



Competition *policy brief*

Occasional discussion papers by the Competition Directorate-General of the European Commission

State aid in the automotive sector: an overview

Why do we need rigorous State aid control in the automotive sector?

The EU's automotive sector employs about 12.9 million people, representing 5.3% of the EU's employed population¹. State support to the automotive sector, in particular regional investment aid, and to some extent research and development and innovation (R&D&I) aid, has been historically significant in terms of overall aid volumes, individual amounts of aid granted, and number of cases.

Due to the important job creation and other positive effects expected from investments in the car sector, Member States have been contributing large amounts of aid to investments in the sector (approximately EUR 1.8 billion over the period 2007-2014). This is done to attract new production, or to prevent relocation or closure of plants when production of old models is phased out.

In particular, during the financial and economic crisis Member States, but also all other major producer countries, made particular efforts to support this sector.

As a result, notably in Europe, and in particular in the lower segments of the passenger car market, serious overcapacity emerged in the aftermath of the crisis. Overall car sales in Western Europe have fallen by almost a quarter between 2007 and 2013². Currently car sales in all segments are more or less stagnating in Europe, whereas outside Europe many regions experienced significant growth rates in recent years, in particular in the higher market segments.

As a consequence, European producers that concentrated on national or the EEA market and lower market segments have experienced difficulties over the past years. At the same time,

¹ European Automobile Manufacturers Association (ACEA): http://www.acea.be/uploads/statistic_documents/POCKET_GUIDE_13_26.pdf.

² ACEA: http://www.acea.be/uploads/publications/POCKET_GUIDE_13.pdf.

manufacturers producing cars in the higher segments, which had access to efficient distribution networks outside Europe, could expand their market shares and compensate for the more difficult market situation in Europe.

To prevent subsidy races and the building up or maintenance of inefficient market structures, the Commission has been imposing discipline on aid to the car sector in recent years, and has adopted under the Regional Aid Guidelines 2014-20 a series of provisions which allow it to look carefully at regional aid, in particular, to the car sector.

What rules did the Commission apply to investments in the car sector between 2007 and mid-2014?

Regional aid

Most of the investments in this capital-intensive sector are very large, resulting in high aid amounts, so the threshold which requires individual notification of the planned aid to the Commission is often reached. For aid to notifiable large investment projects, the Guidelines on National Regional Aid 2007-2013³ required the Commission to assess the market power, i.e. the market shares of the beneficiaries, and the capacity increase created by the aided project. So the Commission first has to establish the appropriate product and geographic market.

³ OJ C 54, 04.03.2006, p. 13.

In a nutshell

In the car sector certain segments have been struggling with structural overcapacity and dropping or stagnating sales volumes. Significant volumes of public support by Member States have been injected into the sector, and State aid control ensures that this is not at the expense of competition.

If these large amounts of aid benefitted an undertaking with a market share exceeding 25% of the relevant product market, or concerned an investment that would lead to a substantial capacity increase on a market in absolute or relative decline (compared to the average development of the EEA GDP), the Commission was obliged to open a formal investigation procedure and to carry out an in-depth investigation. In the context of this in-depth investigation, the Commission had to verify the existence of an incentive effect (i.e. whether the aid actually changed the behaviour of the company, instead of merely subsidising projects that it would have carried out anyway) and the proportionality of the aid (i.e. whether it does not go beyond what is necessary for this incentive effect). It also had to balance the benefits of the aid in terms of regional development and job creation against the negative effects it could have on competitors.

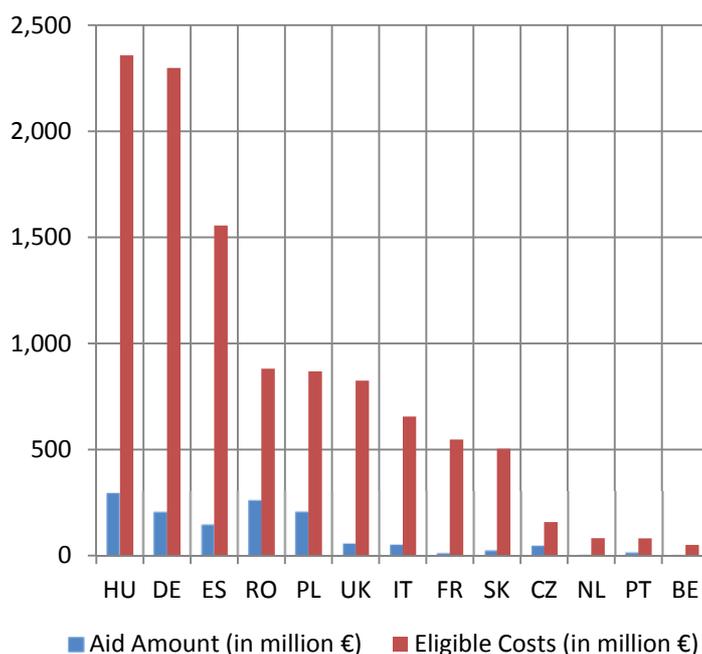
Between 2007 and June 2014, the Commission assessed 20 notifiable cases of regional investment aid in the car sector with a total notified volume of aid of EUR 952.25 million for investments worth almost EUR 8 billion in total. Twelve of these cases were approved by the Commission: ten in the preliminary phase (e.g. for Ford, Fiat, Mercedes, Volkswagen, Jaguar), and two cases (Porsche Leipzig and BMW Leipzig) following a formal investigation and in-depth assessment. Most aid approvals in the preliminary examination took place before mid-2011, when the post-crisis level of overcapacity became apparent. For the BMW case, only part of the notified aid was approved. The total aid approved amounts to EUR 441 million, which is less than half of the notified volume.

During the same period, 2007 through June 2014, not all regional investment aid to the car sector was individually notifiable to the Commission. Member States could also grant aid up to the notification threshold (depending on the region this threshold varies from EUR 7.5 million to EUR 37.5 million) under the General Block Exemption Regulation, which exempts certain categories of aid from prior notification. Since January 2007, the Commission has been informed of 44 such cases in the car sector, where Member States granted a total aid amount of EUR 862 million for large investment projects (investment projects with eligible expenditure exceeding EUR 50 million) of a total value of almost EUR 7 billion.

Member States used this possibility frequently so as not to exceed the thresholds for individual notifications that are defined in maximum aid amounts, and thus not to require Commission scrutiny. In fact, in six notified cases (Audi Hungary, Volkswagen Sachsen, Linamar, Fiat Poland, Revoz Slovenia, and Ford Spain), they withdrew notifications after the Commission had opened the formal investigation to carry out the in-depth assessment. In these situations, the ongoing in-depth assessment most likely would have shown that the incentive effect of the aid could not be proven or that the aid amount was too high, leading the Commission to determine that the aid was not necessary, as the

company would have gone ahead with the project anyway, without any aid or with reduced aid. The projects still went ahead but with lower aid amounts, thus saving taxpayers' money.

In addition, the Commission was in preliminary contact with several Member States about many further large aid projects. It voiced concerns about the effects of the intended aid measures on trade and competition. Several of these projects were not pursued further by the countries at the originally intended aid level, with most of them nevertheless moving ahead with no or considerably less State support.



R&D&I aid

Aid for Research & Development & Innovation to the car sector can be granted under approved and block exempted schemes, which in most cases are not sector-specific.

Since 2007, 61 cases covering a total amount of aid of approximately EUR 341 million granted in the form of direct grants to the car manufacturing value chain have been notified to the Commission.

For example, in 2008, the Commission authorised EUR 61 million in aid for the French project LowCO2Motion⁴, aimed at developing soft hybridisation and camless engines for motor vehicles in order to reduce fuel consumption. The project leader, and main aid beneficiary (EUR 55 million) was Valeo. The Commission approved the aid since, in particular, it addressed market failures and would bring significant environmental benefits.

⁴ Case N 597/2007.

In 2013, the Commission also authorised two further French large R&D&I aids to the Essencyele⁵ and HYDIVU⁶ projects, aiming respectively at developing mild hybridisation solutions for petrol car engines and a hybrid diesel SUV car engine. The project leaders and main aid beneficiaries were Valeo (EUR 24 million for Essencyele) and Renault (EUR 21 million for HYDIVU).

Rescue and restructuring aid

In July 2013, the Commission cleared a EUR 7.5 billion restructuring plan by the struggling French car firm PSA, including the State aid to back it. The French government aid was intended to guarantee a bond issue of up to EUR 7.0 billion by the company. The Commission approved the aid as it was accompanied by a credible restructuring plan and by commitments ensuring that competition distortions would remain limited.

Background of State aid control in the car sector

As from 1989, and until the end of 2006, regional investment aid to the automotive industry was regulated by sector-specific rules. Investment aid to projects in this sector in assisted regions was reduced to a level below that permitted for other sectors (e.g. under MSF⁷ 2002 it was limited to 30% of the applicable regional aid ceiling).

The Regional Aid Guidelines 2007-2013 put an end to the special rules for the car industry and from January 2007 to June 2014 the general rules for regional investment aid were applied also to this sector. This meant that the standard regional aid ceilings applied to aid for car sector investments. The aid granted to large companies was subject to thorough scrutiny in the context of the in-depth investigation.

The future of Regional aid to the car sector

The Regional aid guidelines for 2014-2020 were adopted in June 2013 and apply to all notifiable aid to be granted after 30 June 2014.

These guidelines require an in-depth assessment of the incentive effect, the proportionality and the contribution to regional development, as well as a balancing of the positive and negative effects of the aid for all cases exceeding the notification threshold.

The new rules thus provide for a more detailed economic assessment of the intended aid measures, more closely judging

their actual competitive impact. In particular, the Commission has to establish that the envisaged aid does not run counter to the very rationale of EU cohesion policy, by attracting investment from a region with a comparable or worse socio-economic condition where the investment would have been implemented if no aid were granted. Except for the worst off regions (below 45% of the EU GDP average), aid intensity ceilings were reduced.

In areas declared eligible for regional aid pursuant to Article 107(3)(c) TFEU, the access of large firms to aid is limited to initial investments for new economic activities, or for the diversification of existing activities into new products or new process innovations. This implies that fewer investment projects of car manufacturers are likely to be eligible for regional aid outside of the most disadvantaged areas.

Indeed, evidence shows that large companies' decisions to invest in a given region are prompted by factors such as the cost and availability of production factors (workforce, land, capital, etc.) and the general economic context (taxes, business environment), rather than by State aid. Granting aid in such a context, where a large company would have invested in any event, amounts to handing out "free money" that merely reduces the company's ordinary operation costs, which its competitors have to meet without aid. This leads to a waste of taxpayers' money and to competition distortions in the single market with damaging effects on growth and jobs.

A further feature of the new State aid architecture is that all regional aid granted to firms that closed down the same or similar activities elsewhere in the EEA over the last two years, or intend to close down such activities in the two years following the completion of the investment, have to be notified individually, independent of the aid amounts concerned. If the envisaged regional aid might cause activities to cease in one area of the EEA in favour of another, it will most likely not be approved. This provision is likely to be relevant for many aid projects in the car sector.

⁵ Case SA.34666.

⁶ Case SA.34668.

⁷ Multi-sectorial framework for regional aid to large projects, OJ C 70, 19.3.2002, p. 8, amended by Commission communication on the modification of the MSF 2002, OJ C 263 of 1.11.2003.