and development. The projects for the alternative sites opted, on the contrary, for more traditional technological solutions.

(20) Based on these considerations, Italy affirmed that the Commission's demand that a comparison be made between totally identical projects was wrong and misleading, as it would force a comparison between 'hypothetical' solutions that were not based on the real intention of the company carrying out the investments.

(21) Italy claimed that the comparison 'operation by operation' for the investments in the alternative solutions as required by the Commission for the CBA was not feasible because it would require the complete development of the alternative projects, something that De Tomaso could afford to do only after the location choice was made.

(22) This notwithstanding, Italy provided new, more detailed, information comparing the investments at Cutro and the alternative sites for pressing, welding and painting for the sports cars (Cutro versus Modena) and for final assembly and painting for the Simbir model (Cutro versus Timisoara).

(23) According to Italy, many investments planned at Cutro would not be necessary in the alternative solution because of the possibility of outsourcing the relevant operations (painting and engine testing) or of renting existing facilities (test track in the vicinity of Modena). As regards painting of the sports cars, Italy provided an estimate of the cost of investing in a new paintshop at Modena to show that in-house painting at Modena would be cheaper than outsourcing and would therefore slightly increase the handicap at Cutro. As regards the engine test bench, Italy pointed out that the Cutro facility would also allow De Tomaso to develop specific versions of the engines for future productions.

(24) Regarding operating aspects of the CBA, Italy explained that the difference noted in headcounts was due partly to a mistake in the CBA, by which the number of managers and white collar workers was underestimated in the alternative solution, and partly to the fact that less labour would be needed at Modena since painting could be outsourced. Taking these two factors into account, Italy arrived at similar workforce needs in the alternative solutions.

(25) As far as outward transport costs were concerned, Italy provided updated information and documentation on the transport costs for the Simbir model from the Timisoara site, according to which outward transport costs would not be higher from Cutro than from the Timisoara alternative.

(26) Finally, Italy remarked that the company had been suffering from the length of the procedure.

IV. **ASSESSMENT OF THE AID**

(27) The measure notified by Italy for De Tomaso 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 De Tomaso an advantage over competitors not receiving aid. Lastly, there is extensive trade between Member States in the automobile market. This is not contested by Italy.

(28) Article 87(2) of the EC Treaty lists certain types of aid that are compatible with the common market. In view of the nature and purpose of the aid, and the geographic location of the firm, subparagraphs (a), (b) and (c) are not applicable to the plan in question. Article 87(3) specifies other forms of aid which may be regarded as compatible with the common market. The Commission notes that the project is located in Calabria, a region which qualifies for assistance under Article 87(3)(a), with a maximum regional ceiling of 50% net grant equivalent (nge) for large companies [6].

(29) The Commission considers that the beneficiary of the aid under scrutiny is De Tomaso, the group that includes the companies Società Consortile De Tomaso srl and UAZ Europa srl, which will be the recipients of the aid. De Tomaso plans to manufacture and assemble cars. 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 [7] ('the motor vehicle framework'), which applies to the project in question as the aid was notified to the Commission before 1 January 2003.

[6] According to Article 4(3) of the SME Regulation, when SMEs undertake investment projects in areas which qualify for regional aid under Article 87(3)(a) of the Treaty, the maximum aid intensity for regional investment aid determined in the map approved by the Commission can be increased by up to 15 percentage points gge, provided that the total net aid intensity for the project does not exceed 75%.

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

(30) Both the total cost of the project and the amount of aid exceed the notification thresholds in the motor vehicle framework. These thresholds are: (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. In notifying the proposed aid for De Tomaso, the Italian authorities have complied with the requirements of Article 88(3) of the Treaty.

(31) According to the motor vehicle framework, the Commission must ensure that the aid granted is both necessary for the implementation of the project and proportional to the gravity of the problems it intended to solve. Both tests, necessity and proportionality, must be satisfied if the Commission is to authorise state aid in the motor vehicle industry.

(32) According to point 3.2.(a) of the motor vehicle 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 the project consists in modernisation and rationalisation of an existing plant, or if there is no alternative 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 chosen location, even in the absence of aid. Therefore, no regional aid may be authorised for a project that is not geographically mobile.

(33) In the present case, the geographic alternative to Cutro for the project would be to assemble the Simbir model at Timisoara (Romania) and produce the Vallelunga and Pantera models at Modena (Italy). The Commission considers that Italy has provided sufficient documentary evidence to support this claim. The evidence provided includes studies of the feasibility of the alternative locations, plans and layouts and quotes from potential equipment suppliers.

(34) Taking into account the nature of the investment (greenfield project on a completely new site) and on the basis of the documents received, the Commission concludes that the project is mobile and that there is a viable alternative location.

(35) According to point 3.2.(b) of the motor vehicle framework, the Commission determines whether or not costs relating to the mobile aspects of the project are eligible. According to point 3.2.(c) of the motor vehicle framework the Commission needs to ensure that the planned aid is in proportion to the regional problems it is intended to resolve. To that end, a CBA is used.

(36) The CBA 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.

(37) In accordance with point 3.2.(c) of the motor vehicle framework, operating handicaps of Cutro as compared with Timisoara and Modena are assessed over five years in the CBA since the project is to be carried out on a greenfield site. The time period covered by the CBA submitted by the Italian authorities is 2005-09, that is three years (*) from the beginning of production in compliance with point 3.3 of Annex I to the motor vehicle framework. The notified CBA indicates a net cost handicap of EUR 158 248 977 in present values for the location at Cutro in comparison with the alternative locations. Consequently, the 'regional handicap ratio' of the project would be 76,48% ([8]).

(38) As a preliminary technical point, the Commission notes that the CBA presented by Italy takes 2003 as the base year for discounting the relevant figures. The correct year is 2002, which is the year of notification of the planned aid to the Commission. Since the discount rate applied is, correctly, that of 2002 (5,06%), the change in reference year does not however alter in any way the relevant ratios and figures, and can therefore be maintained.

(39) Turning to the substance of the CBA, the Commission has assessed the information provided by Italy with the aid of an external automotive expert. The assessment has confirmed the doubts expressed in the decision to initiate formal proceedings regarding the comparability of the projects at Cutro and the alternative location. The reasons that lead to this conclusion are detailed below in points (40) to (63).

(*) Factual error: should read 'five years'.

([8]) Regional handicap ratio $= \frac{\text{Investment}}{\text{Net cost handicap}}$ (both in present values). In the present case, the investment amounts to EUR 206 912 337 [see point 10 above].
Regional handicap ratio $= \frac{158\ 248\ 977}{206\ 912\ 337} = 76,48\%$.

(40) As noted in the decision initiating formal investigation proceedings, the Commission has consistently interpreted the 'identical projects' requirement in the motor vehicle framework as meaning projects that concern the production of comparable motor vehicles, in comparable numbers, and that involve comparable production processes. The Commission usually accepts that differences may exist in projects carried out at different sites, for example, regarding final product quality levels or varying degrees of plant automation as a function of labour costs. However, the Commission does not accept the comparison of substantially different projects, such as projects where important investments in equipment and machinery would be undertaken in one location, while no investments for the corresponding production would be undertaken at the comparator site.

(41) In the present case, the information provided by Italy has not allowed the Commission to fully compare the investment costs. Italy itself stated, in its comments in response to the decision initiating proceedings, that a comparison 'operation by operation' for the investments in the alternative solutions as required by the Commission for the CBA was not feasible. Indeed, the projects in the chosen location of Cutro and in the alternative locations of Modena and Timisoara are, according to the information provided by Italy, substantially different from the point of view of the technological content of the investments and the degree of vertical differentiation.

(42) Taking this constraint into account, the Commission has examined the available information with the aim of understanding the reasons underpinning the different investment choices and ascertaining whether the substantial difference in investment costs is acceptable within the CBA. In carrying out its assessment, the Commission does not contest the fact that projects can differ greatly between different locations, for example as a result of different industrial choices. However, the Commission needs to make sure that the CBA is a meaningful means of evaluating the specific handicap of the chosen location. This can be done only if the alternative projects are comparable.

(43) The Commission notes first of all that investment costs at Cutro are much higher than at the alternative sites for land, building and construction, machinery and equipment, tools and dies and supplier tooling. As regards the costs of land and building and construction, the Commission considers that the difference reported in the CBA (EUR 41 530 657 at Cutro as against EUR 10 084 237 in the alternative) can be justified on the one hand by the fact that these assets are much cheaper in Romania than in Italy and on the other hand by the fact that De Tomaso already possesses in Modena the land and part of the buildings that would be necessary for the project.

(44) Conversely, as regards machinery and equipment, tools and dies and supplier tooling, De Tomaso would have to purchase them in large part anew both at Cutro and at the alternative locations. For these assets, which are usually bought internationally, large differences in investment costs (EUR 165 381 681 at Cutro as against EUR 75 624 552 in the alternative) can be explained only by the fact that the project at Cutro foresees higher levels of automation and higher vertical integration.

(45) The Commission has assessed the available information in order to ascertain whether these cost differences are justified by the specific conditions of the different locations, and whether they are compatible with the comparability requirements of the CBA.

(46) The Commission notes that Italy ascribes the cost difference between Cutro and Timisoara mainly to higher labour costs (higher automation is foreseen to reduce headcount) and to tighter social, safety and environmental legislation (newer and more complicated equipment is required to comply with it). The cost difference between Cutro and Modena is, in Italy's view, mainly the result of a lower skilled workforce (more automation needed to compensate for lack of manual skills) and the lack of an established supplier network (need for more vertical integration).

(47) The Commission accepts that these factors can contribute to increasing investment costs. However it does not consider that they can explain the very high cost differentials in the case under scrutiny.

(48) Firstly, for a low volume manufacturer like De Tomaso the extent to which automation can help reduce headcount is limited: investments in automation usually pay off only for high or very high volume production. Indeed, the Cutro solution would hardly save any workforce with respect to the alternatives. According to the figures in the CBA, the workforce in 2009 would be 786 at Cutro, compared with 685 at Modena and Timisoara combined. Even taking into account the higher level of vertical integration at Cutro (which results in a larger workforce for the operations carried out in-house), it is evident that higher automation brings hardly any savings in the number of workers employed.

(49) Secondly, while it is true that social, safety and environmental legislation in Italy is more stringent than in Romania and therefore may require higher investments, this factor should not be overestimated. When medium to long term investment is decided, car makers tend to look at prospective legislation as well as existing laws. In the case of Romania, a convergence in standards towards western European levels seems reasonable in the medium term, also taking into account the country's likely accession to the European Union.

(50) Thirdly, it is not always the case that higher automation is needed to compensate for lower workforce skills. Indeed, the contrary is often true: automated machines require a highly skilled workforce for their operation and maintenance, while a lower skilled workforce can operate more easily simpler machinery.

(51) Lastly, it is true that the lack of an established supplier network can lead to a higher degree of vertical integration and therefore to the need for higher investments. However, any additional investment justified on these grounds should be directly linked to the lack of existing or prospective suppliers for specific operations. This is often not the case in the case under scrutiny.

(52) For example, in its comments in response to the decision initiating formal proceedings, Italy argued that outsourcing the painting operations for the sports cars in Modena did not artificially increase the handicap for Cutro. To support this claim, Italy provided estimates of the investment and operating costs for in-house painting at Modena, showing that the impact of this change on the CBA was very small, and was in the direction of increasing Cutro's handicap. However, the investment cost of the paintshop at Modena would be significantly lower than what is foreseen for Cutro (EUR 4.5 million as against EUR 6.3 million), due to its lower automation content. This shows that the higher investment at Cutro for the paintshop cannot be attributed to the lack of an established supplier network, but is rather the consequence of different technological choices in the alternative locations.

(53) A similar reasoning applies to the test track at Cutro. While it is true that in the alternative of Modena De Tomaso could rent existing facilities for testing the sports cars, no such facilities would be available for the Simbir model in Timisoara. Indeed, Italy affirms that the Simbir model would be tested on normal roads around the Romanian plant. Yet a specific investment is foreseen at Cutro for dedicated tracks to test the Simbir model.

(54) The Commission notes furthermore that other factors that could justify a higher degree of automation between different locations do not apply in the present case. Investment in automation is often justified by high volume production, but this is not the case for De Tomaso, which would be a small volume producer both at Cutro and in the alternative location. Similarly, quality levels would be identical in the alternative locations.

(55) The above elements have led the Commission to conclude that the very high differences in investment costs between Cutro and the alternative locations can only be explained by the fact that the projects compared are very different in nature. This conclusion is supported by the detailed description of the investments that Italy has provided for some operations.

(56) The latest information shows that the project at Cutro consists in an up-to-date fully automated production system designed for high volume production, while the alternative project is based on a low automation and low volume production concept. The following examples are indicative of the different nature of the projects compared:

(a) for the assembly of the Simbir model at Cutro an investment of over EUR 2 million is foreseen for a very sophisticated and fully robotised station for the installation of windscreens. This machinery is usually preferred over manual installation processes only for very high volume productions, largely in excess of the 50 000 units envisaged in this project. No such investments are foreseen at Timisoara;

(b) similarly, assembly of the Simbir model at Cutro would employ robots for installing dashboards, front end assemblies, roof panels and for seat and door handling. No such machinery is foreseen at Timisoara;

(c) for the pressing and welding of the sports cars, a high cost laser cut station is planned for Cutro, with no similar investment foreseen at Modena;

(d) investments at Cutro include an expensive, completely equipped metrological unit with a coordinate based measuring system for both a complete body and sub-components. No similar investment is foreseen in the alternative;

(e) Cutro includes sophisticated quality control systems for incoming goods. This is contrary to current practices to make quality control the responsibility of the supplier. The alternative solution does not include this capability;

(f) the Cutro investment plans include a centralised IT monitoring and diagnostic system for the assembly lines. No such system is foreseen for the alternative solution, although the final products are expected to reach the same quality levels;

(g) the Cutro solution includes investments for the creation of a permanent training centre with multimedia facilities, open also to suppliers' personnel. There is no such centre in the alternative solution;

(h) the investment at Cutro includes an engine test bench. The facility would allow De Tomaso to carry out both standard production tests and fine tuning, and research and development on the engines (petrol engines for the sports cars and diesel engines for the Simbir) bought from external suppliers and assembled in the cars at Cutro. In the alternative solution, De Tomaso would outsource the standard tests and fine tuning either to independent companies (Modena) or to the engine supplier (Timisoara). No research and development would be carried out.

(57) Taking all these factors into account, the Commission concludes that the investment costs for machinery and equipment, tools and dies and supplier tooling at Cutro are excessive and not comparable with the investment costs in the alternative solution. On the basis of the available information, the Commission, with the aid of its external automotive expert, has estimated that the objective differences between the alternative locations in terms of the existence of a supplier network, labour costs, legislative requirements and workforce skills could justify a handicap of 25% at Cutro with respect to the alternative solution. The Commission therefore concludes that the investment costs for machinery and equipment, tools and dies and supplier tooling that can be considered eligible for aid at Cutro amount to EUR 94 530 690 ([9]), as against EUR 165 381 681 according to Italy.

(58) Regarding the estimate of the eligible costs carried out above, the Commission remarks firstly that its objective is not to decide which investment should or should not be carried out at Cutro, but to determine which of the investments that De Tomaso plans to carry out are comparable, within the meaning of the motor vehicle framework, with the investments that would be carried out in the alternative locations and are therefore eligible for aid. Secondly, the Commission remarks that it has not had the possibility to carry out a more detailed comparison of the alternative projects, owing to Italy's claim that such more detailed comparison was not feasible. The Commission therefore had to rely on the information that was made available to it.

(59) The Commission therefore concludes that total eligible costs for the project amount to EUR 136 061 346 ([10]) in present values. Therefore, only these investments have been taken into account for the calculation of the regional handicap at Cutro. This modification has led to a reduction in the handicap for investment costs and other eligible expenses from EUR 89 757 129 to EUR 18 906 138 ([11]).

(60) The Commission has also assessed the comparison of operating costs in the CBA submitted by Italy with its comments in response to the decision opening proceedings. Regarding the workforce needs, the Commission accepts the corrections made by Italy for the number of managers and white collar workers in the alternative solution. However, the Commission notes that the increased workforce has not been correctly included in the CBA for the calculation of labour costs. The number of workers in the alternative solution reported in the CBA is 642 in 2009, while the supporting documentation gives the number as 685. The Commission considers that the latter figure is the correct one and has amended the CBA accordingly. Total labour costs in the alternative solution consequently increase from EUR 23 448 521 to EUR 28 526 739, and the handicap for this item is reduced by EUR 5 078 218 (EUR 62 658 707 instead of EUR 67 736 925).

(61) Regarding outward transport costs, the Commission accepts the correction made by Italy, which reduces the overall outward transport costs handicap to EUR 745 269 (the Italian authorities had originally calculated EUR 754 916).

([9]) (Investment in machinery and equipment, tools and dies and supplier tooling in the alternative) x (1+handicap rate at Cutro) = 75 624 552 [see point 46 above] x 1.25 = 94 530 690.

([10]) Eligible costs of land, building and construction (41 530 657) [see point 45 above] + eligible costs of machinery, equipment, tools and dies and supplier tooling (94 530 690) [see point 59 above] = 136 061 346.

([11]) Offset of any handicap in terms of investment costs for machinery, equipment, tools and dies and supplier tooling equal to eligible costs of these items as calculated (94 530 690) [see point 59 above] – costs of these items in the alternative (75 624 552) [see point 46 above] = 18 906 138.

(62) The modifications introduced in the analysis produce cost-benefit results that differ from those notified by Italy. The modified CBA indicates a net cost handicap for Cutro of EUR 82 310 114 ([12]) in 2003 values (compared to EUR 158 248 977 as notified). The resulting handicap ratio of the project is 60,49% ([13]) (instead of 76,48% as initially notified).

(63) Finally, in accordance with point 3.2.(d) of the motor vehicle framework, the Commission considered the question of a 'top-up', which is an increase in the allowable aid intensity intended as a further incentive to the investor to invest in the region in question. It is clear that De Tomaso will increase dramatically its capacity as consequence of the investment, as its production levels are currently extremely low. According to the motor vehicle framework, the 'regional handicap ratio' resulting from the CBA is therefore reduced by one percentage point ('high' impact on competition for an investment project in an Article 87(3)(a) region), resulting in a final ratio of 59,49% gge, which is lower than the regional ceiling of 50% nge for large enterprises in Calabria (which, for the project under scrutiny, corresponds to 73,83% gge) and, *a fortiori*, for SMEs. Given that the 'regional handicap ratio' remains in any event below the regional ceiling of 73,83% gge for the project, there is no longer any need to determine whether De Tomaso is an SME.

V. **CONCLUSION**

(64) The Commission finds that the regional aid that Italy plans to grant to De Tomaso for the project in question is compatible with the common market insofar as it does not exceed an aid intensity of 59,49% gge of the eligible costs. The Commission finds that the eligible costs for the project in question amount to EUR 136 061 346 in 2003 values (discount rate 5,06%). Therefore, the Commission finds that the regional aid that Italy plans to grant to De Tomaso for the project in question is compatible with the common market insofar as it does not exceed EUR 80 949 501 gge (in 2003 values, discount rate 5,06%).

(65) Any additional state aid for the investment projects in question is incompatible with the common market,

HAS ADOPTED THIS DECISION:

Article 1

The state aid which Italy is planning to implement for the companies Società Consortile De Tomaso srl and UAZ Europa srl is compatible with the common market within the meaning of Article 87(1) of the Treaty, up to a maximum amount of EUR 80 949 501 gross grant equivalent in 2003 values (discount rate 5,06%).

Article 2

Any state aid in addition to the aid amount referred to in Article 1 that Italy plans to grant to the companies Società Consortile De Tomaso srl and UAZ Europa srl for the project under scrutiny shall be incompatible with the common market.

Article 3

This Decision is addressed to the Italian Republic.

Done at Brussels, 19 January 2005.

For the Commission
Neelie KROES
Member of the Commission

([12]) 18 906 138 (investment costs [see point 61 above]) + 62 658 707 (operating costs [see point 62 above]) + 745 269 (transport costs [see point 63 above]) = 82 310 114.

([13]) $\frac{\text{Net cost handicap}}{\text{Investment}} = \frac{82\,310\,114}{136\,061\,346} = 60,49\%$ [see point 61 for the new investment cost as corrected].