

# REPORT

## on

### State Aid Granted in Romania over the Period 2009-2011

(Summary)

This report was aimed at ensuring transparency in the State aid field, being worked out on the basis of data and information sent by all State aid suppliers (grantors are: central and local public authorities), and by the bodies administering State sources or local communities's sources. In order to allow a complete analysis of the evolution of State aids and of the aid beneficiary fields, the reports sent by the about 250 grantors have been centralised by certain criteria such as: activity sectors, State aids objectives, and nature (character) of the awarded measures.

Unlike the State Aid Scoreboard (published by the European Commission), this annual report has treated State aids granted in all the economic sectors - including the SGEIs sector, as well as the *de minimis* aids awarded to undertakings (either within certain aid schemes, or as individual aids). Also, the report included information on the State aid measures granted under the Temporary Framework adopted in the context of the current economic-financial crisis.

In 2009, the National State Aid (less agriculture, fisheries, transport, compensations for SGEIs, *de minimis* aids, and State aid awarded under the Temporary Framework for Crisis), expressed in Lei, in 2008 constant prices (2008 being considered as the basis year), has recorded the lowest value (level, amount) of the analyzed period, and of the entire post accession period. Since 2010, the National State Aid has registered an increase.

In 2009-2011, the percentage of the National State Aid in the Romanian GDP recorded an increase (from 0.15% in 2009 to 0.21% in 2011), this being due especially to State aids granted for regional and environmental objectives.

#### State Aid identified at National Level

|   | 2008        | 2009        | 2010        | 2011         |
|---|-------------|-------------|-------------|--------------|
| <b>National State Aid expressed in:</b>   |             |             |             |              |
| Thousand Lei, in current prices<br>(less agriculture, fisheries, transport, SGEIs,* <i>de minimis</i> aids, and State aid granted based on the Temporary Framework)                   | 973,890.96  | 757,828.77  | 816,966.09  | 1,210,682.34 |
| Thousand EUR**  | 264,450.26  | 178,847.09  | 194,058.31  | 285,679.78   |
| Thousand Lei, 2008 constant prices***   | 973,890.96  | 727,282.89  | 739,335.83  | 1,013,971.81 |
| Dynamics %  | 100.00      | 74.68       | 75.92       | 104.12       |
| <b>National State Aid percentage in the GDP, %</b><br>(less agriculture, fisheries, transport, SGEIs, <i>de minimis</i> aids, and State aid granted based on the Temporary Framework) | <b>0.19</b> | <b>0.15</b> | <b>0.16</b> | <b>0.21</b>  |

\* SGEIs = Services of General Economic Interest

\*\* Calculated on the basis of the average annual exchange rate RON / EUR, source INSSE;

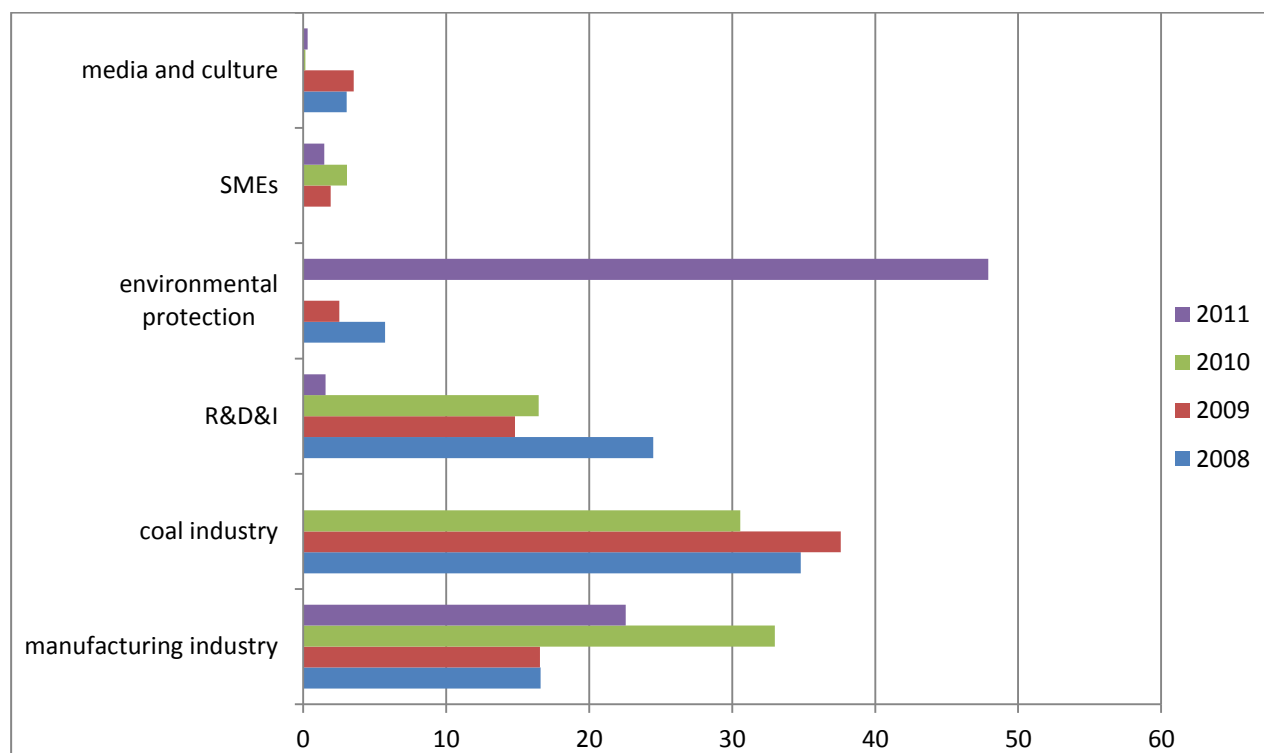
\*\*\* To convert in 2008 constant prices, has been used the GDP deflator – Source: INSSE (GDP deflator 2008=100%; 2009=104.2%; 2010=110.5%; 2011=119.4%);

A comparison with the other EU Member States shows that in 2011 Romania has awarded State aids of about 7 times lower than the average of the EU-27; State aids granted in Romania during this year represented 0.53% of the total State aids awarded at the level of the whole EU. For comparison, could be mentioned the fact that aids granted in France represented about 20% of the total aids awarded at the EU level, while the share of those granted in Germany was of 23.5% of the same total. As concerns the level of the National State Aid, Romania stands on one of the last places among those EU MS having a level of real GDP per capita similar to that recorded in our country (e.g. Poland, Hungary, Czech Republic, Slovenia, Bulgaria).

The analysis of State aid by beneficiary fields showed that in 2011 the largest share was held by State aids awarded for the environment protection (47.90%), this being followed by the percentage of the manufacturing industry (22.55%). Much lower weights were recorded by the other aids (State aid granted to R&D&I, State aid for SMEs, State aid for media and culture); the aids to coal industry have recorded a weight of 0% (zero%). Environmental aid recorded a significant increase, as a result of the implementation of the *“supporting scheme to promote the high efficiency cogeneration based on the demand of useful thermal energy” (GD no. 1215/2009)*.

The large share of the aid to manufacturing industry was due to the promotion, by the aid grantors, of a significant number of State aid schemes having regional development objective, the major beneficiaries being from the manufacturing sector. The most significant regional aids granted to manufacturing industry have been reported by the following suppliers (grantors): the Ministry of Public Finance, the Environment Fund Administration, and the Ministry of Economy, Trade and Business Environment; among the major beneficiaries were the following: SC Ford Romania SA; SC Pirelli Tyres Romania SRL Slatina, Ilt County; SC Aaylex Prod SRL Buzau; SC Premium Aerotec SRL Ghimbav Brasov; SC Lufkin Industries Aricestii Rahtivani Prahova; SC Remar SA Pașcani, Iași County, etc.

#### The National State Aid Structure, by Main Beneficiary Fields - evolution\*

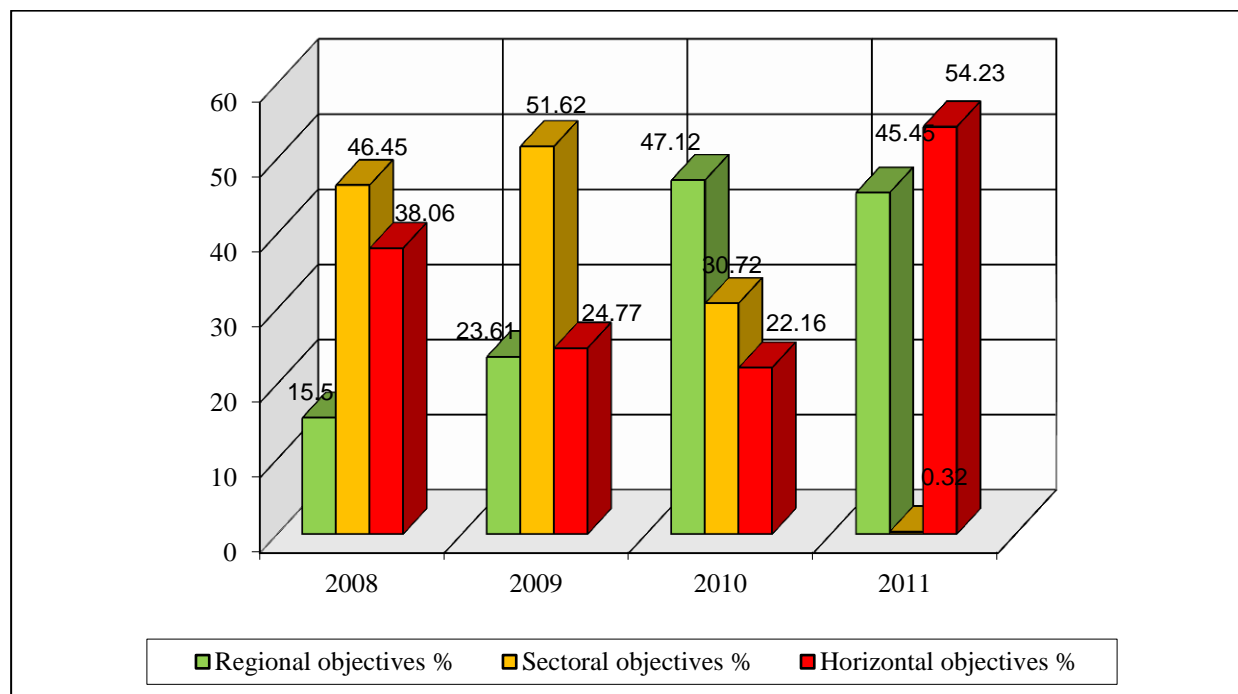


\* share of each beneficiary field in the total National State Aid, less agriculture, fisheries, transport, SGEIs, *de minimis* aids, and State aid granted based on the Temporary Framework (current prices).

As for the structure of National State Aid by granting tools (financial instruments), it should be mentioned that the high share of the „Budgetary Expenditure” was maintained in 2011, in the detrimental of State aid having the nature of „State Revenues Renouncement”; the percentage of Budgetary Expenditure in the National State Aid has been maintained, in 2009-2011, at almost 98%, compared to the level of same indicator in 2008 (about 94.36%). One explanation could be the following: State aid grantors understood that State aids having the nature of Abandoning State Incomes are much less transparent than the amounts granted directly to State aid beneficiaries and much more harmful for the normal competitive environment.

The analysis, by objectives, of State aids awarded in Romania over the period 2009-2011 showed that State aids with horizontal objectives, together with those for regional development have held the largest share in the Total National State Aid (less agriculture, fisheries, transport, SGEIs, and *de minimis* aids).

### National State Aid by main granting objective, over the period 2008-2010\*



\* share of each main granting objective in the total National State Aid, less agriculture, fisheries, transport, SGEIs, *de minimis* aids, and State aid granted based on the Temporary Framework (current prices).

The detailed analysis of each objective showed the following aspects:

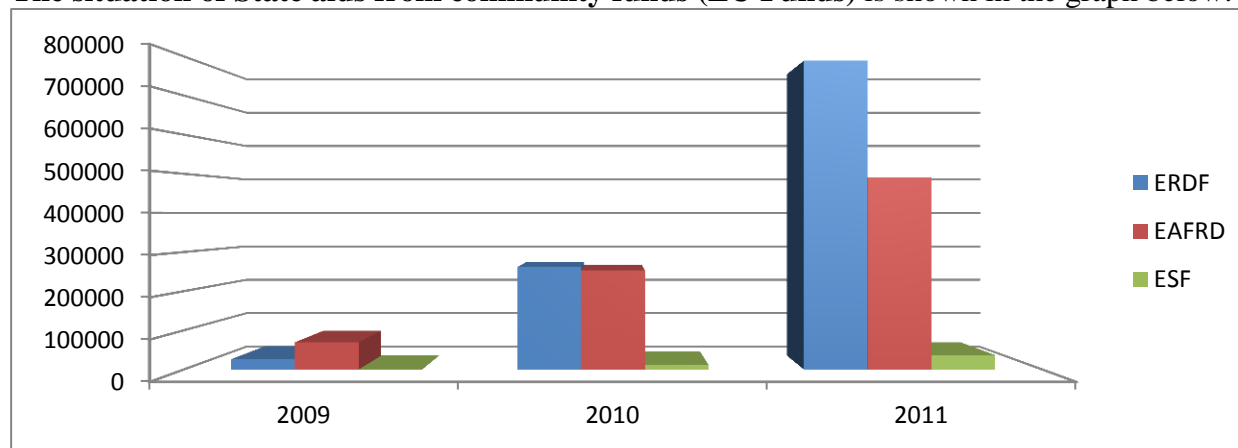
- the share of State aid awarded for sectoral objectives decreased significantly in 2011 (reaching 0.32% of the total granted State aids, compared to the level in 2009 – 51.62%), this situation being explained by the failure to give aid to the coal industry;
- in 2011, the share of State aids having regional development as main objective, in the National State Aid, has been maintained at a high level (of over 45%) – this level being mainly due to the fact that Romanian authorities have promoted a large number of notified State aid schemes or a large number of State aid schemes exempted from the obligation to notify the European Commission;

- the European Commission encourages Member States to promote State aid granted to horizontal objectives, these being considered as less harmful to the competitive environment; in 2009 and 2010, their weight in the total National State Aid was low (24.77%, respectively, 22.16%), being lower than the one recorded in 2008 (38.06%); in 2011, these aids has recorded a „spectacular” increase, attaining a high percentage in the National State Aid (54.23%) – especially due to the aids for environmental protection.

The most important part of State aids awarded to undertakings performing SGEIs (Services of General Economic Interest) was represented by State aids granted - from the State Budget, as well as from the local budgets - to compensate production, transmission, distribution and supply of thermal energy (heat) in a centralized system to the population. In 2009-2011, the average total annual value of these aids was of about 1,400,000 thousand Lei.

As for the Community Funds (the EU Funds), these have been accessed since 2009, through State aid schemes and *de minimis* schemes. Within the Sectoral Operational Programs, have been awarded State aids in the form of grants, both from State Budget and from community funds (i.e. the European Regional Development Fund, the European Social Fund, and the European Agricultural Fund for Rural Development).

**The situation of State aids from community funds (EU Funds)** is shown in the graph below.



In 2011, the amount of State aids from EU Funds recorded an increase of over ten times, as compared to the level in 2009 (1,317 mil. Lei, respectively 96 mil. Lei); the most important amounts have been granted within the aid schemes exempted from notifying. In 2009, the destination of State aids from Community Funds was mainly represented by the SMEs, while in 2011 the aids coming from Community sources were awarded especially to regional development, but also as *de minimis* aids.

Over the analyzed period, the granted State aid in the transport sector recorded a slight increasing tendency, from 2,376,400 thousand Lei in 2009, to 2,789,798 thousand Lei in 2011. From the situation of State aid distribution by sub-branches, it resulted that State aid awarded to „railway transport” continued to register amounts exceeding 50% of the total aid granted for this sector.

As concerns the State aid granted to the agriculture sector, a sharp decrease in the State aid value has been recorded in 2010 - as compared to the level in 2009 (from 2,518,246 thousand Lei awarded in 2009, to 386,473 thousand Lei in 2010); this reducing was explained by the global economic crisis which affected Romania, and also by the fact that awarding State aids of fiscal nature to the farmers was ceased on December 31, 2009. In 2011, as a result of granting support to the zootechnic sector, has been recorded a slight increase of the State aid amount (which attained a level of 1,095,620 thousand Lei).

Over the period 2009-2011, State aid grantors promoted a large number of *de minimis* schemes (compared to the previous period: 2007-2009), recording an important increase of the level for *de minimis* aids - of three times as compared to 2009; the explanation is that local and central authorities had understood the importance of this type of aid and the major impact of these aids on the SMEs (without distorting competition). In this context, it should be mentioned that the largest share of the aids awarded to SMEs, in 2009-2011, was in the form of *de minimis* aids - which are much more permissive and more easier to be granted by the State aid suppliers.

The temporary measures set out into the Community Framework to support the acces to funding, in the context of the economic-financial crisis, had two objectives. First, was pursued unlocking the banking lending activity towards companies, and, by this measure, to guarantee the continuity of their acces to funding; the second objective was encouraging the companies to continue investing, in the future, within an economy having a sustainable growth.

So far, Romania has received the authorization from the European Commission for 4 State aid measures initiated under the Temporary Community Framework, one of which being for agriculture. State aids awarded during 2010 have been based only on two measures among those initiated under the Temporary Framework for the crisis: the State aid scheme consisting in guarantees to credits for investing, and the individual aid for the company Ford Romania SA. In 2011, State aids based on measures initiated under the Temporary Framework for crisis have no longer been granted.

Unlike most Member States, in Romania the banking sector has not received state aid.