

## COMMISSION DECISION

of 5 June 2002

## on the State aid which Spain plans to grant Renault España SA

(notified under document number C(2002) 1992)

(Only the Spanish text is authentic)

(Text with EEA relevance)

(2002/900/EC)

THE COMMISSION OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Community, and in particular the first subparagraph of Article 88(2) thereof,

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

Having called on interested parties to submit their comments pursuant to the provisions cited above <sup>(1)</sup>,

Whereas:

## I. PROCEDURE

- (1) By letter dated 15 December 2000 the Spanish authorities notified a plan to grant regional aid to Fabricación de Automóviles Renault España S.A., which is located in Valladolid in the autonomous community of Castile-Leon, Spain ('Renault España'). The Commission requested further information on 26 January 2001 (submitted by the Spanish authorities on 22 and 27 February); on 26 April 2001 (submitted by the Spanish authorities on 28 May 2001); and on 5 July 2001 (submitted by the Spanish authorities on 14 September 2001).
- (2) The Commission decided on 13 November 2001 to initiate proceedings pursuant to Article 88(2) of the Treaty (decision to open the formal investigation procedure), as it found that there were doubts about compatibility with the common market. After a meeting held at the Commission's premises on 8 January 2002, Spain submitted its comments on the initiation of proceedings on 17 January 2002. On 8 March 2002 the Commission visited the Bursa plant (Turkey), where further information was supplied.

- (3) The Commission decision to initiate the procedure was published in the *Official Journal of the European Communities* <sup>(2)</sup>, with an invitation to interested parties to submit their comments on the aid.
- (4) The Commission did not receive any comments from interested parties.

## II. DETAILED DESCRIPTION OF THE AID

The project

- (5) Renault España is a subsidiary of the French automotive group Renault. The notified project concerns the production of two distinct engines of the 'K' family: the K4, a 4-cylinder, 16-valve petrol engine, with 1,4 and 1,6 litre versions, and the K9, a common rail 4-cylinder, 8-valve, 1,5 litre diesel engine.
- (6) The notified project concerns the installation of various production lines for engine components and a new flexible assembly line with a capacity of 1 200 K4 or K9 engines/day. At Valladolid, capacity will increase from 4 800 to 6 000 engines/day. At group level, Renault plans to increase engine production substantially between 1998 and 2005, from 1 600 000 to more than 3 000 000 engines/year.
- (7) According to the notification, the investment programme covers a six-year period, from January 1999 to December 2004.
- (8) According to Spain, the project is mobile, and an alternative site in Bursa, Turkey, was regarded as a viable alternative by the Renault group. The cost-benefit analysis (CBA), however, was carried out on the basis of a hypothetical site within the EEA or the central and

<sup>(1)</sup> OJ C 33, 6.2.2002, p. 13.

<sup>(2)</sup> See footnote 1.

eastern european countries (CEECs). Mioveni in Romania was chosen for its similarities with Bursa as regards location and costs.

Legal basis; investment and aid amounts

- (9) The notified aid will be granted in the form of direct investment aid in accordance with the following provisions: Royal Decree No 78/1997 of 24 January <sup>(3)</sup>, which partially amends the central government's general scheme of regional aid so as to adapt it to the regional aid map for 1994 to 1999 (approved by the Commission by letter dated 7 September 1995, Case N 463/94); Royal Decree No 2486/1996 of 5 December <sup>(4)</sup>; and Decree No 125/2000 of 1 June of the Autonomous Community of Castile-Leon <sup>(5)</sup>, a draft version of which was approved by the Commission on 16 May 2000 (Case N 410/99).
- (10) Renault España intends to invest a nominal amount of EUR 164 530 000, of which EUR 149 441 660 (discounted value: EUR 128 724 990, taking 1999 as the base year and assuming a discount rate of 4,72 %) were regarded as eligible investment by Spain.
- (11) According to the information received in January 2002, the planned aid in nominal values amounts to EUR 22 333 832 gross grant equivalent, the present value of which is EUR 18 366 569. Therefore, the aid intensity would be 14,27 % gross grant equivalent.
- (12) According to the notification, no other Community aid or financing has been allocated to the project.

### III. COMMENTS FROM SPAIN

- (13) On 17 January 2002 the Spanish authorities submitted their comments on the initiation of proceedings. Additional information was provided during the visit to the Bursa plant on 8 March 2002. The Commission has taken the comments and information into account.
- (14) In their comments, the Spanish authorities firstly reaffirm that the project is mobile, and that the Renault group seriously considered the alternative site of Bursa. They also clarified the timetable for the project, and stated that the quality standards for the engine produced would be the same in Valladolid and Bursa. During the visit to Bursa on 8 March 2002, additional documents to prove these claims were made available to the Commission.

(15) Secondly, in their comments of 17 January 2002, the Spanish authorities confirm that the project is an expansion of the existing facilities in Valladolid, which will increase their capacity from 4 800 to approximately 6 000 engines per day. The expansion will require completely new machinery, and therefore any notion of rationalisation or modernisation of the project can be excluded.

(16) Thirdly, the Spanish authorities maintain that only eligible costs have been included in the CBA. Total eligible costs for the project amount to EUR 149 441 660, or EUR 128 724 990 at 1999 values. The investment costs of EUR 154 802 794 reported in the CBA are expressed in 2003 values and, once the appropriate discounting has been carried out, correspond to the amounts mentioned above.

(17) Fourthly, the Spanish authorities clarified the doubts expressed by the Commission about the CBA comparing Valladolid with the hypothetical comparator site of Mioveni (Romania).

(18) Regarding the lack of economies of scale at the comparator site of Mioveni, the Spanish authorities affirm that such diseconomies had already been taken into consideration as regards supplier tooling, transfer of technical staff and a higher proportion of indirect labour. After a more detailed investigation, they assessed the impact of carrying out the investment at Mioveni in the following areas: auxiliary installations and flooring; quality control facilities; and IT systems. These operations would have involved additional costs of EUR 4 650 000, which have been included in an updated CBA.

(19) As regards outward transport costs, the Spanish authorities state that the transport costs for Mioveni have been calculated on the basis of Renault's estimates of its plants' demand in the coming year. A detailed breakdown was submitted, specifying the number of cars assembled outside the Community and intended for Community markets.

(20) As regards potential redundancy costs, the Spanish authorities maintain that a decision not to locate the second flexible line at Valladolid would not have led to redundancy costs at that plant. An increase in engine production at Valladolid (1 800 engines per day) was planned irrespective of the site chosen for the mobile

<sup>(3)</sup> BOE No 34, 8.2.1997, p. 4167.

<sup>(4)</sup> BOE No 3, 3.1.1997, p. 89.

<sup>(5)</sup> BOCyL No 109, 7.6.2000, p. 6901.

project. This capacity increase would be enough to absorb the workers released by outsourcing various operations.

- (21) As regards labour costs, the updated CBA assumes an annual rate of convergence of labour costs at Mioveni of 5 %, in accordance with Commission practice in cases where the comparator plant is located in a CEEC.

#### IV. ASSESSMENT OF THE AID

- (22) The measure notified by Spain concerning Renault España constitutes State aid within the meaning of Article 87(1) of the Treaty. It would be financed by the State or through State resources. Furthermore, as it represents a significant proportion of the project's funding, the aid is liable to distort competition in the Community by giving Renault España an advantage over competitors not receiving aid. Lastly, there is extensive trade between Member States on the automobile market.
- (23) Article 87(2) of the Treaty lists certain types of aid that are compatible with the EC Treaty. In view of the nature and purpose of the aid, and the geographical location of the firm, subparagraphs (a), (b) and (c) are not applicable to the plan in question. Article 87(3) specifies other forms of aid that may be regarded as compatible with the common market. The Commission notes that the project is located in Valladolid, an area which qualifies for assistance under Article 87(3)(a), with a regional ceiling of 35 % net grant equivalent for large companies.
- (24) The aid in question is intended for Renault España, which manufactures and assembles automobiles. The firm is therefore part of the motor vehicle industry within the meaning of the Community framework on State aid to the motor vehicle industry <sup>(6)</sup>(the motor vehicles framework).
- (25) The motor vehicles framework specifies that aid which the public authorities plan to grant to an individual project under an authorised aid scheme for a firm operating in the motor vehicle industry must, in accordance with Article 88(3) of the Treaty, be notified before being granted if either of the following thresholds is reached: (i) total cost of the project equalling EUR 50 million, (ii) total gross aid for the project, whether State aid or aid from Community instruments equalling EUR 5 million. Both the total cost of this project and the amount of aid exceed the notification thresholds. Thus, in notifying the proposed aid for Renault España, the Spanish authorities have complied with the requirements of Article 88(3) of the Treaty.
- (26) According to the motor vehicles framework, the Commission has to ensure that the aid granted is both necessary for the realisation of the project and proportional to the gravity of the problems it is intended to solve. Both tests, necessity and proportionality, must be satisfied if the Commission is to authorise State aid in the motor vehicle industry.
- (27) According to point 3.2(a) of the motor vehicles framework, in order to demonstrate the necessity for regional aid, the aid recipient must clearly prove that it has an economically viable alternative location for its project. If there were no other industrial site, whether new or in existence, capable of receiving the investment in question within the group, the undertaking would be compelled to carry out its project in the sole plant available, even in the absence of aid. Therefore, no regional aid may be authorised for a project that is not geographically mobile.
- (28) The Commission has, with the help of its external automotive expert, assessed the documentation and information provided by Spain, with the view to establishing whether the project is mobile.
- (29) Firstly, the documents made available to the Commission show that in [...] <sup>(\*)</sup> the Renault group carried out an initial comparison of the technical feasibility and the necessary investment at Valladolid and Bursa. Aid was mentioned as a possible element that would at least partially compensate the higher costs at Valladolid. In January 1999 an aid application was submitted to the Spanish authorities. In [...] 1999, the Renault group discussed the Valladolid and Bursa options in more detail at the [...] level. A study was presented, showing that the Bursa location would have been more advantageous from the economic point of view, while Valladolid presented advantages in terms of engineering, possible synergies, and the possibility of State aid. A final decision was postponed to a later stage, pending confirmation of aid possibilities. In March 2000, the [...] opted for the Valladolid site for carrying out the project, again indicating State aid as an important factor in the final decision.
- (30) Secondly, during the on-site visit of 8 March 2002 the Commission was able to verify that the plant is capable of producing complete engines. Although K-type

<sup>(6)</sup> OJ C 279, 15.9.1997, p. 1 (validity extended in OJ C 368, 22.12.2001, p. 10).

<sup>(\*)</sup> Business secret.

- engines are only assembled in Bursa, the site has until very recently carried out machining operations for all the main components (cylinder head, crankshaft, camshaft, cylinder block, flywheel and connecting rods) of C-type engines. The Bursa plant therefore has enough experience of manufacturing complete engines to host the project. Setting up a new engine plant at Bursa would have required a transfer of skilled labour from other plants during the installation and start-up phases. However, this factor does not undermine the fact that engine production is technically feasible at Bursa.
- (31) Thirdly, from the information supplied and from that obtained during the on-site visit of 8 March 2002, the Commission was able to check that the Bursa plant is capable of achieving quality levels comparable to those of other Renault plants. A detailed breakdown of the production operations scheduled at the two sites shows that quality-critical operations would be automated at both plants, while certain non-critical assembly operations would be manual at Bursa and automated at Valladolid.
- (32) It should be noted in this context that the Renault group has a single set of quality standards, which do not vary from one production plant to another. Internal quality indicators ('machining rejects' and 'assembly rectifications') measuring the number of parts failing to meet specifications during the production process indicate a similar number of faulty parts per million at Valladolid and Bursa. Quality indicators for finished products (which have a direct impact on warranty costs) also indicate a similar trend for the different production plants. The target number of defaults for complete engines is the same for every plant of the Renault Nissan venture, irrespective of the level of automation, and has to be achieved by 2005.
- (33) Regional aid intended for modernisation and rationalisation, which is generally not mobile, is not authorised in the motor vehicle industry. However, the project in question consists in expanding current installations by investing in completely new production lines, which are mobile in character.
- (34) In view of the above, the Commission concludes that the project is mobile and can therefore be considered eligible for regional aid, since the aid is necessary to attract the investment to the assisted region.
- (35) The Commission notes that the eligible costs amount to EUR 128 724 990 at 1999 values (discount rate: 4,72 %), as communicated by the Spanish authorities.
- (36) According to point 3.2(c) of the motor vehicles framework the Commission needs to ensure that the planned aid is proportional to the regional problems it is intended to resolve. For that, a CBA is used.
- (37) A CBA compares, with regard to the mobile elements, the costs which an investor would bear in order to carry out the project in the region in question with those it would bear for an identical project in a different location, which makes it possible to determine the specific handicaps of the assisted region concerned. The Commission authorises regional aid within the limit of the regional handicaps resulting from the investment in the comparator plant.
- (38) According to the motor vehicles framework, if a company is comparing one European site (whether in the EEA or the CEECs) with a site outside Europe from which it would import vehicles, the CBA may have to be carried out using a hypothetical alternative site, unless more than half of the production is to be sold outside Europe. The alternative site of Bursa, Turkey, is not within the EEA or the CEECs, and more than half the engines produced will be sold within Europe. Therefore, the CBA must be carried out using a hypothetical European site. In this case, the hypothetical comparator site is Mioveni, in Romania, where Dacia, a car manufacturer controlled by Renault, is located.
- (39) Since the project is an expansion project and not a new development (greenfield site), the operating handicaps of Valladolid compared with Mioveni are assessed over a three-year period in the CBA, in accordance with point 3.2(c) of the motor vehicles framework. The CBA submitted covers the period 2003—2005, i.e. three years from the start of production, as required by point 3.3 of Annex I to the framework.
- (40) With the help of its external automotive expert the Commission has examined the notified cost-benefit analysis with a view to ascertaining how far the proposed regional aid is proportional to the regional problems it seeks to solve. The CBA was amended as explained below to take account of the additional information received from Spain following the initiation of the proceeding.
- (41) Regarding the lack of economies of scale at the comparator site of Mioveni, the new CBA takes account of additional investment costs at the Romanian site. The

Mioveni plant has undergone a rationalisation process in recent years, which has freed a large amount of floor space with the result that additional investment in buildings would not be necessary. However, additional costs of EUR 1 500 000 were included for the renovation of the floor space and for support infrastructure. The plant (which produces E-type engines) already has end-of-line test benches, but additional investment of EUR 3 million is planned for the installation of modern measuring systems for the quality control of machined parts. Lastly, additional investment of EUR 150 000 in IT equipment for logistic planning has been taken into account.

- (42) The Commission considers that the additional investment figure of EUR 4 650 000, coupled with the additional costs already included in the CBA (higher supplier tooling investment, the transfer of technical staff and a higher proportion of indirect labour) adequately expresses the economic disadvantages of Mioveni resulting from the lack of economies of scale.
- (43) As regards outward transport costs, the Commission accepts the breakdown supplied by the Spanish authorities of Renault's forecast demand for its non-Community plants. The fact that production outside the Community is in part intended for Community markets explains why the demand for engines at non-Community plants is higher than local markets can supply.
- (44) As regards potential redundancy costs, the Commission was able to establish that the plan was for engine production at Valladolid to expand, even if the mobile project did not take place there. This expansion would be sufficient to absorb the workers released by outsourcing various operations. The Commission therefore concludes that there would not be any redundancy costs at Valladolid, even if the mobile investment were not carried out in Spain.
- (45) As regards the evolution of wage rates in Romania, the Commission notes that the updated CBA follows its practice for cases where the comparator plant is located in a CEEC by assuming an annual rate of convergence of labour costs at Mioveni of 5 %.
- (46) The above changes in the analysis produce cost-benefit results that differ from those initially notified by Spain. The amended CBA indicates a net cost handicap for

Valladolid of EUR 31 498 101 at 1999 values (compared with the EUR 35 927 252 initially notified). The project's handicap ratio is therefore 24,47 % (as opposed to the 27,91 % initially notified). The determining factor is labour, which is considerably cheaper in Romania than Spain.

- (47) Lastly, the Commission considered the question of a 'top-up', which is an increase in the allowable aid intensity and is intended as a further incentive to the investor to invest in the region in question. The documents supplied show that the capacity of the Renault group will increase in the relevant period both for engines and cars. Therefore, the regional handicap ratio resulting from the CBA is reduced by 1 %, resulting in a final ratio of 23,47 %.

## V. CONCLUSION

- (48) The aid intensity of the project (14,27 % gross grant equivalent) is less than both the disadvantage identified by the cost-benefit analysis (23,47 %) and the regional aid ceiling (35 % net grant equivalent). The regional aid that Spain plans to grant Renault España therefore satisfies the tests of compatibility with the common market under Article 87(3)(a) of the Treaty,

HAS ADOPTED THIS DECISION:

### *Article 1*

The State aid which Spain plans to grant Renault España SA in Valladolid — a nominal EUR 22 333 832 (equivalent to a present value of EUR 18 366 569, taking 1999 as the base year and assuming a discount rate of 4,72 %) — for an eligible investment of EUR 149 441 660 (present value: EUR 128 724 990), is compatible with the common market within the meaning of Article 87(3)(a) of the Treaty.

The aid may therefore be granted.

### *Article 2*

This Decision is addressed to the Kingdom of Spain.

Done at Brussels, 5 June 2002.

*For the Commission*

Mario MONTI

*Member of the Commission*