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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: State aid N767/07 – Romania – LIP - Ford Craiova

Sir,

1. PROCEDURE

- (1) By electronic notification registered 19 December 2007 at the Commission (SANI 842), the Romanian authorities notified their intention to grant ad hoc regional aid under the Guidelines on national regional aid (“RAG”)¹ to Ford Motor Company Inc for two investment projects in Craiova city, in the south west region of Romania.
- (2) On 24 January 2008 a meeting took place between the Commission services and the Romanian authorities.
- (3) The Commission requested additional information by letters of 1 February (D/50447) and 6 March 2008 (D/51001), which was provided by the Romanian authorities by letters of 13 February (A/2848), 14 March (A/5197), 26 March (A/5655), 28 March (A/5877) and 9 April 2008 (A/6684).

¹ OJ C 54, 4.3.2006, p. 13.

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2. DESCRIPTION OF THE AID MEASURE

- (4) The Romanian authorities intend to promote regional development by providing ad hoc regional aid to Ford Motor Company Inc for two investment projects in Craiova city, in the south west region of Romania. The first project concerns the manufacturing of vehicles. The second project concerns the manufacturing of engines.

2.1. The beneficiary

- (5) The beneficiary of the aid will be a new Romanian company "Ford Romania" that will run and operate the business formerly operated by SC DAEWOO Automobile SA Romania. Ford Romania will be fully controlled by Ford Motor Company Inc.
- (6) Ford Motor Company Inc (hereafter: Ford) is the parent company of the Ford group, with registered headquarters in Dearborn, Michigan, USA. Ford is an international manufacturer and supplier of passenger cars and light commercial vehicles operating at a global scale, selling under the brands Ford, Lincoln, Mercury, Mazda, Volvo, Jaguar and Land Rover. In 2006, Ford's turnover amounted to EUR 127.5 billion and the company produced about 6.6 million automobiles. Ford had 283 000 employees at about 100 plants and facilities all over the world of which 111 employees worked in the EEA and none in Romania.
- (7) The present business of Ford is divided in two segments, "Automotive" and "Financial Services", reflecting the decisional and operative structure of the group. The automotive segment of Ford is further subdivided into Ford North America, Ford South America, Ford of Europe, Ford Asia Pacific/Mazda, and Premiere Automotive Group (PAG). The financial arm of Ford, Ford Motor Credit Company, provides wholesale and retail vehicle financing at a global scale.

2.2. The investment project

Existing facilities in Craiova

- (8) After producing the Olcit car for many years in Craiova, Romania, Automobile Craiova, controlled by the State owned agency "Authority for State Assets Recovery", decided to go into partnership with the South Korean firm Daewoo Motor Co. Ltd (hereafter "Daewoo") and set up a new company under the name Daewoo Automobile Romania SA (hereafter "DWAR") in 1994. The cars production started in 1995. In 1997 the company opened a new engine and transmission factory. However, in 2000, the main parent company in Korea had collapsed. In 2002, General Motors bought the bulk of the shares held by Daewoo in various Daewoo subsidiaries worldwide, but did not buy the plants producing Daewoo cars and engines in Romania, Uzbekistan or Poland.

- (9) In 2006, DWAR bought back its own shares from Daewoo and consequently Automobile Craiova SA became the sole shareholder of DWAR. At that time, DWAR owned production facilities for the production of motor vehicles as well as for the production of engines and transmissions in Craiova. On September 12, 2007, Ford has signed a share purchase agreement to acquire 72.4 % of the shares of Automobile Craiova SA from the Authority for State Assets Recovery.²
- (10) The vehicle production by DWAR has stopped in January 2008. Ford will begin the investment in the vehicle production project as soon as the Commission will have approved the aid and the purchase transaction can be closed. Even after the purchase by Ford of the engine facilities, the production of the "old" powertrains (engines and gearboxes) will continue in 2008. The powertrains will be supplied to General Motors on the basis of a supply agreement concluded in the past by DWAR. This production will be phased out in the course of 2009. Then, Ford will carry out the investments in the engine project for which aid is requested. Only engines (no gearboxes) will be produced in the newly created facility.

The new investment projects of Ford in Craiova

- (11) The Romanian authorities intend to aid two initial investment projects in Craiova³. The first project concerns the extension, modernization and fundamental change of an existing plant, including the creation of new capacities, to produce new vehicles while the second concerns the extension, modernization and fundamental change of an existing engine manufacturing facility, including the creation of a new production line, to produce a new generation of environmentally friendly engines.
- (12) The new **vehicles** that Ford plans to produce at the Craiova site are the 'Integrated Style Van' (ISV) from June 2009 and a sub compact 'Multi-Activity Vehicle' (B-MAV) from April 2010. [...] It is projected that [...] % of the ISVs and [...] % of the B-MAVs produced at the Craiova site are exported to non-European markets (including the USA).
- (13) The planned investment will have two vehicle production lines with a designed and installed capacity of 150,000 each (300,000 in total for the Craiova plant). Each vehicle production line will produce only the ISV or the B-MAV. Any other vehicle production would require significant additional investment. The facility, although flexible, will be designed and optimised to handle production of small cars and light commercial vehicles. Introduction of large cars (such as a Mondeo) or larger commercial vehicles (such as Transit) would

² This transaction was the subject of a separate State aid procedure which was closed by Commission decision of 27 February 2008 (State aid case C46/07 and ex NN 59/07).

³ Under point 3.4.1 the Commission assesses if these two projects are to be considered as separate investment projects within the meaning of the RAG.

require substantial additional investment and further facility rearrangement.

- (14) The basic production process of cars consists of five major steps or shops. (1) Press shop: Huge rolls of steel and aluminium – the so-called coils – are mechanically cut into metal blanks. These blanks are then reworked by sheet metal presses. This is the stage in which the material is drawn, formed and –depending on what is needed - cut, perforated, bevelled or post-formed, everything almost completely automatic. (2) Body shop: Chassis construction is the most highly automated area of production. Individual steel and aluminium components are first made into smaller assembly units such as doors, frame forestructures or underbodies. Only then are they welded, glued or bolted together. The pressed metal parts are assembled almost exclusively by robots. (3) Paint shop: Chassis are first cleansed and degreased in immersion baths and then coated with a layer of zinc phosphate. After this, four additional layers of paint are applied to protect the automobile from environmental influences and give the surface long lasting brilliance and lustre. (4) Assembly shop: The painted chassis is completed manually. The individual manufacturing process allows for customizing the cars, including different equipment, components and country-specific variations. (5) In the final assembly shop, the drive unit –consisting of engine, transmission, axles and the exhaust system – is precisely set and bolted to the body, the so-called wedding. The vehicle now stands on its own four wheels. The last parts are mounted and the motor started for the first time. After passing numerous tests, the vehicle rolls out of the factory.⁴
- (15) The new **engines** that Ford plans to produce at the Craiova site are all new, hi-tech Flexifuel next-generation engines to be installed in Ford's small/medium sized cars. [...]
- (16) Engine manufacturing consists of machining the iron cylinder block, the aluminium cylinder head and the iron crankshaft from raw material and then assembling the engine itself with approximately 300 components on an assembly line. Overall, engine assembly processes are manually intensive, with automated processes where required for safety, ergonomics, quality or production capacity.
- (17) The investment project for the engine production in Craiova includes the installation of new state-of-the-art high speed flexible Computer Numerical Controlled machining centres (for cylinder block, cylinder head and crankshaft) and installation of all new hi-tech flexible assembly and test facilities.
- (18) The maximum designed technical capacity of the engine plant in the five years after the completion of the project is 300 000 units of the new engines per annum. [...] The new small engines will mainly be

⁴ Description is taken from www.bmwgroup.com, because the overall process is the same for all vehicle production.

shipped to Ford and Ford Group European plants for installation in Ford and Ford group vehicles. A very small part of the engines that Ford produces in Craiova will be sold on the market for repair works, generally significantly less than 0.5% of annual production. [60-80]% of the engines will be used in other Ford assembly plants than the one in Craiova. Only [20-40]% of the engines is used in the Ford assembly plant in Craiova. Only [20-40]% of the vehicles produced in Craiova will have an engine that is also produced by Ford in Craiova. [...]

Timing of the Ford investment projects in Craiova

- (19) The investment project for the vehicle production is planned to start in 2008. The investment project for the engine production would start later, in 2009. [...] The planned date of completion and full production for both projects is expected in 2012. This timeline is represented in the table below.

Production timeline				
	Start of project	Start of production	End of project	Full production
Vehicle production	2008	[...]	2012	2012
Engine production	2009	[...]	2012	2012

- (20) In addition, the aid is granted under the condition that the beneficiary will maintain the investments in the assisted region for a minimum period of five years after completion of each of the two investment projects.

2.3. Legal basis

- (21) The aid will be granted on an ad hoc basis in accordance with the terms of a draft Emergency Government Ordinance (a legal act with a power of law) submitted to the Commission. The Emergency Government Ordinance will be adopted after the Commission has decided on the aid measure.

2.4. Cost of the project

- (22) The project involves a total investment in nominal value of EUR 675 million⁵, of which EUR 600 million is eligible for regional aid. The vehicle project involves eligible costs of EUR 435 million nominal and EUR 381.8 million discounted. The engine project involves eligible costs of EUR 165 million nominal and EUR 132.7 million discounted. The tables below give an overview of the eligible investment costs of both projects.

Eligible costs (in million EUR)
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⁵ All amounts in this decision will be expressed in EUR. The aid payments will also be fixed in Euro. For information, the exchange rate on 19/12/2007 was EUR 1 = RON 3.5355.

	2008	2009	2010	2011	2012	Total	Total discounted
Vehicle project	110	150	70	50	55	435	381.8
Engine project	0	2	20	95	48	165	132.7
TOTAL	110	152	90	145	103	600	

- (23) The Romanian authorities confirmed that no aid will be requested for used equipment, and that any such equipment is not included in the eligible expenses for the project. All investments will be new.
- (24) The Romanian authorities confirmed that none of the notified investments relates to the production of engines and transmissions for General Motors. They also specifically confirmed that none of the assets that are subject to the Sales Purchase Agreement between Ford and Authority for State Assets Recovery will be included in the eligible costs.
- (25) The Romanian authorities indicate that the eligible costs do not comprise intangible assets.

2.5. Financing of the investment

- (26) Ford will finance the projects using cash and possibly contributions in kind. Over [60-80]% of the investment will be in the form of a financial contribution. Other than the intended regional aid, the remaining financing will be free of aid.
- (27) Ford has no specific plan to make any contributions in kind, but would like to retain the flexibility to do so should business needs or circumstances change (for example a new machine ordered for another plant could be used in Craiova). If Ford does contribute some small proportion of assets in kind, such assets would consist of new equipment valued at arm's length, and would be free of State aid.

2.6. Regional aid ceiling

- (28) Craiova city is situated in Dolj County, in the South West Region which is an assisted area in virtue of Article 87(3)(a) of the EC-Treaty with a standard regional aid ceiling for large enterprises of 50% Gross Grant Equivalent (GGE) according to the Romanian regional aid map⁶.

2.7. Aid amount

- (29) The Romanian authorities intend to grant a nominal aid amount of EUR 143 million. EUR 94.45 million would be granted for the vehicle

⁶ State aid N 2/2007– Romania – Regional State aid map for Romania (2007-2013).

production project and EUR 48.55 million for the engine production project. The Romanian authorities plan to pay out the aid for each project in yearly instalments from 2008 to 2012 depending on the realization of the projects as indicated in the schedule below. This results in an aid amount in present value of EUR 81.3 million for the vehicle project and EUR 38 million for the engine project. The investment aid would be paid in the form of a direct cash grant.

Nominal aid amount per year and present value of the aid (in EUR million)							
	2008	2009	2010	2011	2012	Total nominal	Total discounted
Vehicle project	17.5	16.15	30.4	19.98	10.42	94.45	81.3
Engine project	0	0	1.5	14.10	32.95	48.55	38.0

- (30) The Romanian authorities confirmed that the aid for the project will not be cumulated with aid received for the same eligible costs from other local, regional, national or Community sources.
- (31) Moreover, before works on the project started, the beneficiary applied for the aid and the Romanian authorities replied in writing that, subject to the Commission's approval, state aid up to the maximum amount permissible will be granted (binding commitment letter of 7 September 2007 signed by the Minister of Economy and Finance and the Minister of Labour of Romania).
- (32) The Romanian authorities commit to suspend the payment of the notified regional aid if the beneficiary did not reimburse the aid declared incompatible by Commission Decision of 27 February 2008 on State aid case C46/07 (ex NN59/07). The suspension will be maintained until the beneficiary reimbursed or paid into a blocked account the total amount of incompatible aid and the corresponding recovery interest.

2.8. Contribution to regional development

- (33) The Romanian authorities indicate that Ford intends to retain all existing employees of the facilities to be aided (3 900), and secure their jobs long-term. In addition, the planned projects will require a substantial increase in direct employment, to more than 7 000 people, potentially rising to 9 000 in the longer term.
- (34) In addition, it is expected that numerous direct suppliers to the vehicle and the engine production will invest into facilities in the vicinity of the plant so as to allow just-in-time delivery. This will lead to the creation of further jobs that directly depend on the two projects realized by Ford.

- (35) The Romanian authorities indicate that the investment in the two projects will also involve a direct economic contribution through investment, sales and leading-edge technology transfer opportunities for Romanian suppliers (including exports to Ford plants in Western Europe). Ford will actively encourage investment in the region by world class suppliers through green-field sites, partnerships and technology transfer to develop a substantial local supply base. Ford's quality standard is a benchmark among the world's leading Original Equipment Manufacturers (OEMs) and application of this standard will result in improved quality at local suppliers.
- (36) Moreover, the projects are expected to attract numerous additional investors in the car sector and will support the creation of new employment and economic development in the region. The investment in the two projects are "lighthouse projects" that give important signals to other investors that are considering investing in Romania, who are likely to be encouraged to actually pursue their investment plans, rather than investing elsewhere. Transport infrastructure will be improved which will underpin further economic development.
- (37) The Romanian authorities expect that, using the standard auto industry multiplier effect, more than 40,000 direct and indirect jobs are likely to be created, making an estimated economic contribution to Romania of more than €13 billion by end 2012 and €50 billion by end 2020.

2.9. General provisions

- (38) The Romanian authorities have committed to submit to the Commission:
- within two months of granting the aid, a copy of the relevant acts concerning this aid measure;
 - on a five-yearly basis, starting from the approval of the aid by the Commission, an intermediary report (including information on the aid amounts being paid, on the execution of the aid contract and on any other investment projects started at the same establishment/plant);
 - within six months after payment of the last tranche of the aid, based on the notified payment schedule, a detailed final report.

3. ASSESSMENT OF THE AID MEASURE AND COMPATIBILITY

3.1. Existence of aid

- (39) The financial support to Ford will be given by the Romanian authorities in the form of a direct grant and is financed through the general budget of the state. The support can thus be considered as given by the Member State and through State resources within the meaning of Article 87 (1) of the EC Treaty.

- (40) As the aid is granted to a single company, Ford, the measure is selective.
- (41) The financial support given to Ford will relieve the company from costs which it normally would have had to bear itself and therefore the company benefits from an economic advantage over its competitors.
- (42) The financial support from the Romanian authorities will be given for investments resulting in the production of engines and vehicles. Since these products are subject to trade between Member States, the support given is likely to affect trade between Member States.
- (43) The favouring of Ford and its production by the Romanian authorities means that competition is distorted or threatened to be distorted.
- (44) Consequently, the Commission considers that the notified measure constitutes State aid to Ford within the meaning of Article 87(1) of the EC Treaty.

3.2. Legality and compatibility of the aid measure

- (45) By notifying the planned aid measure before putting it into effect, the Romanian authorities respected their obligations under Article 88(3) of the EC Treaty.
- (46) As the measure relates to a regional investment aid, the Commission assessed it on the basis of the RAG. The measure was notified as an ad hoc aid which exceeds the thresholds defined in point 64 and 68 of the RAG. Therefore the Commission took into account the provisions of the RAG and, specifically, the provisions of section 4.3 of the RAG relating to large investment projects.
- (47) As the aid is an ad hoc measure, according to footnote 60 of the RAG, because of its clear effect on the conditions of trade and competition, a more specific justification is needed regarding the link with regional development.

3.3. Compatibility with the general provisions of the RAG

- (48) The Commission has verified that the projects comprise initial investment within the meaning of the RAG and that no replacement investment is involved.
- (49) The basic steps to assemble a vehicle are broadly similar for any manufacturer of vehicles. However, although the basic steps in the production of the new Ford vehicles sound similar to the existing DWAR setup – stamping of the metal sheets to form the body parts, body shop where the body parts are assembled and welded, paint shop, automotive assembly (installation of wiring, powertrains etc), final trim and assembly, and testing -, the Romanian authorities argue that the actual production processes applied in these different parts of the factory or "shops" will be each fundamentally changed and

extended in the course of the envisaged investment. The output capability of the vehicles will change from low volume assembly of several vehicle types for the Romanian domestic market (under the now defunct Daewoo brand), to a modern high volume vehicle manufacturing plant with two Ford vehicle production lines (each with 150,000 unit per annum technical capacity), that are fully integrated into Ford's manufacturing operations in Europe.

- (50) The new engine plant will be structured using a flexible modular layout, in contrast to the existing dedicated transfer facilities which were entirely product specific and inflexible. The new modular approach for Ford engines will also allow product updates and changes without the need to completely re-tool. An all new cylinder block line, an all new cylinder head line, and an all new crankshaft line will also be installed. These will utilise new state-of-the-art high speed flexible CNC (Computer Numerical Controlled) machining centres for the manufacture of these three key components.
- (51) The Commission is thus convinced that a fundamental change in the production process of vehicles and engines will take place.
- (52) The costs eligible for investment aid (see table in point 2.4 above) are defined in line with points 4.1 and 4.2 of the RAG, and the rules on cumulation are respected. Furthermore, Ford has applied for aid before starting work on the project and the Romanian authorities agreed to grant state aid subject to the Commission's approval. Ford also has the obligation to maintain the investment in the region for a minimum of five years after completion of each of the two projects. The beneficiary provides a financial contribution of at least 25% of the eligible costs in a form which is free of any public support.
- (53) The Commission therefore considers that the aid complies with the general compatibility criteria laid down in the RAG.

3.4. Compatibility with the provisions for aid to large investment projects

3.4.1. Single investment project

- (54) Point 60 of the RAG states that in order to prevent that a large investment project is artificially divided into sub-projects to escape the provisions of these guidelines, such a project will be considered as a single investment project when the initial investment is undertaken in a period of three years and consists of fixed assets combined in an economically indivisible way. Footnote 55 to this point clarifies that: *"To assess whether an initial investment is economically indivisible, the Commission will take into account the technical, functional and strategic links and the immediate geographical proximity.[...]"*.
- (55) Member States might be inclined to notify two separate projects because treating them as separate instead of as one single investment project normally allows a higher maximum aid intensity due to the application of the automatic scaling-down mechanism.

- (56) The Romanian authorities give several arguments to demonstrate that the two projects, one for the production of passenger cars and light commercial vehicles and the other project for the manufacturing of engines, should not be considered as a single investment project according to point 60 of the RAG. The Romanian authorities claim that the two projects are technically and economically independent. The production of vehicles and engines will be made on different technical equipment with different employees and different technologies. Only approximately [20-40]% of the new engine types that will be produced in Craiova will actually be built into the cars manufactured there. [60-80]% of all new engines produced in Craiova will be exported, and [60-80]% of the cars to be produced in Craiova will be equipped with an engine that was produced elsewhere. The timing of the two projects is also different. The investment in the car plant as such is the first project, it will begin as soon as the Commission will have approved the State aid. The project relating to the engine production will start later. The engines production was added to Ford's plans for Craiova due to the additional scoring offered under the Bidding criteria and the regional aid incentives available for the investments. The main considerations for location of new engine plants is proximity to the region where volume demand exists, low cost suppliers, and inbound logistics. For a vehicle assembly plant the reverse is true and outbound logistics costs are the more critical logistics consideration deciding the location for an assembly plant (the cost of transporting a finished vehicle is clearly much more expensive than that for a small engine). The vehicle and engine facilities in Craiova will be independent in operational terms. The only overlaps will be activities that need to be coordinated due to a common site, such as central services, receiving and shipping activities. Other than these kinds of operations, all production control, process administration, quality, etc and any other day to day business are administrated by the Powertrain (engine) Operations or Vehicle Operations management separately.
- (57) To decide if the two projects need to be considered as two separate or one single investment project, the Commission first considered that full three years have not elapsed between the start of both. Both projects are carried out almost in parallel, although the engine production project starts significantly later than the vehicle production project. Second, the Commission assessed whether the two projects are combined in an economically indivisible way as defined under the RAG.
- (58) The Commission considers that the technical link between the engine production and the vehicle production is weak because the production of engines requires fundamentally different equipment and techniques than the production of vehicles. The Commission also considers that the functional link is weak because [60-80]% of all engines is not used in the Craiova site. Industry practise confirms that each engine family is produced at just one or possibly two production facilities and engines are then shipped to local vehicle assembly plants around the

world.⁷ Finally, the Commission considers that the strategic link between the engine production and the vehicle production is also weak. The start point for the engine project in Craiova is more than two years after the start of the vehicle project. Planning for vehicle and engine production is different because the products have completely different life cycles. Changing customer requirements and expected sales growth are drivers for a new engine plant. Location considerations are different for the two sorts of plants. Management is different, also within the Ford Group. Ford of Europe has two manufacturing directors, one for Vehicle Operations and one for Powertrain (engine) Operations, reporting into the respective directors in Ford of Europe.

- (59) Although the two projects are in immediate geographical proximity, the Commission considers that no sufficient technical, functional and strategic links exist to consider the two projects in Craiova as one single investment project according to point 60 of the RAG.

3.4.2. Aid intensity (point 67 of the RAG)

- (60) As explained above, the Commission considers that the two projects should not be considered as one single investment project.
- (61) The Commission also considers that in this case the relevant reference rate to calculate present values of eligible costs and aid amounts is the Euro zone reference rate because the aid payments are fixed in Euro. At the time of notification the Euro zone reference rate was 5.42% in this case.
- (62) The planned total eligible expenditure in present value for the vehicle production project is EUR 381.8 million and for the engine production project is EUR 132.7 million. This leads to a maximum aid intensity allowed of 22.37% GGE (Gross Grant Equivalent) for the vehicle production project and maximum aid intensity allowed of 32.45% GGE for the engine production project.
- (63) The planned total eligible expenditure in present value for the vehicle production project is EUR 381.8 million and the planned total aid amount in present value is EUR 81.3 million. Therefore, the GGE is 21.28%.
- (64) Since the aid intensity for the project (21.28% GGE) is lower than the maximum aid intensity allowed for the vehicle production project (22.37% GGE), the proposed aid intensity for the project complies with the RAG.
- (65) The Romanian authorities confirmed that the maximum aid amount approved in this decision for the vehicle production project (EUR 81.3

⁷ An example of this is Ford's Dagenham Engine plant in the UK, which is one of the world's largest diesel engine plants. There is no vehicle assembly plant at Dagenham and all the engines are transported to other locations.

million in present value) and the maximum aid intensity approved in this decision (21.28% GGE) will not be exceeded.

- (66) The planned total eligible expenditure in present value for the engine production project is EUR 132.7 million and the planned total aid amount in present value is EUR 38 million. Therefore, the GGE is 28.65%.
- (67) Since the aid intensity for the project (28.65% GGE) is lower than the maximum aid intensity allowed for the engine production project (32.45% GGE), the proposed aid intensity for the project complies with the RAG.
- (68) The Romanian authorities confirmed that the maximum aid amount approved in this decision for the engine production project (EUR 38 million in present value) and the maximum aid intensity approved in this decision (28.65% GGE) will not be exceeded.

3.4.3. Compatibility with the rules under points 68(a) and (b) of the RAG

- (69) The Commission's decision to allow regional aid to large investment projects falling under point 68 of the RAG depends on the market power of the beneficiary before and after the investment and on the capacity created by the investment. To carry out the relevant tests under point 68(a) and (b) of the RAG, the Commission has first to establish appropriate product and geographic market definitions.

Product concerned

- (70) The expected output of the aided facilities will be engines and vehicles. The Romanian authorities commit that no other products than those notified in this case will be produced at the aided facility for five years after the completion of the investment project. It is not intended that other products than the new small engines will be produced in Craiova. No other passenger car or vehicle can be produced at the aided facilities.
- (71) Once the investment is complete, significant further investment would be required to produce any alternative or updated products. The new facilities installed for vehicle manufacturing are designed to be 'flexible' to allow for easier and less costly product changes and updates in the future which improves the competitiveness of the facility to adapt to market changes but a substantial amount of additional investment would still be required for any product change, and even more for production of a product in a completely different segment such as a Mondeo or Transit. Although capital intensive, the nature of the vehicle business is dynamic, with products generally slightly updated on an annual basis with a facelift after 3 years from introduction and an all new vehicle after 7 years, all with additional investment. Therefore, following the completion of the investment projects, the vehicle products will continue to evolve in response to customer and competitive demands.

- (72) The engine production lines are dedicated and specific to the new small engine. Additional production or engine types (e.g. a diesel engine or a different engine family) would also require further significant investment and additional or different production lines. Regular updates will be introduced as is normal practice with the base engine architecture expected to be in production for at least 20 years.
- (73) The code of the Prodcom classification for the manufacture of motor vehicles and engines is 34.10– Manufacture of Motor Vehicles. The narrower classification of both the engines and vehicles is based on the ignition type (spark-ignition or compression-ignition) and the cylinder capacity of the engine. [...]
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- (74) According to point 69 of the RAG, the product concerned is normally the product covered by the investment project, in this case engines and vehicles.
- (75) However, when the project concerns an intermediate product and a significant part of the output is not sold on the market, the product concerned may be the downstream product. Ford committed not to sell the 300,000 engines to be produced in Craiova outside the Ford group for five years after the completion of the investment project. In this case, the engines are intermediate products because they will be mainly used for the production of vehicles within the Ford group. Only a small part will be sold on the repair market, generally significantly less than 0.5% of annual production. However, the Romanian authorities can not exclude that Ford in some case might sell slightly more than 0.5% of annual engine production to the repair market. Therefore, the Romanian authorities confirm that, at least in the first five years after the end of the project, not more than 1% of the annual production of engines in the aided facilities will be sold in the repair market.
- (76) All of the engine production of the aided facilities, except for the engines for the repair market, will be sold within the Ford group to produce vehicles. The engines to be produced in Craiova are planned to be integrated into [0-20] different models of the Ford group. Approximately [60] to [80] % of the engines will go into cars belonging to the B-segment and approximately [20] to [40 %] will go into the C-segment.
- (77) Therefore, the Commission considers motor vehicles to be the product concerned for the purposes of this decision.

Relevant product market

- (78) Ford plans to produce two new types of vehicles at the Craiova site, the 'Integrated Style Van' (ISV) and a sub compact 'Multi-Activity Vehicle' (B-MAV).
- (79) The B-MAV is a small multi-purpose vehicle such as the Opel Meriva or the Renault Grand Modus. [...] The Romanian authorities and Ford

qualify the B-MAV as a car in the B-segment because it will be developed using the B-platform. They consider also that the B-MAV can not be qualified as a multi-purpose vehicle because those are large sized 7/8 seat people carriers that are usually built on their own platform.

- (80) ISV is used by the Romanian authorities and Ford as a generic term to describe a Light Commercial Vehicle (LCV) that is purpose built for carrying goods (Vans) or combination of goods and people (Kombi). The ISV is based on a C-platform that has been heavily modified for commercial vehicle application to increase durability and load carrying capability. Examples of vehicles in this category are Renault Kangoo, Citroen Berlingo, Fiat Doblo, VW Caddy and Ford Transit Connect. Whilst these vehicles are primarily designed for goods transportation they are also available in higher specification versions with windows and rear seats to transport passengers. Ford uses the term 'Space Cars' to describe them. There is some compromise to comfort compared with a passenger car due to their commercial origins. The Romanian authorities and Ford do not consider these vehicles to be part of the passenger car segmentation because they are versions of light commercial vehicles. If the space car were to be classified within the passenger car market, it would most likely be considered as a C-segment car since it is build on a C-platform.
- (81) Therefore, the Commission has to assess the relevant market for the B-MAV and for the ISV.
- (82) The Commission will also need to take into account the relevant downstream product of the engines, meaning, B-segment and C-segment cars (see point (76)).
- (83) According to point 69 of the RAG, the relevant product market includes the product concerned and its substitutes considered to be such either by the consumer (by reason of the product's characteristics, prices and intended use) or by the producer (through flexibility of the production installations).
- (84) The Romanian authorities argue that the relevant markets for the purpose of this decision are the passenger car market and the LCV market. Both markets should not be further sub-divided. A further segmentation is only necessary for other purposes, including to watch the development of new and existing products and to assist with consumer analysis, trends and pricing.
- (85) To decide on the relevant product markets, the Commission first needs to assess if the market for passenger cars and the market for light commercial vehicles⁸ are two separate markets.

⁸ A definition of LCV's is given by Art.1 §1 p of Commission Regulation no 1400/2002 of 31 July 2002 on the application of Article 81(3) of the Treaty to categories of vertical agreements and concerted practises in the motor vehicle sector: "*light commercial vehicles*" means a motor vehicle intended for the transport of goods or passengers with a maximum mass not exceeding 3.5 tonnes."

- (86) At first sight, a distinction can be made between the market for passenger cars and the market for light commercial vehicles. This distinction was also made in the merger cases M.741 - Ford/Mazda⁹ and M.1406 – Hyundai/Kia¹⁰. It is assumed that passenger cars serve the general purpose of individual transport of passengers on public roads and are not primarily designed for commercial use, unlike commercial vehicles. Light commercial vehicles are not primarily designed for the transport of persons and lack the car-like comfort, handling, speed and flexibility that characterises, for instance, multi-purpose vehicles.
- (87) However, the Ford/Mazda merger case already mentions certain reservations because LCVs are not only used for commercial purposes but also for private, family purposes in some countries. This tendency to use LCV's for both commercial and passenger/family purposes seems to have grown over time¹¹. The current case is an example of this trend in that Ford's ISV can be produced and delivered as real commercial vehicle or rather as a passenger car (Space car), depending on customer demand. Also from the supply side, this indicates that switching the production from a family oriented car to a more commercial vehicle does not entail prohibitive time or costs. The boundaries between a market for light commercial vehicles and passenger cars do not seem so clear (anymore). Moreover, the Romanian authorities and Ford indicate that the definition of the LCV is as such that the vehicle can serve for the transport of goods or persons (see the definition of LCV in Article 1 of Commission Regulation N° 1400/2002¹²).
- (88) For the purpose of this decision, the Commission will leave open whether the passenger cars and light commercial vehicles segments are separate markets or one single market.**
- (89) For the light commercial vehicle segment, the Romanian authorities are convinced that this segment should not be further subdivided. This is line with previous merger decisions. Moreover, Global Insight (see below) does not segment its Car Derived Van segment further which is the segment that comes closest to the LCV segment. Global Insight already indicates that Renault Kangoo, Citroen berlingo etc are included in this segment and the Romanian authorities confirmed that Global Insight's CDV segment would incorporate Ford's ISV. Therefore, the Commission will not subdivide the LCV segment as approximated by the CDV segment of Global Insight further.
- (90) For passenger car segment, the Commission will assess if this segment can be further sub-divided.

⁹ Decision of 24.05.1996.

¹⁰ Decision of 17.03.1999.

¹¹ See also the more nuanced wording in Case IV/M.2832 – GM/Daewoo motors - decision of 22.07.2002.

¹² See footnote 8.

- (91) The Commission notes that Prodcom codes as mentioned above are not relevant for a further segmentation in this case, among others because there are too many overlaps and the classification is not generally used in the industry to assess markets.
- (92) The merger decision in case no IV/M.416 - BMW/Rover of 14 March 1994 uses the following narrower classification of the passenger car segment:
- A: mini,
 - B: small,
 - C: medium,
 - D: large,
 - E: executive,
 - F: luxury, and
 - G: multi-purpose vehicle/sports utility vehicle.
- (93) The classification was based on the traditional segmentation generally used at that time by the industry. In particular some differences existed in price, technology or engineering requirements between the top and bottom end of the car market.
- (94) The above classification is also used in the Commission's twice yearly car price report¹³. The Romanian authorities and Ford agreed that this subdivision of the passenger car segment would come closest to what could maybe be seen as a common understanding between the different manufacturers. However Ford experts argued that a common understanding or definition of the different segments in the passenger market does not exist.
- (95) Ford itself notified a slightly different segmentation which it uses for marketing its vehicles and which it also proposes in merger cases M.741 – Ford/Mazda¹⁴ and later M.1998 – Ford/Landrover¹⁵. The difference with the above segmentation is that in the first case the G segment (MPV/SUV) was subdivided further into S: sport coupes, M: multi purpose vehicles, and J: sport utility cars (SUVs, including off-road vehicles) and later the F-segment was added (luxury cars). This more refined segmentation was also used in other merger decisions regarding the car sector¹⁶.
- (96) The Commission noted also that Global Insight, a major forecasting consulting company, uses the following 27 segments to present its data on the car sector. The segmentation is based mainly on size and pricing.
- A: utility /city class
 - B: supermini class

¹³ See http://ec.europa.eu/comm/competition/sectors/motor_vehicles/prices/report.html

¹⁴ Decision of 24.05.1996.

¹⁵ Decision of 29.06.2000.

¹⁶ Case IV/M.1204 - Daimler-Benz/Chrysler - decision of 22.07.1998, Case IV/M 1326-Toyota/Daihatsu - decision of 6.11.1998, Case IV/M.1406 – Hyundai/Kia - decision of 17.03.1999, Case IV/M.1452 - Ford/Volvo - decision of 23.03.1999, Case IV/M.1847 – GM/Saab - decision of 28.02.2000, Case IV/M.2832 – GM/Daewoo motors - decision of 22.07.2002.

C1: lower medium class
 C2: medium class
 D1: upper medium class
 D2: executive class
 E1: large and luxury class
 E2: high luxury class
 F1 super luxury class
 F2: ultra luxury class
 MPV-B: Subcompact MPV
 MPV-C: compact MPV
 MPV-D: standard MPV
 MPV-E: luxury MPV
 SUV-A: mini SUV
 SUV-B: subcompact SUV
 SUV-C: compact SUV
 SUV-D: standard SUV
 SUV-E: luxury/full-size SUV
 PUP-B: car derived pickup
 PUP-C: compact pickup
 PUP-D: full-size pickup
 CDV: car derived van
 MIC: micro van
 MVAN: medium van
 HVAN: heavy van
 N/K: not known

- (97) The Commission considered several other classifications such as the ones used by the European Association of Manufacturers (ACEA), the European New Car Assessment Programme (NCAP), the US department of energy, and other large car manufacturers on their website.
- (98) These classifications differ because they are used for different purposes (crash tests for example), because of geographic differences (US market is more dominated by large cars) and because no generally agreed classification exists.
- (99) Based on the above information the Commission concludes that no generally accepted subdivision of the passenger car segment exists. The Commission recognises in its merger decisions that, although the car market has traditionally been segmented on the basis of a number of objective criteria like engine size or length of car, the boundaries between segments are blurred by other factors. These factors include price, image and the amount of extra accessories. Therefore, until now all merger decisions left open the question whether, for the purposes of the competitive analysis, the passenger car segment should be considered as one product market or should be further subdivided.
- (100) Moreover, the Commission notes that some possibility for demand-side substitution at the margins of each of the types of passenger cars exists, for example, between A-segment and B-segment cars or

between the luxury segments. It considered the possibility of a chain of substitution¹⁷ on the demand-side across the different segments. However, it might be difficult to argue for the substitutability of vehicles at the extreme ends of the possible segmentations, for example, the cheapest passenger cars are not direct substitutes for more expensive passenger cars.

- (101) When looking at the supply side, the Commission observes that the producers for passenger cars and even for LCVs are basically the same. Producers of passenger cars are generally present in many of the different segments. Producers can switch from one type of passenger car to another because many cars are based on the same platform. Car segments overlap. No clear distinction can be made between the customers of certain types of passenger cars or even LCVs.
- (102) **For the present case, the Commission will leave the precise definition of the relevant product market open and will consider all plausible alternative market definitions (including the smallest segmentation for which data are available).**
- (103) Therefore, the Commission took into account the availability of accepted statistics to give meaningful information on market shares in the separate segments. Taking also into account the fact that Global Insight allows a narrow segmentation of the market and that this segmentation corresponds largely to the broader one used by the Commission for its car sector report and the broader one proposed by Ford, the Commission will use the segmentation Global Insight uses to provide its statistics on the vehicle market as the best possible proxy for a car segmentation.
- (104) To decide which are the plausible alternative market definitions, the Commission considered the description of the vehicles produced by Ford in the aided facilities in Craiova and that of the downstream products of the engines produced by Ford in the aided facilities in Craiova. Although the Romanian authorities argue that the B-MAV can not be qualified as a multi-purpose vehicle because those are large sized 7/8 seat people carriers that are usually built on their own platform, the Commission notes that the data from Global Insight allows different categories of MPVs, also smaller cars such as a B-segment MPV.
- (105) Therefore, the Commission considers the MPV-B segment, the B-segment, the C-segment, the multi-purpose vehicle (MPV) segment, the passenger car segment and the Car Derived Van (CDV) segment as defined by Global Insight as relevant plausible market segmentations for this case.

¹⁷ See paragraphs 57-58 of the Commission notice on the definition of relevant market for the purposes of Community competition law (OJ C 372, 9.12.1997, p.5).

Relevant geographic market

- (106) The Romanian authorities assume that the relevant geographic market for the purpose of the assessment of point 68(a) under RAG is at least EEA-wide if not world-wide as the passenger cars will be also exported to other markets outside the EU.
- (107) The RAG in its point 68 indicates that the relevant geographic market should normally be the EEA.
- (108) For the purpose of this state aid decision, to apply the test in point 68 (a) of the RAG, the Commission will consider the EEA or the global markets for the products concerned manufactured on the Ford Craiova site.
- (109) From a supply side perspective, production in the car sector is at least EEA wide or even global. The major car manufacturers, including Ford, are global players. They have manufacturing facilities in different continents and countries. They distribute their products in many parts of the world and the tendency towards globalization has grown even stronger in the last few years. [...]
- (110) Moreover, conditions of competition have significantly improved in the EU, in particular as regards technical barriers and distribution systems, although differences in prices and taxation systems are still limiting factors. Low transportation costs and the presence of all major manufacturers in almost all Member states and the largest countries worldwide are indicators of an EEA or even worldwide market.
- (111) **On the basis of the above, and for the purpose of this state aid decision, the Commission considers that the relevant geographic market for the products concerned manufactured at the Ford Craiova site is at least EEA-wide if not worldwide.**

Market shares

- (112) To examine whether the project is compatible with point 68(a) of the RAG, the Commission has to analyse the market share of the aid beneficiary before and after the investment and check if the market share exceeds 25%.
- (113) The beneficiary's market share is assessed at group level in the relevant product and geographic markets. As the new investment project of Ford started in 2008 and full production is foreseen to be reached in 2012, the Commission will examine the market share of Ford on the relevant market as described above between 2007 and 2013.
- (114) The Romanian authorities provided calculations based on Ford data and data from Global Insight, an independent market research institute.

- (115) The Commission cross-checked these calculations based on data from Global Insight. To assess all relevant plausible market segmentations for this case, the Commission considered the MPV-B segment, the B-segment, the C-segment, the multi-purpose vehicle (MPV) segment, the passenger car segment and the Car Derived Van (CDV) segment as defined by Global Insight. On this basis, the Commission calculated Ford's market shares in volume terms for the years 2007 to 2013 in all plausible segments, both within the EEA¹⁸ and worldwide (WW).
- (116) As confirmed by the Romanian authorities, the data submitted takes account of the relevant business- and marketing agreements regarding the manufacturing and sales of vehicles between Ford and other companies.

MPV-B or sub compact MPV							
	2007	2008	2009	2010	2011	2012	2013
EEA market share of Ford	16,8%	15,4%	16,1%	15,8%	15,4%	14,8%	14,1%
WW market share of Ford	10,9%	9,3%	9,9%	11,7%	11,7%	11,6%	11,3%
MPV							
	2007	2008	2009	2010	2011	2012	2013
EEA market share of Ford	14,2%	14,1%	13,6%	13,3%	13,0%	12,2%	11,5%
WW market share of Ford	6,8%	6,5%	6,5%	6,8%	6,9%	6,9%	6,5%
B-segment							
	2007	2008	2009	2010	2011	2012	2013
EEA market share of Ford	9,1%	8,6%	9,8%	9,7%	9,4%	8,8%	7,9%
WW market share of Ford	7,0%	6,7%	7,1%	7,3%	7,0%	6,8%	6,5%
C-segment							
	2007	2008	2009	2010	2011	2012	2013
EEA market share of Ford	10,6%	10,6%	9,9%	9,5%	10,7%	10,6%	9,8%
WW market share of Ford	7,7%	7,4%	6,9%	6,6%	6,9%	7,1%	6,6%
Passenger cars							
	2007	2008	2009	2010	2011	2012	2013
EEA market share of Ford	10,2%	10,1%	10,2%	10,5%	10,5%	10,2%	9,5%
WW market share of Ford	7,3%	7,2%	7,1%	7,1%	6,8%	6,7%	6,5%

¹⁸ EEA is all 27 EU countries (except Malta, Cyprus and Luxembourg) and Norway.

CDV							
	2007	2008	2009	2010	2011	2012	2013
EEA market share of Ford	10,1%	8,3%	7,6%	9,2%	10,5%	11,6%	11,8%
WW market share of Ford	8,7%	7,5%	7,5%	8,7%	10,1%	10,6%	10,7%

- (117) On this basis, the highest market share of Ford taking into account all different plausible relevant markets is 16.8 % (MPV-B market in the EEA). All market shares are thus below the 25% threshold.
- (118) In none of the plausible alternative markets relevant to this decision (including the smallest segmentation for which data are available), the Commission found market shares above 25%.
- (119) For the reasons stated above, the project is in line with point 68(a) of the RAG.

Production capacity

- (120) The Commission also has to examine whether the investment project complies with point 68(b) of the RAG. It needs to verify whether the capacity created by the project is less than 5% of the size of the market measured using apparent consumption data of the product concerned, unless the average annual growth rate of its apparent consumption over the last five years is above the average annual growth rate of the EEA's GDP.
- (121) The Commission should thus first assess if the market is underperforming in the EEA based on the average annual growth rate of the apparent consumption¹⁹ of the product concerned.
- (122) The latest available data (no estimations) are those for the years 2001 to 2006. Data are only available in volume terms. The data notified by the Romanian authorities were verified by the Commission on the basis of Global Insight data.
- (123) The Compound Annual Growth Rate (CAGR) for the year 2001 to 2006 in the EEA for the apparent consumption in the MPV-B segment, the B-segment, the C-segment, the MPV segment, the passenger car segment and the Car Derived Van (CDV) segment is respectively 63.51%, 2.08%, 0.15%, 9.58%, -0.63% and 3.01%.
- (124) It can thus be concluded that the CAGR of the apparent consumption in the EEA for the year 2001 to 2006 in all plausible relevant market segments is above the CAGR of the European Economic Area's GDP for the years 2001 to 2006 (1.97%), except for the passenger car segment (-0.63%) and the C-segment (0.15%).

¹⁹ Footnote 62 of the RAG defines "apparent consumption of the product concerned" as "production minus export plus imports".

- (125) Because the Commission considered that the passenger car segment and the C-segment are not growing relative to the EEA's GDP, it performed the second part of the test in point 68 (b), verifying whether the capacity created by the project is more or less than 5% of the size of the relevant segment.
- (126) The Romanian authorities indicated that the capacity created by the project is a production of 300 000 vehicles by 2012 (year of full production) of which 150 000 B-MAV cars and 150 000 ISV cars.. To calculate the capacity increase, the Commission will not take into account the ISV production since the ISV is a light commercial vehicle and not a passenger car. Total unit sales of passenger cars in Europe in 2006 amounted to 14 052 906 (Global Insight figures). The production of the B-MAV cars would therefore result in a capacity increase created by the Ford project in Craiova of 1.1% of the total EEA market for passenger cars.
- (127) Approximately [20] to [40] % of the engine production of 300 000 units will go into C-segment cars. So approximately 105 000 engines produced at the aided Ford facilities in Craiova will go into downstream products in the C-segment. Total unit sales of C-segment cars in 2006 amounted to 5 578 841 units (Global Insight figures). The production of the engines for C-segment cars would therefore result in a capacity increase created by the Ford project in Craiova of 1.9% of the total EEA market for C-segment cars.
- (128) In conclusion, for all relevant plausible markets, the CAGR of its apparent consumption over the last five years is above the average annual growth rate of the EEA's GDP or the capacity created by the project is less than 5% of the size of the market.
- (129) Therefore, the Commission concludes that the investment project of Ford is compatible with point 68(b) of the RAG.

3.5. Conclusion

- (130) The measure constitutes an ad hoc aid. Therefore, the Commission considered the regional contribution of the aid measure in more detail (see section 2.8 above) and is convinced that the two projects realized by Ford will substantially contribute to the economic development of an EU disadvantaged region.
- (131) The notified aid is in line with the RAG. Consequently, the aid measure is compatible with Article 87(3)(a) of the EC Treaty.

4. DECISION

The Commission has decided, on the basis of the foregoing assessment, that the regional aid in the amounts of EUR 81.3 million and EUR 38 million with respective aid intensities of 21.28% and 28.65% in favour of Ford is compatible with the EC Treaty.

The Romanian authorities commit to suspend the payment of the notified regional aid if the beneficiary did not reimburse the aid declared incompatible by Commission Decision of 27 February 2008 on State aid case C46/07 (ex NN59/07). The suspension will be maintained until the beneficiary reimbursed or paid into a blocked account the total amount of incompatible aid and the corresponding recovery interest.

The Commission reminds the Romanian authorities of their commitment to submit to the Commission a copy of the final relevant acts concerning the aid measure, possible intermediary reports as well as a final report concerning the measure in question.

If this letter contains confidential information which should not be disclosed to third parties, please inform the Commission within fifteen working days of the date of receipt. If the Commission does not receive a reasoned request by that deadline, you will be deemed to agree to the disclosure to third parties and to the publication of the full text of the letter in the authentic language on the Internet site:

http://ec.europa.eu/community_law/state_aids/index.htm

Your request should be sent by registered letter or fax to:

European Commission
Directorate-General for Competition
State Aid Greffe
B-1049 Brussels
Fax No: 32 2 296 12 42

Yours faithfully,
For the Commission

Neelie KROES
Member of the Commission