



UPDATE: GOVERNMENT SUPPORT FOR THE AUTOMOTIVE INDUSTRY

From our discussions with the Department for Business Enterprise & Regulatory Reform (BERR) we understand that the UK's framework for support for the UK automotive industry is now before the European Commission in Brussels for approval. The European Commission is seeking to fast-track these applications and has already done so in relation to a number of similar applications from other European Union member states - so it seems likely that the UK framework will be approved within about 3 weeks. It is certainly the case that BERR's current view is that approval will be obtained in March and that the framework will be up and running shortly afterwards.

The UK plan was outlined by Peter Mandelson on 27th January 2009 and was described as comprising the following main elements:

- Guarantees to unlock loans from the European Investment Bank for investment in lower carbon initiatives
- Loans or guarantees to support of up to £1bn of lending for lower carbon initiatives for non-European Investment Bank projects
- Increased funding for training of employees under the government 'Train to Gain' scheme
- Further, the Trade and Investment Minister will draw up a plan for improving access to finance for manufacturers' finance arms

Government support for industry may amount to "state aid" which, in general, is prohibited by the Treaty of Rome - hence the need for approval of this plan by the European Commission. However, the UK plan will have been drafted to fit within the

European Commission's guidance on temporary aid measures which was issued, in December 2008, in response to the exceptional economic circumstances and allows the state aid rules to be significantly relaxed, essentially until the end of 2010.

When the UK framework is approved BERR will be able to outline the eligibility criteria and application process. It is already clear that the framework will apply to businesses with an annual turnover of over £25 million. The UK government has taken some general action already which may be of use to SMEs and medium sized companies in general.

Martineau are monitoring the situation and will provide guidance and analysis of the UK framework as soon as details are available.

This bulletin summarises complicated issues and should not be relied upon for specific matters. You are advised to take legal advice on particular problems. Please contact us and we will be happy to assist.

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