

Report on state aids granted in Romania
between 2005 and 2007
= summary =

Starting with the year 2004, the Competition Council was allocated the task of elaborating and annual updating of the State Aids Inventory, which contains all the existent state aid schemes and individual state aids defined according to the provisions of articles 31 and 32 within Law no. 143/1999 regarding state aid, republished.

After Romania's accession to the European Union on the 1st of January 2007, the Competition Council's competences within the state aid field have changed, Law no. 143/1999 has been recalled while G.E.O. no. 117/2006 regarding the national procedures within the state aid field came into force. According to the provisions of articles 19 (1) and 20 of this G.E.O., the Competition Council is still allocated the task of elaborating and annual updating of the State Aids Inventory.

Based on the Inventory, **the Competition Council elaborates an Annual Report regarding the state aids granted in Romania**, which is forwarded to the Romanian Government for information, after that it is published in the Official Monitor and transmitted to the European Commission.

The present Report illustrates a situation of the level, structure and trends recorded in granting state aids in our country between the years 2005 and 2007, thus being the 9th Report elaborated by Romania and the 2nd one since our accession to the European Union.

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1. The methodology of elaborating the report is provided in the “Regulation regarding the procedures of reporting and monitoring of state aids”, issued by the Competition Council.

Thus, the Report is a document intended for the **assurance of transparency within the state aid field** and was elaborated on the basis of the data and information sent by all state aid grantors – central and local public authorities – as well as bodies which administrate state sources or sources from local collectivities.

The information sent comprehends a period of time of 3 years, respectively the year of reporting 2007 and the 2 previous years – 2005 and 2006 – in order to update the previous data.

The report contains data and information regarding the state aids granted between 2005 and 2007, grouped in the following chapters:

- National state aid;
- State aid granted to the processing industry;
- State aid granted to the extractive industry;
- State aid granted to undertakings for services of general economic interest (SGEI);

- State aid granted for the development of the labor force;
- State aid granted for financial services, tourism, media and culture;
- Regional state aids;
- *De minimis* state aids;
- State aids granted in the transportation sector;
- State aid granted to agriculture and fishery;
- The recovery of the illegal state aids.

The Report is drafted on the structure of the Scoreboard of the state aids, elaborated by the European Commission, through which it evaluates the evolution and the level of the state aids granted by the Member States of the European Union.

For the analysis of the volume of the state aids granted in Romania, aggregated macro-economical indicators sent by the National Institute of Statistics (INSSE) have been used (GDP, GDP deflator, number of employees, the annual average exchange rate).

2. The analysis of the evolution of state aids granted in Romania during the interval 2005-2007 is based, first of all, on the annual total volume and furthermore on 2 levels, the objectives which were taken into consideration when the aids were granted and the instruments used in granting them.

A. The total National State Aid (excepting agriculture, fishery and transports) **expressed in current prices presents a general descending trend, from 2,86 billion RON in 2005 (0,78 billion Euro) to 2,24 billion RON in 2007 (0,67 billion Euro), with a growth in 2006 to 3,38 billion RON (0,96 billion Euro),** but with a drastic decrease from the 6,51 billion RON (1,60 billion Euro) which were recorded in 2004 (Annex 1).

As weight in the GDP, the National State Aid also had a descending trend, from 1% in 2005 and 0,99% in 2006 to 0,56% in 2007, even more obvious than 2,64% in 2004 (Annex 1).

The reduction of the national state aid between 2005 and 2007 compared to 2004 was due, basically, to the **interdiction of granting state aids in the iron industry and to the considerable reduction of the state aids granted for the salvation and restructuring of undertakings in distress.**

The higher level recorded in **2004** was due to **the intensification of the restructuring and privatization process of companies with a majority of state capital at the time being,** as well as the fact that it was the last year when the iron industry in Romania has ever been granted state aids. This aspect is also reflected by the weight in the national state aid of the aids consisting in *exemptions* and *allowances* for the *fiscal obligations payment* of the economic agents towards the state, respectively of the aids consisting in *exemptions* and *allowances from paying the supplementary charges for payment delays* (fiscal aids), granted during the process of privatization and restructuring.

Although in 2006 the absolute value of the state aid (this value also includes the aids granted for Services of General Economic Interest – SGEI, as well as the *de minimis* aids) was higher than in 2005 and in 2007, the percent in the GDP has continuously diminished, because the GDP grew more in 2006, from 79 billion Euro in 2005 to 97 billion Euro in 2006, reaching 121 billion Euro in 2007.

B. Regarding the analyze on objectives of the state aids granted in Romania between 2005 and 2007 (Annex 2), a tendency of alignment to the priorities established in “The Action Plan” of the European Commission, adopted in June 2005 has been noticed. Thus:

- in the year 2007 **the horizontal objectives** (research-development, environmental protection, small and medium enterprises, rescuing – restructuring, fighting against unemployment, other objectives) represented **16,45%** of the national aid (excepting agriculture, fishery and transports), having a lower value than the previous years (37,81% in 2006 and 34,03% in 2005). However, this diminishment can be placed upon the fact that the aids for salvation and restructuring have reduced (which implies a greater level of risk in distorting the competition) as well as the fact that aids for SMEs have mostly been granted as *de minimis* aids, much easier to obtain by the undertakings.

Still, the weight of state aids granted for research, development and innovation in the national state aid (excepting agriculture, fishery and transports) grew in 2007 compared to 2005 – 4,66% compared to 1,92%.

- in the year 2007 **sector-specific objectives** (steel, shipbuilding, motor vehicles, synthetic fibers and wires, coal industry, tourism, financial services, media and culture) represented **17,81%** of the national aid (excepting agriculture, fishery and transports), thus recording a lower value than in 2005 (18,05%) and with a pronounced decrease in 2006 – 11,61%.

However, an ascending trend have encountered the aids granted for the coal industry, from 14,40% of the national state aid (excepting agriculture, fishery and transports) in 2005 to 16,67% in 2007. The aids granted in 2007 also include the aid granted to “Compania Nationala a Huilei Petrosani” as direct subsidies destined for covering the expenses related to the current production and also as subsidies destined for covering the social expenses, aid authorized by the European Commission.

- in the year 2007, **regional aids** represented **2,16%** of the national state aid (excepting agriculture, fishery and transports), their weight being relatively constant in the analyzed period of time.

- concerning the aids granted for Services of General Economic Interest – **SGEI**, it turns out that in all the analyzed period of time between 2005 and 2007 they hold a majority share in the total national state aid (excepting agriculture, fishery and transports) of 44,44% in 2005, 47,76% in 2006 and **63,58%** in 2007.

The large majority of these aids were granted as subsidies to offset losses due to the provision of services of general economic interest, as according to the state aid scheme initiated by the Ministry of Administration and Interior.

As seen in the analysis, regarding the repartition of the state aid on objectives, **Romania aligns itself to the general tendency within the European Union, which consists in reducing the aid for sector-specific objectives**, granted to sectors of activity which are sensible from a competitive point of view (steel, shipbuilding, auto vehicles) and orientating it towards horizontal objectives (research-development, environmental protection, SMEs)

B. Regarding the distribution of the national state aid among the financial tools used (Annex 3), its structure is the following:

- **94,89% “Budgetary expenses”** in 2007, which consists of grants, allowances, bonuses, subsidized interests, other refundable amounts, as well as equity participations and debt conversions; the weight of the budgetary expenses in the national state aid (excepting agriculture, fishery and transports) recorded an ascending trend during the analyzed period (from 74,41% in 2005 and 80,04% in 2006).
- **5,11% “Revenues renouncement”** in 2007, which consists of exemptions and allowances for the payment of fiscal obligations towards the state, exemptions and allowances from paying the supplementary charges for the payment delay, state guarantees; the weight of the revenues renouncements in the national state aid (excepting agriculture, fishery and transports) has recorded a descending trend between 2005 and 2007 (from 25,59% in 2005 and 19,96% in 2006).

Starting with the year 2005, it can be observed how for the first time the “budgetary expenses” surpass the “revenues renouncement”, turning over the situation which was recorded until 2004, when the revenues renouncement were the majority with 82,01%, while the budgetary expenses accounted for 17,99% of the national state aid.

This division of the national state aid on financial tools in the analyzed period of time is according to the requests of the European Commission of **reducing the fiscal state aids**, because these can affect the trade within the community.

The descending trend of the fiscal aids reflects the correct application of the community acquis by harmonizing the supporting measures provided in the Romanian legislation.

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The year 2005 marks Romania’s alignment to the community policies and practices in the field of state aid. It is the beginning of a period in which Romania’s sustained efforts of respecting the rules regarding state aid have led to a similar level of our country than to those of the countries which became member states during the last accession stream in 2004.

Reaching this objective was possible because of the elaboration of certain policies intended on granting less distorting and better orientated aids, through an effective and efficient control of the state aids and through the implementation of the community legislation concerning state aid as early as the pre-accession period.

The application, prior to the accession, of the community acquis in the fields of competition and state aid was necessary for the Romanian companies to adapt to the new rules and for them to be prepared to cope with the competition forces on the Single European Market.

The adaptation to the Single Market has intensified beginning with the 1st of January 2007, together with Romania’s accession to the European Union, date from which community rules apply directly in the state aid field.

The results of this intense process of adapting to the Single Market didn't fail to show up. Thus, **the years 2005, 2006 and 2007 are characterized by 2 features:**

- **the reduction of the National State Aid, both in an absolute value and as weight in the GDP and**
- **the diminishment of the state aids in the form of fiscal facilities which were likely to distort competition and affect the trade between Romania and the Member States.**

Romania's evolution in this field is owed, on the one hand, to the fact that the importance of respecting the rules at a European level has been taken into awareness, and, on the other hand, to the alignment of the policy of granting state aids to the objectives of the Lisbon Strategy, elaborated by the European Commission.

National State Aid

	2004	2005	2006	2007
National state aid expressed in:				
Thousand Lei current prices (excepting agriculture, fishery and transports)	6.510.497,14	2.860.438,24	3.383.648,79	2.248.763,58
Thousand Euros *	1.606.256,65	789.426,57	960.036,54	673.827,22
Thousand Lei constant prices 2004**	6.510.497,14	2.549.410,20	2.728.749,02	1.608.557,64
Dynamics %	100,00	39,16	41,91	24,71
The weight of the national state aid in the GDP % (excepting agriculture, fishery and transports)	2,64	1,00	0,99	0,56
National state aid per person – Lei constant prices 2004 (excepting agriculture, fishery and transports)	299,87	117,71	126,27	74,59
National state aid per employee – Lei constant prices 2004 (excepting agriculture, fishery and transports)	1.456,87	559,21	584,66	329,26

* calculated upon the annual average exchange rate between the Leu and Euro, source INSSE;

** the GDP deflator has been used in order to transform into constant prices 2004, source INSSE (GDP deflator 2004 = 100%; 2005=112,20%, 2006=124,00%, 2007=139,80%).

**The level and structure of the national state aid
by objectives between 2004 and 2006**

	2004	2005	2006	2007
National state aid (excepting agriculture, fishery and transports), expressed in:				
Thousand Lei current prices	6.510.497,14	2.860.438,24	3.383.648,79	2.248.763,58
Thousand Euros current prices	1.606.256,65	789.426,57	960.036,54	673.827,22
Thousand Lei constant prices 2004	6.510.497,14	2.549.410,20	2.728.749,02	1.608.557,64
out of which for:				
> horizontal objectives				
Thousand Lei current prices	2.643.544,24	973.300,64	1.279.253,70	369.946,13
Thousand Euros current prices	652.209,88	268.612,47	362.960,33	110.851,93
Weight in total state aid %	40,60	34,03	37,81	16,45
> sector objectives (excepting the transport sector)				
Thousand Lei current prices	2.106.598,96	516.337,13	392.937,38	400.506,96
Thousand Euros current prices	519.735,82	142.499,23	111.487,41	120.009,28
Weight in total state aid %	32,36	18,05	11,61	17,81
> regional objectives				
Thousand Lei current prices	249.353,65	99.644,90	95.393,56	48.526,58
Thousand Euros current prices	61.520,03	27.500,10	27.065,84	14.540,67
Weight in total state aid %	3,83	3,48	2,82	2,16
> state aid granted for services of general economic interest				
Thousand Lei current prices	1.511.000,29	1.271.155,57	1.616.064,15	1.429.783,91
Thousand Euros current prices	372.790,93	350.814,77	458.522,95	428.425,35
Weight in total state aid %	23,21	44,44	47,76	63,58

The structure of the national state aid by its nature

	2004	2005	2006	2007
NATIONAL STATE AID – Thousand Lei current prices (excepting agriculture, fishery and transport)				
TOTAL	6.510.497,14	2.860.438,24	3.383.648,79	2.248.763,58
out of which:				
Revenues renouncement	5.339.518,08	731.968,56	675.260,30	114.832,02
Weight in NA* (%)	82,01	25,59	19,96	5,11
out of which:				
Exemptions and allowances from fiscal obligations payment	1.618.520,94	474.727,03	296.596,70	67.982,01
Weight in NA* (%)	24,86	16,60	8,77	3,02
Exemptions and allowances from paying the supplementary charges for the payment delay	2.479.335,01	167.745,60	263.457,43	17.986,16
Weight in NA* (%)	38,08	5,86	7,79	0,80
State guarantees	1.241.662,13	89.495,93	115.206,17	28.863,85
Weight in NA* (%)	19,07	3,13	3,40	1,28
Budgetary expenses	1.170.979,06	2.128.469,68	2.708.388,49	2.133.931,56
Weight in NA* (%)	17,99	74,41	80,04	94,89
out of which:				
Subsidies, grants, bonuses, subsidized interest, other non-refundable amounts	1.039.959,99	2.049.958,01	2.654.084,39	2.045.955,01
Weight in NA* (%)	15,97	71,67	78,44	90,98
Equity participation, debts conversion	131.011,40	75.963,27	52.477,76	86.989,92
Weight in NA* (%)	2,01	2,66	1,55	3,87
Budgetary credits	7,67	2.548,40	1.826,34	986,63
Weight in NA* (%)	0,0001	0,09	0,05	0,04

* NA = national state aid (excepting agriculture, fishery and transports)

**Global volume of the state aids granted for the main beneficiary fields in Romania
between 2005 and 2007* (including *de minimis* aids)**

	UM	2004	2005	2006	2007
National state aid (excepting agriculture, fishery and transports) out of which for:	Thousand Lei current prices	6.510.497,14	2.860.438,24	3.383.648,79	2.248.763,58
	Thousand Euros	1.606.256,65	789.426,57	960.036,54	673.827,22
	%	100,0	100,0	100,0	100,0
Processing industry	Thousand Lei	3.052.508,88	358.484,93	386.826,86	144.799,44
	Thousand Euros	753.108,80	98.935,03	109.753,68	43.388,20
	%	46,89	12,53	11,43	6,44
Coal industry	Thousand Lei	859.184,59	411.951,15	370.582,00	374.800,00
	Thousand Euros	211.976,28	113.690,69	105.144,56	112.306,36
	%	13,20	14,40	10,95	16,67
Research – development	Thousand Lei	58.501,65	54.960,33	110.180,40	104.778,83
	Thousand Euros	14.433,41	15.168,01	31.261,29	31.396,29
	%	0,90	1,92	3,26	4,66
Environmental protection	Thousand Lei	43.770,90	28.982,97	40.075,98	17.485,77
	Thousand Euros	10.799,07	7.998,75	11.370,69	5.239,50
	%	0,67	1,01	1,18	0,78
Small and medium enterprises	Thousand Lei	9.434,35	35.680,80	71.511,58	420,99
	Thousand Euros	2.327,62	9.847,22	20.289,85	126,15
	%	0,14	1,25	2,11	0,02
Creating work places	Thousand Lei	21.571,77	8.403,07	3.624,78	1.004,73
	Thousand Euros	5.322,14	2.319,09	1.028,45	301,06
	%	0,33	0,29	0,11	0,04
Other objectives (trading, constructions, services, services of of general economic interest)	Thousand Lei	782.493,07	598.085,44	701.881,33	111.539,76
	Thousand Euros	193.055,10	165.060,21	199.143,52	33.422,16
	%	12,02	20,91	20,74	4,96

Services of general economic interest	Thousand Lei current prices	1.511.000,29	1.271.155,57	1.616.064,15	1.429.783,91
	Thousand Euros	372.790,93	350.814,77	458.522,95	428.425,35
	%	23,21	44,44	47,76	63,58
<i>De minimis</i> aids	Thousand Lei	555,34	117,38	5.176,89	67.126,77
	Thousand Euros	137,01	32,39	1.468,83	20.114,10
	%	0,01	0,004	0,15	2,99

* Aids granted for tourism, financial services, media and culture are not included