



EUROPEAN COMMISSION

Brussels, 10.V.2007

C(2007) 1973

In the published version of this decision, some information has been omitted, pursuant to articles 24 and 25 of Council Regulation (EC) No 659/1999 of 22 March 1999 laying down detailed rules for the application of Article 93 of the EC Treaty, concerning non-disclosure of information covered by professional secrecy. The omissions are shown thus [...].

**PUBLIC VERSION
WORKING LANGUAGE**

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**Subject: Corrigendum to Commission decision C(2007)1973 of 10 May 2007
State aid N 661/2006 – Czech Republic
Investment incentives for Hyundai Motor Manufacturing Czech s.r.o.**

Sir,

1 PROCEDURE

- (1) By electronic notification dated 6 October 2006, registered the same day at the Commission, the Czech Republic notified, pursuant to Article 88(3) of the EC Treaty, an *ad hoc* regional aid for a large investment project in favour of Hyundai Motor Manufacturing Czech s.r.o.
- (2) By letters of 19 October 2006 (D/59081), 20 December 2006 (D/60429), and 14 February 2007 (D/50612), the Commission asked for complementary information concerning the above mentioned measure.
- (3) The Czech authorities transmitted additional information by letters dated 25 October 2006, 21 December 2006 and 21 March 2007, registered on 25 October 2006 (A/38529), 21 December 2006 (A/40534) and 21 March 2007 (A/32469).
- (4) In addition, at the request of the Czech authorities, on 29 November 2006, a meeting with the Commission services took place in order to provide further clarifications on the measure in question.

2 DESCRIPTION OF THE AID MEASURE

- (5) The aid project aims at promoting regional development. The investment is to take place in the municipality of Nošovice, close to Frýdek-Místek, situated in the region of Moravia-Silesia, an assisted area pursuant to Article 87(3)(a) of the EC Treaty, with an aid intensity ceiling of 50%

NGE, according to the regional aid map established for the Czech Republic and in force till the end of 2006¹. It is expected to create some 4 400 direct jobs by 2011.

- (6) The notified aid concerns an investment project by Hyundai Motor Manufacturing Czech s.r.o. (hereafter: HMMC) which constitutes part of a comprehensive investment project where HMMC, the main investor, invests together with its suppliers Hyundai Mobis Automotive Czech s.r.o. (hereafter: Mobis Czech), a Czech wholly-owned subsidiary of Hyundai Hysco Co. Ltd. (hereafter: Hysco Czech) and Dymos Czech Republic s.r.o. (hereafter: Dymos Czech)². The eligible expenditure of the overall project is CZK 35 438 862 699 (nominal value, approx. EUR 1.25 billion³).
- (7) The Czech authorities intend to provide regional investment aid (partly *ad hoc* and partly under an existing aid scheme) to HMMC in the nominal amount of CZK 5 528 089 346 (approx. EUR 194.49 million), for the setting up of an automobile manufacturing plant in the Czech Republic. The total eligible cost of the HMMC investment will amount to CZK 32 619 601 699 (approx. EUR 1.148 billion)⁴.

¹ State Aid CZ 45/2003 – Czech Republic – “Prolongation of the Czech regional aid map for the period from 1 May 2004 to 31 December 2006”.

² The three following suppliers are located on the HMMC site or adjacent to it:

- Mobis Czech is a wholly-owned subsidiary of Hyundai Mobis Co. Ltd, registered in Seoul, Republic of Korea. KIA Motors holds 18.15% in Hyundai Mobis Co. Ltd.
- Hysco Czech is a wholly-owned subsidiary of Hyundai Hysco Co. Ltd., registered in Chungcheongnam-Do, Republic of Korea. HMC, the mother company of HMMC, and KIA Motors hold 26.13% resp. 13.91% in Hyundai Hysco Co. Ltd.
- Dymos Czech is a wholly-owned subsidiary of Dymos Inc., registered in Chungcheongnam-Do, Republic of Korea. HMC and KIA Motors hold 47% resp. 45% in Dymos Inc.

³ The exchange rate used for the conversion of the amounts in euro is EUR 1 = CZK 28.423 (October 2006).

⁴ In the context of the notification of the regional aid to HMMC, the Czech authorities informed the Commission on regional investment aid granted to suppliers of HMMC. Section 7.8 of the Investment Agreement indicates that the Czech Republic will provide the suppliers to the project with the maximum available investment incentives pursuant to the Investment Incentives Act, including job creation grants, land, and income tax relief. Section 7.9 mentions that "subject to compliance with the Czech and EU laws in respect of procurement matters, if applicable, HMC shall be free to select (using its own procurement process) and use any suppliers it determines". The aid to the suppliers is fully covered by the existing aid scheme N 259/2004 (Commission decision of 14 July 2004, Investment incentives law (amendment), C(2004)2631 fin, OJ C 33, 8.2.2005, p. 6) and the regional investment aid to be provided to these suppliers will be limited to 15% NGE insofar as the relevant investments form part of an overall investment project in the motor vehicle sector in the meaning of Annex C, point (e) to the Multisectoral framework on regional aid for large investment projects (OJ C 70, 19.3.2002, p. 8, as amended in OJ C 263, 1.11.2003, p. 3 - hereafter: MSF-2002):

- Regional aid to Hyundai Mobis Automotive Czech s.r.o. in the nominal amount of CZK 260 387 311, for the setting up of a car module manufacturing plant in the Czech Republic, within the HMMC site. The total eligible cost of the investment project will amount to CZK [...]*
- Regional aid to the future Czech subsidiary of Hyundai Hysco Co. in the nominal amount of CZK 85 076 101, for the setting up of a plant for the manufacturing of steel parts and weight reducing products for cars in the Czech Republic, within the HMMC site. The total eligible cost of the investment project will amount to CZK [...].
- Regional aid to Dymos Czech Republic s.r.o. in the nominal amount of CZK 135 250 856, for the setting up of an automobile seat manufacturing plant in the Czech Republic, adjacent to the HMMC car manufacturing plant. The total eligible cost of the investment project will amount to CZK [...].

2.1 The beneficiary

- (8) The beneficiary of the notified aid, HMMC, a limited liability company, with its registered office in Ostrava, Czech Republic, is a 100% affiliated company of Hyundai Motor Company⁵ (hereafter: HMC), registered in Seoul, Republic of Korea.

2.2 The investment project

- (9) The HMMC investment concerns the development, construction and operation of an automobile manufacturing plant designed for full-scale assembly line production of automobiles with an initial production capacity of 200 000 vehicles per year, which may be expanded within the same premises to a production capacity of 300 000 vehicles per year⁶. The project will include a pressing (stamping) shop, welding shop, paint shop, transmission plant, preassembly hall and assembly hall, excluding an engine manufacturing facility. The investment started in July 2006 and is planned to be completed in December 2010. Start of trial production is foreseen for September 2008, start of commercial production for March 2009. Full production of 300 000 cars annually is planned to be reached by 2012. The investment is expected to create 3 514 new jobs.
- (10) Mobis Czech plans to build and operate a car module manufacturing plant for the production of e.g. chassis modules, cockpit modules and front end modules. The investment started in December 2006 and is planned to be completed in December 2011. Start of the production is foreseen for December 2008. It is envisaged that over the whole investment period Mobis Czech will sell more than [...] % of its output to HMMC. The investment is expected to create [...] new jobs.
- (11) Hysco Czech plans to build and operate a plant for the manufacturing of steel parts (made from steel coils) and weight reducing products (tailor-welded blanks) for the car sector. It is envisaged that the investment will include [...]. The investment will start in April 2007 and is planned to be completed in December 2008. Start of the production is foreseen for October 2008. It is envisaged that over the whole investment period Hysco Czech will sell more than [...] % of its output to HMMC. The investment is expected to create [...] new jobs.
- (12) Dymos Czech plans to build and operate a plant for the manufacturing of automobile seats (e.g. seats for passenger cars, SUVs and MPVs). The investment started in December 2006 and is planned to be completed in December 2010. Start of the production is foreseen for July 2008. It is envisaged that over the whole investment period Dymos Czech will sell [...] % of its output to HMMC⁷. The investment is expected to create [...] new jobs.

* Covered by the obligation of professional secrecy.

⁵ HMC and KIA Motors are partner enterprises insofar as HMC holds a share of 38.7% in KIA Motors. The largest shareholder of HMC is Hyundai Mobis (14.6%), the largest shareholder of which is KIA Motors (10.5%).

⁶ The amount of eligible costs is based on the maximum size of the project, i.e. a production capacity of 300 000 vehicles per year.

⁷ [...].

2.3 Legal basis

- (13) The awarding of the *ad hoc* aid to HMMC is based on the following national legal basis:
- Government Decree No 310/2004, on the permissible level of state aid;
 - Investment Agreement concluded on 18 May 2006 between Hyundai Motor Company and the Czech Republic, the Moravia-Silesia Region and the Investment and Business Development Agency CzechInvest (hereafter: Investment Agreement).

2.4 Form and amount of aid

- (14) The regional investment aid package granted to the investment of HMMC consists of notified *ad hoc* aid as well as various non-notifiable aids granted under an existing aid scheme⁸.
- (15) The notified *ad hoc* aid in the amount of CZK 3 154 917 500 (approx. EUR 111 million) to HMMC is granted in the following forms and amounts:
- Cash grant for capital investment (maximum CZK 2 414 917 500). The cash grant will be provided under section 7.1.2 of the Investment Agreement. The cash grant shall be used for the land purchase and the construction and equipping of the project facilities.
 - Transfer of land at reduced price (aid amounting to CZK 740 000 000). The project involves a public land sale from the Moravia-Silesia Region to the beneficiary. The purchase will be affected by one or more purchase agreements for the land constituting the site of the investment project. The land of approximately 200 hectares is part of an industrial zone of 260 hectares in total. The market value of the land set in an independent appraisal⁹ amounts to approx. CZK 860 000 000 while the purchase price shall be approx. CZK 120 000 000. The difference between the reduced price of the land in total and the market value of the land in total, being approx. CZK 740 000 000, will be deemed to be state aid provided to the beneficiary. The aid will be provided under sections 6.1 and 6.2 of the Investment Agreement (appendices 14 and 15 to the Investment Agreement). The aid is not subject to taxation as the land is not depreciated.

It is envisaged that HMMC will sell or lease part of the acquired land to its suppliers ([...] ha to Mobis Czech and [...] ha to Hysco Czech). This operation will be concluded on market

⁸ The Czech authorities also provide regional investment aid under the existing aid scheme N 259/2004:

- Income tax relief will be granted in the amount of CZK 1 670 371 846. This amount was calculated as the difference between the total value of the permissible aid intensity of 15% NGE and the sum of the other state aid measures concerning regional aid, but it will depend on the total value of the other regional aid measures. The tax relief will be provided on top of the other regional aid and only in such amount that the total value of the regional aid will not exceed the 15% NGE ceiling.
- Financial support for the creation of new jobs is to be awarded for the period ending three years from the day of the first commencement of production. The aid will consist of a flat rate of CZK 200 000 per newly created job. In the event that the total job creation aid was higher than CZK 702 800 000, the income tax relief will be reduced by the amount exceeding CZK 702 800 000; similarly, in the event that the total job creation aid was lower than CZK 702 800 000, the income tax relief will be increased accordingly.

⁹ The Czech authorities confirmed that the independent appraisal of the price of the land includes the following assumptions: the site is vacant and prepared for industrial development works to begin, all utility hookups are available at the edge of the site with a sufficient capacity necessary for the development of an automotive manufacturing facility with a production capacity of up to 300 000 vehicles per year.

conditions. The Czech authorities informed that the value of the land will be finally treated as eligible cost only for the company which will own the land.

- (16) According to Section 7 of the Investment Agreement, the investor is obliged to finance at least 25% of the investment project from its own sources and this part of the investment will not contain any aid.

2.5 Eligible costs and aid intensity

- (17) The eligible expenditure for the regional investment aid to HMMC amounts to CZK 32 619 601 699 in nominal value. The value of the investment is established on the basis of material investment in land, buildings, production machinery, equipment and intangible investment (software) directly related to the supported production of motor vehicles. Table I below provides the breakdown of the project costs and eligible expenditure for the execution of the investment project.

Table I: Breakdown of the eligible costs (in CZK), in nominal value.

	2006	2007	2008	2009	2010	2011	2012	2013
Software*	[...]	[...]	[...]	[...]	[...]	[...]	[...]	[...]
Land	[...]	[...]	[...]	[...]	[...]	[...]	[...]	[...]
Construction	[...]	[...]	[...]	[...]	[...]	[...]	[...]	[...]
Equipment	[...]	[...]	[...]	[...]	[...]	[...]	[...]	[...]
Other long term assets	[...]	[...]	[...]	[...]	[...]	[...]	[...]	[...]
Total eligible costs	[...]	[...]	[...]	[...]	[...]	[...]	[...]	[...]
Adjusted total eligible costs**								32.619.601.699

* The Czech authorities estimate that only [...]% of the software for the HMMC project is directly related to the production. Therefore, [...]% of the total cost for software was excluded of the amount of eligible costs.

** The total eligible costs are reduced by CZK 1.647.236.199 because only CZK 1.999.573.856 (out of the total of CZK 3.646.810.055) of the "other long term assets" was considered eligible.

- (18) The Czech authorities confirmed that the expenditure on eligible intangible investment will not exceed 25% of the standard base. The eligible assets will be used exclusively in the establishment receiving the aid, will be regarded as amortisable assets and purchased from third parties under market conditions.
- (19) The total regional aid granted to HMMC amounts to CZK 4 892 940 255 in present value, corresponding to an aid intensity of 15% NGE based on total eligible costs of CZK 32 619 601 699.
- (20) According to section 9.4 of the Investment Agreement (stand still clause) the final decision on the grant of investment incentives may not be issued before the Commission's clearance of the state aid. Section 7.1.2 of the Investment Agreement expressly prohibits that the cash grant is paid out prior to approval by the European Commission.

2.6 Incentive effect

- (21) HMMC applied for the aid on 27 June 2006, before works started on the project (July 2006).

2.7 Maintenance of the assisted activity

- (22) Section 5.2 of the Investment Agreement contains an obligation for the investor to operate the manufacturing facility at the site for a minimum period of ten years following the start of production at the site.

2.8 Contribution to regional development

- (23) HMMC intends to create 3 514 new direct jobs by 2010. Although the actual number of new employees and timing of such job positions will depend on the needs of HMMC's production, HMMC shall create at least 1 000 new jobs within three years of commencement of the production at the plant, in order to fulfil the condition under Section 111(11) of the Employment Act.
- (24) Additionally to the investments by Mobis Czech, Hysco Czech and Dymos Czech, located within the HMMC site or adjacent to it, which will create a large number of new direct jobs (resp. [...] by 2011, [...] by 2008, and [...] by 2010), the HMMC project will attract other investments to the region.

2.9 Cumulation

- (25) The notified *ad hoc* aid will be cumulated with other regional aids (cash for job creation, tax relief) covered by existing aid scheme N 259/2004. The total aid amount for regional investment will not exceed the maximum aid intensity allowed for the project concerned (15% NGE of the notified eligible expenditure).

3 ASSESSMENT OF THE AID MEASURE AND COMPATIBILITY

3.1 Existence of aid

- (26) A direct cash grant and transfer of land at reduced price are provided by the Czech Government to HMMC. This constitutes State resources within the meaning of Article 87(1) of the EC Treaty.
- (27) As the aid is granted to one company, the measure is selective.
- (28) The aid relieves HMMC from costs which it would have to bear under normal market conditions and therefore the company benefits from an economic advantage over its competitors.
- (29) The measure concerns a company acting in the car market, which is subject to extensive competition and trade between Member States.
- (30) Consequently, the Commission considers that the notified measure constitutes State aid to HMMC within the meaning of Article 87(1) of the EC Treaty.

3.2 Notification requirement

- (31) By notifying the *ad hoc* aid elements of the investment aid package, the Czech Republic respected its notification obligation resulting from Article 88(3) of the EC Treaty¹⁰.

3.3 Compatibility with the applicable regional aid rules

- (32) Since the aid concerns regional aid exceeding EUR 5 million GGE for an investment project in the motor vehicle sector, the Commission assessed its compatibility on the basis of the Guidelines on national regional aid¹¹ (hereafter: RAG) and the specific rules applicable to the motor vehicle sector laid down in the Multisectoral Framework on regional aid for large investment projects¹² (as amended in 2003) (hereafter: MSF-2002).
- (33) The project constitutes an initial investment (RAG, point 4.4).
- (34) Its eligible expenditure is defined in line with the RAG, point 4.5 for material, and 4.6 for immaterial investment.
- (35) HMMC applied for the aid before starting work on the project.
- (36) The investor provides an own contribution free from public support exceeding 25%.
- (37) The investment will be maintained for a minimum period of 5 years after completion of the investment.
- (38) The intensity of the *ad hoc* aid proposed of CZK 3 154 917 500 corresponds to 9.34% GGE and does not exceed the specific regional aid ceiling applicable to the motor vehicle sector pursuant to the Czech regional aid map for 5.2004-12.2006. This specific ceiling is 30% of the applicable standard ceiling of 50% NGE authorised for the Moravia-Silesia region, i.e. 15% NGE¹³.
- (39) The *ad hoc* aid is combined with aid under an existing aid scheme, and the combined aid intensity does not exceed 15% NGE of the notified eligible expenditure.
- (40) By reducing the standard regional aid ceiling for the motor vehicle sector to 30% of the applicable standard ceiling, the Commission took already account of the specific sectoral situation existing in the car sector in the period 2003-2006 and the need to reduce the distortion of competition resulting from aid to the sector. Although as a general rule the Commission does not favour the award of *ad hoc* regional aid, in the present case the Commission is satisfied from the information given in the notification that the project will produce substantial positive spill-overs which should provide a major contribution to the development of one of the poorest regions in the EU. The positive contribution of the overall investment project to regional

¹⁰ Although it is a large investment project, under the specific rules applicable to the motor vehicle sector under the MSF-2002 (as amended in 2003) aid to the motor vehicle sector under existing aid schemes is not notifiable, since already reduced to a level below the minimum level applicable to other sectors.

¹¹ OJ C 74, 10.3.1998, p. 9.

¹² The project has been assessed under the MSF-2002 (OJ C 70, 19.3.2002, p. 8), as these are the applicable rules for regional aid notified before 1 January 2007 (cf. footnote 58 of the Guidelines on national regional aid for 2007-2013, OJ C 54, 4.3.2006, p. 13: "Individually notifiable investment projects will be assessed in accordance with the rules in force at the time of notification").

¹³ Point 42(a) of MSF-2002.

development, in particular the creation of some 4 400 direct and a not quantifiable number of indirect jobs, far outweighs the potential distortive effects of the aid.

3.4 "Overall project" in the motor vehicle sector

- (41) In the notification the Czech authorities state that should the Commission assess the above described projects of suppliers (Mobis Czech, Hysco Czech and Dymos Czech) as an "overall project" with the HMMC project in the sense of Annex C to the MSF-2002, the information provided on these projects is to be regarded as part of the notification. The calculations of the State aid to be provided to the above mentioned suppliers are made under the assumption that the respective supplier is eligible for a State aid intensity of 15% NGE.
- (42) The Czech authorities are of the opinion that none of the above described projects of suppliers should qualify as an "overall project" e.g. because (a) there are no links between the supplier project and the HMMC project which would require them to be located close to each other, (b) the suppliers will also seek other customers besides HMC/HMMC, and (c) no contracts have yet been signed between these suppliers and HMC/HMMC and the suppliers are not expected to have any exclusivity clauses or other special links to HMC/HMMC. The Commission however observes that these projects are located in "close proximity" to the HMMC investment (on the HMMC site or adjacent to it). The Czech authorities also informed that for each of these suppliers' projects, over the whole investment period, even if this periods does not always exactly correspond to the HMMC investment period, at least 50% of the annual output of the investment is planned to be sold to HMMC. These elements as well as the fact that the Investment Agreement (section 7.8) also covers aid to potential suppliers to HMMC, suggest that the investments by HMMC, Mobis Czech, Hysco Czech and Dymos Czech in Frýdek-Místek are an "overall project" in the motor vehicle sector.
- (43) Having regard to the elements above, the Commission considers the above described projects of the suppliers Mobis Czech, Hysco Czech and Dymos Czech as an "overall project" with the HMMC project in the sense of Annex C to the MSF-2002. Accordingly, the aid to be granted to these suppliers under the existing aid scheme N 259/2004 is also limited to 15% NGE.

3.5 Conclusion

- (44) The notified aid to HMMC is in line with the RAG and respects the conditions of the MSF-2002. Consequently, the aid measure is compatible with Article 87(3)(a) of the EC Treaty.

4 DECISION

- (45) The Commission has accordingly decided to consider the *ad hoc* regional investment aid of maximum CZK 3 154 917 500, which combined with regional aid granted under the approved aid scheme N 259/2004 represents a maximum of 15% NGE of the notified eligible expenditure, to Hyundai Motor Manufacturing Czech s.r.o. to be compatible with the EC Treaty.

Yours faithfully,
For the Commission

Neelie KROES
Member of the Commission