

REPORT

on State Aid granted in Romania over the period 2008 - 2010

(Summary)

This Report is a document aimed at ensuring transparency in the State aid field, being worked out on the basis of data and information sent by all the State aid suppliers (central and local public authorities), and by the bodies entrusted to administrate the State and the local communities sources. In order to allow a comprehensive analysis of the State aid evolution, the reportings received from almost 250 grantors have been centralized on several criteria such as: activity sectors, State aid objectives, nature of the awarded measures.

Unlike the „*State Aid Scoreboard*” – published by the European Commission – this Annual Report treats State aids granted in all the economic sectors, including the SGEIs sector, as well as *de minimis* aids awarded to undertakings - either within certain aid schemes, or as individual aid. The report also contains information related to the State aid measures granted under the Temporary Framework, in the context of the current economic-financial crisis.

Over the period 2007-2010, the National State Aid (expressed in Lei, in 2007 constant prices - 2007 being considered the basis year), has registered a general decreasing tendency, from 850.50 mil. Lei in 2007, to 698.42 mil. Lei in 2010. Same tendency has also been reflected in the share of the National State Aid in the GDP, which decreased from 0.20% in 2007, to 0.17% in 2010, due to the reduction of State Aid awarded by the State aid suppliers for horizontal objectives (namely, State aid granted for rescuing–restructuring firms in difficulty, considered by the European Commission as harmful for the normal competitive environment).

State Aid identified at the national level

	2007	2008	2009	2010
National State Aid expressed in:				
Thousand Lei, current prices (less agriculture, fisheries, transport, SGEIs*, <i>de minimis aid</i> , and State aid granted under the Temporary Framework)	850,509.15	973,890.96	745,877.88	876,527.69
Thousand Euro**	254,849.47	264,450.26	176,026.69	208,206.30
Thousand Lei, 2007 current prices***	850,509.15	844,658.25	621,047.36	698,428.44
Dynamics %	100.00	99.31	73.02	82.12
Share of the National State Aid in the GDP % (less agriculture, fisheries, transport, SGEIs*, <i>de minimis aid</i>, and State aid granted under the Temporary Framework)	0.20	0.19	0.15	0.17

* SGEIs – Services of General Economic Interest

** Calculated on the basis of the average annual exchange rate RON / Euro – Source: INSSE;

*** To convert in 2007 constant prices, has been used the GDP deflator – Source: INSSE (GDP deflator 2007=100%; 2008=115.3%; 2009=120.1%; 2010=125.5%);

The level of State aid recorded in 2010, slightly higher than the one of 2009, was especially due to the sharp rise in the State aid granted to regional objectives.

As compared with the other EU Member States - in 2010 Romania has awarded State aid of about 10 times lower than the EU-27 average; State aid granted in Romania in 2010 represents 0.34% of the total State aids awarded at the EU level.

The analysis of State aid by beneficiary fields showed that, in 2010, the highest share was held by State aids granted for the manufacturing industry (30.75%), followed by those awarded to coal industry (pitcoal extracting) – 28.50% - and by State aids granted for R&D&I (this category recording a percentage of 15.31%).

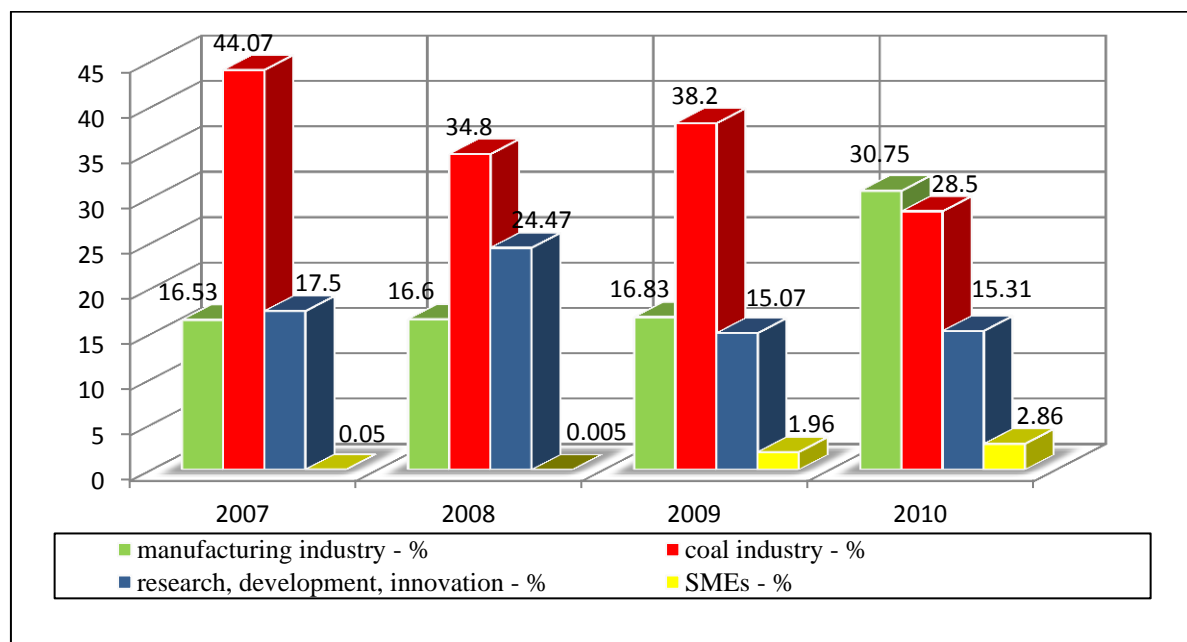
This was due, especially, to the fact that State aid grantors have promoted a large number of State aid schemes aimed at the regional development, many beneficiaries of State aid granted through these schemes operating in the manufacturing industry.

The most important regional State aids awarded to manufacturing industry have been reported by: the Ministry of Public Finance, the Environment Fund Administration, and the Ministry of the Economy, Trade and Business Environment; among the most important beneficiaries of these State aids were the following companies: SC Ford Romania SA, SC Automobile Dacia SA, SC Renault Mecanique Roumanie SRL, SC Pirelli Tyres Romania SRL, etc.

The volume of State aids granted to coal industry has significantly diminished over the period 2008-2010; as a consequence, State aids awarded to this sector in 2010 (as volume, calculated in 2007 constant prices) represented about 53.1% of the level recorded in 2007.

State aids granted to undertakings operating in the field of R&D&I had a slightly increasing trend in 2009-2010, from 26.5 mil. Euro in 2009, to 31.9 mil. Euro in 2010. The State aids awarded for this sector were among those referred to in the "National Plan for R&D&I II", being authorised by the European Commission.

Evolution of the National State Aid structure by main beneficiary fields*



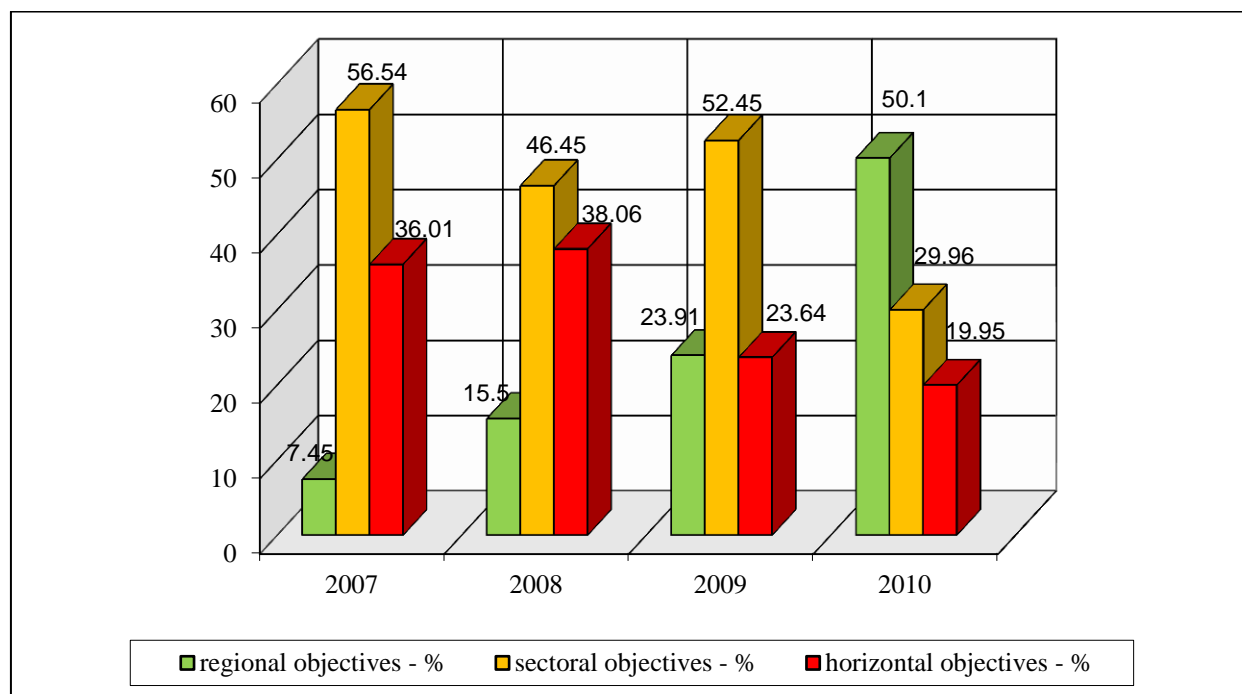
* The share of each beneficiary field in the Total National State Aid - less agriculture, fisheries, transport, SGEIs, *de minimis* aids, and State aid granted under the Temporary Framework (current prices).

Regarding the financial instruments (the granting tools), it should be mentioned that the increasing tendency in the share of State aid having a nature of „Budgetary expenditure” in the Total National State Aid has continued in 2010, detrimental to the State aid with character of “Abandoning the State incomes” by the State; in 2010, the share of „Budgetary expenditure” in the Total National State Aid was of 98.98%, while in 2007 it was of 85.07%.

The State aid grantors have understood that State aids having a nature of „Abandoning the State incomes” are much less transparent than the amounts granted directly to the State aid beneficiaries and much more harmful for the normal competitive environment.

As regards the analysis on objectives of the State aids awarded in Romania over the period 2008-2010, it was found that the highest share in the Total National State aid (less agriculture, fisheries, transport, SGEIs and *de minimis* aids) was held, yet, by the State aids having sectoral objectives.

National State Aid by main granting objectives, during the period 2008-2010*



* The share of each main granting objective in the Total National State Aid - less agriculture, fisheries, transport, SGEIs, *de minimis* aids, and State aid granted under the Temporary Framework (current prices).

From the detailed analysis of each objective, have been found the following aspects:

- Although the share of State aids awarded to sectoral objectives in the total granted State aids has diminished in 2010 to 29.96% (compared to the share of this category of State aid in 2007 - 56.54%); the still high level was maintained by the State aids awarded to the National Company of Pitcoal in Petrosani, and by those aids aimed for the production of movies;
- In 2010 has been registered, for the first time, an increase in the share of the State aids having regional development as main objective in the National State aid (increase of over 50%); this growth was mainly explained by the fact that, after 2007, the Romanian authorities had promoted a large number of State aid schemes - notified or exempted from the obligation to notify the European Commission;

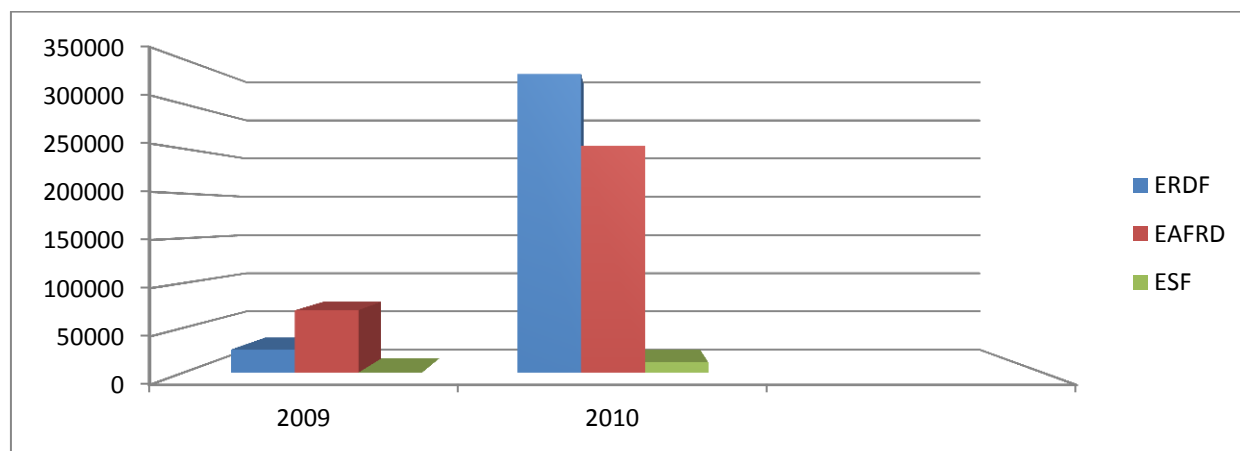
- The European Commission encourages the Member States to promote State aids aimed at horizontal objectives, which are considered less harmful for the competitive environment; in 2010 these aids held a diminished share in the Total National State Aid - of only 19.95% as compared with their level in 2007 (36.01%) and in 2008 (38.06%); this was due especially to the small number of State aids awarded from the State budget to objectives such as: environment protection, restructuring firms in difficulty, creating jobs, and, respectively, training; during the analyzed period (2008-2010), the majority State aids for SMEs were granted in the form of *de minimis aids*, these aids being much more permissive, and their awarding by the State aids grantors being more easier to be done.

State aids awarded to companies carrying out Services of General Economic Interest (SGEIs) have an important influence on the national economy, not only in terms of the yearly value of subsidies which must be covered by the public authorities from their own budget, but also through their major impact on the strategical sectors of the national economy, and (not least) on the population.

In 2010, the value of State aids granted for SGEIs was of 302.4 mil. Euro, decreasing – as compared to 2007, when have been awarded 441.9 mil. Euro.

Regarding the Community funds: their accessing was started in 2009. Within the sectoral operational programs, have been awarded State aids in the form of grants, both from the State budget and from the EU funds (the European Regional Development Fund and the European Agricultural Fund for Rural Development).

In the following chart is presented the situation of State aids from the Community Funds.



In 2010, the value of State aids granted from EU funds was of 598.20 mil Lei, recording an increase of over 6 times compared to the 2009 level (95.48 mil. Lei); the most important amounts have been registered by the aids awarded within the State aid schemes initiated under the „General Block Exemption Regulation”¹⁾. In 2009, State aids from Community sources have been predominantly oriented towards SMEs, while in 2010 they were awarded especially for regional development.

1) Regulation (EC) no. 800/2008 of the Commission of 6 August 2008 declaring certain categories of aid compatible with the Common Market, under the articles 87 and 88 of the Treaty („General Block Exemption Regulation”).

In the transport sector, the granted State aid registered a slight decreasing trend. The situation of the State aids distribution on sub-branches showed that the „railway transport” has benefitted from an annual additional allocation, the „air transport” subsector has registered a significant decrease, and the „road combined transport” had a relatively constant level.

In the agriculture sector has been found a sharp drop in the value of State aid awarded in 2010 (to 386.4 mil. Lei, compared with 2,193.8 mil. Lei in 2008). Over the analyzed period, the share of State aid granted to the agriculture in the National State Aid (including agriculture, fisheries and transport) has decreased - in 2010 being of 11.99%, while its level in 2008 was of 41.76%, and the level of 2009 was of 49.22%.

The increased level of *de minimis* aids registered in 2010 (as value - a value close to the double of the level in 2009) could be explained by the large number of *de minimis* schemes promoted by the grantors at the central and local level (as compared with the number in the 2007-2009 period). The public authorities have understood the importance of this type of aid, and have become aware of the major impact of these aids on the SMEs (without distorting competition).

The temporary measures stipulated into the Community Framework for supporting the access to funding, in the context of the economic and financial crisis, have pursued two objectives: a. unlocking the banking activity for lending the companies and, thereby, ensuring the continuity of their access to finance; and b. encouraging companies to continue investing in the future - within an economy having a sustainable growth.

So far, Romania has received from the European Commission the authorization for 4 State aid schemes initiated under the Temporary Community Framework, one of them being for the agriculture. The banking sector in Romania has not received State aid.

State aids granted for 2010 on the basis of the Temporary Framework took the form of guarantees to the credits for investment.