Recent training aid cases in the car industry (1)

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In recent years the car manufacturing industry in Europe has been through difficult times. Some large car manufacturers have announced and undertaken major workforce reductions and plant closures. It has also become clear that large car manufacturers put their plants in competition, where the production of new models is to be allocated. The plants have to “bid” for those models, and the mother company compares the total production costs, including potential state aid, of the different plants. In view of these sector developments, authorities may be encouraged to grant operating aid in order to limit the size of the workforce reduction in their country, to retain existing activities, or to attract new ones. In the assessment of the compatibility of large training aid projects with the common market, the Commission has recently adopted a more careful approach, taking into account this changing economic reality. In particular, it has verified in more detail that the aid indeed covers training activities which would not be undertaken by the firm without aid, and thereby contributes to the European common interest by increasing the pool of skilled workers and improving the competitiveness of Community industry.

In the State Aid Action Plan, the Commission has committed itself to make use of a refined economic approach in order to achieve on the one hand “a more transparent evaluation of distortions to competition and trade associated with State aid measures”, and on the other hand “to investigate why the market by itself does not deliver the desired objectives and evaluate the benefits of state aid measures in reaching these objectives”. The refined economic approach is therefore expected to increase the efficiency and effectiveness of State aid, by means of a careful balance between clear ex-ante rules and precise methodology for assessment of more complex cases. The more cautious approach adopted by the Commission in recent training aid cases in the car industry should be seen in this context.

1. Recent training aid cases in the car manufacturing industry

In the course of the last year, the Commission has adopted three final decisions concerning training aid in the car industry. In addition there is a fourth case, for which the formal investigation procedure was opened, where the Commission has not yet taken a final decision.

Ford Genk

The planned aid to Ford in Genk (2) was notified in June 2005. The Belgian authorities envisaged granting training aid of EUR 12.28 mio. for eligible costs of EUR 8.84 mio., covering a period of 3 years (2004-2006). In November 2005 the Commission opened a formal investigation procedure, which was subsequently closed by means of a partially negative decision in July 2006 (3).

Among the training aid measures notified by Belgium, two are of particular interest for the present purposes. They concerned aid in support of “launch costs” training expenses (training the workforce for the production of new models), and of training deriving from the company’s restructuring (4). The Commission’s assessment of these measures established the pattern under which subsequent (similar) cases are to be analysed, and will be explained below in further detail.

(1) The content of this article does not necessarily reflect the official position of the European Communities. Responsibility for the information and views expressed lies entirely with the authors.

(2) The Ford Genk plant, part of the Ford Motor Company, was opened in 1964, and has since then produced more than 12 million vehicles. At the end of 2003, it underwent — in the context of a general restructuring of Ford Europe — a significant reduction of staff, involving about 3,000 employees, out of a total workforce of 9,000. At the same time, the company announced an investment programme of about EUR 700 mio., primarily devoted to a new flexible manufacturing system. As a result, the existing production of the Mondeo model would be complemented with the next generation Galaxy and with a third vehicle. In 2005, the plant employed 3,000 people and produced 207,163 vehicles.


(4) In order to guarantee continuity of production and quality after the restructuring implemented between December 2003 and April 2004, a number of experienced employees were requested to stay for some additional weeks or months, to train their successors.
**General Motors Antwerp**

Belgium notified in December 2005 the intention of the Flemish region to grant EUR 5.33 million to GM Antwerp (5), for a training programme costing EUR 19.95 mio. The supported training activities would take place in the context of GM Antwerp’s EUR 127 mio investment programme for the period 2005-2007, that will allow the production of an additional version of the Astra (6) and a doubling of the plant’s press activity (7).

In April 2006 the Commission decided to open a formal investigation procedure (8), which was subsequently closed by means of a partially negative decision in February 2007 (9).

**Auto Europa**

The Portuguese authorities notified the planned training aid to Auto Europa (10) in December 2005.

Auto Europa planned investments for the launching of new vehicles in several market segments (cabrio/coupé, Multi Purpose Vehicle, etc.). In this context, the Portuguese authorities proposed to grant (ad hoc) training aid amounting to EUR 3.55 mio., for a period of 3 years (2004-2006). The total eligible costs of the training project were EUR 10.90 mio.

In May 2006 the Commission opened a formal investigation procedure (11).

**Webasto**

The training aid to Webasto (12) was notified by Portugal in December 2005. The Portuguese authorities proposed to grant training aid amounting to EUR 3.43 mio., for a period of 3 years (2004-2006). Eligible costs were EUR 6.85 mio. The training programme intended to prepare the newly recruited personnel for Webasto’s start of activities (13). 96% of the training effort (in volume) was allocated to general training.

In May 2006 the Commission endorsed the aid (14). The particular circumstances leading to that approval are analysed below in further detail.

**2. Necessity of the aid**

The necessity of the aid is a general requirement for compatibility of State aid under Art 87(3)(c) of the Treaty. An aid is necessary when it induces undertakings to do something that otherwise they would not do under normal market conditions. Only under these circumstances the aid might allow the company to “internalize” positive externalities (15).

Where the aid does not lead to additional activities being undertaken by the beneficiary, it cannot be deemed to have any positive effect for the common interest. It is then considered to be only distortive operating aid, and cannot be authorised. Using the wording of Article 87(3)(c) of the EC Treaty, the aid does not "facilitate the development of economic activities" if the company would have undertaken the supported activities in any event, and notably in the absence of aid.

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(5) General Motors Belgium NV in Antwerp is part of the General Motors Corporation. The plant, which was opened in 1924, employs 5,000 people and produces the Opel Astra.

(6) In addition to the 3 versions already produced, the plant will manufacture the Astra TwinTop with retractable hardtop (the “cabrio”). Until now, the “cabrio” version was not produced by GM Europe, but outsourced to the Italian company Bertone.

(7) The extension of the press activity is part of GM Europe’s strategy to have a better match with local needs. The higher grade of self-supply in bodywork parts and the more efficient logistic between different subsidiaries of the group allow to reduce the transport of parts between plants.


(9) Not yet published.

(10) Auto Europa- Automóveis, Lda. (“Auto Europa”) was established in 1991, as a joint venture between Volkswagen and Ford. In 1999 Volkswagen acquired the totality of the company’s capital. Auto Europa has a single production plant in Setúbal (a region falling under Article 87(3)(c)), where it currently produces several models (VW Sharan, SEAT Alhambra, Ford Galaxy and the VW Eos), and employs 2,790 people.


(12) Webasto Portugal- Sistemas para Automóveis, Lda. (“Webasto”) is a component supplier for Auto Europa. The company was established in 2003, also in the Setúbal area, in order to provide Auto Europa with convertible tops for the new “Eos” model. Webasto’s capital is shared between Webasto AG (Germany) and Webasto France SAS. In 2004, the company had no turnover, since the “Eos” has not started production yet.

(13) According to the information provided by Portugal, the retractable hardtop produced by Webasto is characterised by the use of state-of-the-art technology, that is new in the country. Because of the complexity of this product, the Webasto group has opted for the construction of a brand new plant in Portugal in order to supply Auto Europa. This plant represents the group’s main investment outside of Germany. For this purpose, the Portuguese plant recruited 273 workers.


(15) NB- the necessity of the aid is a necessary condition for compatibility of the aid, but of course not a sufficient one.
Although the Training aid Regulation (16) does not mention explicitly the incentive effect/ necessity of the aid as a stand-alone criterion for compatibility, it refers to the question in an indirect manner by stressing, in point 11 of the preamble, that:

“In order to ensure that State aid is limited to the minimum necessary to obtain the Community objective which market forces alone would not make possible, the permissible intensities of exempted aid should be modulated according to the type of training provided, the size of the enterprise and its geographical location” (emphasis added)

In this context, point 10 of the preamble refers to the specific community objective and to the market failure that the training aid is meant to address:

“Training usually has positive external effects for society as a whole since it increases the pool of skilled workers from which other firms may draw, improves the competitiveness of Community industry and plays an important role in employment strategy. In view of the fact that enterprises in the Community generally underinvest in the training of their workers, State aid might help to correct this market imperfection and therefore can be considered under certain conditions to be compatible with the common market and therefore exempted from prior notification” (emphasis added)

In this light, the market failure acknowledged by the Regulation is that firms “underinvest in the training of their workers”, as compared to what would be optimal for the total welfare of the Community. Indeed, when planning new training activities, a company will usually compare the cost of those activities with the benefits it can draw from them (such as increased productivity or the ability to produce new products). The company will generally not take into account the benefits for the society as a whole, which it is not able to capture for itself. It will also consider whether there are (cheaper) alternatives to training, such as for instance the hiring of already skilled workforce (possibly at the expense of existing employees). Therefore, in certain cases training aid effectively addresses a specific market failure. Under these circumstances, aid is “necessary to obtain the Community objective which market forces alone would not make possible”.

In the past, the Commission has not analysed in detail the necessity of training aid (17). This, however, does not deprive it from doing so once it notices that the economic conditions in the sector concerned have evolved.

In this light, it is with the Ford Genk case — and, more generally, with the recent cases in the car industry — that the Commission has for the first time carried out a specific scrutiny of the necessity of training aid. This scrutiny has focused, at a first stage, on training related to activities that belong to the normal running of a car company, such as the launching of new models.

3. Launch of new models

Over the last two years, the Commission has accumulated evidence that, for the production of new models, large car manufacturers often put their production plants, located in different Member States, in competition with each other. They first consider the comparative advantages of several plants for the launching of the new product, and then decide on the location to be retained on the basis of total costs, including government support such as training aid. This increased competition between plants seems to result form the higher flexibility of production lines, which can now accommodate more easily the production of additional models. Thus, it is less difficult for car companies to shift the production of model from one plant to another.

In view of this economic reality, there is a risk that certain training aid does not contribute to the objective of common interest laid down in paragraph 10 of the Regulation —inciting the companies to undertake additional training activities-, but simply constitutes distortive operating aid aimed at retaining or attracting the production of certain models at a certain site, and to cover training expenses that the company would have incurred anyway. Consequently, the Commission scrutinized more carefully the necessity of aid “in order to ensure that State aid is limited to the minimum necessary to obtain the Community objective which market forces alone would not make possible”. Such assessment is even more justified in view of the current market situation in the motor vehicle sector, characterised by significant overcapacities.


In this light, the Commission observed in the *Ford Genk* case that automotive products become obso-
leite quite rapidly. The frequent introduction of new models is necessary to maintain competitiveness. 
Therefore, the production of a new model is a normal and regular feature of this industry. In order to 
produce new models, car manufacturers need to train their workforce on the new techniques to 
be adopted. Consequently, the training expenses associated with — and necessary for — the launch-
ing of the new model are normally incurred on the sole basis of the market incentive. The Commis-
sion thus considered that the training activities in question would have been undertaken by the 
company in any event, and notably in the absence of aid, and that therefore the aid was not necessary 
and thus not justified.

4. Further operational expenses

Other than for the launching of new models (per-
haps the clearest example in the car industry of an 
activity which is undertaken on the basis of the 
market forces alone), the Commission has applied 
the reasoning mentioned above to the assessment 
of training aid linked to other activities that also 
belong to the core business of the companies. Such 
kind of aid, in the Commission’s view, might be 
covering normal operating costs, and therefore 
constitutes distortive operating aid.

In the *Ford Genk* case, the Commission had to 
assess aid for training in the framework of the 
restructuring of the plant. The Commission con-
cluded that the expenses to train the employees 
that will occupy a new function following the 
reorganisation of the plant are a normal and indis-
pensable part of the restructuring costs: once the 
company has decided to lay off a significant part 
of its personnel (in order to save costs), temporary 
training in favour of replacing employees is indis-
pensable for ensuring the continuity of production 
and quality. Consequently, a training aid in this 
context would only subsidise restructuring costs 
that the company would incur anyway, even with-
out aid. The Commission thus considered that the 
aid was not necessary and, in any event, would not 
result in additional training.18

Likewise, in *GM Antwerp*, the Commission 
obsvsed, in relation to the extension of the press 
activity, that the related training expenses seemed 
necessary for (increasing) the production of car 
parts, which is a normal activity in the auto-
mobile industry. Car parts constitute an important 
and indispensable input to the assembly plant, 
and represent a significant part of the cost of the 
car. Thus, market forces alone seemed sufficient to 
encourage the company to incur the correspond-
ing trainings cost.

5. The case of Webasto

In contrast to the prior examples, in the *Webasto* 
case the Commission has explicitly acknowledged 
that the new — higher — standard on necessity of 
the aid has been complied with.

However, the reasoning in the decision makes 
clear that the Commission has founded this 
conclusion on the specific characteristics of the 
Webasto project, namely:

1. The training programme seemed to exceed the 
basic work needs of the beneficiary. This was 
reflected by the fact that the large majority of 
training courses (96% in terms of volume) con-
cerned the transmission of transferable skills, 
i.e., general training which might potentially 
also benefit other firms, and not skills which 
are specific and limited to the operation of 
Webasto;

2. The training sought preparation of employees 
that were newly recruited, for the beginning of 
activities in a brand new plant. In particular, it 
is likely that the aid had played a role in over-
coming the competitive disadvantage resulting 
from the weak qualification of workforce in the 
region;

3. The technology involved in the production 
of this type of retractable hardtops was not 
available in Portugal, and had to be imported 
from the German mother company. The new 
know-how would arguably contribute to raise 
the technical qualifications of the workers 
concerned, and thus improve their degree of 
employability.

Implicit in the two last arguments is the conclu-
sion that the firm had the possibility not to incur 
these training expenses by locating in a country 
where the requested skills were already avail-
able. Therefore, the aid seems necessary to offset 
the higher training costs resulting from the weak 
qualification in the region. In addition, the aid 
contributes to increase the pool of skilled workers 
at the European level.

It results from *Webasto* that factors such as the 
predominance of general training, the beginning 
of activities in a new plant in a region with weak

(18) The Commission also noted that, contrary to the ratio-
nale of training aid as described in paragraph 10 of the 
Regulation, the restructuring at stake had led to a reduc-
tion of the pool of skilled workers available, and there-
fore seemed against the explicit objective of the Regula-
tion.
qualification of workforce and the introduction of new know-how, are of a nature — when taken together — to facilitate the Commission’s recognition of the aid’s incentive effect. However, by referring so clearly to the specific circumstances of that particular project, the Webasto decision explicitly avoids any attempt of generality, and points to a case-by-case analysis of the conditions attached to each aid proposal.

6. Conclusion

In the context of training aid, the observation of changes in the economic reality of the car manufacturing industry have led the Commission to undertake a stricter verification of the necessity of the aid, and of its contribution to the objective of common interest. In recent cases concerning the car industry, the Commission has concluded that training activities which are normally undertaken by companies on the basis of market incentives (such as those relating to the launching of new models) cannot be considered eligible for aid. The Commission based its assessment on the specific circumstances of each case, in consistence with the principles of economic analysis.

Of course, this stricter verification of the necessity of training aid will not be limited in the future to the car manufacturing industry, in order to increase, in line with the State Aid Action Plan, the efficiency and effectiveness of State aid.