II

(Non-legislative acts)

DECISIONS

COMMISSION DECISION (EU) 2016/2068

of 29 July 2013

on State aid SA.35611 (13/C) that France plans to implement in favour of the PSA Peugeot Citroën SA Group

(notified under document C(2013) 4971)

(Only the French text is authentic)

(Text with EEA relevance)

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union, and in particular the first subparagraph of Article 108(2) thereof,

Having regard to the Agreement on the European Economic Area, and in particular Article 62(1)(a) thereof,

Having invited interested parties to submit their comments in accordance with the said articles [1], and having regard to those comments,

Whereas:

1. PROCEDURE

(1) On 5 November 2012, the Commission received a complaint from an enterprise which wished to remain anonymous ('the anonymous complainant').

(2) By decision of 11 February 2013 ('the rescue decision'), the Commission temporarily approved, for reasons of financial stability, the guarantee by France of bond issues by Banque PSA Finance SA ('BPF') of a nominal amount of EUR 1,2 billion. In that context, the French authorities undertook to notify a restructuring plan for the PSA Peugeot Citroën SA Group ('PSA' or 'the Group' or 'the PSA Group') and a viability plan for BPF in the six months following the rescue decision.

(3) By letter dated 12 March 2013, France notified to the Commission restructuring aid in favour of the PSA Group.

(4) By letter dated 2 May 2013, the Commission informed France of its decision to initiate the procedure laid down in Article 108(2) of the Treaty on the Functioning of the European Union ('TFEU') in respect of this aid.

[1] OJ C 275, 16.11.2007, p. 18.

(5) The Commission's decision to open the procedure ('the opening decision') was published in the *Official Journal of the European Union* on 16 May 2013 ([2]). The Commission invited interested parties to submit their comments on the aid at issue. On 3 June 2013, the Commission sent a questionnaire to PSA's main competitors.

(6) The Commission received comments from five interested parties, namely:

(i) the PSA Group, as beneficiary of the aid, which submitted comments by letter dated 13 June 2013;

(ii) an enterprise which wished to remain anonymous ('the anonymous third party') which submitted comments by letter dated 14 June 2013;

(iii) the competitors Fiat, General Motors ('GM') and Toyota, which submitted comments by letters dated 17, 18 and 21 June 2013.

(7) The Commission forwarded these comments to France by letters dated 19 and 21 June 2013.

(8) The French authorities transmitted their comments on the opening decision by letter dated 3 June 2013 and their comments on the comments of the interested third parties by letter dated 28 June 2013.

(9) At the request of the Commission, the French authorities furnished supplementary information on 1 and 2 July 2013.

(10) On 4 July 2013, the Commission's departments, the French authorities and the PSA Group took part in a telephone conference. There were two further meetings between the same parties on 11 and 12 July 2013, and a telephone conference on 15 July 2013. Following these meetings, the French authorities furnished information by letter dated 16 July 2013, amended by letter dated 23 July 2013.

2. **DESCRIPTION**

2.1. *THE PSA GROUP*

(11) The PSA Group is a company quoted on Euronext Paris. In 2011, the Group sold over 3,5 million vehicles and spare parts throughout the world (42 % outside Europe). With a commercial presence in 160 countries, the PSA Group has 11 'terminal' plants (nine of which are in the European Union), in which vehicles are assembled, and 12 'mechanical' plants specialising in the production of particular parts. The Group's activities also include automobile financing (BPF) and automotive equipment (Faurecia). Gefco (logistics) was also part of PSA until December 2012. The PSA Group had a turnover of EUR 55,4 billion in 2012. Table 1 below shows trends in the Group's turnover over the last five years.

Table 1

Turnover of the PSA Group in EUR million

	2008	2009	2010	2011	2012
Past turnover	54 356	48 417	56 061	59 912	55 446

(12) BPF is a captive bank 100 % controlled by PSA, which finances sales of Peugeot and Citroën brand vehicles, vehicle stocks and spare parts for distribution networks, and offers financing resources to the Group's customers. BPF trades in 23 countries. With an average penetration rate ([3]) of 29,8 % in 2012, BPF finances a large proportion of the demand for the vehicles produced by the Group and plays a crucial role in the financing of its trading activities. In 2012, its outstanding debt was approximately EUR 23 to 24 billion. In 2011, its net result was EUR 354 million.

([2]) OJ C 137, 16.5.2013, p. 10.

([3]) The average penetration rate of 29,8 % masks differences between the penetration rates in the various segments. In particular, the penetration rate is higher in segments B and C with rates of above 30 % and even 40 % in some countries. Vehicle purchase financing activities are therefore concentrated in these segments.

(13) Faurecia is an automotive equipment supplier in which PSA had a 57,18 % holding on 31 December 2012. In essence, it produces vehicle seats, interior systems, emission control technologies and vehicle exteriors. In 2012, its turnover was approximately EUR 17,4 billion.

2.2. *THE DIFFICULTIES EXPERIENCED BY THE PSA GROUP*

(14) In 2012, the Group's turnover fell by 5,2 %, largely because of the poor performance of its automotive division (which fell by 10,3 % to EUR 38,3 billion). In terms of ordinary operating income, the Group posted a loss of EUR 576 million, in comparison with a positive result of EUR 1,093 billion in 2011. In the automotive division alone, the operating loss was EUR 1,5 billion in 2012, in comparison with a loss of EUR 92 million in 2011.

(15) The difficulties encountered are due to factors specific to the automotive market, the effects of the economic and financial recession in the Eurozone and the structural handicaps of the PSA Group.

2.2.1. ONGOING CONTRACTION OF THE EUROPEAN AUTOMOTIVE MARKET SINCE 2007

(16) The European market has continued to contract since 2007. Prior to 2007, the European automotive market represented some 18 million vehicles per year, against 14 million units sold in 2012, i.e. a decline of 15 %.

(17) Against this backdrop and in view of its European (and in particular southern European) focus, PSA's sales have fallen by 6,1 % in this market which accounts for 58 % of its sales. The PSA Group's market share has fallen to 13,3 %, in comparison with 14,2 % in 2010.

(18) The PSA Group is not offsetting the contraction of the European market by its sales outside Europe. In 2012, sales of cars and commercial vehicles in the rest of the world were not enough on their own to make up for the Group's poorer performance in the European market.

2.2.2. A COMPETITION STRUCTURE THAT DOES NOT FAVOUR GENERAL MANUFACTURERS

(19) According to the French authorities, PSA is in competition with:

(a) all the other generalists: premium generalists (Renault, Nissan, Opel, Toyota, Volkswagen) and other generalists such as Ford, Fiat, Skoda, Seat and Honda;

(b) all the specialists (Audi, BMW, Mercedes, etc.), which are increasingly tending to develop premium products in all segments, thereby encroaching on the core market of the generalists;

(c) recent manufacturers, performing increasingly well in the mid-range segments in particular (Hyundai, Kia, etc.).

(20) To summarise, according to the French authorities, the generalists' natural market is being attacked from 'above', i.e. by specialist high-end manufacturers targeting new segments (for instance, the Audi A1, etc.) and from 'below', i.e. by low/mid-range manufacturers, (in particular Korean manufacturers such as Hyundai-Kia), keen to improve their range.

2.2.3. THE STRUCTURAL HANDICAPS OF THE PSA GROUP

(21) Over half (53 % in 2011) of the PSA Group's automotive production is located in western Europe where labour costs are higher than in the rest of the world. In total, the labour cost factor accounts for over [20-30] * % of PSA's retail price. Moreover, most research and development ('R&D') staff and most of the Group's facilities are in France, entailing high staff costs.

* Confidential information.

(22) The Group is also lagging behind its competitors in the R&D field, especially as regards component standardisation.

(23) Lastly, PSA does not have the same image and reputation as the German premium manufacturers.

(24) The difficulties faced by the Group, especially by its automotive division, have immediate repercussions on BPF (and vice versa). The captive bank's difficulties can be largely attributed to the Group's problems because of the link between their financial ratings. If PSA's rating is downgraded, so is BPF's rating, making it difficult for BPF to access the markets to refinance itself. BPF nevertheless plays an extremely important supporting role as regards the PSA Group's automotive activities. In 2012, for instance, it financed 29,8 % of the manufacturer's sales and 100 % of its European dealers. The significant fall in BPF's financing capacities (and the resulting reduction of loan production) is therefore having a depressing effect on the automotive division's activity. The rating mechanism may therefore bring about a vicious circle, by further reducing BPF's sources of finance, which in turn affects PSA Group sales by restricting credit, and so on.

2.3. *THE AID MEASURES*

2.3.1. THE STATE GUARANTEE OF BPF'S BOND ISSUES

(25) To enable it to implement its restructuring plan, the French Government has decided to grant the PSA Group a guarantee covering BPF's long-term bond market issues made at the earliest on the date of the guarantee agreement or the European Commission's approval and at the latest on 31 December 2016 ('the guarantee'). In this respect, an independent guarantee agreement is to be signed by the French State and the PSA Group, subject to approval by the European Commission pursuant to Articles 107 and 108 TFEU. After concluding an initial temporary guarantee agreement corresponding to a tranche of EUR 1,2 billion in principal pursuant to the Commission's decision of 11 February 2013 approving rescue aid, the French authorities are planning to conclude a second guarantee agreement with the PSA Group covering the remaining amount of financing capped at EUR 5,8 billion in principal.

(26) Under Article 85 of the 2012 Amending Finance Law No 2012-1510 of 29 December 2012, the Minister for the Economy may authorise, against remuneration, a State guarantee for the securities issued by BPF between 1 January 2013 and 31 December 2016. The guarantee covers BPF's new long-term bond market issues. It will therefore benefit the unsecured debt instruments issued by BPF after the date on which the Commission approves the implementation of the guarantee and at the latest on 31 December 2016. These instruments will have a contractual term of a maximum of 36 months from their issue date.

(27) The French authorities point out that the ceiling of the guarantee required by the PSA Group has been determined by analysing the current structure of BPF's balance sheet (and in particular BPF's financing structure) and 2013-16 forecasts of future financing needs which the French authorities have drawn up on the basis of the following assumptions:

(a) a total outstanding debt assumed to be more or less constant at some EUR 24/25 billion, making it possible to continue to finance automotive sales by the PSA Group;

(b) increased securitisation in BPF's financing, partially offsetting the reduction of commercial paper/deposit certificates (impact rating A-3/P-3);

(c) the renewal of bank financing lines enabling BPF to confirm EUR 11,6 billion of medium-term bank credit in January 2013, in particular through the establishment of a new syndicated credit facility of EUR 4,1 billion maturing in five years, the renewal of most of its bilateral banking lines, the extension of a revolving credit line of EUR 1,2 billion with a maturity extended to January 2016 and the simultaneous extension of a credit line of EUR 1,8 billion to December 2015 (see the details given in recital 31 below);

(d) recourse to deposits from 2013.

(28) According to the French authorities, the remuneration of the guarantee has been calculated at market price in accordance with the criteria laid down in the Community guidelines on State aid for rescuing and restructuring firms in difficulty ([4]) ('the Rescue and Restructuring Guidelines') and the Commission Notice on the application of Articles 87 and 88 of the EC Treaty (now Articles 107 and 108 TFEU) to State aid in the form of guarantees ([5]). The Guarantee Notice states that, if no corresponding guarantee premium benchmark can be found on the financial markets, the total financial cost of the guaranteed loan, including the interest rate of the loan and the guarantee premium, has to be compared with the market price of a similar non-guaranteed loan.

(29) The French authorities contend that, in order to calculate the rate of the remuneration of the State, the latter had to proceed in the same way as the banks taking part in the New Club Deal, an agreement between BPF and its creditor banks. For that purpose, the cost of the risk estimated by the banks was calculated from the total remuneration of the liquidity lines of the New Club Deal, reprocessed to take account in particular of the differences between a liquidity injection and a guarantee. The remuneration of the State guarantee has therefore been set at 260 basis points.

(30) BPF has issued bond securities in its own name, for which there is a secondary market. Table 2 below shows the median yields of BPF's existing bonds having a maturity of close to three years for a one-month period before the Group's aid measure was announced in the press ([6]). The yield of a hypothetical bond having a maturity of exactly three years was interpolated on the basis of the yields of BPF's bonds having the maturity closest to three years at each given date. Lastly, Table 2 also shows the yield levels of State bonds maturing in three years.

Table 2

Yields on the secondary market

(%)

	At 16.10.2012	Median 16.9-16.10
Bond maturing on 25.9.2015	5,04	5,52
Bond maturing on 24.6.2015	4,84	5,57
Bond maturing on 25.2.2016	5,37	6,23
Hypothetical three-year bond (interpolated yields)	5,09	5,54
Three-year fungible Treasury bond	0,34	0,39

(31) In late December 2012, BPF negotiated new credit facilities with a number of banks, which agreed to grant BPF:

(a) liquidity through long-term loans of EUR 4 billion ('the New Club Deal');

(b) bilateral credit lines of up to EUR 4,6 billion;

(c) an extension of two 'back-up' lines (not intended to be drawn down) of EUR 3 billion.

The total commitment of these banks was therefore EUR 11,6 billion. According to the information provided by France, drawings on the New Club Deal's credit lines would be conditional on the implementation of the State support measure ([7]).

([4]) OJ C 244, 1.10.2004, p. 2.
([5]) OJ C 155, 20.6. 2008, p. 10.
([6]) The press reported the State's plans to implement the measure on 17 October 2012.
([7]) According to the termsheet examples provided by France on 7 January 2013: *'Drawings to be subject to the favourable vote by the French Parliament of the French State supporting plan (adoption of the plan in the Finance Law)'*.

(32) On 25 March 2013, BPF undertook a bond issue covered by a State guarantee for EUR 1,2 billion. This bond, bearing a coupon of 0,625 %, shows a yield of 0,664 %, i.e. an increase of 24 basis points over the three-year fungible Treasury bond (OAT).

(33) In recital 51 of the rescue decision, the Commission quantified the aid element as ranging between EUR 91,8 million and the nominal amount of the bonds issued of EUR 1,2 billion. The French authorities note that, on the basis of the methods used in the rescue decision, the results obtained for the aid element contained in the measure are:

Table 3

Calculation of the aid element in the guaranteed bonds

Interpolated three-year data State spread of 24 basis points	Spot	Median of bond yields	
	16.10.2012	12.7-16.10	16.9-16.10
Three-year fungible Treasury bond (OAT)	0,34 %	0,35 %	0,39 %
Estimated State spread after guarantee	0,24 %	0,24 %	0,24 %
BPSA interest rate after guarantee (a)	0,58 %	0,59 %	0,63 %
Cost of the guarantee (b)	2,60 %	2,60 %	2,60 %
Total estimated cost of the guaranteed issues (a) + (b)	3,18 %	3,19 %	3,23 %
BPSA secondary market yield interpolated over three years	5,09 %	5,23 %	5,54 %
Amount of State aid involved (EUR million)	401	429	486

Source: BNP Paribas Global Markets, Datastream.

(34) The French authorities consider that the Commission is using a particularly unfavourable reference period in the history of BPF's bond yields. The period from 12 July to 16 October 2012 (i.e. from the date on which PSA's difficulties became known through the announcement of its reorganisation plan) would, in the view of the French authorities, provide a better estimate of bond yield.

2.3.2. AID FOR THE '50CO_2CARS' PROJECT

(35) The public finance that France is planning to grant for the 50CO2Cars project is part of the 'future investment' programme established by the Amending Finance Law No 2010-237 of 9 March 2010. The Environment and Energy Management Agency ('ADEME') is one of the operators ([8]) commissioned by the State to manage the appropriations channelled into future investment. ADEME has a total budget of EUR 2,65 billion.

(36) Within the future investment programme, the 50CO_2Cars project comes under the 'Future Vehicle' measure which is intended to try out and promote technologies and configurations consuming less energy and emitting less greenhouse gas. Under this measure, various technological building bricks have been chosen within two Calls for Expressions of Interest ('CEI'):

(a) the new family of highly energy-efficient diesel engines and the DCT gearbox were selected in the CEI: 'Powertrain and auxiliaries of internal combustion engines' ('CEI No 1');

([8]) See the list of operators, as laid down by Article 8 of Law No 2010-237 mentioned above, and Decree No 2010-442 of 3 May 2010.

(b) the electric hybridisation technology was selected in the CEI: 'Powertrains, auxiliaries and reversible energy storage systems for electric and hybrid vehicles' ('CEI No 2').

(37) The Future Vehicle measure is covered in particular by the aid scheme SA.32466 (2011/X) ([9]) exempted from notification pursuant to the General Block Exemption Regulation ([10]) ('the GBER').

(38) The French authorities have provided details and the form of the public finance to be received by each of the project's listed partners. With the exception of the project leader PSA, the amounts of public finance involved in the conduct of the 50CO_2Cars project are below the individual notification thresholds set out in Article 6(1)(e) of the GBER for all the other partners (Delphi, Mann & Hummel, Valeo, Rhodia, CTI, IRMA, IFPEN, LACCO, IRCELYON, and IC2MP). In so far as it constitutes State aid within the meaning of Article 107 TFEU ([11]), this public finance is therefore already covered by the exempted scheme SA.32466 (2011/X) mentioned above.

(39) In accordance with Article 1(6)(c), however, the GBER does not apply to aid to undertakings in difficulty, a definition which the PSA Group has certainly met since at least 17 October 2012, when the French authorities announced their intention to grant a guarantee to the PSA Group. The aid that the State is planning to grant to PSA to support the 50CO_2Cars project cannot then be covered by the aid scheme SA.32466 (2011/X), nor be the subject matter of an individual notification on the basis of the Community Framework for State aid for research and development and innovation ([12]) ('the R&D&I Framework') ([13]).

(40) With a view to administrative simplification, the costs of PSA's 50CO_2Cars project activities have been classified in the same way as for the other partners, i.e. using the categories set out in the GBER (which coincide with those of the R&D&I Framework).

(41) PSA is therefore undertaking activities characterised ([14]) as fundamental research ('FR'), industrial research ('IR') and experimental development ('ED') for the eligible costs detailed in Table 4 below:

Table 4

Costs of the 50CO_2Cars project by type of R&D activity (EUR thousand)

Costs	Totals	Eligible ([1])	FR	IR	ED
CEI No 1	[260 -330]*	233 524,91	1 328,79	140 622,53	91 573,59
CEI No 2	[50 -110]*	71 068,57		34 945,01	36 123,56
Total	**[300 -400]***	**304 593,48**	**1 328,79**	**175 567,54**	**127 697,15**

([1]) The costs of the 50CO_2Cars project have been allocated to the R&D categories defined in Article 31(5) of the GBER (corresponding to the categories of point 5.1.4 of the R&D&I Framework).

(42) Totalling EUR 85,9 million, the aid that the State is intending to grant to the PSA Group for this strand of the restructuring plan is to take the form of grants (EUR 24,5 million) and repayable advances (EUR 61,4 million). In terms of intensity, they cover 100 % of the eligible costs of FR, 30 % of IT and 25 % of ED.

([9]) OJ C 78, 11.3.2011, p. 33.
([10]) Commission Regulation (EC) No 800/2008 of 6 August 2008 declaring certain categories of aid compatible with the common market in application of Articles 87 and 88 of the Treaty (General Block Exemption Regulation) (OJ L 214, 9.8.2008, p. 3).
([11]) In this respect, the Commission notes in particular that the public financing of (non-economic) research work outside research organisations does not contain a State aid element.
([12]) OJ C 323, 30.12.2006, p. 1.
([13]) See in particular point 2.1, final paragraph of the R&D&I Framework: 'Aid for research and development and innovation for undertakings in difficulty within the meaning of the Community Guidelines on State aid for rescue and restructuring undertakings in difficulty is excluded from the scope of this framework'.
([14]) Within the meaning of the definitions of Articles 30(1), 30(2) and 30(3) of the GBER (which coincide with the definitions of Articles 2(2)(e), (f) and (g) of the R&D&I Framework).

(43) As regards the repayable advances in particular, they will be discounted to the reference rate in force in January 2012, when the aid grant decision was made: 3,07 % for France. They are to be repaid by PSA using different methods for each of the CEIs.

(44) As regards the part of the project relating to CEI No 1, three hybridisation architectures are possible and are being evaluated in parallel: via the eDCT gearbox, via the engine accessory facade and via the accessory facade with freewheeling. The repayment scheme, which will ultimately depend on the architecture selected at one of the decision-making stages of the project, will take one of the following forms:

(a) If hybridisation via the eDCT gearbox is chosen, the repayment will be based on two work units:

— EUR [10-20]* per diesel engine of a power of 40/50 kW and 70 kW from the [500 000-600 000]*th unit produced, such that this part of the advance will be repaid to the nearest euro in four years, at a discounted value, on the basis of the nominal production scenario. Following this 100 % repayment of the discounted amount, the PSA Group will continue to pay a reduced amount of EUR [3-6] per engine produced for [1-3] years,

— EUR [30-40]* per eDCT gearbox from the [50 000-60 000]*th unit produced, such that this part of the advance will be repaid to the nearest euro in five years, at a discounted value, on the basis of the nominal production scenario. Following this 100 % repayment of the discounted amount, the PSA Group will continue to pay a reduced amount of EUR [5-10]* per eDCT gearbox produced.

(b) If hybridisation via the accessory facade is chosen, repayment will be based solely on the work unit of the diesel engine of a power of 40/50 kW and 70 kW, for which PSA will pay EUR [10-20]* per unit from the [500 000-600 000]*th unit produced until the discounted amount is repaid in full (some [0-5]* years in the nominal scenario), then EUR [5-10]* per unit.

(c) If hybridisation via the accessory facade with freewheeling is chosen, the repayment will also be calculated from the work unit of the diesel engine of a power of 40/50 kW and 70 kW: PSA will pay EUR [20-30]* per unit from the [500 000-600 000]*th unit produced until the discounted amount is repaid in full (some [0-5]* years in the nominal scenario), then EUR [5-10]* per unit.

(45) As regards the part of the project relating to CEI No 2, the repayment will be based on the work unit of the electric powertrain: PSA will repay EUR [20-30]* per unit from the [500 000-600 000]*th unit produced until the discounted amount is repaid in full (some [5-10]* years in the nominal scenario), then EUR [5-10]* per unit.

(46) The French authorities consider that these methods are such that the advance will be repaid at discounted value in a scenario, based on prudent and reasonable assumptions, in which the project has a favourable outcome, and that in the case of partial failure, the repayment will be proportional to the project's degree of success.

2.4. *THE PSA GROUP RESTRUCTURING PLAN*

(47) The restructuring plan follows on from the cost reduction measures presented on 26 October 2011 (cost reduction of EUR 800 million, leading to 2 500 job cuts in Europe) and 15 February 2012 (supplementary measures totalling EUR 200 million).

(48) The restructuring plan contains three kinds of measure: industrial restructuring, downsizing of the Group's administrative structure and conduct of the 50CO_2Cars R&D project. Although the PSA Group has a presence in many countries of the world, the restructuring measures relate largely to France where most of the Group's production resources are concentrated.

2.4.1. RESTRUCTURING MEASURES IN RELATION TO THE INDUSTRIAL PRODUCTION SYSTEM

(49) The main measures concern the French plants: closure of the Aulnay plant and a significant reduction of capacity at the Rennes plants, leading to 4 400 job cuts. These two measures are part and parcel of the general optimisation of PSA's production plants.

(50) As a result of its historical positioning in the small car/multi-purpose vehicle segment ('segment B'), PSA has major production capacity in segment B: in France (Aulnay, Poissy and Mulhouse), in Spain (Madrid) and in Slovakia (Trnava). Despite ongoing streamlining measures since the early 2000s (closure of Ryton (United Kingdom) in 2006 and capacity reduction at Aulnay in 2008), it continues to have excess capacity in segment B. The closure of Aulnay will cut production of 208, C3 and DS3 models by 155 000 vehicles/year from the regime set in place in 2012, corresponding to a maximum capacity reduction of 232 000 vehicles/year, and the concentration of segment B production at the Poissy, Mulhouse and Trnava plants. According to the French authorities, this measure will sustainably reduce capacity in segment B and will bring about a substantial saving of overheads within the perimeter of the Group (estimated at EUR [100-200]* million per year).

(51) The Rennes plant currently focuses on the production of segment D and E vehicles ([15]). It is facing an ongoing fall in demand, especially for segment D saloons. Transition from 2,5 shifts to 2 and the discontinuation of a night shift and a production mini-line will make it possible, in the view of the French authorities, to limit production solely to the Peugeot 508 (saloon and estate) and C5 (saloon and estate).

(52) R&D activity is also to be scaled down (10 %) and teams will be limited to site support alone (development tasks benefiting the Group's activity in general are to be discontinued).

(53) PSA hopes that it can in this way make its European organisation more efficient, in particular by making better use of existing capacity and by the increased specialisation of plants which will produce only one or two segments. The aim of this reorganisation is to reduce the retail price of each vehicle by approximately EUR [200-300]* to [200-300]*.

2.4.2. MEASURES RELATING TO THE PSA GROUP'S ADMINISTRATIVE STRUCTURE

(54) The PSA Group is planning to reorganise administrative services at all levels of management. This reorganisation will entail a total of 3 586 job cuts.

(55) In parallel, and as a result of the restructuring measures, PSA has announced a plan to save EUR 1 billion in respect of purchases (EUR 400 million) and overheads (EUR 600 million) and is in particular planning to implement a range of measures connected with industrial activities, R&D and general costs through its alliance with GM.

2.4.3. THE 50CO_2CARS R&D PROJECT

(56) As part of its industrial restructuring, the PSA Group is planning to develop new hybridisation technologies which will, in the view of the French authorities, help to restore the Group's viability. If successful, this R&D project should help the PSA Group to start mass production of diesel hybrid vehicles in segment B (weight of between 900 kg and 1,3 tonnes), and thus to diversify its production into a segment that promises to be profitable. Although diesel engines are preferred by European consumers, the main components of the hybridisation system ([16]) could subsequently be adapted to equivalent petrol-driven engines and marketed throughout the world.

(57) The purpose of this R&D project, called 50CO_2Cars, is to design and produce a (non-rechargeable) hybrid powertrain for segment B, which should make it possible ultimately to limit the CO_2 emissions of these vehicles to 50 grams per kilometre ('g CO_2/km') and, by extension, to position family vehicles (segment C) around 65 g CO_2/km. The aim of the project is to make this technology economically available to as many people as possible.

([15]) Segments D and E include vehicles of the 'family', 'road', 'monospace' and 'all-terrain' types whose dimensions vary on average in Europe from 4,40 to 5 metres. The Peugeot 508 Saloon, 508 SW, 807, 4007 and the Citroën C5 Saloon, C5 Estate, DS5, C8, C-Crosser and C6 are part of this segment.

([16]) The storage unit, the electrical power machinery and its control electronics and the voltage converter enabling a dual-voltage network.

(58) In technical terms, the project will combine a new family of highly energy- efficient diesel engines with a motor-driven dual-clutch gearbox compatible with hybridisation ('DCT'), and a low-cost electric hybridisation technology.

(59) PSA will lead the R&D consortium set up for the $50CO_2$Cars project.

(60) This consortium will also include industrial and academic partners: five large enterprises (Delphi, Mann & Hummel, Valeo and Rhodia), an SME (CTI), an association (IRMA) and four research organisations (IFPEN, LACCO, IRCELYON and IC2MP).

2.4.4. THE PSA GROUP BUSINESS PLAN

(61) The PSA Group business plan covers the period 2013-17. The French authorities have specified that the Group's ordinary operating income, in the median scenario, will be positive from 2014, at EUR [1 200-2 000]* million, i.e. [1-5]* % of turnover. Viability will be improved largely by the internal measures contained in the restructuring plan. These include both a major reduction of production costs and improved cash flow, and assume that PSA Group activities will have a fresh geographical focus. The target is for 50 % of Group sales to be made outside the European Union in 2015, thus making it possible to capture the growth potential in these parts of the world (in particular China, Brazil, etc.).

(62) The French authorities have submitted the PSA Group business plan to 2017. The plan is based on assumptions of the size of the European market and PSA's market shares. These assumptions draw on the estimates drawn up by *IHS Global Insight*.

(63) As regards the size of the European market, a downturn of 2,2 % is forecast in 2013, according to the French authorities, followed by a growth of 6 % per annum in 2014 and 2015, and a growth of 3 % per annum in 2016 and 2017. PSA's market shares will reach [12-15]* % in 2013, [13-16]* % in 2014 and [11-15]* % in 2015, 2016 and 2017.

(64) The business plan looks at various scenarios. In the 'median' scenario, the PSA Group's ordinary operating income is positive from 2014, at EUR [1 200-2 000]* billion, i.e. [1-5]* % of the Group's turnover. It is forecast to reach EUR [3 000-3 800] billion in 2017, i.e. [2-6]* % of PSA's turnover. According to the French authorities, this level of profitability will give the PSA Group a rating which is enough for it to refinance itself independently on the markets. An improved rating for the Group will automatically have an impact on BPF's rating.

(65) Alternative scenarios are also envisaged. In an 'unfavourable' scenario, PSA Group sales decline (in comparison with the median scenario) by a further 100 000 vehicles per annum in Europe from 2013. In a 'favourable' scenario, PSA Group sales in Europe increase by some 100 000 vehicles per annum from 2013. According to the business plan notified, the ordinary operating income of the PSA Group overall, in the unfavourable scenario as well, is positive from 2014 (some [1-5]* % of the PSA Group's turnover), and reaches [2-6]* % in 2017. It should nevertheless be borne in mind that the PSA Group forecasts show a high growth of turnover outside Europe, i.e. in growth markets. This assumption explains why, despite the pessimistic forecasts for the European market, the PSA Group is expecting its sales to grow: its target is to make 50 % of its sales outside Europe in 2015.

(66) As regards trends in the PSA Group's production capacity, the French authorities have produced two tables showing the Harbour usage rates ([17]) for each plant, before and after the Group's restructuring. With the exception of Poissy, these rates remain the same. The French authorities point out that the viability of each plant cannot be measured independently from that of the PSA Group. The PSA Group's automotive activity needs to be examined overall for each market segment. In the view of the French authorities, each plant has a portfolio of vehicles that it could potentially produce. If some plants have lower or higher usage rates, these are generally known variations which are managed in line with product life cycles.

([17]) The 'Harbour' capacity is the industry standard. It assumes that, for each plant, two shifts work eight hours a day, 235 days a year. The Harbour usage rate shows the volume of vehicles actually produced in each plant in comparison with the Harbour capacity.

Table 5

Forecast turnover in three scenarios for the PSA Group (EUR million)*

	2013	2014	2015	2016	2017
Median Scenario	[55 000-60 000]	[60 000-65 000]	[60 000-65 000]	[60 000-65 000]	[65 000-70 000]
Unfavourable scenario (100 000 fewer vehicles per annum)	[55 000-60 000]	[60 000-65 000]	[60 000-65 000]	[60 000-65 000]	[60 000-65 000]
Favourable Scenario (100 000 more vehicles per annum)	[57 000-62 000]	[60 000-65 000]	[60 000-65 000]	[65 000-70 000]	[65 000-70 000]

Table 6

Forecast turnover in three scenarios for the automotive division (EUR million)*

	2013	2014	2015	2016	2017
Median scenario	[40 000-45 000]	[45 000-50 000]	[45 000-50 000]	[45 000-50 000]	[45 000-50 000]
Unfavourable scenario (100 000 fewer vehicles per annum)	[40 000-45 000]	[40 000-45 000]	[40 000-45 000]	[40 000-45 000]	[45 000-50 000]
Favourable scenario (100 000 more vehicles per annum)	[40 000-45 000]	[45 000-50 000]	[45 000-50 000]	[45 000-50 000]	[45 000-50 000]

2.4.5. THE COMPENSATORY MEASURES INITIALLY NOTIFIED BY THE FRENCH AUTHORITIES

(67) The PSA Group has announced restructuring measures which will reduce its production capacity and market presence, in particular the closure of its Aulnay plant (which employs 3 000 people) and a significant capacity reduction at its Rennes plant, leading to some 1 400 job cuts. In parallel, disposals of viable assets are planned or have already taken place, in particular the opening up of GEFCO's capital, the disposal of some immovable assets and the disposal of the Citer car hire company. The PSA Group has also announced a reduction of its investment expenditure which will limit its production capacity to a level below that originally planned before the onset of its difficulties.

(68) The French authorities also proposed the following compensatory measures:

— further reductions of CAPEX ('capital expenditures') (2.4.5.1),

— transfer of capacity at the Sevelnord plant to a competitor (2.4.5.2),

— discontinuing development and production of the hybrid plug-in technology (2.4.5.3),

— setting a maximum penetration rate for BPF (2.4.5.4).

These measures are additional to the restructuring measures planned in the initial 2012 medium-term plan ('MTP') ([18]).

2.4.5.1. ***Further reductions of PSA Group investment***

(69) Further reductions (over and above the initial 2012 MTP) in CAPEX are planned: EUR 300 million in 2013 and EUR 500 million per year in 2014 and 2015. The 2013-2015 (CAPEX and R&D) plan has therefore been revised down from EUR 9,9 billion to EUR 8,6 billion, i.e. a reduction of 13 % from one plan to the other. This amount is 27 % down on the 2011-2012 average.

([18]) The medium-term plan is the document used by the PSA Group's financial management to present forecasts of the Group's results in future years.

(70) PSA's investment will thus be reduced by EUR 3,3 billion per year to an average of EUR 2,86 billion per year. This reduction of EUR 1,3 billion will largely (over 80 %) concern the Group's automotive activity in Europe.

(71) According to the French authorities, reducing CAPEX will significantly curtail the Group's ability to be a competitive force in the market. The further reduction of certain R&D investment and CAPEX will also have other major adverse consequences for PSA. In particular, the PSA Group will be substantially penalised in terms of its ability to:

(a) meet the expectations of customers who set particular store by the range effect and the technologies which will no longer be rolled out by the PSA Group;

(b) react to competitors' developments;

(c) itself industrialise certain attractive technologies which it will have to buy in from competitors, thereby reducing its margins;

(d) benefit from certain tax incentives, such as those connected with CO_2, etc.

(72) This reduction will in particular involve:

— discontinuation of the production of the Citroën C6 model on 31 December 2012 and the non-renewal of the Peugeot 607 model (segment E) (a),

— discontinuation in 2015, two years earlier than planned, of the Bipper/Nemo vehicles and the non-renewal of these vehicles (segment B LCV) (b),

— discontinuation of diesel engines above two litres (segment D) (c).

(a) **Discontinuation of production of the Citroën C6 — Peugeot 607 models**

(73) This compensatory measure includes two aspects concerning segment E overall:

— discontinuation of the Citroën C6, initially planned for 2016, from 2013, and

— non-renewal of the Citroën C6/Peugeot 607.

(74) Looking at the first aspect on its own, the PSA Group estimates its impact at 3 000 vehicles (i.e. 1 000 vehicles per year), i.e. a loss of turnover of EUR 90 million over three years. The C6 is part of segment E, which is a 'high-end' segment. According to the PSA Group's own estimations, this segment is set to account for 5,7 % of the European automotive market in 2013.

(75) According to the French authorities, the non-renewal of the Group's high-end range will significantly reduce market coverage. Potential volumes for the latest Peugeot (607) model were in the order of 20 000 vehicles per year, representing a loss of turnover of some EUR 500 million. Potential volumes for the latest Citroën (C6) model were in the order of 7 000 vehicles per year, representing a loss of turnover of some EUR 200 million.

(76) The non-renewal commitment in relation to the Citroën C6/Peugeot 607 models covers the period 2016-18. The PSA Group estimates the impact of this strand of the measure at 40 500 vehicles, i.e. a turnover of EUR 1,05 billion. The non-renewal of these models will also enable PSA to discontinue its allied investment from 2013 (the normal period for the development of a new vehicle is generally three years).

(77) According to the French authorities, an indirect effect of this compensatory measure is its major adverse impact on the PSA Group's brand image. The lack of models in segment E (and/or powerful engines) would prevent it, for instance, from responding to certain calls for tender. Moreover, the PSA Group's exit from segment E would also mean that individuals interested in high-end models would be less likely to look to the PSA Group's network, which would do little to help the Group to move its brands upmarket, including in segment B (DS line). The PSA Group estimates that the negative impact on calls for tenders for vehicle fleets would be 2 000 vehicles per annum, representing an annual loss of turnover of EUR 30 million, i.e. a total of EUR 180 million for 12 000 vehicles.

(78) Overall, the PSA Group estimates that the impact of this compensatory measure would be a loss of turnover of EUR 1,32 billion.

(b) **Discontinuation and non-renewal of the Bipper/Nemo model**

(79) The Bipper/Nemo is a commercial vehicle marketed under two different names. The proposed measure has two strands:

— the non-renewal (i.e. no launch of a new generation) of Bipper/Nemo vehicles from 2017, whose impact in terms of turnover is estimated by PSA to be EUR 1 billion, and

— the early discontinuation from 2015 of current Bipper/Nemo vehicles, initially planned for 2017, whose impact in terms of turnover is estimated to be EUR 560 million.

(80) In 2012, PSA sold 35 650 Bipper/Nemo (16 678 Bipper passenger vehicles ('PV') and commercial vehicles ('CV') and 18 972 Nemo (PV and CV together) for an average unit turnover of EUR 8 950, i.e. a total annual turnover of EUR 319 million.

(81) The Bipper/Nemo CV models are part of segment B LCV ([19]): in 2012, this segment accounted for 3,7 % of the European LCV market. PSA's market share was 49 %. In 2012, the PSA Group marketed 26 674 Nemo/Bipper CVs in a total market of 54 514 units. In 2012, the PSA Group sold 8 976 PVs (representing a market share of 10 %).

(82) According to the French authorities, the marketing of these vehicles does not generate net profits during the vehicle's service life largely because models at the beginning of their lives are not immediately profitable. These vehicles therefore become profitable only after the first generation.

(83) The PSA Group considers the impact of this compensatory measure to be a loss of turnover of EUR 1,56 billion.

(c) **diesel engines of more than two litres**

(84) Under this proposed compensatory measure, production of engines of more than two litres is to be discontinued by the time of the EURO 6 standard. According to the French authorities, the PSA Group has the industrial resources to produce such engines, especially the EURO 6 version of the DW12 engine. In contrast to its competitors, it does not have petrol engines of more than two litres (its petrol engines are limited to 1,6 litre turbo). This measure will therefore affect segment D in particular.

(85) The PSA Group's sales of passenger vehicles in segment D accounted for 1 % of the European market in 2012 (i.e. 150 000 vehicles). In better years, sales of PSA Group vehicles of more than two litres peaked at 30 000 vehicles. The PSA Group has included 10 000 vehicles per year, representing approximately 20 % of segment D, in its estimations of the impact of the measure.

(86) On the basis of the historical registration data for 2011 and 2012 for diesel PV vehicles with an engine of more than two litres, PSA considers that the development of a hybrid plug-in diesel PV range would have increased the number of vehicles with engines of a capacity of more than two litres (or equivalent power) to 30 000-40 000 units for the PSA Group. According to the French authorities, this measure represents 10 000 vehicles per year, i.e. a loss of annual turnover of EUR 200 million.

2.4.5.2. ***Transferring capacity at the Sevelnord plant to a competitor***

(87) Under this measure, the PSA Group is to transfer capacity at the Sevelnord plant to Toyota. The Sevelnord plant was built in 1988 as part of the extension of the activities of the Société Européenne de Véhicules Légers ('Sevel'), jointly controlled ('joint venture' or 'JV') with the Fiat Group. In 2011, this plant had 2 700 employees and produced an average of 420 vehicles per day (Peugeot 807, Citroën C8, Peugeot Expert, Citroën Jumpy, Fiat Scudo). A total of 94 843 vehicles were produced there in 2011.

([19]) LCV: light commercial vehicle.

(88) When Fiat wanted to withdraw from the JV partnership with the PSA Group at the Sevelnord plant, PSA signed a cooperation agreement with Toyota under which the PSA Group was to manufacture light commercial vehicles which Toyota would market in Europe under its own brand name. This would enable Toyota to establish a substantial customer base at minimal cost.

(89) Under this agreement, the PSA Group was initially (from the second half of 2013) to supply light commercial vehicles from its existing Peugeot Expert and Citroën Jumpy ranges ('G9' supply). The agreement also provides for cooperation in respect of the next generation of vehicles to be produced by the PSA Group ('K0' supply).

(90) According to the French authorities, without the agreement with Toyota, the PSA Group considers that it could on its own keep its light commercial vehicle activities viable. The contract with Toyota is not therefore essential for continued operation at this plant.

(91) The French authorities point out that this measure helps to limit the PSA Group's market presence to the direct benefit of its competitors in so far as:

(a) the PSA Group will transfer close on 30 % of production capacity at the Sevelnord plant to Toyota;

(b) this agreement will enable a major competitor, Toyota, to gain access to a market in which it has not so far had a presence, and to extend its commercial vehicle range;

(c) this agreement offers a direct and certain competitive advantage to Toyota, in so far as it enables it to gain a large proportion of the margin on the vehicles covered by the agreement, and to sign up customers and gain their loyalty in a market in which it has no presence;

(d) this measure concerns one of the markets in which the PSA Group has a particularly large presence (21 % at European level in 2011).

(92) In terms of turnover, the impact of this measure is estimated at EUR 443 million.

2.4.5.3. ***Discontinuation of production and development of the hybrid plug-in technology***

(93) The PSA Group will reduce its market presence by ending the agreement signed on 25 October 2011 with BMW for the creation of a JV to develop and produce a technology for hybrid and electric vehicles.

(94) The JV was developing and manufacturing all the electric components needed for an electric powertrain. The PSA Group and BMW have invested over EUR 100 million in this project, on which, in late 2011, 400 workers were employed at the Munich R&D centre. The end of this JV will mean the PSA Group's withdrawal from the hybrid plug-in vehicle segment as a result of the termination of the JV agreement with BMW (segment C).

(95) According to the French authorities, by ending the JV, the PSA Group will permanently withdraw from a segment considered to be promising and will lose access to around 6 % of the market by 2016. The PSA Group will also lose an agreement that is valuable in terms of the brand image that its status as a partner of BMW gives it.

(96) The withdrawal of the PSA Group from the JV with BMW will have two consequences:

(a) first, announcing that the hybrid plug-in technology is to be discontinued will harm the Group's image in this segment and will have an impact from 2013 on PSA Group sales of diesel hybrids. The PSA Group estimates this impact (based on 10 % of volumes) at 3 000 vehicles per year, i.e. an annual loss of turnover of EUR 60 million;

(b) second, discontinuing the development of the hybrid plug-in technology, whose launch was scheduled for 2016, will be reflected by a reduction of an average of 20 000 vehicles over three years, i.e. an annual loss of turnover averaging EUR 400 million.

(97) The PSA Group estimates the total impact of this measure to be a loss of turnover of EUR 1,56 billion.

2.4.5.4. ***Commitment to a maximum penetration rate for BPF***

(98) The French authorities are planning to commit to a maximum penetration rate ([20]). According to the French authorities, this rate has risen sharply in recent years both for BPF and for its competitors, increasing, in the case of BPF, from 27,5 % in 2009 to 29,8 % in 2012; and, in the case of RCI Banque SA ([21]), from 30,0 % to 35,0 % over the same period, as shown in Table 7 below.

(99) The French authorities are in particular envisaging this commitment because they consider that the penetration rate can be readily monitored from public sources.

(100) The planned commitment is structured differently for 2013, and for 2014 and 2015. In 2013, it is proposed not to exceed, for each of the European countries (in the G10 perimeter ([22])) in which BPF trades, the H2 2012 rate with a penetration rate flexibility of + 1.

(101) In the following periods, the French authorities consider that rapid developments in the sector make it necessary to forecast how BPF's commitment is to vary on the basis of these developments. It is therefore proposed to increase the penetration rate achieved by BPF in year 'n-1' by setting a maximum penetration rate for year 'n' on the basis of the changes in this rate in year 'n-1' among BPF's European competitors. This should help to prevent BPF from becoming disconnected from trends in its competitive environment.

(102) From 31 December 2013, therefore, BPF's maximum penetration rate commitment in the G10 perimeter for year 'n' will be equal to the rate achieved by BPF in this perimeter in year 'n-1' adjusted by the change in the penetration rate of comparable firms in year 'n-1', although the effect of this adjustment cannot be to reduce BPF's penetration rate below a minimum. The comparable firms proposed here are the 'Western Europe' division of RCI Banque SA and the 'Europe' division of Volkswagen Financial Services ('VWFS'). In order to guard against erratic developments among competitors and keep BPF's penetration rate at a level that is actually below that of its competitors, the maximum penetration rate will be capped at 32,4 %, in line with the G10 penetration rate recorded in the second half of 2012.

Table 7

BPF penetration rates for new vehicles by country and main geographical areas (as %)

	Ceiling rate H2 2012*	Flexibility	Proposed maximum rate*
Germany	[…]	+ 1,0	[…]
Austria	[…]	+ 1,0	[…]
Belgium	[…]	+ 1,0	[…]
Italy	[…]	+ 1,0	[…]
Spain	[…]	+ 1,0	[…]
Netherlands	[…]	+ 1,0	[…]
Portugal	[…]	+ 1,0	[…]
Switzerland	[…]	+ 1,0	[…]
France	[…]	+ 1,0	[…]
United Kingdom	[…]	+ 1,0	[…]

([20]) This is the ratio calculated by relating sales of vehicles financed by loans from the BPF bank to total PSA Group sales.
([21]) RCI Banque SA is a wholly-owned subsidiary of Renault SAS. RCI Banque finances sales of Renault Group and Nissan Group brands.
([22]) Germany, Austria, Belgium, Italy, Spain, Netherlands, Portugal, Switzerland, France, United Kingdom.

	Ceiling rate H2 2012*	Flexibility	Proposed maximum rate*
G5 aggregate ([1])	33,3	+ 1,0	34,3
M5 aggregate ([2])	27,3	+ 1,0	28,3
G10 aggregate ([3])	32,4	+ 1,0	33,4

([1]) The G5 aggregate includes the following countries: France, Germany, Italy, Spain and the United Kingdom.
([2]) The M5 aggregate includes the following countries: Belgium, Netherlands, Switzerland, Austria and Portugal.
([3]) The G10 aggregate includes the ten countries included in this table.

2.4.6. ESTIMATION OF RESTRUCTURING COSTS AND THEIR FINANCING

(103) Restructuring costs are estimated to be EUR 1 708,9 million. The following measures are planned: shutting down production at Aulnay, which has 3 000 employees, in 2014, transferring production in the Paris region to Poissy and regenerating the Aulnay site. These costs are estimated to be EUR [400-500]* million between 2012 and 2017. The costs of streamlining the industrial system at the Rennes plant, where 1 400 out of a total of 5 600 employees are to be redeployed, are estimated to be EUR [100-200]* million between 2012 and 2017. Streamlining the PSA Group's organisation, by means of the GPEC 1 and 2 plans ('Gestion prévisionnelle de l'Emploi et des Compétences' [Forward Management of Employment and Competences]), will generate total costs estimated to be EUR [500-600]* million in 2012 and 2013. It should be noted that there is no overlap between the GPEC 1 and 2 plans and the Aulnay and Rennes restructuring costs. The costs of other measures, in particular the restructuring of European trade and the reduction of staff at PCR (Peugeot Citroën Retail), which is the PSA's part of the dealer network, largely in southern Europe, are estimated to be EUR [100-200] million. Lastly, the costs of PSA activities in connection with the $50CO_2$Cars project are EUR [300-400]* million.

(104) In order to finance these restructuring costs, the PSA Group has, since early 2012, been implementing a programme of asset disposals, providing the PSA Group with the following resources:

(a) disposal of Gefco in December 2012: EUR 878 million ([23]);

(b) disposal of Citer in February 2012: EUR 449 million;

(c) disposal of immovable assets (including the head office) during 2012: EUR 628,7 million.

(105) According to the French authorities, the PSA Group has already released EUR 1,956 billion of free cash flow which is to be reinvested in the restructuring of the PSA Group in order to restore its viability.

(106) In terms of liquidity, under the New Club Deal, private banks will inject EUR 11,6 billion into the Group's financing during the restructuring period.

2.5. *BPF'S VIABILITY PLAN*

(107) The plan submitted by the French authorities contains financial projections and a financing plan for BPF to the end of 2015. According to the French authorities, BPF's return on equity will be [5-10]* % from 2014 and [10-20]* % in 2016. They point out that, according to the Commission's decision-making practice, the return on equity considered acceptable to demonstrate the viability of a bank is in the range of 8 to 12 %.

2.5.1. FINANCING PLAN

(108) BPF plans to increase its long-term bank financing by EUR [0-5]* billion by the end of 2012 to EUR [5-10]* billion by the end of 2015. The bank has also launched a deposit product for individuals, which will provide financing of EUR [800-900]* million in 2015 according to the financial projections (in comparison with zero at the end of 2012). Financing obtained from securitisation and EMTN issues will fall over the same period.

([23]) Disposal net of costs of EUR 797 million, to which an exceptional dividend of EUR 100 million is added, and from which EUR 19 million, corresponding to the cancellation of the gross self-financing margin, is deducted.

Table 8

Cash flow situation of BPF over the restructuring period*

[…]*

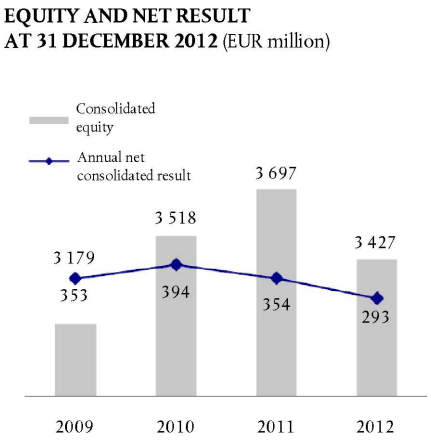
(109) It is forecast that the bank's total balance sheet and therefore its financing will increase gradually during the projection period, from EUR 27 186 million at the end of 2012 to EUR [>28 000] million at the end of 2015.

2.5.2. PROFITABILITY AND SOLVENCY

(110) BPF was profitable in the past, as can be seen from Graph 1 below. At the end of 2012, the capitalisation level measured by the 'Core Tier 1' ([24]) ratio was 13 %.

Graph 1

History of BPF's profitability



(111) The bank considers that profits will continue to be made during the restructuring of the Group, as shown in Table 9 below.

Table 9

Profitability forecasts for BPF

(%)

	2012	2013	2014	2015	2016	2017
Return on equity (RoE)*	8,0	[4-6]	[6-8]	[8-10]	[10-12]	[10-12]

(112) According to the information provided, creditors would not lose out if BPF were to be closed down. If placed in run-off management, there would, after three years, be a liquidity surplus ranging from EUR [1-3]* billion to EUR [2-4]* billion in a stress scenario, depending on the stress level applied.

(113) BPF's assets have a very short maturity and on average have a shorter maturity than its liabilities.

(114) The bank's risk cost increased from […]* in 2011 to […]* in 2012. Bad debts rose progressively from 3 % at the end of 2008 to 4,2 % at the end of 2012.

([24]) The 'Core Tier 1' ratio is a solvency ratio from which the solvency of banks can be assessed. It relates equity to assets held (risk-weighted).

2.5.3. PENETRATION RATE

(115) According to the French authorities, BPF's penetration rate of approximately 29,8 % (in 2012) in the PSA Group's vehicle sales means that it finances a large proportion of the demand for vehicles produced by the PSA Group and is crucial to the financing of its trading activity, and the whole of the vehicle sector, including dealer networks and customers.

(116) They point out that the forecast plan assumes that the penetration rate will continue to increase slightly from 2011 up to 2017. This increase is based on a number of factors:

(a) the partial and gradual withdrawal of traditional banks from this sector, because the financing and capital constraints linked in particular to the entry into force of Basel III are forcing them selectively to manage their balance sheets;

(b) the growth in consumers' financing needs in a climate of strong contraction of purchasing power in Europe;

(c) interest rate levels, currently at a historical low, which will encourage borrowing to finance purchases of vehicles; and lastly

(d) the tendency for vehicles to become an everyday consumer good, along the lines of a commodity, which will be reflected by a growth of financing by borrowing and monthly payments.

(117) The development of BPF's penetration rate by geographical area and by segment (B, C, D, H and CV) is shown in Table 10 below (PV means 'Peugeot vehicle' and CV means 'Citroën vehicle').

Table 10

BPF's penetration rate by geographical area, vehicle segment and brand (as %)

	PV			CV		
%	2010	2011	2012	2010	2011	2012
France						
Segment B	[…]	[…]	[…]	[…]	[…]	[…]
Segment C						
Segment D						
Segment H						
CV						
Total						
UK						
Segment B	[…]	[…]	[…]	[…]	[…]	[…]
Segment C						

	PV			CV		
%	2010	2011	2012	2010	2011	2012
Segment D						
Segment H						
CV						
Total						
Germany						
Segment B	[…]	[…]	[…]	[…]	[…]	[…]
Segment C						
Segment D						
Segment H						
CV						
Total						
Italy						
Segment B	[…]	[…]	[…]	[…]	[…]	[…]
Segment C						
Segment D						
Segment H						
CV						
Total						
Spain						
Segment B	[…]	[…]	[…]	[…]	[…]	[…]
Segment C						
Segment D						
Segment H						
CV						
Total						
Total G5						
Segment B	[28-33]	[31,6-36,6]	[33,1-38,1]	[26,5-31,5]	[29-34]	[34,4-39,4]
Segment C	[20,4-25,4]	[21,6-26,6]	[22,7-27,7]	[18,9-23,9]	[25,5-30,5]	[29,1-34,1]

	PV			CV		
%	2010	2011	2012	2010	2011	2012
Segment D	[20-25]	[17,8-22,8]	[18,5-23,5]	[20,6-25,6]	[20,9-25,9]	[22,2-27,2]
Segment H	[12,4-17,4]	[28,6-33,6]	[0,0-2,5]	[20,7-25,1]	[19,2-24]	[14,6-19,6]
CV	[24,6-29,6]	[25,9-30,9]	[24,9-29,9]	[26,7-31,7]	[28-33]	[29,6-34,6]
Total	[25,1-30,1]	[25,4-30,4]	[26,8-31,8]	[25,1-30,1]	[26,7-31,7]	[30,6-35,6]
Segment B	Ion, 107, 1007, 206+, 207, 208, Czero, C1, C3, DS3, C2, C3 Picasso					
Segment C	307, 308, 3008, 4008, 5008, RCZ, C4, C4 Picasso, C4 Aircross, DS4, Xsara Picasso					
Segment D	407, 4007, 508, 807, C5, DS5, C8, C Crosser					
Segment H	607, C6					
CV	Partner, Bipper, Expert, Boxer, Berlingo, Nemo, Jumper, Jumpy					

2.5.4. THE GROUP'S DEPENDENCE

(118) According to the French authorities, BPF's rating is correlated with PSA's rating, as is shown by the close correlation between the bond yields of the Group and the bank.

(119) The rating agencies have, in their reports, linked the ratings of the PSA Group and BPF, setting a maximum difference of two notches between the Group's rating and the captive bank's rating ([25]). On 14 February 2013, BPF's rating was downgraded to 'non-investment grade'.

2.6. *THE COMPLAINT*

(120) The anonymous complainant considers that the guarantee by the French State will make it possible for BPF to offer credit to PSA's dealers and customers on more attractive terms than those that can be offered by the captive banks of rival automotive manufacturers.

3. **REASONS FOR INITIATING THE PROCEDURE**

(121) In the opening decision, the Commission had the following doubts:

3.1. *VIABILITY PLAN FOR BPF*

(122) As regards the viability plan for BPF which has to be analysed in the light of the Banking Communication, the Commission had doubts because of the ongoing concerns about the viability of the PSA Group as a whole.

3.2. *PSA GROUP RESTRUCTURING PLAN*

(123) As regards the restructuring plan for the industrial group, which has to be analysed in the light of the Rescue and Restructuring Guidelines, the Commission had doubts about the following aspects:

3.2.1. DOUBTS ABOUT A RETURN TO VIABILITY

(124) The Commission asked third parties to comment on:

(a) the assumptions made about the development of the automotive market in Europe and the rest of the world, and in particular whether these assumptions were conservative enough;

([25]) Moody's has currently set this difference at three notches as a result of the guarantee from which BPF is benefiting.

(b) the restructuring measures planned to restore the PSA Group's viability;

(c) the role that the $50CO_2$Cars project could play in restoring viability, and in particular whether this R&D investment launching a mild hybridisation research programme was consistent with the parallel announcement that a hybrid plug-in technology, which the Group was said to have successfully developed, was to be discontinued.

3.2.2. DOUBTS ABOUT THE COMPENSATORY MEASURES

(125) The Commission asked for comments from third parties on the characterisation, within the meaning of the 'Rescue and Restructuring Guidelines', of the proposed measures as compensatory measures, their quantification and their ability to offset the risks of distortions of competition brought about by the aid.

4. **COMMENTS BY FRANCE ON THE OPENING DECISION**

4.1. *ON THE AMOUNT OF AID*

(126) The French authorities consider that the amount of aid cannot correspond to the nominal amount of the guarantee, that BPF's issues will necessarily be made with a variable liquidity and risk premium, undoubtedly higher than the 24 basis points recorded during the issue carried out as a result of the rescue aid, and that the reference period to be taken into account for BPF's historical yields should be three months.

(127) According to the French authorities, the two cumulative conditions under which the amount of the aid can be considered to be as high as the amount of the guarantee, namely a very strong possibility that the borrower will not be able to repay the loan covered by the guarantee and the existence of exceptional circumstances, are not met in this case. The amount of the aid included in the State guarantee is therefore the difference between the total cost of financing resulting from the guarantee and the guarantee itself, and the total cost of the financing to be paid by the enterprise without the guarantee.

(128) Again according to the French authorities, the assumption of a surplus cost for BPF of some 40 basis points is founded. The issues by BPF on 25 March 2013 took place in particularly favourable market conditions. The spreads with respect to a fungible Treasury bond recorded at the time of this issue (24 basis points) are at historically low levels. The French authorities contend, for instance, that investors would normally require higher remuneration for a captive bank in the automotive sector than for public bodies such as UNEDIC ([26]) or CADES ([27]), especially as they would have lines available for subscribing to this type of CADES or UNEDIC transaction that they would not necessarily have for a transaction with BPF.

(129) Lastly, the reference period put forward by the French authorities (from 12 July to 16 October 2012) is best able to reflect BPF's real bond yields on the markets, as it takes account of the PSA Group's difficulties and not the announcement of the State guarantee.

4.2. *ON BPF'S VIABILITY*

(130) The French authorities take note of the Commission's view that BPF does not have a profitability or solvency problem and that its liquidity problem is due solely to its link with the PSA Group.

(131) They comment, however, as follows:

(a) In the view of the French authorities, the increase in BPF's balance sheet size is moderate and in line with forecast inflation. This increase is to be attributed to the worsening macroeconomic situation and the fact that consumers are turning more often to borrowing to finance vehicle purchases.

(b) In reply to the Commission's argument that BPF should be prevented from financing poor quality loans in order artificially to boost the PSA Group's turnover, the French authorities point out that:

([26]) Union nationale interprofessionnelle pour l'emploi dans l'industrie et le commerce [National Professional Union for Employment in Industry and Trade].
([27]) Caisse d'amortissement de la dette sociale [Social Debt Amortisation Fund].

— the sole objective of the compensatory measure involving BPF is to make its competitive behaviour less intense and to limit its market share,

— the rate of 'non-performing loans', of approximately 4 %, has undergone little change in the last three years,

— BPF draws up its risk policy independently under the supervision of the Prudential Control Authority.

In the view of the French authorities, as the bad debt level is closely monitored by the rating agencies and by the BPF audit committee, it would be impossible to change the bank's risk policy.

4.3. *ON THE PSA GROUP'S RETURN TO VIABILITY*

4.3.1. ON THE ASSUMPTIONS OF MARKET TRENDS

(132) First, the French authorities consider that the PSA Group's forecasts have not been disproven by market trends in the first quarter of 2013 or by the supposed discrepancy between the results forecast for 2012 and the results finally recorded for that year.

(133) According to the French authorities, the ongoing fall in sales in 2013 was predicted by the PSA Group, which estimated, as did *IHS Global Insight*, that the market would ultimately fall by 4 % between 2012 and 2013.

(134) The French authorities have submitted updated financial projections, based on less optimistic assumptions than the projections described in recitals 54 to 58 of the opening decision. The strategic policy described in those recitals of the opening decision remains unchanged.

(135) The amendments to the projections are based on the updated forecasts of trends in the 'Europe 30' market by *IHS Global Insight* and are reflected in the turnover of the automotive division which is not as high during the forecasting period.

(136) The 'unfavourable' scenario in which PSA Group sales contract (in comparison with the median scenario) by a further 100 000 vehicles per annum in Europe from 2013 has also been updated.

Table 11

Size of the European market according to the IHS Global Insight forecasts and PSA's market share

	2013	2014	2015	2016	2017
Size of the European market (Europe 30), forecast by *IHS Global Insight* in April 2013 (thousands of vehicles)	13 497	13 926	14 768	15 371	15 991
PSA's European market share*	[10-14] %	[10-14] %	[10-14] %	[9-13] %	[9-13] %

Table 12

Forecast turnover of the PSA Group (EUR million)

	2013	2014	2015	2016	2017
Median scenario in the opening decision*	[55 000-60 000]	[60 000-65 000]	[60 000-65 000]	[60 000-65 000]	[65 000-70 000]
Updated median scenario*	[55 000-60 000]	[60 000-65 000]	[60 000-65 000]	[59 000-64 000]	[60 000-65 000]
Updated unfavourable scenario (100 000 fewer vehicles per annum)*	[55 000-60 000]	[60 000-65 000]	[60 000-65 000]	[60 000-70 000]	[60 000-65 000]

Table 13

Forecast turnover of the automotive division (EUR million)

	2013	2014	2015	2016	2017
Median scenario in the opening decision*	[40 000-45 000]	[45 000-50 000]	[45 000-50 000]	[45 000-50 000]	[45 000-50 000]
Updated median scenario*	[40 000-45 000]	[40 000-45 000]	[45 000-50 000]	[40 000-45 000]	[40 000-45 000]
Updated unfavourable scenario (100 000 fewer vehicles per annum)*	[35 000-40 000]	[40 000-45 000]	[40 000-45 000]	[40 000-45 000]	[40 000-45 000]

(137) Cash flows have been updated to take account of reduced operation, while cash flows from investment activities remain unchanged. The forecast level of debt […]* is thus higher than forecast in the opening decision; the level of debt forecast in the median case is higher than the level previously forecast in the unfavourable case.

(138) PSA has also submitted projections of net indebtedness in a more stressed scenario in which PSA Group sales fall (in comparison with the median scenario) by a further 200 000 vehicles per annum in Europe from 2013. The net indebtedness levels in the various scenarios are presented in Table 14 below. According to the figures provided by PSA, a stress factor of 100 000 vehicles increases net indebtedness […]* by EUR [200-400]* million per annum.

Table 14

Net indebtedness […]* in EUR million

	2013	2014	2015	2016	2017
Median scenario in the opening decision	[…]	[…]	[…]	[…]	[…]
Updated median scenario	[…]	[…]	[…]	[…]	[…]

	2013	2014	2015	2016	2017
Updated unfavourable scenario (100 000 fewer vehicles per annum)	[…]	[…]	[…]	[…]	[…]
Updated higher stress scenario (200 000 fewer vehicles per annum)	[…]	[…]	[…]	[…]	[…]

(139) The French authorities consider, moreover, that the relevant factor to be taken into account as a basis for the assumptions of the PSA Group's return to viability in the long term is not its turnover, but its ordinary operating result. At the Supervisory Board meeting of 6 November 2012, this was assessed as a loss of EUR [1 000-2 000]* million, and the final result was a loss of EUR 1 504 million (i.e. a difference of less than [0-3] %).

(140) The French authorities also consider that the market growth prospects taken as a basis by the PSA Group are particularly cautious, while the analysts' figures on which the Commission's argument is based are piecemeal and open to discussion.

(141) All the players concerned consider that the market has bottomed out and cannot but increase from now on. Generally speaking, macroeconomic conditions in Europe are set to improve in future years according to the latest analyses ([28]). This improvement will, in the view of the French authorities, necessarily be felt by the automotive sector.

(142) Lastly, the French authorities consider that the financial analysts' figures chosen by the Commission are not representative as they disregard those closest to the forecasts provided by the PSA Group. In any event, the French authorities dispute the use of financial analysts to evaluate a medium-term restructuring plan. They consider that the task of financial analysts is to advise on purchases or sales of securities in order to meet a particular financial target. Forecasting sales volumes or estimating turnover is not their main focus. These assessments are therefore very often unconnected with the underlying economic principles.

(143) As a result, the French authorities consider that, in order to implement the restructuring plan, they could legitimately take the forecasts of *IHS Global Insight* as a basis, applying a stress factor thereto, and disregard the financial analysts' assumptions.

(144) Lastly, the French authorities stress that the private sector believes that the PSA Group will become viable again. This belief is shown first by the alliance between PSA and GM which was bolstered by the signature on 20 December 2012 of final agreements on three vehicle projects and the creation of a joint venture for purchasing. The bank financing of EUR 11,6 billion obtained by BPF is proof, moreover, of market confidence that matters will improve. Lastly, the recent securitisation operations undertaken by BPF show that the market is not averse to the risk represented by automotive activity.

4.3.2. ON THE LEVELS OF USE OF THE PSA GROUP'S CAPACITY AND THE DIVERSIFICATION OF ITS SALES

(145) The French authorities consider that the Commission's doubts about levels of use are unfounded as it has not taken account of the closure of the Aulnay plant which will, in their view, offset the PSA Group's competitive deficit in segment B. In so far as the PSA Group faces very strong competition in this segment, this closure will be particularly significant in terms of restoring viability.

([28]) World Economic Outlook, Chapters 1 and 2, April 2013.

(146) The French authorities consider that the PSA Group has taken all the measures needed to achieve its target of 50 % of sales outside Europe in 2015: opening a third plant and new dealerships in China, renewing the range of vehicles marketed in Latin America, launching two models specifically to be sold outside Europe and lastly, as part of the alliance with GM, developing a joint platform for marketing segment B vehicles in Europe and jointly developing a new generation of small economical petrol engines and vehicle projects in Latin America, Russia and other growth markets.

4.3.3. ON THE ROLE PLAYED BY THE 50CO_2CARS PROJECT IN RESTORING THE PSA GROUP'S VIABILITY

(a) **On the coherence of the 50CO_2Cars project with the PSA Group restructuring plan**

(147) The French authorities stress that the major R&D efforts within the 50CO_2Cars project are intended to get to grips with a technology that will make diesel more environmentally-friendly and energy-efficient. This R&D project will therefore help to implement a strategy to reverse the downward trend in sales of diesel vehicles.

(148) Diesel vehicles are at present an important source of revenue for the PSA Group: in 2012, [60-80]* % of the vehicles sold by PSA in Europe were fitted with this type of engine. PSA has an optimal industrial base, a good brand image and a substantial profit level for this type of vehicle, which is better than for its petrol engines. It is not, however, being helped by the current context: the ongoing worsening of the image of these engines in Europe, changes to the regulatory and normative framework (Euro VI) which could entail a surcharge on diesel, but not petrol, engines and thus deter people from buying diesel engines, especially as the strategy of downsizing ([29]) to comply with standards that has so far been implemented has gone as far as it can and some States or local authorities are planning to adopt a tax system that penalises diesel. PSA considers that the margin losses connected with the replacement of diesel sales by petrol sales in the European market would be some EUR [500-700]* million. At a time when the purchasing power of households is declining and consumers have growing ecological concerns, maintaining the competitiveness and brand image of diesel engines (in comparison with petrol engines) is a primary objective for the PSA Group. As the price levels of existing diesel hybrid vehicles are not compatible with mass marketing, major investment in R&D is needed to make this technology available as widely as possible. By making diesel fuel more competitive and providing it with a better image, the 50CO_2Cars project could, in the view of the French authorities, play a positive part in restoring viability, by maintaining not just sales of diesel vehicles by the PSA Group, but also its margins. If the industrialisation plan were ultimately to be successful, the 50CO_2Cars project technology would offer a major reservoir for growth in an emerging market by 2020. Grasping the opportunity to capitalise on the potential outlets for diesel mild-hybrid engines at the end of the restructuring plan would make it possible to secure turnover by diversifying into a promising segment which is part and parcel of the Group's core business (mass produced vehicles).

(149) On the need for investment, the French authorities draw a line between the proposed reduction of investment 'as a compensatory measure' to limit the extent of the distortions of competition linked to the State aid, and the continuation of the R&D investment that the enterprise needs to 'restore its viability in the long term'. The French authorities stress that, in its decision-making practice, the Commission has accepted on a number of occasions that a firm's viability could be restored by launching new products in order to increase turnover ([30]).

(150) The authorities point out that PSA would be forced, if there were no specific State aid for the 50CO_2Cars project in the restructuring plan, to implement a 'counterfactual' project. As it cannot on its own overcome the technological obstacles and would not be able to work on 50CO_2Cars with its chosen partners, the Group would have to restrict its investment solely to the minimum necessary to ensure that its diesel engines comply with the regulatory changes. The French authorities stress in this respect that the intervention by the public authorities does not just provide the PSA Group with financial support for the successful completion of the 50CO_2Cars project, but also makes it possible for the Group to rally together a consortium of partners (industrial firms, associations, research laboratories, etc.) whose coordinated efforts are needed to resolve the technological obstacles standing in the way of the development of a low-cost diesel hybrid engine. They contend that, in all likelihood, a failure to approve the State aid to the PSA Group as leader of 50CO_2Cars would call this project into

([29]) The aim is to reduce CO_2 emissions by limiting the size of engines and providing an appropriate supercharger.
([30]) Commission Decision of 1 December 2004, Case C-504/03, Bull, recital 51, Commission Decision of 18 February 2004, Case C-28/02, Bankgesellschaft Berlin AG, recital 236, Decision of 3 July 2001, Case C-33/98, Babcock Wilcox Espana SA, recital 98.

question not just for the Group, but also for all its partners. A counterfactual strategy of replacing diesel by petrol would entail additional costs and involve major industrial risks: expertise in diesel would have to be given up, sales would be lost during the transitional period and resources would have to be found to adapt and streamline the Group's production system for petrol engines by drawing on resources which are needed to restore viability.

(151) In short, the French authorities consider that the 50CO_2Cars project is necessary both to keep the PSA Group's core industrial activity (diesel engines) profitable and to enable the PSA Group's viability to be restored by giving it the wherewithal for growth following restructuring (new range of innovative and profitable vehicles). This investment in R&D is therefore fully in line with the targets of the restructuring plan.

(b) **On the Commission's doubts in its opening decision**

(152) The French authorities understand from the opening decision that the Commission, taking the view that the PSA Group is allegedly lagging behind in the R&D field, considers that the 50CO_2Cars project 'is necessary to restore the viability of the PSA Group only in so far as it may help the Group to offset its backwardness in R&D in comparison with its competitors'. They contest the very principle of this finding.

(a) First, the French authorities reiterate that the 50CO_2Cars project can help to restore the Group's viability: restoring the environmental image of diesel vehicles; new consumer dynamic (concept of hybrid vehicles available as widely as possible); reservoir for growth at the end of the restructuring plan.

(b) Second, the structural handicap in terms of R&D, which the notification cites as an explanation for some of the PSA Group's difficulties, lies in the fact that the Group is lagging behind in component standardisation, thereby reducing the productivity of R&D efforts in comparison with those of competitors (scale effect). The 50CO_2Cars project should make it possible to remedy this situation, in so far as:

— first, the 50CO_2Cars project will improve the standardisation of some automotive components, in particular the powertrain,

— second, the circumstances in which the 50CO_2Cars project is being run will make the PSA Group's R&D efforts more productive, in particular as a result of the synergies offered by coordinated work with various partners, and also follow-up by the public authorities awarding the aid.

(c) Third, and in particular, the French authorities object to the 'legally new' nature of the criterion that the Commission adduces in recital 169 of the opening decision, based on the PSA Group's backwardness in the R&D field. They consider that the arguments adduced so far are enough to prove the positive contribution that the 50CO_2Cars project will make to restoring the Group's viability. It is only as a subsidiary issue that they therefore examine the question of whether such a criterion is met in the case at issue:

(i) *Technological backwardness in hybridisation technologies*

(153) According to the French authorities, this criterion of backwardness in the R&D field is met for the following three reasons:

(a) first, they point out that the three technological building blocks of the 50CO_2Cars project cover fields in which the PSA Group continues to lag behind:

— in the case of diesel vehicles, the Group is lagging behind in technologies to limit engine consumption. This is precisely the field targeted by the 50CO_2Cars project,

— in the case of transmissions, the PSA Group is lagging behind in the field of dual clutch transmissions (DCT), largely because of a traditional preference for driven or automatic gearboxes ('BVMP'), whereas this technology has proven to be less commercially successful than its rival. The 50CO_2Cars project will therefore make it possible for the Group to catch up as regards both DCT and eDCT transmissions,

— in the case of hybridisation systems, the PSA Group is lagging behind in the development of an affordable hybridisation technology which is generic enough to be mass produced. Rival manufacturers such as Toyota, Honda or VAG ([31]) have (or will soon have access to) generic hybridisation technologies which are therefore better suited to mass production. The French authorities agree in this respect with the Commission's initial comment (in recital 187 of the opening decision) that the existing Stop & Start micro-hybridisation technology ([32]) is not enough to place it at 'the technological cutting-edge of CO_2 gains', which requires the successful development of a mild- or full-hybrid technology. Consequently, the aim of the 50CO_2Cars project is to make up for the Group's technological backwardness in hybridisation systems;

(b) second, they consider that the 50CO_2Cars project will give the PSA Group the wherewithal to make up for its backwardness, by resolving a number of the technological problems raised by hybrid technology:

— the diesel engines developed by the 50CO_2Cars project will make it possible to achieve CO_2 emissions of [50-70]* g/km in segment B (vehicles of a power of between 40 and 70 kW), even if sole use is made of the Stop & Start technology, so that PSA could have, by 2017-18, a low-consumption diesel range with an emission level comparable to that of its competitors in the European market,

— the dual clutch eDCT intelligent transmission will make it possible to optimise the energy performance of the hybrid powertrain and will be compatible with a wide power range of different electrical machinery. Standardisation will enable the PSA Group to remedy its technological backwardness,

— lastly, as regards the hybridisation system, the 50CO_2Cars project will revolutionise costs because of both the minimal energy sizing (battery and power electronics) and the optimisation of the mechanical architecture (coupling between the electrical machinery and the powertrain). Similarly, the standardisation of the hybridisation system will make it possible to increase the volumes produced and thus make it more accessible in segment B;

(c) lastly, the French authorities address the possible about-turn in strategy consisting in continuing the 50CO_2Cars project while discontinuing the hybrid plug-in. In this respect, they stress that the two technologies ('mild-hybrid' and 'plug-in') do not have the same scope or the same commercial impact. While its price would limit the latter ([33]) to premium vehicles (with a major spin-off in terms of brand image, especially among corporate customers), the accessibility of the former makes it possible to target a wide range of social groups (low- to middle-income) and therefore to satisfy a wider proportion of the Group's customers. The French authorities stress that these two technologies are not mutually exclusive and that the PSA Group was initially keen to develop both of them in order to combine sales of premium hybrid plug-in vehicles with sales of affordable hybrid vehicles in segments B and C. Discontinuing the hybrid plug-in technology as a compensatory measure is not therefore an 'about-turn in strategy' but the discontinuation of a commercially viable activity that does not compromise the Group's return to viability. The 50CO_2Cars project has a full part to play in the restructuring plan and the French authorities therefore consider that the strategy on hybridisation proposed in the restructuring plan is entirely coherent.

(ii) *The coherence of the resources implemented for 50CO_2Cars with the rest of the restructuring plan*

(154) According to the French authorities, adapting the PSA Group's industrial base to implement the 50CO_2Cars project is part and parcel of the restructuring plan's approach. Standardising the powertrains and transmissions of the Group's diesel vehicles should in particular make it possible to rationalise and optimise production resources:

(a) in the area of diesel engines, an investment of EUR [100-200]* million has been made at the Trémery and Douvrin plants, i.e. [0-5]* % of the EUR [10-20]* billion of the investment for which the restructuring plan makes provision, a proportion which the French authorities consider to be 'particularly modest, if not

([31]) At the most recent congress in Vienna the VAG Group presented its hybrid technology 'assembly kit' by means of which a hybridisation system can be adapted to all the various shapes of the Group's vehicles at minimal cost. Cited source: VAG Group presentation report at the 34th Vienna Symposium, 26 April 2013, p. 28.

([32]) 'Micro-hybridisation' corresponding to powers of 2 to 4 kW; 'mild-hybridisation' to powers of 8 to 15 kW; 'full-hybridisation' to powers of more than 20 kW.

([33]) The French authorities confirm that, as long as it can be industrialised in an economically acceptable way, the PSA Group has already mastered the plug-in technology.

insignificant'. This financial impact has also been included in the PSA Group's MTP since November 2012, and is included in the updated version of the document, and the French authorities therefore consider that this investment is part and parcel of the approach taken by the restructuring plan as notified. In terms of industrial impact, the measures are intended to modify ([34]) existing diesel vehicle production capacity while keeping the perimeter the same: while there will be no increase in production capacity which is considered sufficient for the [100 000-200 000] vehicles anticipated at this stage at the end of the 50CO_2Cars project, part of the production apparatus of a segment with excess capacity will be given over to a segment where capacity is potentially not being fully used because it is in development (internal arbitrage in favour of attractive products);

(b) as regards transmissions, the French authorities endorse the line of reasoning in recital 202 of the opening decision: if the 50CO_2Cars project is successful, production which is currently outsourced will take place in-house ([35]). The investment needed, already included in the restructuring plan as notified, is also included in the updated MTP. The French authorities consider that this strategy of in-house production is compatible with the Group's return to viability. Financially, the operation will mean that the margin is brought in-house and will free the Group from exchange risks with Japan ([36]) and logistical costs/delays, without curtailing the PSA Group's ability rapidly to adapt to demand;

(c) lastly, the investment connected with the hybridisation systems is EUR [40-50] million during the term of the restructuring plan, i.e. less than [0-5] % of the planned total, a proportion that the French authorities consider to be very low. It also concerns an emerging market (for which there is therefore no excess capacity). It is therefore also part and parcel of the approach taken by the PSA Group's restructuring plan.

(iii) *Positive impact on the Group's sales and profitability*

(155) According to the French authorities, the 50CO_2Cars project should help to make the PSA Group's sales and profitability more dynamic after the restructuring plan.

(a) In reply to the questions raised by the Commission in recitals 210 and 211 of the opening decision (on the advisability of a strategy giving priority to diesel rather than petrol engines) and in recital 216 (on the business plan for the 50CO_2Cars project and the reliability of its underlying assumptions), the French authorities consider that the strategy pursued is not only legitimate industrially but will have a positive impact on the Group's sales. Rather than developing a low-cost hybridisation technology for petrol engines, it is preferable first to invest in improving the ecological and energy-efficient image of diesel in order initially to 'overcome consumers' misgivings' and then to adapt ([37]) the results of the 50CO_2Cars project to petrol engines which could then be distributed by component suppliers throughout the world, thereby making the investment more profitable as a result of economies of scale. The advisability of the strategy envisaged by PSA is also borne out by market research, all of which points ([38]) to a growth of diesel vehicle sales in future years.

(b) As regards the financial impact of the 50CO_2Cars project, the French authorities have supplied a business plan based on assumptions which are largely shared by various press articles and which include forecast flows up to 2026 (which is justified from the point of view of future updates and the replacement of the EURO VI standards around that date). The R&D work of the 50CO_2Cars project will take place between 2013 and 2017, so that the first engines can be marketed between mid-2016 and early 2017 followed shortly thereafter by an economic hybridisation system. Two discount rates (respectively [10-13]* % and [13-15]* %) have been used to calculate profitability, the second taking greater account of the recent rise in the cost of financing. No revenue is included for the patenting of some of the results of the 50CO_2Cars project. Lastly, the volumes and sales prices of new diesel engines and hybrid powertrains have been estimated for different scenarios: a scenario 'A' in which the 50CO_2Cars project is run with State aid, in which the sale of a hybrid

([34]) The word 'modify' is underlined in the original text notified by the French authorities.
([35]) The French authorities point out that this in-house production may well be no more than partial and will depend on the results of the 50CO_2Cars project'.
([36]) The French authorities stress that there was an adverse change of 30 % in the exchange rate between the euro and the yen between 2009 and 2012, which returned to its 2009 parity between late 2012 and May 2013. This volatility makes the procurement costs of automatic gearboxes very uncertain. On top of this, there are also customs duties which France considers to be high.
([37]) The main components of the 50CO_2Cars system are specific to diesel. In the view of the French authorities, however, adapting this technology to petrol engines of equivalent power would involve only 'moderate R&D investment over a very short period'.
([38]) Cited source: http://www.pikeresearch.com/research/clean-diesel-vehicles

vehicle would generate an additional margin estimated to be between EUR [200-300]* and EUR [300-400]* depending on the technological option (over and above the margin of EUR [2 000-3 000]* generated for the manufacturer by the sale of a segment B vehicle); a scenario 'B' in which the 50CO_2Cars project is run without State aid, in which the margins are the same as in scenario A. The authorities point out, however, that this is a fictitious scenario that could not be achieved by the PSA Group (and is given solely for theoretical comparison purposes); a counterfactual scenario 'C' in which, as the 50CO_2Cars project is not being implemented, an alternative project is run in which the additional margins are smaller (between EUR [100-200]* and EUR [200-300]). On the basis of these assumptions, the differential net present values ('NPV') ([39]) calculated for the 'eDCT' and 'accessory facade' products are as follows:

Table 15

Financial indicators for the 50CO_2Cars project

PSA Group (comparison with respect to 'counterfactual' scenario C)		Scenario A (50CO_2Cars with aid)	Scenario B* (50CO_2Cars without aid)
eDCT	NPV at [10-13]*%	EUR [0-10] million	– EUR [60-70] million
	NPV at [13-15]*%	– EUR [50-60] million	– EUR [90-100] million
Accessory facade	NPV at [10-13]*%	+ EUR [30-40] million	– EUR [20-30] million
	NPV at [13-15]*%	– EUR [20-30] million	– EUR [60-70] million

The French authorities conclude that, whatever the technological option chosen, the relative profitability of scenario B is always negative in comparison with scenario C, and therefore that, without public support, the 50CO_2Cars project is 'quite simply unachievable'. The very limited nature of the NPV obtained in scenario A (slightly positive in comparison with scenario C at a discount rate of [10-13]* %, negative at a discount rate of [13-15]* %) show that these levels of relative profitability are proportionate to the objective of developing a first generation of innovation.

(c) Lastly, the '50CO_2Cars project' entails four types of risk which should be largely offset by the planned State aid:

— regulatory risks connected with the new cycle of type approval of diesel vehicles,

— technological risks involved in overcoming the technological problems raised by the development of an affordable mild hybridisation technology,

— commercial risks connected with consumers' behaviour and their sensitivity to environmental problems,

— financial risks, especially in the light of the constraints on the PSA Group's available liquidity.

([39]) In a memorandum dated 11 July 2013, the French authorities explained that, while the development costs and the manufacturing cost price of the vehicle components can be calculated in proportional terms, the proportion of the sale price of a vehicle represented by the engine cannot be calculated as an absolute value. They therefore proposed a 'margin-based' approach in which scenarios A and C (and B and C) were compared from the point of view of the differences in outgoing flows for the different projects (R&D costs and industrial investment) and the differences in incoming flows (revenue generated by sales of vehicles or the development of additional services). The indicator provided makes it possible to compare the relative profitability of the scenarios for the components in question.

4.4. *ON THE COMPENSATORY MEASURES*

4.4.1. GENERAL COMMENTS ON THE CHARACTERISATION OF THE PLANNED MEASURES AS GENERAL COMPENSATORY MEASURES AND THEIR EXTENT

(156) The French authorities consider that, in the opening decision, the Commission offers no precise evaluation of the alleged distortions of competition. The compensatory measures proposed by the PSA Group are therefore already more than adequate. Making them tougher would run counter to the requirement of proportionality set out in paragraph 47 of the Rescue and Restructuring Guidelines.

(157) They also consider that the planned compensatory measures cover segments B and C, contrary to the line taken in the opening decision. This is true of the measure to limit the penetration rate of BPF financing which concerns these two segments in particular. It is also true, from the point of view of calls for tender, of the early discontinuation of the Citroën C6 and the non-renewal of the C6 and Peugeot 607 models. Lastly, the measure to discontinue vehicles of more than two litres and the discontinuation of development and production of the hybrid plug-in technology will have a major impact in segment C.

(158) The French authorities point out that the compensatory measures proposed by PSA are substantial: they will ultimately lead to a drop in market share of [0-2]* %.

4.4.2. SPECIFIC COMMENTS ON THE VARIOUS COMPENSATORY MEASURES PROPOSED

(a) **On the reduction of additional investment by the PSA Group**

(i) *The early discontinuation of the Citroën C6 model and the non-renewal of the Citroën C6 and Peugeot 607 models*

(159) The French authorities consider that, although the volume of sales of these vehicles has fallen, the net margin obtained was greater than the margin obtained from the sale of other types of vehicle, especially the margin from sales of vehicles of segment B. While they accept that this programme was not profitable enough, the PSA Group had planned, in order to make up for this shortcoming, a partnership with DPCA in order to market the C6 and 607 in China.

(160) Lastly, the French authorities confirm that the PSA Group had never planned to discontinue its high-end range from 2009. PSA discontinued only the R&D project for a new vehicle which would have been added to the C6 and 607.

(ii) *The early discontinuation and non-renewal of the Bipper/Nemo model*

(161) The French authorities consider that this measure will prevent the PSA Group from capitalising on its prior investment and will substantially reduce its ability to compete in the light commercial vehicle segment.

(162) The Bipper/Nemo models have up to now been produced in partnership with Fiat and Tofaş. The stage that this partnership has reached has given PSA a better knowledge of the market, the product and the production capacity mobilised. If the Commission decides not to make this proposed compensatory measure binding, knowledge of all this information will give PSA a much broader negotiating margin for the sale prices of a second generation of these models, assumed to be more profitable. This profitability is likely to be improved by recent and future developments in urban transport organisation where priority is being given to light commercial vehicles.

(iii) *The discontinuation of diesel vehicles of more than two litres*

(163) The French authorities point out that this compensatory measure is particularly significant in so far as the PSA Group is the leader in the traditional diesel vehicle market.

(164) The French authorities consider that these vehicles are important for segments D and E, which play a key part in the manufacturer's brand image and its ability to respond to calls for tender.

(165) As regards the estimated impact of the development of a diesel hybrid plug-in range, especially on sales of its vehicles with engines of a cubic capacity of more than two litres, the PSA Group considers that this is borne out by recent trends in the hybrid plug-in market and in particular by Volvo's announcement that it has decided to double the production targets for the V60 diesel plug-in model to 10 000 units in 2014 in view of its commercial success.

(b) **On the transfer of capacity at the Sevelnord plant to a competitor**

(166) The French authorities point out first that this measure will help to limit the PSA Group's market presence to the direct benefit of its competitors as:

— PSA is to transfer close on 30 % of production capacity at the Sevelnord plant to Toyota,

— under this agreement, a major competitor, Toyota, will be able to gain a foothold in a market in which it has not up to now had a presence, and extend its commercial vehicle range,

— this agreement gives Toyota a direct and certain competitive advantage in so far as it enables Toyota to capture a large proportion of the margin on the vehicles covered by the agreement and to sign up customers and gain their loyalty in a market in which it does not have a presence,

— this measure concerns one of the markets in which the PSA Group has a particularly large presence (21 % in Europe 30 in 2011).

(167) The French authorities also note that, in the light of the economic appraisal of the project (positive ordinary operating margin of [0-5] %, in line with PSA's normal expectations), the Group was intending to run the project in a reference scenario with no partner. PSA therefore considers that the Sevelnord plant could be viably and profitably run without a partner.

(168) The French authorities point out that the press release of 31 August 2012 should be read with caution in view of the very tense social context at that time.

(c) **On the discontinuation of development and production of the hybrid plug-in technology**

(169) The French authorities consider first that any discussion of the time of implementation of this measure in order to characterise it as a compensatory measure or a measure needed to restore viability is irrelevant. In their view, what is important in characterising these measures is that they are actually able to limit any distortions of competition arising from the aid.

(170) The French authorities do not intend to reply to the Commission's questions as to the accuracy of the estimated impact of this measure as its criticisms on this matter are not explicit enough. In any case, they consider that the assumptions from which the estimated impact of this measure was calculated are in line with the most recent developments in the hybrid plug-in market.

(171) In the view of the French authorities, moreover, a manufacturer or component supplier will not be able to grant a licence to this technology, in view of the stage of development of the market and the importance of this technology as a differentiating factor in competition. Should such a situation arise, however, the PSA Group is willing to undertake not to acquire a licence from a third party during the implementation of the restructuring plan.

(172) Lastly, the French authorities consider that the effects of this measure are not cancelled out by the $50CO_2$Cars project given that the latter relates to a market and customer base (high-end) other than those concerned by the compensatory measure and provides CO_2 gains differing from those provided by the hybrid plug-in technology.

(d) **On setting a maximum penetration rate for BPF**

(173) The French authorities point out first that this measure is the most targeted compensatory measure and the best able to remedy any distortions of competition resulting directly from the award of aid in the form of a guarantee for BPF.

(174) They contend that capping the penetration rate at the rate for the second half of 2012 with 1 % flexibility is necessary if BPF's penetration rate is to evolve in line with the Group's needs and if BPF is to be able to carry out its systemic role in relation to PSA's automotive activity. In so far as it is predicted that the upward trend in the penetration rate recorded between 2001 and 2012 will continue between 2012 and 2013, this cap will significantly limit BPF's competitive ability.

(175) In the view of the French authorities, the planned flexibility will not dilute the effectiveness and binding nature of the proposed compensatory measure. In the light of the foreseeable market trend, BPF's penetration rate will systematically be behind by one year and thus lower than that of its most comparable competitors.

(176) Moreover, in reply to a question from the Commission, the French authorities are willing to include the captive banks of the Fiat and Ford groups in the panel of banks chosen for the indexing of BPF's penetration rate.

(177) Lastly, in the view of the French authorities, the global nature of PSA's commitment (for the G10 countries and with no differentiation by segment) will not enable it to develop an aggressive trading policy in some countries and some segments, thereby cancelling out the effects of the compensatory measure. In addition to the fact that the PSA Group cannot force BPF to amend its risk policy, the measure to limit the penetration rate of BPF financing chiefly concerns segments B and C because of their relative weight in the weighted penetration mean (over […]* % of the finance granted by BPF in recent years and on average […]* % of the financing granted by BPF in 2012 in France, the United Kingdom, Germany, Spain and Italy).

5. **COMMENTS FROM INTERESTED PARTIES**

(178) Following the opening decision, the Commission received comments from five interested parties, namely the PSA Group, an enterprise which wished to remain anonymous ('the anonymous third party'), Fiat, GM and Toyota.

5.1. *COMMENTS FROM THE ANONYMOUS THIRD PARTY*

(179) The anonymous third party informed the Commission of its concerns about certain of PSA's trading practices. It considers that PSA gives priority to French component suppliers to the detriment of non-French suppliers. PSA's behaviour in relation to the component supplier Agrati France is revealing, according to the anonymous third party: PSA helped it to avoid its imminent winding up by the courts by purchasing products from it at prices well above the market price. According to this anonymous third party, despite the damage that a breakdown in supplies caused it, PSA also decided not to make any claim against Agrati France, so as not to increase the financial difficulties of this already ailing firm.

(180) In its comments, the anonymous third party alleges that the relations between PSA and the French Government, and the public support forming the subject matter of these proceedings, infringe the rules of the internal market, especially those concerning the free movement of goods in Article 34 TFEU.

(181) In order to assist Agrati France, it considers that PSA used its participation in the Fonds de modernisation des équipementiers automobiles ('FMEA' [Modernisation Fund for Automotive Component Suppliers]), and thus indirectly granted it aid of EUR 17 million.

(182) By way of compensatory measure, the anonymous third party lastly calls for PSA to withdraw from the FMEA and to give up any financial holding in suppliers or distributors of automotive components for as long as it continues to receive public aid, for the recovery of the sums that it granted to Agrati France and for the implementation of a transparent and non-discriminatory system for selecting its suppliers.

5.2. *COMMENTS FROM OPEL (AND THE GM GROUP)*

(183) As regards market forecasts, GM stresses that most automotive manufacturers use data from institutes such as Global Insight or POLK.

(184) As regards the 50CO_2Cars R&D project, GM points out that all manufacturers are investing in technologies to reduce gas emissions. Generally speaking, it is difficult to predict how industrially successful this research will be in future. Many technical solutions can be envisaged, and that applies to hybridisation as well. This is, moreover, a field in which manufacturers could well work together in order to achieve economies of scale. In GM's view, the aid of EUR 85 million for the 50CO_2Cars project is not a significant amount when compared with R&D expenditure in the sector; it is, however, a non-negligible amount for an R&D project intended to develop a mild hybridisation system. GM considers that this measure would be unlikely to deter a rival manufacturer from developing its own R&D programme in the same field, bearing in mind the current technological uncertainties.

(185) As regards the role of automotive manufacturers' captive banks, GM considers that they undoubtedly facilitate vehicle sales by offering their customers attractive financing solutions. They offer manufacturers very flexible ways of provoking short-term reactions in the automotive market.

(186) Lastly, GM considers that PSA has embarked upon a significant reduction of capacity which it considers to be difficult and complex.

5.3. *COMMENTS FROM FIAT*

5.3.1. RESTORING VIABILITY

(187) From the point of view of restoring viability, Fiat refers to the comments by certain analysts, especially the forecasts of Global Insight, which predict a downturn in sales and then a possible upturn, albeit small and very gradual, in 2015/2016.

(188) In its view, the reasons for the current crisis in the automotive market are:

(a) the strong competitive pressure in the market, especially in the mass segments, generated by the arrival of new Korean, and possibly Japanese and Indian, competitors;

(b) the bipolarisation of the market, in which only premium vehicles offer potential profits;

(c) the tendency for consumers to go increasingly for low-end products;

(d) the lack of any clear prospects of a return to pre-crisis sales levels, and lastly;

(e) the structural overcapacity of European manufacturers.

5.3.2. THE 50CO_2CARS PROJECT

(189) On the 50CO_2Cars project, Fiat considers, despite the little information available, that the objective seems achievable. Fiat stresses, however that the unit cost per vehicle of this type of technology might limit its market penetration, both because sale prices would be high and because it would be difficult for the manufacturer to make any profits from sales. In Fiat's view, the CO_2 emission targets set by the European Commission for 2020 are a real challenge for all manufacturers. If they are to be met, a multiple R&D approach has to be pursued, and not just one that focuses on a single R&D project to develop a single technology, which the 50CO_2Cars project seems to be doing (in Fiat's view of it).

(190) Fiat does not know whether other manufacturers are receiving public aid to support R&D projects. In its view, the only barriers to exit from innovation processes are costs, the necessary investment and the time needed to correct technological choices. Nor is the technological advance made by the 50CO_2Cars project a barrier to entry. Fiat considers, however, that the possibility of receiving aid and therefore of reducing the final cost of the development of new technologies in comparison with competitors undoubtedly confers an advantage on the aid beneficiary.

5.3.3. THE IMPACT OF THE GUARANTEE ON THE MARKET

(191) In Fiat's view, the public guarantee to BPF corresponds to one third of the debts of PSA's captive bank. The transaction does not, moreover, make any provision for the payment of a commitment fee. Fiat is of the view that at least 100 basis points should be added if the cost of the guarantee is to be in line with market practice.

(192) Lastly, the public guarantee will distort competition as regards the other captive banks in the markets. The guarantee will mean that the shares issued by BPF are rated in the same way as the French State, namely Aa1/AA, rather than being rated on their own merits. Fiat concludes from this that BPF's rating will remain the same up to 2016.

(193) In Fiat's view, the grant of this guarantee clearly explains the financing cost differential between the PSA Group and BPF, estimated at 40 basis points. Fiat considers that BPF could finance itself in the secondary market with a 'new' differential of 360/380 basis points as it would be aware that the differential of a PSA Group bond would be some 400 basis points for a 2016 maturity. At the time of the EUR 1,2 billion issue covered by the State guarantee that BPF made in March 2013, the total financing cost was approximately 270 basis points.

(194) Fiat also considers that the public guarantee helped BPF to renegotiate the terms of its loans with financial institutions and to align them with the terms demanded by the French State.

(195) Lastly, the public guarantee will have a positive impact on BPF's rating. Although its rating was downgraded in early 2013 by the main rating agencies, BPF continued to benefit from a higher rating, equivalent to one notch, than it might have expected without the guarantee. Fiat refers in particular to the statements made by Standard and Poor's on 28 January, 14 February and 18 April 2013. Fiat stresses, moreover, that it is widely accepted that a commitment to grant a guarantee or any financing necessarily improves the beneficiary's financial situation whatever the level of drawdown of the financing made available.

(196) More generally, Fiat is of the view that the captive banks of automotive manufacturers are extremely efficient marketing and sales instruments:

(a) for attracting new customers by offering very attractive financing terms ([40]);

(b) for supporting sales, especially as 'conventional' financial establishments are withdrawing from the segment of loans to customers and dealers; and

(c) for stepping up the loyalty of consumers who are already customers.

(197) Fiat considers that an increase of 100 basis points in BPF's financing cost would have a direct, immediate and highly adverse effect on the profits of the PSA Group in European countries.

5.3.4. THE COMPENSATORY MEASURES

(198) In Fiat's view, the capacity reduction had been decided in a previous plan under which it was planned to close unprofitable plants. The planned closures are not therefore fundamental from the point of view of restoring PSA's viability (as the usage levels remain unchanged). Their impact will be no more than a reduction of overheads.

(199) On the CAPEX reductions, Fiat considers that PSA will use its restructuring plan opportunistically to justify its strategic decisions to reposition in segments B and C, and to conceal other less effective measures taken beforehand. The planned discontinuation of diesel engines of more than two litres is probably connected with the current trend among manufacturers to reduce their cubic capacities ('downsizing'). On Sevelnord, Fiat is of the view that this measure is not a real reduction of capacity but merely the temporary leasing of this capacity to a competitor which PSA could fairly easily recover if it needed to do so.

([40]) Fiat cites the example of its own captive bank, whose penetration rate increased from 23,3 % in 2012 to 39,6 % in 2013 following a change in its commercial strategy to offer customers more competitive financing terms.

(200) Lastly, on the final compensatory measure, Fiat points out that the scant information provided makes it difficult to analyse the consequences of discontinuing the hybrid plug-in technology. This discontinuation is in line, in its view, with PSA's repositioning on the market. It can also be seen as way of remedying a poor technological choice. Fiat considers that it is not possible to concentrate on a single technology to achieve the emission reduction targets set by the European Union.

(201) As regards the compensatory measure concerning the penetration rate, Fiat considers that no compensatory measure would be able to limit the impact of the distortions caused by the guarantee.

5.4. *COMMENTS FROM TOYOTA*

(202) Toyota considers that it is unable to comment on PSA's restructuring plan and that it is, in any case, not its place to do so. Toyota confirms that the assumptions on which the PSA plan is based are credible. In general, the many factors influencing the market make any forecasting exercise very difficult.

(203) On the 50CO_2Cars project, Toyota considers that the development of any environmental technology will be a key factor in manufacturers' sales. In its view, sales of petrol hybrid vehicles will be higher in future than sales of diesel hybrid vehicles, although it agrees that there could be a market for diesel hybrids. Sales will remain, however, below those of petrol hybrids because of the higher cost of this technology. Toyota does not expect this R&D project to prevent PSA's competitors from penetrating the mild hybrid market.

(204) As regards the role of captive banks, Toyota's perception is that, in general, they help to improve customer brand loyalty by around 15 %. Penetration rates are, moreover, higher in small vehicle segments.

(205) On the compensatory measures, Toyota asks whether a measure to discontinue models for which sales are low can be legally characterised as such a measure. It considers that the cooperation between Toyota and PSA at the Sevelnord plant is not a prerequisite for the PSA Group's survival. The hybrid plug-in technology is not, in its view, mature enough yet because of the costs that it entails and the infrastructure that it requires. In Toyota's view, the full hybrid technology continues to be the only medium-term technological solution.

(206) Lastly, Toyota considers that it is unable to assess the relevance of the compensatory measures proposed by the PSA Group.

5.5. *COMMENTS FROM THE PSA GROUP*

(207) First, the PSA Group fully endorses the comments submitted by the French authorities.

(208) PSA then recalls its strategy to restore viability by adapting its production apparatus to new market conditions. This adaptation will in particular be reflected by a significant reduction of the Group's market presence. PSA also points out that these restructuring measures will be almost exclusively financed by its own resources from disposals of assets. These measures would, in its view, have been more than sufficient if BPF had not been unfairly penalised by the rating agencies' rules, the captive bank's difficulties arising only from its links with the PSA Group. In PSA's view, therefore, State intervention was necessary solely because of these rating agency rules. PSA concludes from this that the public guarantee will ultimately have only a limited impact, especially as no direct public subsidy will be granted to BPF.

(209) PSA also stresses that, in addition to the restructuring measures, its commercial policy is to be refocused. There is to be a fresh focus on R&D projects intended to lower the costs of technological innovations for the end consumer and on an increasing internationalisation of the Group to make it less vulnerable to fluctuations in the European market and in particular in the countries of southern Europe.

(210) PSA notes that, if the European automotive market situation is worse than forecast, it will take all the measures needed to ensure its return to viability in the long term.

(211) On the compensatory measures, PSA considers that they represent extremely significant efforts which will greatly penalise its competitiveness in all segments. In PSA's view, they appear to be very substantial in extent when compared with the amount of the aid and in particular the extent of the funds mobilised by PSA to finance its restructuring. Moreover, as the structure of BPF's balance sheet makes it very unlikely that the guarantee will be drawn on, the effects of the aid on the PSA Group's competitors will ultimately be extremely limited.

(212) The planned compensatory measures will have a very major impact. From an industrial point of view, discontinuing the hybrid plug-in technology will have a significant negative impact on the European market. Moreover, by transferring production capacity to one of its direct competitors at the Sevelnord plant, PSA considers that it will help it to gain a foothold in a market. The reductions in investment will also have an impact on PSA's market image. This is particularly true of the discontinuation of two models in the light commercial vehicle segment in which PSA has a large market share. Lastly, the non-renewal of high-end vehicles and powerful engines will make it less possible to go in for calls for tender from corporate customers and will have an impact on the Group's brand image which will go well beyond the restructuring period.

(213) In PSA's view, the cap on BPF's penetration rates and their indexing to trends among the captive banks of its main competitors will largely offset the assumed effect of the aid on the market.

(214) Lastly, PSA points out that the approval of the aid by the Commission will be of paramount importance for the French economy, because of the scale of the automotive sector in France (over two million direct and indirect jobs). PSA's recovery will also play a key role in the vitality and competitiveness of the automotive industry in Europe. In this respect, PSA notes that some competitors have received (or are still receiving) massive support from their respective governments through the maintenance of exchange rates particularly favourable to their exports or temporary nationalisations of their captive banks. Other manufacturers outside the European Union are benefiting from free-trade agreements concluded to their advantage, enabling them to develop an aggressive commercial policy in the European market.

6. **COMMENTS BY FRANCE ON THE INTERESTED PARTIES' COMMENTS**

6.1. *COMMENTS ON THE ANONYMOUS THIRD PARTY'S COMMENTS*

(215) First, the French authorities point out that the grant of aid for the PSA Group's restructuring does not seem to be a matter of any great interest to operators in the European automotive market: only four interested parties have come forward (despite the publicity surrounding the opening decision).

(216) On the comments from the anonymous third party (summarised in recitals 179 to 182 of section 5.1 above), the French authorities stress that they are not in any way related to the present procedure to examine the aid for the PSA Group's restructuring, but concern the complaint that this anonymous third party has lodged with the European Commission.

(217) As an entirely secondary point, the French authorities consider that these comments provide no tangible proof of PSA's alleged stratagems with Agrati France and that PSA, as a private enterprise, is free to conduct commercial relations with its suppliers in any way that it wishes. In this respect, as part of its alliance with GM, PSA has been implementing a policy to rationalise its purchasing since 25 February 2013, in particular through systematic calls for tender to obtain the best market prices. The French authorities stress the fact that only a measure imputable to a Member State may infringe Article 34 TFEU; that does not apply to the decisions made by private enterprises such as PSA. Lastly, the alleged behaviour of the FMEA is unrelated to these proceedings.

(218) The French authorities conclude that the examination of the aid at issue should not be delayed by an unsupported allegation of infringement of Article 34 TFEU, which concerns, moreover, facts that have no connection with the aid at issue or with the restructuring of the PSA Group.

6.2. *COMMENTS ON THE GM GROUP'S COMMENTS*

(219) The French authorities have not commented on the comments from the GM Group (summarised in recitals 183 to 186 in section 5.2 above).

6.3. *COMMENTS ON FIAT'S COMMENTS*

6.3.1. RESTORING THE PSA GROUP'S VIABILITY

(220) According to the French authorities, Fiat's comments on this point (summarised in recitals 187 to 188(e) in section 5.3.1 above) contain a forecast of market trends that is more optimistic than those forecast by the PSA Group, thereby confirming that the PSA Group's scenario is credible and conservative enough. They also note that Fiat (as well as Opel) agrees that data from IHS Global are relevant in assessing market development prospects. Lastly, Fiat considers that it is unable to comment on the return to viability on the basis of the information available. For that reason, the French authorities feel that there is little point in contesting each of the points raised by the analysts cited by Fiat.

6.3.2. THE AID ELEMENT IN THE GUARANTEE AND ITS IMPACT ON THE MARKET

(221) The French authorities stress that, in its comments on this point (summarised in recitals 191 to 196(c) in section 5.3.3 above), Fiat assesses the State aid element at some 100 to 110 basis points, i.e. an amount of aid of EUR 231 million which is well below the lower end of the range cited by the Commission in the opening decision. In the view of the French authorities, Fiat's assessment proves that the amount of aid according to the Commission is in all likelihood over-estimated.

(222) As regards the inclusion of a commitment fee, the French authorities point out that the guarantee premium paid by the PSA Group to the State has been calculated on the basis of the 'all-in' cost of the banks taking part in the New Club Deal (440 basis points) less their liquidity cost (estimated to be 180 basis points by reference to the five-year iTraxx Senior Financial on a median one-month basis). This cost includes an upfront fee of 120 basis points, and a commitment fee of up to 40 % of the margin, i.e. above what Fiat considers to be market practice. Fiat's comments confirm therefore, in the view of the French authorities, that this fee is overestimated in comparison with the market standard.

(223) Lastly, the French authorities consider that it would be logical not to take account of the upfront fee and the commitment fee as the State has no opportunity cost, i.e. the cost of mobilising capital, which would, in the case of a bank, be remunerated.

(224) The French authorities stress that Fiat comments that the guarantee will have particularly significant effects on the market without explaining what these effects are. In France's view, Fiat considers in particular that the guarantee will give BPF an advantage not analysed by the Commission, consisting in maintaining its financing cost at a given level irrespective of market trends. The French authorities are surprised by this argument as the alleged effect is obviously connected to the very existence of the guarantee, whose purpose is precisely to stabilise the bank's refinancing costs up to a ceiling of EUR 7 billion. Moreover, the advantage obtained by BPF and the PSA Group obviously needs to be examined at the moment at which the guarantee was announced.

6.3.3. THE COMPENSATORY MEASURES

(225) First, the French authorities feel that Fiat's comments on this point (summarised in recitals 198 to 200 of section 5.3.4 above) are particularly insubstantial and unfounded.

(226) On the reductions of CAPEX, Fiat provides no concrete and substantiated evidence calling into question the particularly constraining nature of the discontinuation of high-end vehicles.

(227) As regards the measure concerning Sevelnord, Fiat perceives this as no more than a leasing of capacity that PSA could at its own discretion take back at any time. The French authorities consider this criticism to be entirely irrelevant as Fiat's argument disregards the binding nature of the measures imposed by the Commission's decisions. France takes the opposite view that this measure is likely to be irreversible as it enables Toyota to gain a foothold in a market in optimum conditions.

(228) Fiat also criticises the discontinuation of the hybrid plug-in on the ground that the most pertinent strategy would be to extend the various methods of reducing pollutant emissions. The French authorities point out that this was precisely PSA's initial strategy. By discontinuing the hybrid plug-in, the PSA Group is also significantly cutting its capacity to compete on the market with manufacturers able to extend pollutant emission reduction technologies. Fiat's criticisms as to PSA's 'poor choice of technology' in its investment in the hybrid plug-in should, moreover, in France's view, be seen in the light of Fiat's own choices of technology. Unlike all the manufacturers, including those performing best, which have decided to invest in this technology, Fiat is one of the few not to have done so.

(229) Lastly, the French authorities note that Fiat does not comment directly on the compensatory measure limiting BPF's penetration rate. They assume from this that it is very difficult to establish a commitment by country and by segment. In their view, the market developments reported by Fiat confirm that traditional banks are withdrawing from the market and therefore that the penetration rates of captive banks are increasing. Lastly, the new commercial policy set in place by Fiat in the first quarter of 2013, enabling it to achieve a penetration rate of 39,6 %, is a good illustration, in their view, of the particularly constraining nature of the proposed compensatory measure. By capping any increase in its penetration rate, BPF's capacity to offer competitive terms, and therefore the potential impact of the guarantee on the market, is substantially reduced.

6.3.4. THE $50CO_2$CARS PROJECT

(230) In France's view, Fiat's comments (summarised in recitals 189 to 190 in section 5.3.2 above) relate both to this project's contribution to restoring viability and to its effect on the market.

(231) The French authorities consider that Fiat's criticisms are entirely irrelevant and misunderstand the purpose of the project which is precisely to rally together various competences and technologies, with the support of the public authorities, so that the partners can develop a low-cost hybridisation technology.

(232) In the view of the French authorities, by confirming that all manufacturers are investing significantly in projects to reduce pollutant emissions, Fiat acknowledges the lack of any contraction effect.

(233) Lastly, as regards market impact, the French authorities consider that Fiat's comments are contradictory. The project in practice satisfies Fiat's objections: the major technological advance that is envisaged will make it possible significantly to reduce the cost of hybrid technologies so that they can be distributed widely enough to make them profitable. In their view, therefore, Fiat's criticisms as to the limited chance of commercial success of $50CO_2$Cars are irrelevant. The French authorities lastly consider that Fiat fails to explain how aid of EUR 86 million could have an effect on the final price of the vehicles developed, when it also considers that manufacturers are channelling huge investment into achieving the pollutant emission reduction targets set by the European regulations.

6.4. *COMMENTS ON TOYOTA'S COMMENTS*

(234) In general, Toyota's comments (summarised in recitals 202 to 206 of section 5.4 above) confirm overall, in France's view, the credibility of the assumptions and the relevance of the choices on which the PSA's restructuring plan is based. As regards the $50CO_2$Cars project, Toyota confirms that environmentally friendly technologies are the main driver of the future market. In the view of the French authorities, Toyota's comments show that the State aid for the $50CO_2$Cars project will not have an impact on the ability to compete or the competitiveness of competitors in the mild-hybrid segment.

(235) On the compensatory measures and in particular in reply to Toyota's questions about the genuinely compensatory nature of a measure to end the production of vehicles whose sales have fallen to small volumes, the French authorities reiterate that the marketing of high-end models has a spin-off effect for all vehicles marketed under the brand.

(236) On the Sevelnord plant, Toyota has said that its agreement with PSA will enable it to maintain a presence in the light commercial vehicle segment. The French authorities reiterate that its presence at Sevelnord will have a significant impact on Toyota's competitive ability as it will enable it to develop a genuine and substantial presence in this segment.

(237) Lastly, in the view of the French authorities, Toyota's comments run counter to its market behaviour. The marketing of a hybrid plug-in version of the Prius, which Toyota sees as the 'spearhead' of its hybrid models, runs counter to its negative assessment of the market prospects for this type of vehicle.

6.5. *COMMENTS ON PSA'S COMMENTS*

(238) The French authorities have not commented on the PSA Group's comments (summarised in recitals 207 to 214 in section 5.5 above).

7. **AMENDMENTS TO THE NOTIFICATION BY THE FRENCH AUTHORITIES**

(239) In its memorandum of 16 July 2013, as amended by letter dated 23 July 2013 ('the letter of commitments of 23 July 2013' or 'the letter of 23 July 2013'), the French authorities made amendments to the notification of the restructuring plan of 12 March 2013 and made the following commitments. These commitments replace the compensatory measures initially proposed by the French authorities.

(240) The French authorities note that, unless otherwise provided, the commitments set out in this section 7 will apply until the PSA Group restructuring plan has been fully implemented, i.e. until 31 December 2015.

7.1. *COMMITMENT TO RESTORE THE PSA GROUP'S LEVEL OF INDEBTEDNESS*

(241) In each year in which the restructuring plan is being implemented, the consolidated net debt of the PSA Group's industrial and commercial activities recorded in the annual accounts, audited against constant accounting standards, as at 31 December of each year ('Net Debt') is not to exceed ceiling 'A' shown in Table 16 below.

Table 16

PSA Group Net Debt ceilings

(EUR million)

	2013	2014	2015	2016
Maximum Net Debt A	[…]*	[…]*	[…]*	[…]*
Maximum Net Debt B	[…]*	[…]*	[…]*	[…]*

(242) If Net Debt exceeds ceiling 'A' at the end of a given year (N), the PSA Group must take all the financial and/or industrial restructuring measures of any kind necessary to ensure that the PSA Group's Net Debt does not exceed ceiling 'A' at the end of the following year (N+1), excluding costs connected with the implementation of these measures by PSA ('the Corrective Measures').

(243) The Corrective Measures and their anticipated financial effects are to be detailed and quantified individually and are to be accompanied by a precise and binding implementation timetable. The measures implemented in advance may be wholly or partly included in the measures subsequent to 31 July 2013 provided that they are separately identified and described and their anticipated financial effects on the remaining term of the restructuring plan are quantified. The Corrective Measures, including updated cash flows for the PSA Group, are to be notified to the European Commission together with the opinion of an Independent Expert, as defined in section 7.6 below, within one month of publication of the audited consolidated annual accounts, showing that the Net Debt of the PSA Group has exceeded ceiling 'A' for the corresponding year. It is the Commission's task to check that the anticipated financial effects of these Corrective Measures have been appropriately quantified and do not jeopardise the PSA Group's viability. If not, other Corrective Measures are to be proposed and approved by the Commission.

(244) The restructuring plan will be deemed to have been correctly implemented and the commitments made by the French authorities will be deemed to have been met if, at the end of year N+1, the Corrective Measures, or any other financial and/or industrial restructuring measure taken by the PSA Group after 31 July 2013, have had the anticipated financial effects on Net Debt or if Net Debt does not exceed ceiling 'A' in year N+1. If this is not the

case, the French authorities are, where appropriate, to notify the Commission of an amended restructuring plan for the PSA Group, within the limits of the 'one time, last time' principle, so that the Commission may amend this decision declaring the State aid for the restructuring of the PSA Group to be compatible with the internal market.

(245) The same applies if the PSA Group's Net Debt exceeds ceiling 'B' for two consecutive years during the restructuring plan. In this case as well and in the same way, the French authorities are, where appropriate, to notify an amended restructuring plan to the European Commission so that it can again analyse the compatibility of the State aid for the restructuring of the PSA Group.

(246) In any event, this commitment will be deemed to have been satisfied for the whole of the restructuring period when the Corrective Measures implemented by the PSA Group, as notified to the Commission in the manner set out in recital 243 above, have had cumulative financial effects on Net Debt of EUR [0-5] billion.

7.2. *COMMITMENT IN RELATION TO BPF'S PENETRATION RATE*

(247) The French authorities undertake to make the amendments described in recitals 248 to 250 below to the guarantee fee set out in Article 3.3 of the Protocol concluded between Peugeot SA, Banque PSA and the State on 5 March 2013 ('the Protocol') for the remuneration of the first demand guarantee scheme ('the Guarantee') which is to be concluded between the State and Banque PSA, in the presence of Peugeot SA and the Banque de France ('the Guarantee Fee').

(248) As long as there are outstanding 'Guaranteed Securities' (as defined in the Protocol) issued and benefiting from the Guarantee, the Guarantee Fee of 260 basis points set out in Article 3.3 of the Protocol will be increased in the manner set out in recitals 249 and 250 below, when the penetration rate of Banque PSA in the G10 perimeter (Germany, Austria, Belgium, Italy, Spain, the Netherlands, Portugal, Switzerland, France and the United Kingdom) exceeds [26-29]* %.

(249) The increase in the Guarantee Fee will:

(a) depend on Banque PSA's penetration rate in the G10 perimeter as shown in Table 17 in recital 250 below; if the penetration rate for a given period includes one or more decimals after the decimal point the increase in the Guarantee Fee will be calculated by linear interpolation between the Guarantee Fee payable for the lower penetration rate with no decimal and that payable for the higher penetration rate with no decimal as shown in Table 17 in recital 250 below;

(b) be a maximum of 231 basis points so that the Guarantee Fee cannot exceed 491 basis points, corresponding to the market value of the Guarantee as assessed by the European Commission.

(250) The penetration rate will be measured annually on 30 June. The increase in the Guarantee Fee will be calculated on 30 June of each year from the 12 previous months in respect of the sum in principal of the mean amounts outstanding over this period of the various lines of 'Guaranteed Securities' (as defined in the Protocol) issued and benefiting from the Guarantee. The first increase in the Guarantee Fee will be calculated on 30 June 2013 from the penetration rate for the period from 1 July 2012 to 30 June 2013.

Table 17

Increase in the Guarantee Fee

Penetration rate (%)	[…]*	[…]*	[…]*	[…]*	[…]*	[…]*	[…]*	[…]*	[…]*	[…]*
Increase in the Guarantee Fee (basis points)*	[10-20]	[20-30]	[40-50]	[70-80]	[90-120]	[120-150]	[150-180]	[180-210]	[200-230]	231

7.3. *COMMITMENT TO REFRAIN FROM ACQUISITIONS*

(251) The PSA Group will refrain from acquiring any holding in other enterprises or acquiring any business assets throughout the term of its restructuring plan, i.e. up to 31 December 2015. This commitment does not cover: (i) the acquisition of holdings or business assets when the monetary amount paid by the PSA Group for the planned acquisition is less than EUR 100 million per annum; and (ii) the acquisition of a holding in an enterprise or business assets, following approval by the European Commission, if such acquisition is necessary to ensure the PSA Group's viability and to enable it to achieve the objectives of its restructuring plan. The Commission must be notified of any intention to make an acquisition covered by (ii) of this recital in good time for it to be able to assess the planned acquisition from detailed financial data on the planned acquisition, and to assess its value and its impact on the PSA Group's equity.

(252) The PSA Group may, moreover, following approval by the European Commission, acquire (i) a holding in return for an injection of holdings or activities carried out as part of an operation to pool (by merger or injection) assets or activities; (ii) securities or asset or liability elements with a view to their resale in conditions which do not increase the PSA Group's Net Debt. These acquisitions will not be included in the amount of EUR 100 million mentioned in the preceding recital. The Commission must be notified of any intention to make an acquisition covered by (i) and (ii) of this recital in a good time for it to be able to assess the nature of the operations planned.

(253) Acquisitions of holdings or business assets by Faurecia or any of its subsidiaries during the term of the PSA Group restructuring plan, i.e. up to 31 December 2015, above the ceiling of EUR 100 million per annum set out above will be subject to prior approval by the European Commission which will positively view acquisitions which (i) help, directly or indirectly to restore the PSA Group's viability because they have a positive impact on the PSA Group's forecast profitability and (ii) do not circumvent the obligation to limit the effects of the aid to the minimum necessary to achieve the targets of the PSA Group restructuring plan. The Commission must be notified of any intention to make an acquisition covered by this recital in good time for it to be able to assess the planned acquisition against the two criteria mentioned above.

(254) If the PSA Group's Net Debt (as defined above) is brought, in a given year (N), to a level below that forecast for that year by the MTP 2013 v1 dated 31 May 2013 as notified by the French authorities on 3 June 2013, the ceilings of EUR 100 million per annum laid down in this commitment will automatically be increased, for the following year (N + 1), in line with the difference, expressed in EUR million, between the level of the PSA Group's Net Debt achieved in year (N) and that forecast for that same year in the MTP 2013 v1 dated 31 May 2013 as notified by the French authorities on 3 June 2013.

7.4. *COMMITMENT IN RELATION TO THE FINANCING MARGIN GRANTED TO DEALERS*

(255) The PSA Group will not decrease the mean annual commercial margin of the financing granted to dealers in the network (corporate network debts as presented in the Banque PSA's annual report) below the mean annual commercial margin recorded for the 12 months preceding 30 June 2013 for the whole term of implementation of the restructuring plan.

7.5. *COMMITMENT IN RELATION TO THE 50CO_2CARS PROJECT*

(256) The French authorities undertake, as regards the 50CO_2Cars project, as defined in part 1.2 of the notification by the French authorities dated 12 March 2013, that the grant of EUR 24,5 million initially planned for the PSA Group will take the form of repayable advances, with repayment terms, conditions and methods similar, *mutatis mutandis*, to those of the EUR 61,4 million of repayable advances already planned for the 50CO_2Cars project. The repayment timetable initially planned will be retained. The amounts to be repaid at each deadline will be increased pro rata to the increase in the amount of the advances.

7.6. *IMPLEMENTATION AND INDEPENDENT EXPERT*

(257) The French authorities undertake that the PSA Group will appoint an Independent Expert responsible for examining in detail the application of the commitments made in the letter of commitments of 23 July 2013 ('the Independent Expert') for the term of the restructuring plan, i.e. up to 31 December 2015, under the conditions set out in the Annex.

8. **ASSESSMENT OF AID**

8.1. *EXISTENCE OF AID WITHIN THE MEANING OF ARTICLE 107(1) TFEU*

(258) According to Article 107(1) TFEU, 'any aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, in so far as it affects trade between Member States, be incompatible with the internal market'.

(259) On the basis of this provision, the Commission considers that the characterisation of a national measure as State aid requires the following cumulative conditions to be met, namely: (i) that the measure in question confers an economic advantage on its beneficiary, (ii) that this advantage originates from the State, (iii) that this advantage is selective and (iv) that the measure in question distorts or threatens to distort competition and is likely to affect trade between the Member States.

(260) The Commission considers that the State guarantee to BPF and the repayable advances to the PSA Group for the conduct of the 50CO_2Cars R&D project constitutes State aid within the meaning of Article 107(1) TFEU, for the following reasons.

8.1.1. STATE GUARANTEE TO THE BANKING SUBSIDIARY OF THE PSA GROUP

(261) The Commission notes first that in its decision of 11 February 2013 temporarily approving a first tranche of the guarantee as rescue aid, it concluded that the measure constituted aid within the meaning of Article 107(1) TFEU. France has not contested that decision and has notified the present measure as restructuring aid.

8.1.1.1. ***On the use of State resources***

(262) On the transfer of State resources, it should be noted that the guarantee is to be granted by France pursuant to Article 85 of the Amending Finance Law No 2012-1510 of 29 December 2012.

(263) This fact is enough on its own to prove that the measure originates from the State.

8.1.1.2. ***On the existence of an economic advantage***

(264) As regards the existence of an advantage, it is settled case-law that, in order to assess whether a State measure constitutes aid, it is necessary to determine whether the beneficiary undertaking receives an economic advantage which it would not have obtained under normal market conditions. The Commission has therefore to assess the extent to which the guarantee granted to BPF entails market remuneration.

(265) In the notification of 12 March 2013, the French authorities quantified the aid element at between EUR 453 and 480 million for a maximum guarantee amount of EUR 7 billion in principal. These figures were based on an interpolation of BPF's bond yields for a three-year maturity. In the comments by France on the opening decision, summarised in recital 128 above, the French authorities consider that the amount of aid resulting from the guarantee is EUR 396 million, with a risk premium of 40 basis points and a reference period of three months. If the risk premium were to be 24 basis points (as recorded for the issues made pursuant to the rescue aid), the amount of the aid would then be EUR 429 million.

(266) The French authorities have also stressed that the issues made by BPF on 25 March 2013 took place in particularly favourable market conditions; the spreads with respect to fungible Treasury bonds recorded would appear to be at very low levels (24 basis points). They therefore consider that a potential surcharge for BPF of some 40 basis points is fully founded.

(267) Lastly, the French authorities' reference period runs from 12 July to 16 October 2013 as, in their view, this period makes it possible to take account of the disclosure of the Group's difficulties on 12 July with the announcement of the reorganisation plan, and to smooth the effects of the initial rumours of the grant of the guarantee on 16 October 2012.

(268) First, the Commission points out that, on the basis of the facts presented in recital 30, the amount of aid contained in the guarantee of EUR 1,2 billion temporarily approved on 11 February 2013 had been initially estimated in the rescue decision, according to which the aid element was between EUR 91,8 million and the nominal amount of the guarantee, namely EUR 1,2 billion. Applying the same estimation method to the lower level of the aid (spread of 24 basis points and reference period of one month), the aid element contained in the guarantee of EUR 7 billion notified by France is therefore EUR 486 million, as shown in Table 18 below:

Table 18

Calculation of the aid element in the guaranteed bonds

	16.10.2012	12.7-16.10	16.9-16.10
Three-year fungible Treasury bond (OAT)	0,34 %	0,35 %	0,39 %
Estimated State spread after guarantee	0,24 %	0,24 %	0,24 %
BPSA interest rate after guarantee (a)	0,58 %	0,59 %	0,63 %
Cost of the guarantee (b)	2,60 %	2,60 %	2,60 %
Total estimated cost of the guaranteed issues (a) + (b)	3,18 %	3,19 %	3,23 %
BPSA secondary market yield interpolated over three years	5,09 %	5,23 %	5,54 %
Amount of State aid involved (EUR million)	401	429	486

(269) As regards the assumptions on which these figures are based, the Commission would like to add the following details.

(270) In recital 51 of the rescue decision, the Commission quantified the aid element for the issue amounts of EUR 1,2 billion as being at least EUR 91,8 million. For the issue amount of EUR 7 billion, the corresponding amount is EUR 535 million.

(271) As described in recital 26 of the opening decision, a yield difference of 24 basis points in comparison with fungible Treasury bonds was recorded when the bonds of EUR 1,2 billion were issued. The Commission confirms, in accordance with recitals 119 and 120 of the opening decision, that this recorded difference which is due, in France's view, to a lower liquidity of the guaranteed bonds in comparison with fungible Treasury bonds, has to be taken into account in calculating the aid element and to lower it.

(272) As regards the **reference period**, the Commission considers that the period of one month (16 September-16 October) adopted is long enough to smooth any volatility brought about by the announcement. In order accurately to estimate the aid element, the reference period has in practice to be close to the time of the announcement so that the information on the Group's difficulties is reflected as well as possible in the market yields. The secondary market adopted is, lastly, a liquid market and it cannot be concluded that a longer period is necessary as the market was fully aware of the announcement of the PSA restructuring plan in July 2012 and the latest information on vehicle sales. Moreover, the Commission considers that on this basis the aid element is correctly quantified and does not have to be recalculated on the basis of the bank's bond yield levels in the secondary market at the time of the individual drawdowns. This is the case because France considers that the aid is limited to the minimum necessary to restore viability and therefore that the guarantee will be drawn down in full, and because the representative market price is the level of the secondary bonds prior to the announcement of the aid measure. This aid gives PSA the option to draw down the guarantee at any time after it has been set up.

(273) In recital 51 of the rescue decision, the Commission considered that the amount of aid could be as much as the nominal amount of the bond issues. In the light of the facts presented in recitals 105 and 106 of the opening decision as to the existence of a liquidity surplus ranging from EUR [1-3]* billion to EUR [2-4]* billion in a stressed scenario in run-off management, the Commission considers that the amount of aid does not exceed the advantage in terms of bond issue price quantified as EUR 486 million in the State guarantee of EUR 7 billion in principal in recital 33. This is the advantage that the Group receives if its activity is continued. If the aid had not been granted and the bank had been placed in run-off management, no further advantage would have been obtained by creditors or shareholders (the PSA Group).

(274) The Commission notes that, among the interested parties, only Fiat has commented on the quantification of the aid, estimating, in recital 191 above, that at least 100 basis points should be added to the cost of the guarantee if it is to be in line with market conditions. One of Fiat's comments relates to the payment of a commitment fee. On this point, the Commission points out that, as explained in recital 272, the aid element is quantified on the basis of the assumption that the guarantee will be drawn down in full, given that the aid is limited to the minimum necessary to restore the Group's viability. Moreover, the aid element estimated by the Commission is greater than the aid element estimated by Fiat, even when a commitment fee is taken into account, since the Commission estimates that the price paid is 231 basis points lower than the market price and Fiat estimates that the price is 100 basis points lower than the market price.

(275) On the basis of the above, the Commission may therefore conclude that the aid element contained in the State guarantee of EUR 7 billion in principal is EUR 486 million.

8.1.1.3. ***On the selective nature of the advantage***

(276) The fact that BPF, and therefore the PSA Group, are the sole beneficiaries of the guarantee proves the selective nature of the advantage.

8.1.1.4. ***On the conditions under which trade between Member States is affected and competition is distorted***

(277) As regards the effect on competition and trade, it should be borne in mind that, in accordance with settled case-law, when an undertaking operates in a sector in which producers from various Member States compete, any aid which it may receive from the public authorities is liable to affect trade between the Member States and impair competition, inasmuch as its continuing presence on the market prevents competitors from increasing their market share and reduces their chances of increasing their exports ([41]).

(278) In practice, the mechanism by which competition will be distorted has been confirmed by the Commission's analysis, the comments from third parties and the publications of analysts. The direct effect of the State guarantee is to reduce BPF's financing cost (in comparison with a counterfactual scenario in which the bank receives no aid). If its financing cost is reduced, BPF is able to improve its financing offers and thus stimulate sales of Peugeot and Citroën brand vehicles. The PSA Group and the third parties unanimously acknowledge and stress the important role that captive banks play in supporting and developing vehicle sales.

(279) In their comments, the interested third parties stress the direct relationship between the captive bank's activity and vehicle sales. For instance, GM states that financing by captive banks is 'vital' and gives automotive manufacturers the 'flexibility' to react in the short term to market conditions. The Fiat Group describes the impact of captive bank financing of automotive group sales at some length. In its view, this financing has three main effects: attracting new customers, supporting the sales process and making customers more loyal. Fiat cites a study that it carried out in-house on the attractiveness of its 'Punto' model, which is shaped chiefly by financing conditions (such as low rates of interest). Competitors not offering attractive financing conditions (Peugeot for instance) were less represented in customer preferences. According to another in-house survey of the 'Eco' series, most of the customers contacted said that they would not have bought their car (or would have

([41]) See in particular the judgment of the Court of Justice of 21 March 1991 in Case C-305/89 *Italy* v *Commission* [1991] ECR I-1603.

delayed doing so) without a 0 % financing offer. Fiat concludes from this that a grant intended to support the activity of a captive bank has an 'immediate and direct' effect on vehicle sales performance. According to a further in-house survey cited by Fiat, the use of a captive bank also has an impact on existing customers of the brand wishing to replace their vehicle. The proportion of customers deciding to buy a car of Fiat brand is higher among customers who obtained financing from the captive bank when making their previous purchase.

(280) On the impact of a change to the financing cost of a captive bank, Fiat added some quantitative information by stating that an increase of 100 basis points in the financing cost could reduce the penetration rate by 5 % to 10 %. Fiat's experience in the European market, through FGA Capital, would thus appear to confirm a direct and negative relationship between the financing cost of the captive bank and its penetration rate. The reduction of BPF's financing cost by the State guarantee is therefore likely to lead to a rise in its penetration rate.

(281) Toyota, for its part, confirms that captive banks play an important part in stepping up customer brand loyalty and thus increasing sales: Toyota considers that captive banks increase loyalty by 15 %, but says that it is unable to quantify the impact of an increase of 100 basis points in financing costs (although it does say that there would be such an impact).

(282) It follows from the comments by the interested third parties that if a captive bank's financing costs are reduced, it can offer its potential customers more attractive financing conditions. These competitive loan offers have a direct impact on vehicle sales and are at present one of the main factors in the growth of these sales.

(283) Similarly, a publication by Morgan Stanley of 21 August 2012 explains that if the financial arm of an automotive manufacturer benefits from low financing costs, the brand may be able to offer vehicles whose Total Cost of Ownership ('TCO') is lower than that of competitors. Generally speaking, this study shows that the main factor in determining the TCO of a vehicle is the financing cost of the automotive producer's captive bank ([42]). Through attractive financing offers, a captive bank thus directly helps to reduce the TCO of vehicles of the brand. Financing needs are particularly high in segments B and C, in which most of the PSA Group's sales are concentrated.

(284) A recent study by Moody's ([43]) of 5 February 2013 bears out the important role of captive banks which are characterised as 'key components of automotive group strategy'. The study also points out that, in a context of recession and falling sales, automotive groups are more inclined to use captive banks to stimulate their sales. This particular context also has to be taken into account when analysing the risk of distortion by the State aid.

(285) According to the BPF Viability Plan notified by the French authorities, the role of captive banks is set to increase in future for four main reasons (see recital 116).

(286) The State guarantee will therefore have a direct impact on the competitive behaviour of BPF, whose already important role is likely to become more important because of the market trends described in the Viability Plan mentioned in recital 285 above.

(287) In this respect, the Commission observes that there are many financing houses in the territory of the Union and that capital moves between Member States.

(288) The Commission concludes from this that the measure at issue is like to place BPF in a stronger position than its competitors in trade between the Member States.

(289) The Commission therefore concludes that this State guarantee constitutes State aid whose gross grant equivalent is EUR 486 million. While the direct beneficiary of this guarantee is BPF, the Group as a whole will ultimately benefit in so far as BPF's activity is to finance sales of the Group's main activity, namely sales of vehicles.

([42]) See Morgan Stanley, 21 August 2012, 'Volkswagen — It's Cheaper to Own a VW'.
([43]) See Moody's, 5 February 2013, 'Key rating drivers for European car financiers'.

8.1.2. PUBLIC SUPPORT FOR THE PSA GROUP FOR THE CONDUCT OF THE 50CO_2CARS R&D PROJECT

(290) The public financing ([44]) for the PSA Group for the conduct of the 50CO_2Cars R&D project satisfies the definition of State aid within the meaning of Article 107 TFEU. The French authorities have notified this measure as restructuring aid.

8.1.2.1. ***On the use of State resources***

(291) This public financing comes from the budget appropriation paid by the State to ADEME under the 'Vehicle of the Future' strand of the future investment programme. In practice, the public financing granted by France to the 50CO_2Cars project is part of the 'future investment' programme established by the Amending Finance Law No 2010-237 of 9 March 2010. This proves that this measure derives from State resources.

8.1.2.2. ***On the presence of an economic advantage***

(292) By contributing to its R&D expenses, the grant provides the PSA Group with an economic advantage.

8.1.2.3. ***On the selective nature of the advantage***

(293) The measure is specifically for the promoters of the 50CO_2Cars R&D project, of which the PSA Group is part, and cannot therefore be deemed to be general in scope.

8.1.2.4. ***On the conditions affecting trade between Member States and distorting competition***

(294) As the PSA group operates in the automotive construction sector, which is a sector open to intra-European trade, the measure may affect trade between the Member States, change the PSA Group's position in the markets in question with respect to its competitors, and distort competition in the internal market.

(295) The Commission is thus able to conclude that the financial support granted by France in the form of repayable advances to the PSA Group for the conduct of the 50CO_2Cars project is State aid within the meaning of Article 107(1) TFEU.

(296) Lastly, the Commission acknowledges the particular nature of repayable advances as an instrument of State aid. Although they take the form of a 'loan' to the PSA Group for the conduct of the 50CO_2Cars project, the repayment of this loan continues to be conditional upon the outcome of this R&D project. As the chances of success or failure are not known in advance, the Commission is unable to calculate a gross grant equivalent for this aid in the form of repayable advances. Therefore, on the basis of the most negative prospect in which there is no repayment, the Commission considers it prudent to consider the whole of the repayable advance to be the upper level of the amount of State aid at issue.

8.2. *LEGAL BASIS OF THE ASSESSMENT*

(297) Article 107(2) and (3) TFEU sets out derogations to the general incompatibility laid down in Article 107(1). The derogations set out in Article 107(2) TFEU are manifestly not applicable to the case at issue.

(298) In its rescue decision, the Commission temporarily ruled that the aid was compatible on the basis of Article 107(3)(b) TFEU. The Commission nevertheless considered that the public guarantee, whose immediate purpose was to address BPF's liquidity problems, also conferred an advantage on the PSA Group. This view is not contested by the French authorities. The Commission also stressed that the banking subsidiary's liquidity problems were a result of the Group's structural difficulties. In this context, the French authorities undertook to submit a restructuring plan for the PSA Group as a whole, in accordance with the Rescue and Restructuring Guidelines, which also ensured BPF's viability. In accordance with their commitment, the French authorities notified a viability plan for BPF and a restructuring plan for the PSA Group.

([44]) This finance was initially notified as taking the form of grants (of EUR 24,5 million) and repayable advances (of EUR 61,4 million). Bearing in mind the compensatory measure proposed by the French authorities (described in recital 256 above), it will ultimately take the form of repayable advances of EUR 85,9 million.

(299) The viability plan for BPF has to be assessed in the light of section 2 of the Commission communication on the return to viability and the assessment of restructuring measures in the financial sector in the current crisis under the State aid rules ([45]).

(300) The Commission has already taken the view in recital 84 of its rescue decision that the restructuring plan has to be examined in the light of Article 107(3)(c) TFEU and in particular the Rescue and Restructuring Guidelines. It is common ground that the aid has been granted with a view to restoring the long-term viability of an enterprise and therefore has to comply with the Rescue and Restructuring Guidelines which provide a legal basis for the assessment. The Commission also notes that this conclusion is not affected by the fact that part of the aid envisaged under the restructuring plan takes the form of aid for an R&D project. Including an R&D dimension in a restructuring plan is acceptable provided that the planned activities are genuinely necessary for restoring the firm's viability and that all the elements of the restructuring plan (including the R&D effort) satisfy the conditions laid down in the Rescue and Restructuring Guidelines.

(301) Moreover, in accordance with point 21 of the Rescue and Restructuring Guidelines, the conditions under which public support for the R&D efforts of a firm in difficulty are compatible should not circumvent the principles of the ordinary law rules for a firm in sound financial health.

(302) The Commission notes that the choice of legal basis has not been criticised by any of the interested parties.

8.3. *ELIGIBILITY OF THE ENTERPRISE FOR RESTRUCTURING AID*

(303) In order to be eligible for restructuring aid, it must first be possible to consider the firm to be a firm in difficulty as defined in section 2.1 of the Rescue and Restructuring Guidelines.

(304) In recital 150 of the opening decision, the Commission observed that the PSA Group was in difficulty within the meaning of point 11 of the Rescue and Restructuring Guidelines. The normal signs of a firm in difficulty were evident in the case in question, in particular: growing losses, falling turnover, excess capacity, reduction of the gross self-financing margin and drop in market shares. Moreover, the fact that BPF was unable to finalise its financing plan for 2013-16 without the State guarantee is sufficient to show the Group's inability to recover using its own resources or funds obtained from its proprietors/shareholders or market sources.

(305) In recital 151 of the opening decision, the Commission therefore concluded that the PSA Group, and indirectly and consequently, BPF, were firms in difficulty within the meaning of section 2.1 of the Rescue and Restructuring Guidelines.

(306) In recital 152 of that decision, the Commission also noted that neither the PSA Group nor BPF were newly created firms and that as the beneficiary was a group, it could not be considered that the firm's difficulties were the result of an arbitrary allocation of costs within the group. As pointed out by the French authorities, the Group's difficulties were essentially due to reasons specific to the Group and the downturn in the automotive market in Europe.

(307) The Commission therefore considers that it does not need to review its assessment in the opening decision in relation to the eligibility of the firm on the basis of points 11 and 13 of the Rescue and Restructuring Guidelines. The Commission notes that none of the interested parties has disputed this point.

(308) In conclusion, the Commission considers that the conditions laid down in section 2.1 of the Rescue and Restructuring Guidelines are met.

([45]) OJ C 195, 19.8.2009, p. 9.

8.4. *RESTORING LONG-TERM VIABILITY*

8.4.1. THE PSA GROUP RESTRUCTURING PLAN

(309) As its situation was continuing to deteriorate, the PSA Group took measures from 2012 to help to restore the Group's long-term viability under the 'Rebond 2015' [Rebound 2015] plan. These in particular include the measures to reduce the Group's excess capacity in segment B and the planned savings measures. Under Rebond 2015 it is planned to:

(a) reorganise the industrial base in France and reduce structural costs with an estimated impact of EUR 600 million, as announced on 12 July 2012. It is planned to cease production at Aulnay in 2014, to adapt the industrial base at the Rennes plant, to take regeneration measures at the Aulnay and Rennes plants and to modify the Group's structures;

(b) reduce CAPEX by EUR 550 million starting from 2013, after the increases in investment in capacity in Russia, Latin America and China have come to an end;

(c) optimise production costs by EUR 350 million, in particular through the alliance with GM, half of these gains coming from the initial synergies provided by the alliance's purchasing system and the other half from action plans in respect of unit design and production costs.

(310) In its opening decision, the Commission had doubts of two kinds about the return to viability.

(a) First, the Commission considered that the assumptions about market growth could prove to be overly optimistic.

(b) Second, the Commission wished to verify to what extent the $50CO_2$Cars project could help to restore viability.

8.4.1.1. ***On the assumptions of market growth***

(311) The interested third parties agree in their comments that it is relevant to use the market trend projections of *IHS Global Insight*. Fiat's comments in particular confirm that it is the main source of financial projections for automotive manufacturers.

(312) The Commission observes, however, that these projections are more optimistic than those of other market sources, such as Standard & Poor's' projections ([46]).

(313) The Commission considers that the turnover projections have been updated from the opening decision partly because of its doubts about the credibility of the forecasts presented by France during the preliminary investigation phase. Even though turnover is smaller, expenditure on capital investment has not been reduced in the updated projections, and that will not therefore have an adverse impact on future sales.

(314) The possible differences in the median projections have to be analysed in terms of the consequences they could have on PSA's ability to pursue its activity in an unfavourable scenario. The Group's difficulties, which led to the State intervention, can be attributed to BPF's ability to refinance itself adequately on the markets in order to be able to finance the Group's vehicle sales. Even after recording a depreciation of the global value of the automotive division's assets, shown as EUR 3 888 million in the accounts as at 31 December 2012, France did not inform the Commission that the Group's equity was inadequate. The Commission considers that the level of the Group's net industrial debt in the unfavourable scenarios should be the focus of its examination.

(315) The Commission's doubts as to the Group's viability have been resolved in the light of France's commitment, described in section 7.1 above, to require PSA to set in place adequate measures to offset any cash flow shortfall resulting from an unfavourable sales trend which might run the risk of deflecting PSA's Net Debt from its path. The debt level […]* will then be brought below EUR […]* billion, which is in line with the analysts' current

([46]) The report 'For Global Automakers, The Road Ahead Varies From Region To Region' of 24 April 2013, predicts that the European market will not return, in terms of volumes, to the 2011 level before 2018, while the IHS projections predict such a return from 2014.

projections. This commitment leaves it to the Group to choose the most appropriate way of stabilising its Net Debt, for instance by reducing capacity or selling holdings. The Commission also notes that France has undertaken to re-notify the plan if the corrective measures fail or a Net Debt target is exceeded in two consecutive years.

(316) On the basis of these considerations, the Commission concludes that its doubts about a return to viability in the opening decision are resolved.

8.4.1.2. ***On the role played by the 50CO_2Cars project in restoring the PSA Group's viability***

(317) In recital 167 of the opening decision, the Commission questioned what role the 50CO_2Cars project would play in the PSA Group's restructuring and return to viability.

(a) **Preliminary comment on the analysis method proposed in the opening decision and challenged by France**

(318) It emerges from recital 152 above that the French authorities challenge the method proposed by the Commission in the opening decision to verify whether, and where appropriate to what extent, the 50CO_2Cars project has a role to play in restoring PSA's viability. In France's view, following its preliminary investigation, the Commission's doubts were based on the premise that the 50CO_2Cars project 'could be necessary to restore the PSA Group's viability only in so far as it could enable it to make up for its backwardness in R&D in comparison with its competitors'. The method used by the Commission is also based on a 'legally new' criterion, the need for which is challenged by the French authorities, as the other arguments adduced appear to them to be sufficient to prove that the 50CO_2Cars project will play a positive role in restoring the Group's viability.

(319) The Commission disputes that the method that it proposed in the opening decision can be summarised in such a way and wishes to make the following comments.

(320) Point 17 of the Rescue and Restructuring Guidelines states that 'Restructuring … will be based on a feasible, coherent and far-reaching plan to restore a firm's long-term viability'. Achieving this objective of 'reorganisation and rationalisation of the firm's activities on to a more efficient basis' may involve measures of several types:

— 'withdrawal from loss-making activities',

— 'restructuring of those existing activities that can be made competitive again',

— 'diversification in the direction of new and viable activities'.

(321) The Commission is of the view that this third pillar of 'diversification' is best able to justify the inclusion of R&D activities in a restructuring plan. The justification lies in the need to help the firm in difficulty to find new and viable outlets by using innovation to refocus its production.

(322) It follows from their comments (summarised in recital 149 above) that the French authorities would appear to share this view and consider that ongoing investment in R&D may help a firm in difficulty to 'restore its viability in the long term'. The Commission considers, however, that the precedents cited by France in footnote 30 to recital 149 above are not relevant. They do not in practice concern cases in which, as in the case at issue, the implementation of an R&D project as part of a restructuring plan is likely to play a positive role in restoring the viability of a firm in difficulty, but are cases in which the Commission considered that viability could be restored by launching new products deriving from 'existing' knowledge (and not knowledge obtained from R&D). It follows therefore from recital 51 of the Commission Decision of 1 December 2004 (State aid — France — Société Bull, Case C-504/03) that the new line of servers, whose role was deemed to be 'very important' in terms of turnover and operating margin, relied on a technology owned by Intel and not developed by the aid beneficiary. Similarly, recital 98 of the Commission Decision of 3 July 2001 (State aid — Spain — Babcock Wilcox Espana SA, Case C-33/98) states that the technology enabling NewCo to cover a new Spanish market segment already existed. Lastly, the Commission does not see the relevance of recital 236 of its Decision of

18 February 2004 (State aid — Germany — Bankgesellschaft Berlin AG, Case C-28/02), from which it emerges that the Commission was unable conclusively to assess the role of 'new products and new marketing channels' in the context of restoring the viability of the bank in difficulty.

(323) The Commission also wishes to stress that this objective should not be confused with the very different objective of promoting R&D and innovation ([47]) pursued by other types of public funding for firms which are not in difficulty. In this respect, point 20 of the Rescue and Restructuring Guidelines very clearly states:

'Given that its very existence is in danger, a firm in difficulty cannot be considered an appropriate vehicle for promoting other public policy objectives until such time as its viability is assured. Consequently, the Commission considers that aid to firms in difficulty may contribute to the development of economic activities without adversely affecting trade to an extent contrary to the Community interest only if the conditions set out in these Guidelines are met …'.

(324) The Commission is of the view that the same aid cannot effectively pursue two different objectives and therefore that the objective of any aid paid by a Member State as part of a restructuring plan, even if that State says that it is likely to have a positive effect in terms of promoting R&D, must be to restore the beneficiary's viability. Its compatibility has to be examined in the light of that priority objective.

(325) Moreover, in so far as it is an 'investment' in R&D, the Member State must prove that the activities supported are in keeping with the remainder of the restructuring plan (and are necessary for its success). According to point 45 of the Rescue and Restructuring Guidelines:

'None of the aid should go to finance new investment that is not essential for restoring the firm's viability'.

(326) In order to assess whether (or not) the R&D effort represented by the 50CO_2Cars project is an internal measure to improve the viability of the firm in difficulty which could, where appropriate, be included in the restructuring plan (point 35 of the Rescue and Restructuring Guidelines), the Commission's reasoning in recitals 168 to 217 of the opening decision is fully in line with point 36 of the Rescue and Restructuring Guidelines which clearly states that 'the circumstances that led to the company's difficulties' have to be the basis for assessing whether the proposed measures are appropriate. In the opening decision, the Commission therefore successively examined:

(a) in recitals 168 to 192, whether the 50CO_2Cars project was likely to make up for the PSA Group's backwardness in R&D, a factor which the French authorities had cited as one of the structural difficulties faced by the Group in recital 16;

(b) in recitals 193 and 194, whether the 50CO_2Cars project was likely to help the PSA Group to rationalise its industrial base and its cost structure, in particular its labour costs, as these factors had been presented as further structural handicaps of the PSA Group in recital 15;

(c) in recitals 208 to 217, whether the new mild hybridisation technologies covered by the 50CO_2Cars project were likely to offer PSA a solution to its difficulties, not just in the short term (contraction of the European market referred to in recital 11 of the opening decision) but also in the long term ('scissor' effect referred to in recital 14 of the opening decision).

(327) The opening decision was therefore based on the factors cited by the French authorities during the preliminary investigation phase as circumstances leading to the firm's difficulties. The Commission has in no way presented a catalogue of cumulative and/or exclusive criteria making it possible to verify whether (or not) the 50CO_2Cars project was 'appropriate' for the restructuring of the Group.

([47]) As noted in recital 39 above, the R&D&I Framework does not apply to firms in difficulty which are, moreover, excluded throughout the term of the restructuring plan, as specified in point 16 of the Rescue and Restructuring Guidelines: 'Once a restructuring or liquidation plan for which aid has been requested has been established and is being implemented, all further aid will be considered as restructuring aid'.

(328) The fact remains that during the preliminary investigation phase, the French authorities did not mention the trend in the market to replace sales of diesel vehicles by petrol vehicles (mentioned in recital 210 of the opening decision and reiterated in recital 147 above) as one of the obstacles in the way of the PSA Group's return to viability, but simply as a background factor, even though, according to recital 214 of the opening decision, there is 'according to the market research carried out by PSA, … a market opening for economic diesel hybrid systems'.

(329) In any case, the purpose of this formal procedure is to offer the Member State the opportunity to adduce all the evidence that it considers necessary to prove the validity of the aid being examined, and in particular to flesh out the circumstances that led to the firm's difficulties by adding details that it may have failed to include during the preliminary phase. This is precisely what the French authorities have done in this case.

(b) **Examination of the contribution of the 50CO_2Cars project to the restructuring of the PSA Group**

(330) According to the comments by the French authorities (summarised in recitals 147 to 151 above), the 50CO_2Cars project is designed to get to grips with a technology to reduce the consumption and CO_2 emissions of diesel engines at an 'affordable' cost.

(i) *Contribution to resolving the structural handicaps of the PSA Group*

(331) Reversing the downward trend in sales of diesel engines: in the opening decision, the Commission asked in recital 211 whether an R&D investment in a diesel hybrid technology was consistent with the restructuring plan when the recent market trend (expected to continue in future years) was rather for sales of diesel engines to be replaced by petrol engines.

(332) On this point, it would appear from the justifications adduced by France in recital 148 above that, bearing in mind the current structure of PSA's production base (focusing chiefly on diesel vehicles which represented [60-80]* % of sales in Europe in 2012), a strategy of 'reacting' to the trend for diesel to be replaced by petrol might be less pertinent in the short/medium term than a 'proactive' strategy in terms of restoring the Group's viability. The Commission notes in this respect that, in its comments in recital 203 above, Toyota acknowledges that there could be a market for diesel hybrids, but considers that it will be smaller than the market for petrol hybrids because of the additional cost of diesel technology. In this respect, the 'affordable' diesel hybrid solution targeted by the 50CO_2Cars project could help, if the project succeeds, to counter the decline in diesel sales that the PSA Group is currently experiencing. In the longer term, if the underlying trends recorded up to now were to continue (with the result that sales of petrol hybrids continue to be higher than sales of diesel hybrids), as predicted by Toyota, the components of 50CO_2Cars could be adapted to petrol engines (see recital 50 of the opening decision).

(333) The Commission therefore agrees with the French authorities that PSA's strategy to develop a technology able to restore the environmental image of diesel engines and keep them economically attractive to consumers, especially in Europe, could improve the short/medium-term profitability of the PSA Group's industrial base, and therefore help to restore its viability as the restructuring plan is implemented.

(334) Making up for its backwardness in R&D: although the French authorities do not consider this criterion to be relevant, it would appear from recital 152(c) above that the 50CO_2Cars project could make up for the Group's backwardness in R&D, especially from the point of view of the productivity of the technological innovation activities undertaken (pooling of resources in a research consortium sponsored by ADEME), the standardisation of certain automotive components (in particular the powertrain), technologies to reduce diesel engine consumption/emissions and DCT transmissions. The purpose of these efforts is to make hybridisation systems more 'affordable' for consumers as the architecture of the hybrid powertrain will be largely standardised and optimised in terms of energy performance and production cost.

(335) In recital 184 above, GM stresses that technological projects to reduce gas emissions are being widely implemented by manufacturers and, in recital 189 above, Fiat confirms that the CO_2 emission standards set by European regulations are a challenge that every manufacturer will have to take up. Toyota, for its part, is also of the view that the development of environmental technologies will be a key factor in manufacturers' sales (see recital 203 above). Against such a backdrop of 'technological proliferation' in consumption/CO_2 emission reduction, and bearing in mind how difficult it is to predict the future commercial outlets of the research

currently taking place, the Commission nevertheless considers that a gauge of the success of a restructuring plan may well lie in an automotive manufacturer in difficulty maintaining a certain level of technological ambition. Backwardness in R&D could, moreover, weigh heavily on the prospects of an upturn in its sales in the short/medium term, and therefore on its chances of restoring viability.

(336) In the light of the above comments, the Commission concludes that the 50CO_2Cars project may well help to resolve some of the PSA Group's structural handicaps.

(ii) *Adapting the industrial base to the issues raised by mild hybridisation*

(337) In the opening decision, the Commission asked whether the resources planned for the development of a mild hybridisation technology were consistent with the rationalisation of capacity envisaged in the restructuring plan.

(338) According to recital 154 above, the industrial investment required by the 50CO_2Cars project, and in particular the adaptation of production capacity to the new diesel engines and hybrid systems, will account for a limited proportion of the total investment planned during the term of the restructuring plan. Its financial impact has also been included in the figures supplied by the French authorities. Lastly, in the field of transmissions, the Commission agrees with the French authorities that the return in-house of production which is currently outsourced to Japanese suppliers will help, if the 50CO_2Cars project is successful, to restore PSA's viability by restoring its margins and freeing it from both logistical costs and exchange risks.

(339) On the basis of these factors, the Commission concludes that adapting PSA's industrial base to the issues raised by mild hybridisation is part and parcel of the Group's restructuring approach and return to viability.

(iii) *Shifting the firm towards new and viable activities*

(340) In its comments (summarised in recital 189 above), Fiat notes in essence that the engine targeted by 50CO_2Cars would appear to be technically 'achievable' but would run the risk of increasing the unit cost of the vehicles in which it is fitted, with the result that the mass distribution of the technology developed would be economically impossible.

(341) On this point, the Commission notes that the current high price of full hybrid technologies explains why they have been rolled out only in the high-end segments of the market ('premium' vehicles). The strategy envisaged by PSA and its R&D efforts is precisely to find a hybridisation technology with a better cost/performance compromise than the solutions currently available: reducing CO_2 emissions by [10-20]* % with respect to an equivalent non-hybrid vehicle for a cost [70-80]* % lower than the HY425 solution.

(342) In recital 216 of the opening decision, the Commission nevertheless complained that it was unable to assess the impact of the new mild hybridisation technologies on the PSA Group's sales and profitability, and said that it would like to be provided with the normal financial indicators that are used to analyse the pertinence of this type of investment in R&D and an analysis of the risks that could affect the profitability of this project.

(343) According to recital 150 above, in the context of the restructuring plan, the lack of specific State aid for the 50CO_2Cars project would force PSA to implement a 'counterfactual' project consisting in reducing its R&D investment to the minimum necessary to be able to comply with the changes in the regulations on

CO_2 emissions. The financial indicator provided by the French authorities in Table 15 of recital 155(b) above is a 'differential' net present value ('NPV') which, unlike the 'standard' NPV (which corresponds to the present value of the cash flows — positive and negative — generated by an investment), does not make it possible to assess the intrinsic profitability of the investment, but rather the profitability difference between two investments, in this case the 50CO_2Cars project (with or without State aid) and the 'counterfactual' project.

(344) In view of the fact that, whatever the discount rate used (respectively [10-13]* % or [13-15]* %), the counterfactual project always has a higher NPV than the 50CO_2Cars project without aid (between EUR [60-100]* million for the eDCT, between EUR [20-70]* million for the accessory facade), the French authorities conclude that, in the absence of aid, the firm would naturally be 'encouraged' to run the alternative project rather than 50CO_2Cars. The Commission is not, however, convinced by this reasoning, and points out that it would be no more than logical to consider that at a discount rate of [13-15]* %, inferred by the French authorities after including the current 'bases' of the firms' financing conditions in the best possible way, even though the rate of [10-13]* % appears to be the rate generally used to assess the profitability of its investments, PSA would also be more likely to opt for the counterfactual project rather than 50CO_2Cars, as the relative profitability of two of its components would be higher: EUR [50-60]* million for the eDCT and EUR [20-30]* million for the accessory facade.

(345) In short, the Commission considers:

(a) first, that the conclusions that may be drawn from the proposed 'differential' indicator are overly dependent on *ad hoc* assumptions in relation to the discount rate used to calculate the 'differential' NPV;

(b) second, that the structure of this indicator does not make it possible economically to assess the global impact of 50CO_2Cars on the Group's sales and financial prospects, but only to compare, in an incremental way, the profit achieved (and the costs incurred) by carrying out 50CO_2Cars with what could be achieved, for two components alone, by the counterfactual project.

(346) The financial indicators supplied by France do not therefore make it possible to assess the effects of the mild hybridisation 'system' targeted by 50CO_2Cars. The Commission observes that, unlike the counterfactual project, the 50CO_2Cars project makes it possible for PSA to get to grips with several of its current structural handicaps: the project will help it to improve component standardisation and make up for the Group's backwardness in R&D. The reduced scope of the counterfactual project cannot have such an ambition. Moreover, the incremental developments envisaged in the counterfactual project, whose stated aim is only to be able to comply with the regulations on CO_2 emissions, are in all likelihood not enough effectively to combat the decline in sales of diesel vehicles that the Group is currently experiencing. Lastly, in order to assess the coherence of the resources needed for each of these projects with the rest of the restructuring plan, the Commission has compared the overall costs of the 50CO_2Cars project (namely EUR [300-400]* million according to Table 4 in recital 41 above), with the additional costs and industrial risks that the counterfactual project would entail: the possible loss of margin from this development is non-negligible and is estimated to be EUR [500-700]* million in recital 148 above.

(347) In short, the Commission considers that, in contrast to the incremental improvements envisaged in the counterfactual project, the technological advance represented by the 50CO_2Cars project may, if successful, provide PSA with a reservoir for growth between now and 2020 as it will enable the PSA Group to 'diversify in the direction of new and viable activities'. The 50CO_2Cars project is therefore likely to play more of a part in restoring the Group's viability than the counterfactual project.

(iv) *Partial conclusion on the contribution of the 50CO_2Cars project to the PSA Group's restructuring*

(348) The preceding examination shows that, as a component of the restructuring plan, the 50CO_2Cars project makes a positive contribution to restoring the PSA Group's viability: the adaptation of its industrial base needed for its implementation is in keeping with the restructuring strategy and the resources available and, if successful, the project will not just correct the effects of the firm's structural difficulties (major sensitivity to changes in diesel sales in Europe and backwardness in some R&D fields), but will also make it possible to diversify the Group's production in the direction of 'new and viable' activities able to offer it a reservoir for growth between now and 2020.

8.4.2. BPF'S VIABILITY PLAN

(349) In the opening decision, the Commission observed that BPF's difficulties were due to its interdependence with the PSA Group, which led the bank's financial rating to be downgraded by S&P on 14 February 2013 to BB+ (non-investment grade), even though the rescue aid had been approved.

(350) In their comments on the opening decision, the Commission considers that the French authorities have resolved its doubts as to the increase in BPF's balance sheet size and bad debt level.

(351) The Commission therefore reiterates the conclusion that it reached in the opening decision and that has not been contested by any of the interested parties, namely that the problem facing BPF is a problem of liquidity resulting solely from its link with the PSA Group. Consequently, in so far as the doubts as to the restoration of the Group's viability have been resolved, the same is considered to apply to BPF's viability plan.

8.5. *PREVENTION OF ANY UNDUE DISTORTION OF COMPETITION*

8.5.1. EXAMINATION OF THE NEED FOR COMPENSATORY MEASURES

(352) Point 38 of the Rescue and Restructuring Guidelines states that, if restructuring aid is to be approved by the Commission, compensatory measures must be taken to minimise the adverse effects of the aid on trading conditions. Failing that, the aid is to be regarded as 'contrary to the common interest' and therefore incompatible with the internal market. To meet this criterion, the presence that a firm may retain in its market(s) at the end of the restructuring period is often limited.

(353) By way of reminder, the French authorities initially proposed the following compensatory measures: further reductions of CAPEX ('capital expenditures'), transferring capacity at the Sevelnord plant to a competitor, discontinuing the development and production of the hybrid plug-in technology and a measure setting a maximum penetration rate for BPF.

(354) In the opening decision, the Commission was doubtful as to the characterisation of some of these measures as compensatory measures and their adequate nature in the light of their implementation conditions.

(355) At the end of this formal investigation procedure, the Commission takes the view that, at least as regards those measures already decided and implemented by PSA prior to the notification of the restructuring plan, the measures described in section 2.4.5 above cannot be characterised as 'compensatory' within the meaning of points 38 *et seq*. of the Rescue and Restructuring Guidelines, but are rather strategic choices 'necessary in any case to restore the viability' of the Group.

(356) In their memorandum of 23 July 2013, however, the French authorities decided to withdraw all the compensatory measures notified on 12 March 2013, apart from the measure setting a maximum penetration rate for BPF, which is amended in the manner described in section 8.5.2 below.

(357) The Commission therefore takes note of this withdrawal and considers that it does not have to examine the following measures:

(a) further reductions of CAPEX ('capital expenditures'), in particular the discontinuation of production of the Citroën 6 — Peugeot 607 models, the discontinuation and non-renewal of the Bipper/Nemo model and the discontinuation of production of diesel engines of more than two litres;

(b) the transfer of capacity at the Sevelnord plant to a competitor; and

(c) the discontinuation of the development and production of the hybrid plug-in technology.

(358) By way of '*compensatory measures*', the Commission will therefore examine only the proposal by the French authorities to establish, from a threshold of [26-29]* %, a mechanism for increasing the cost of the guarantee in line with BPF's penetration rate.

8.5.2. MECHANISM FOR INCREASING THE COST OF THE GUARANTEE IN LINE WITH BPF'S PENETRATION RATE

(359) In the opening decision, the Commission observed that limiting the penetration rate appeared to be an appropriate way of limiting the impact on PSA's vehicle sales of financing support from BPF. The Commission was doubtful, however, as to the real impact of this measure in the light of its implementation conditions. PSA was in practice proposing a commitment not to exceed the 2012 H2 rate with a flexibility of + 1, i.e. a maximum rate of 33,4 %, in 2013 in each European country. This cap already appeared to include the rise that could be predicted for 2013, as the rate was 29,8 % in 2012. In 2014 and 2015, moreover, the French authorities were proposing that the penetration rate be aggregated for BPF's G10 perimeter in the previous year, adjusted by the change in the penetration rate of the comparable banks cited by PSA (captive banks of Renault, Ford, BMW, VW and Daimler) while making provision for a 'threshold' rate. The flexibility that this change would give PSA could lessen the constraining nature and therefore the effectiveness of this measure.

(360) Questions remained as to the comparable banks proposed by PSA (as matters stood only the penetration rates of the captive banks of Renault and Volkswagen, whereas other producers such as Ford or Fiat were also close competitors). As penetration rates vary greatly among countries, BPF could concentrate its loan capacity in those segments in which it had the largest presence and thus develop an aggressive commercial strategy vis-à-vis its competitors.

(361) The French authorities replied to the Commission's arguments in their comments on the opening decision (see recital 173). They agreed in particular to broaden the scope of the comparable banks to include the captive banks of Fiat and Ford. However, they stood by the principles of the mechanism proposed in the notification. In their view, as regards the level of detail of penetration rates, no manufacturer gives details of its penetration rate by segment. They considered that the mechanism had to be flexible if BPF was to be able to adapt to market trends and did not entail any lessening of the effectiveness and constraining nature of this measure. The Commission takes note of the comment by the French authorities as to the potential flexibility introduced by the use of a global penetration rate for the compensatory measure imposed on BPF: as recital 177 above shows, […]* % of the financing granted by BPF concerns segments B and C and the following five countries: France, the United Kingdom, Germany, Spain and Italy. In the light of these statistics, the Commission considers that the compensatory measure is unlikely to be ineffective because the use of a global penetration rate allows too much flexibility.

(362) First, the Commission notes that, according to the French authorities, the compensatory measure in relation to the penetration rate is the 'most targeted measure best able to remedy any distortions of competition resulting directly from the aid in the form of a guarantee to Banque PSA. Such a measure in practice makes it possible to take appropriate account of the link between the consequences of the grant of the State guarantee on the activity of Banque PSA and vehicle sales' ([48]).

(363) The Commission also observes that all the manufacturers confirm in their comments that captive banks play a significant role in the financing of vehicle sales. Toyota stresses that a captive bank may improve customer brand loyalty by some 15 % and that the penetration rate is higher in the segments involving smaller models. Fiat considers that manufacturers' captive banks are extremely effective sales and marketing tools. Fiat reiterates Toyota's comments as to their role in customer loyalty and adds that they also play an important role in supporting the sales process in particular by replacing the 'traditional' financing institutions which are withdrawing from this kind of loan. Fiat considers that the public guarantee granted to BPF will therefore have a direct, immediate and extremely negative impact on the PSA Group's competitors.

(364) As the interested parties unanimously agree that captive banks play a central role in the financing of automotive manufacturers' sales and that the grant of the guarantee to BPF will have a particularly adverse direct effect on competition, the Commission considers that the measure to limit BPF's ability to use the public guarantee in order unduly to increase its financing capacity to the detriment of its competitors' captive banks not in receipt of public support is appropriate.

(365) In the letter of commitments of 23 July 2013, the French authorities undertook to make the changes, described in section 7.2 above, to compensate for the distortion of competition created by the State guarantee to BPF.

([48]) Paragraph 234 of the comments.

(366) In order to limit the distortive effects on competition that the guarantee entails, and in order to provide BPF with a degree of flexibility allowing it react to potential market changes, the proposed commitment takes the form of additional remuneration of the guarantee in line with BPF's penetration rate. The principle of the commitment is as follows: the remuneration of the guarantee will be increased when BPF exceeds a threshold penetration rate of [26-29]* % in the G10 aggregate. The Commission notes that the perimeter of this aggregate (Germany, Austria, Belgium, Italy, Spain, the Netherlands, Portugal, Switzerland, France and the United Kingdom) appears to be the most representative of the European market indicators available ([49]). Moreover, this mechanism seems to be an appropriate way of complying with the principle of compensatory measures (which are intended to minimise any distortion of competition) while ensuring that viability can be restored. By combining an increase in the penetration rate with an increase in the guarantee remuneration, BPF's ability to offer particularly attractive financing terms as a result of the guarantee will be limited to what is needed to ensure its viability, while minimising distortions of competition. The Group will not pay remuneration above what its capital situation allows it to finance, since it will be able to keep the penetration rate at a level corresponding to a certain level of remuneration. The remuneration will increase with the penetration rate up to 491 basis points (estimated market rate). Graph 2 below shows the link between PSA's remuneration of the guarantee and penetration rate (for more detailed figures, see Table 17 in recital 250 above).

Graph 2

Link between the remuneration of the guarantee (in basis points) and the G10 penetration rate (%)

[…]*

(367) Any examination of the impact of this measure has, inter alia, to include the theoretical penetration rate that PSA could achieve without aid (the 'counterfactual penetration rate'). The Commission observes that without the State guarantee, the downgrading of BPF's rating and the reduction of its financing capacity would in turn reduce loan production and reduce automotive sales by [5-20]* % ([50]). The turnover of PSA's automobile division achieved from financing by the captive bank is therefore, according to the French authorities, EUR [6 000-7 000]* million without aid and EUR [35 000-40 000]* million with aid (assuming an estimated fall of some [10-20] % in sales). These figures therefore show that BPF's theoretical penetration rate is some [15-20]* %. In other words, without the State guarantee, BPF's financing capacity would decrease to an extent that would significantly reduce its penetration rate. Moreover, there would also be a parallel decline in sales volumes, bearing in mind the central role played by captive banks in vehicle sales. According to the French authorities, such a decline would not enable viability to be restored, and would drag PSA into a vicious circle in which its own and BPF's ratings are repeatedly downgraded, thereby generating further losses for the Group.

(368) This counterfactual penetration rate makes it possible indicatively to quantify the lower level to be used to calibrate the compensatory measure. This minimum has to be higher than the theoretical rate estimated at [15-20]* %. The lower penetration rate also has to be lower than the current penetration rate ([29-31]* % for the G10 in 2012). In practice, any compensatory measure is intended to minimise the impact of State aid on the beneficiary firm's competitors. The State guarantee is already enabling BPF to maintain its current penetration rate (as is borne out by the counterfactual penetration rate). Any compensatory measure taking the form of additional remuneration should therefore already apply to the current penetration rate.

(369) Thus, taking account of the penetration rate of [29-31]* %, the lower threshold of [15-20]* % described above, the probable upward trends described by the French authorities and the important role that captive bank financing plays in vehicle sales, the commitment to increase the remuneration of the State guarantee from [26-29]* % ([51]) is considered to be an adequate measure to minimise distortions of competition. Bearing in mind the current penetration rate, the commitment means that BPF will already have to increase the remuneration of the

([49]) The G5 indicator, included in the G10 indicator, already accounts, as noted in recital 361 above, for […]* % of the financing granted by BPF.
([50]) Memorandum from the French authorities of 7 December 2012: counterfactual scenario — preliminary impact on the PSA Group.
([51]) It should also be noted that this penetration rate of [26-29]* % is substantially below the rate initially proposed by the French authorities in the first version of the compensatory measure: namely 33,4 %, as shown in Table 7 in recital 102.

guarantee by some [40-50]* basis points (with the result that the State guarantee will be remunerated at some [300-310]* basis points rather than the 260 basis points set out in the initial Protocol concluded with the State). If BPF wishes to increase this penetration rate, the remuneration will rise to the extent set out in Table 17 in recital 250 above ([52]). If the penetration rate falls, the additional remuneration will also fall ([53]). The commitment thus entails an immediate increase in the cost of the guarantee for BPF which will increase if PSA increases the proportion of vehicles financed by BPF in its total sales.

(370) The Commission therefore considers that this measure makes it possible to compensate for undue distortions of competition within the meaning of points 38 to 40 of the Rescue and Restructuring Guidelines.

(371) Lastly, even though the European automotive sector appears to have structural excess capacity, the Commission is of the view that a further reduction of the PSA Group's production capacity is not the most appropriate solution in this particular case:

(a) as mentioned in recital 49 above, the firm has already made significant structural efforts at its Aulnay and Rennes plants;

(b) as explained in recital 315 above, if further restructuring efforts were necessary in future, it would seem preferable to leave PSA a strategic margin of manoeuvre in the choice of the resources to be implemented to stabilise its economic situation, a further capacity reduction being only one of the potential ways of doing so.

8.5.3. COMMITMENT IN RESPECT OF THE FINANCING MARGIN GRANTED TO DEALERS

(372) The Commission also notes that the French authorities have undertaken that PSA will not decrease the mean annual commercial margin of financing granted to the dealers in its network below the mean annual commercial margin recorded in the twelve months prior to 30 June 2013 for the whole term of implementation of the restructuring plan.

(373) The Commission considers that this commitment makes it possible not to diminish the constraining effect of the cap on BPF's penetration rate. In practice, by maintaining the mean commercial margin in respect of dealers at the level that it had without aid, BPF will not be able to use the guarantee to pursue an aggressive commercial policy with these dealers.

8.5.4. CONVERSION OF THE GRANTS INITIALLY ENVISAGED FOR THE $50CO_2$CARS PROJECT INTO REPAYABLE ADVANCES

(374) If the resources made available by the public authorities to preserve the technological competences of the manufacturer in difficulty are to remain proportionate, the Commission considers that it is necessary:

(a) for the R&D activities carried out as part of the restructuring plan not to be on a scale that could give rise to a risk of 'contraction' as mentioned by the Commission in recital 243 of the opening decision;

(b) if matters improve, for a significant proportion of the public funds made available to the manufacturer to preserve its level of competence at the cutting edge of technology to be repaid to the authority providing the aid if the R&D project is successful and viability is restored.

(375) On the first point, the Commission has to establish whether, if the $50CO_2$Cars project is run, the dynamic incentives for other automotive manufacturers to continue their R&D efforts in the hybridisation field will be substantially reduced or cancelled out. GM's comments show that, while the amounts of the public funding for the $50CO_2$Cars project are 'non-negligible' for an R&D project to develop a mild hybridisation system, they are not 'significant' when compared with the R&D expenditure of the sector as a whole and are not, in any case, enough to 'prevent a competitor from developing its own R&D programme in this same field' (see recital 184 above). Fiat also confirms that the technological advance targeted by the $50CO_2$Cars project is not a barrier to

([52]) For instance, if the penetration rate is [30-40]* % (in comparison with the current [29-31]* %), the increase in the cost of the guarantee will be [70-80]* basis points.

([53]) For instance, if the penetration rate is [20-30]* % (in comparison with the current [29-31]* %), the increase in the cost of the guarantee will be no more than [20-30]* basis points.

entry that is likely to deter other manufacturers (see recitals 190 and 232 above). On the basis of these comments by third parties, the Commission can therefore conclude that there is no risk of a contraction effect as a result of the $50CO_2$Cars project.

(376) On the second point, the Commission refers to the compensatory measure proposed by the French authorities in section 7.5 above, under which the grants of EUR 24,5 million initially planned are converted into advances repayable to ADEME, so that if the PSA Group prospers, all the amounts paid by the State so that the R&D activities can be carried out will be repaid to ADEME.

(377) In short, the Commission is of the view that the public support for the $50CO_2$Cars project under the restructuring plan is not only unlikely to pose a major threat to the incentives to other manufacturers to continue their R&D efforts (no contraction effect) but is also proportionate to the target of restoring the PSA Group's viability in so far as the French authorities have undertaken that, if the Group prospers, all the discounted amounts paid by the public authorities to support the conduct of this R&D project are to be repaid to the authority granting the aid (see recital 256 above).

8.5.5. COMMITMENT TO REFRAIN FROM ACQUISITIONS

(378) The Commission notes lastly that the French authorities have undertaken that PSA will refrain from acquiring holdings in other undertakings or from acquiring any business assets throughout the term of its restructuring plan, under the conditions described in recitals 251 *et seq*., for amounts of more than EUR 100 million per annum. By way of derogation from the general principle laid down in recitals 251 and 252 above, Faurecia and its subsidiaries may make acquisitions subject to the Commission's prior approval, as laid down in recital 253 above. In its assessment, the Commission will take a positive view of acquisitions, (i) which directly or indirectly help to restore the PSA Group's viability as they have a positive impact on the PSA Group's forecast profitability and (ii) which do not circumvent the obligation to limit the effects of the aid to the minimum necessary to achieve the objectives of the PSA Group's restructuring plan.

(379) The Commission considers this measure to be necessary and likely to compensate for the distortive effects on competition created by the grant of the aid.

8.5.6. NEED FOR A COMPENSATORY MEASURE CONCERNING THE FMEA

(380) An anonymous third party considers that PSA should sell its holding in the FMEA. The Commission notes that the comments by this third party relate to a complaint being investigated by the Commission and do not relate to the subject matter of these proceedings. There is therefore no need to reply to these comments in this Decision.

8.6. *AID LIMITED TO THE MINIMUM: REAL CONTRIBUTION, FREE OF AID*

(381) If the aid is to be approved, pursuant to points 43 to 45 of the Rescue and Restructuring Guidelines the amount and the intensity of the aid must be limited to the strict minimum of the restructuring costs necessary to enable restructuring to be undertaken in the light of the existing financial resources of the company, its shareholders or the business group to which it belongs. Aid beneficiaries are expected to make a significant contribution to the restructuring plan from their own resources, including the sale of assets that are not essential to the firm's survival, or from external financing at market conditions.

(382) As mentioned in recitals 246 and 247 of the opening decision, the Commission did not have particular doubts about this compatibility criterion. The costs of restructuring, as described in the notification from the French authorities, are EUR [1,3-1,8]* billion. In order to finance its restructuring, the PSA Group has implemented a programme of asset disposals which has provided the Group with EUR 1,956 billion of free cash flow (EUR 2,050 billion in terms of net financial position). By way of reminder, the amount of aid is EUR 571,9 million.

(383) The Commission also considers that the requirement that the aid be limited to the strict minimum necessary to enable restructuring to be undertaken is also met by the commitment by the French authorities to refrain from acquisitions, under the conditions described in recitals 251 *et seq*. The Commission considers that this commitment makes it possible to prevent the PSA Group from using any available financial resources for a purpose other than restoring the Group's viability in the long term.

(384) The Commission therefore considers that it does not have to review the assessment given in the opening decision as to compliance with the criteria listed in points 43 to 45 of the Rescue and Restructuring Guidelines.

8.7. *'ONE TIME, LAST TIME' PRINCIPLE*

(385) In accordance with points 72 *et seq*. of the Rescue and Restructuring Guidelines, restructuring aid should be granted only once over a ten-year period.

(386) The French authorities stated in their notification of 12 March 2013 that the PSA Group had not received restructuring aid during the last 10 years.

(387) The 'one time, last time' principle required by the Rescue and Restructuring Guidelines is therefore satisfied.

9. **CONCLUSION**

(388) Having regard to the commitments entered into by the French authorities, the aid may be deemed to be compatible with the internal market,

HAS ADOPTED THIS DECISION:

Article 1

The State aid that France is planning to implement in favour of the PSA Peugeot Citroën SA Group, in the form of a State guarantee covering the bond issues of Banque PSA Finances up to 31 December 2016 and capped at EUR 7 billion (with a gross grant equivalent of EUR 486 million), and in the form of repayable advances of EUR 85,9 million for the conduct of the 50CO_2Cars R&D project, namely a total amount of aid of EUR 571,9 million, is compatible with the internal market.

The implementation of this State aid is therefore approved.

Article 2

This Decision is addressed to the French Republic.

Done at Brussels, 29 July 2013.

For the Commission
Joaquín ALMUNIA
Vice-President

ANNEX

IMPLEMENTATION AND INDEPENDENT EXPERT

1. APPOINTMENT OF AN INDEPENDENT EXPERT

(1) The French authorities undertake that the PSA Group will appoint an Independent Expert responsible for detailed monitoring of the implementation of the commitments made in the letter of commitments of 23 July 2013 ('the Independent Expert') for the term of the restructuring plan, namely until 31 December 2015.

(2) The Independent Expert is to be independent of the PSA Group. In view of his investment banking, consultancy or accountancy background, the Independent Expert will possess all the expertise and knowledge needed to perform his mandate and may not at any time be subject to a conflict of interests. The remuneration paid to the Independent Expert by the PSA Group will be such that it does not in any way prejudice the effective and independent performance of his tasks.

(3) The French authorities will submit the names of at least two persons or institutions for appointment as Independent Expert for prior approval by the European Commission, no later than four weeks after the date of notification to the French authorities of the Commission's future decision in Case SA.35611.

(4) The proposals by the French authorities must be detailed enough for the European Commission to verify that the Independent Expert satisfies the conditions set out in this commitment. The proposals should contain the following information in particular:

(a) a draft mandate, detailing all the terms under which the Independent Expert is to perform his tasks;

(b) a draft work plan detailing the way in which the Independent Expert proposes to carry out his tasks.

(5) The European Commission may approve or reject the proposed Independent Expert(s) and may approve the draft mandate subject to any changes that it considers necessary for the Independent Expert to be able to perform his tasks. If the European Commission approves only one of the PSA Group's proposals, the Group will appoint that person or institution as Independent Expert or will take the necessary steps for that person or institution to be appointed pursuant to the draft mandate approved by the European Commission. If more than one name is approved, the PSA Group will be free to decide which of the persons or institutions it wishes to appoint as Independent Expert. The Independent Expert will be appointed within one week of approval by the Commission and pursuant to the draft mandate approved by the Commission.

(6) If all the proposals by the French authorities are rejected, the French authorities undertake that the PSA Group will propose at least two further persons or institutions in accordance with the conditions and the procedure set out in this commitment, within two weeks of notification by the European Commission of its rejection of the first proposal.

(7) If the European Commission rejects the French authorities' new proposals, the Commission will appoint an Independent Expert who must be appointed by the PSA Group under the draft mandate approved by the Commission.

2. MISSIONS AND OBLIGATIONS OF THE INDEPENDENT EXPERT

(8) The Independent Expert will (i) assist the European Commission in verifying that the PSA Group is complying with the obligations incumbent upon it under the letter of commitments of 23 July 2013; and (ii) carry out his tasks as defined in the letter of commitments of 23 July 2013. The Independent Expert will perform his tasks pursuant to the work plan approved by the European Commission, which may be amended with the Commission's approval. The European Commission may, on its own initiative or at the request of the Independent Expert or the PSA Group, give instructions to the Independent Expert. The PSA Group may not give instructions to the Independent Expert.

(9) The Independent Expert's mission is to ensure that all the obligations set out in the letter of commitments of 23 July 2013 are complied with and fully implemented and to ensure that the PSA Group implements the restructuring plan notified on 12 March 2013 to the European Commission.

(10) The Independent Expert:

(a) will, in his first report, propose to the European Commission a detailed work plan describing the way in which he will verify compliance with the letter of commitments of 23 July 2013;

(b) will verify that the PSA Group is fully and properly implementing its restructuring plan and in particular:

— that it is implementing the commitments set out in the letter of 23 July 2013 and the compensatory measures described in the letter of commitments of 23 July 2013;

— that it is implementing the viability measures described in point 6 of the letter of commitments of 23 July 2013;

(c) will ensure compliance with all the other commitments set out in the letter of 23 July 2013;

(d) will perform all the other functions assigned to him in the letter of commitments of 23 July 2013;

(e) will propose to the PSA Group any measures that he considers useful for compliance with the commitments set out in the letter of 23 July 2013;

(f) will take account of changes in regulations that may have an impact on liquidity and solvency in order to monitor trends in the main financial indicators relevant to the projections of the PSA Group's restructuring plan;

(g) will furnish the European Commission, the French authorities and the PSA Group with a draft report within 30 days of each six-month period. The European Commission, the French authorities and the PSA Group may propose amendments within five working days. Within five working days of receipt of the comments, the Independent Expert will prepare a final report, taking account, as far as possible and at his discretion, of the comments received. The Independent Expert will then send his report to the European Commission and the French authorities. He may then send his report to the PSA Group. In no case may he send his report to the French authorities or to the PSA Group before sending it to the European Commission. If the Independent Expert's final report contains confidential information on the PSA Group, the Independent Expert may send it a non-confidential version.

The report will in particular describe the steps taken by the Independent Expert to carry out his mission and the PSA Group's compliance with the obligations incumbent upon it under the letter of commitments. It will enable the European Commission to verify that the PSA Group is being managed in accordance with the obligations set out in the letter of commitments of 23 July 2013. If necessary, the European Commission may specify in further detail what it wishes to be included in the report.

In addition to these reports, the Independent Expert will inform the European Commission with due diligence of any failure to comply with the commitments set out in the letter of 23 July 2013 that he may have cause to suspect, at the same time sending a non-confidential version of his letter to the PSA Group.

3. OBLIGATIONS INCUMBENT UPON THE PSA GROUP

(11) The PSA Group will provide, and ensure that its directors provide, subject to the rules of professional confidentiality, any cooperation, assistance and information that the Independent Expert may reasonably require from them in order to carry out his tasks under his mandate. The Independent Expert will have unrestricted access to all information, documents and archives and to all directors or employees of the PSA Group necessary for the performance of his tasks. The PSA Group will provide an office at its premises for the Independent Expert and any PSA Group employee must be willing to meet the Independent Expert and provide him with the information that he needs to carry out his tasks.

(12) Subject to agreement by the PSA Group (which may not be refused or delayed without cause) and at its cost, the Independent Expert may call on any consultants that he wishes, especially for legal or business financing advice, if he considers this necessary for the performance of his tasks pursuant to the letter of commitments of 23 July 2013 and provided that the costs and other fees resulting therefrom are reasonable. If the PSA Group refuses to allow the Independent Expert to call on such consultants, the Commission may approve their appointment after hearing the PSA Group. Only the Independent Expert may issue instructions to these consultants.

4. REPLACEMENT, DISCHARGE AND APPOINTMENT OF A NEW INDEPENDENT EXPERT

(13) If the Independent Expert terminates his functions as described in the commitments set out in the letter of 23 July 2013 or for any other reason, for instance a conflict of interest concerning the Independent Expert:

(a) the Commission may, after hearing the Independent Expert, require the PSA Group to replace him;

(b) the PSA Group may, with the Commission's approval, replace the Independent Expert.

(14) If the Independent Expert is discharged from his duties pursuant to section 4 of this Annex, he may be required to continue to perform his duties until a new Independent Expert is appointed and he has passed on to him all the relevant information he has available. The new Independent Expert will be appointed in accordance with the procedure described in section 1 of this Annex.

(15) Subject to point (13) of this Annex, the Independent Expert may end his duties only after he has been discharged from them by the Commission, once he has fulfilled all the obligations incumbent upon him. However, the Commission may at any time require a new Independent Expert to be appointed if it were subsequently to emerge that the commitments set out in the letter of 23 July 2013 have not been fully and properly complied with.