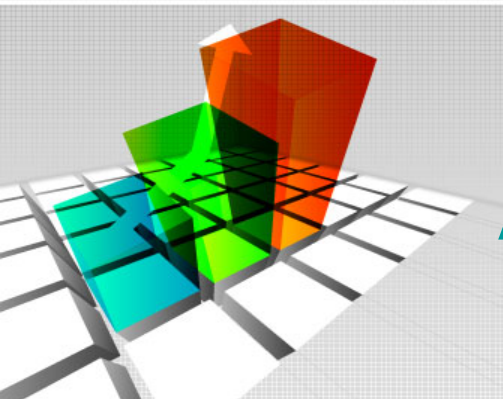


COMPETITION COUNCIL



THE SOCIAL AND ECONOMIC IMPACT OF AID FOR RESTRUCTURING, GRANTED TO UNDERTAKINGS IN DIFFICULTY



BUCHAREST
November 2010

The monitoring of state aid by the Competition Council

The Competition Council is the national authority which was assigned to administrate the Competition Law no. 21/1996 and Law no. 143/1999 regarding state aid (abolished beginning with the 1st of January 2007 through G.O. no. 117/2006 regarding the national procedures within the state aid field, approved by Law no. 137/2010).

Within this context, the Competition Council carries on monitoring actions of state aid measures implemented by public authorities, having in view the way EU provisions within the state aid field are being respected.

The objective of the impact study

In order to determine the effects generated by the implementation of support measures granted prior to Romania's accession to the European Union for the restructuring of several companies which were encountering difficulties in carrying on their activities, the Competition Council wanted to evaluate „*the social and economic impact of state aid for restructuring granted to undertakings in difficulty*”, by elaborating an impact study.

The analysis had in mind the support measures that sustained restructuring plans finalized between 2008 and 2009 and were authorized by the Competition Council individually, for each undertaking.

The sources of information used

- the preliminary data base with all the information possessed by the Department of State Aid within the Competition Council;
- information provided by the Department of Competition within the Competition Council regarding the markets on which the companies activate;
- data submitted by the restructuring state aid grantors, identified based on the state aid Inventory, administrated by the Department of State Aid. The information has been collected through questionnaires completed by 5 grantors (The Authority for State Assets Recovery, The Ministry of Public Finance, The Ministry of Economy, Trade and the Business Environment, the Ministry of Education, Research, Youth and Sports and The Ministry of Labor, Family and Social Protection);
- data submitted by the beneficiaries of state aid, collected through questionnaires with the help of competition inspectors within the Territorial Directorate of the Competition Council;
- The National Trade Register Office and the National Institute of Statistics.

The structure of the impact study

- notions used during the process of granting and authorizing state aid for restructuring;
- information regarding the undertakings subject to the analysis;
- information regarding the state aid granted;
- information regarding the restructuring plans implemented by the beneficiaries;
- the evolution of state aid receiving companies during the restructuring program;
- the economic and social effects of the state aid measures;
- state aid for restructuring vs. liquidation;
- conclusions of the impact study.

Notions used

Undertaking in difficulty: the firm which is not capable, either through its own financial resources or through the resources which it can obtain from the proprietors/shareholders or creditors, to cover losses and which, without an outside intervention by public authorities, will lead, in a short or medium period of time, almost certainly to its exit from the economic circuit.

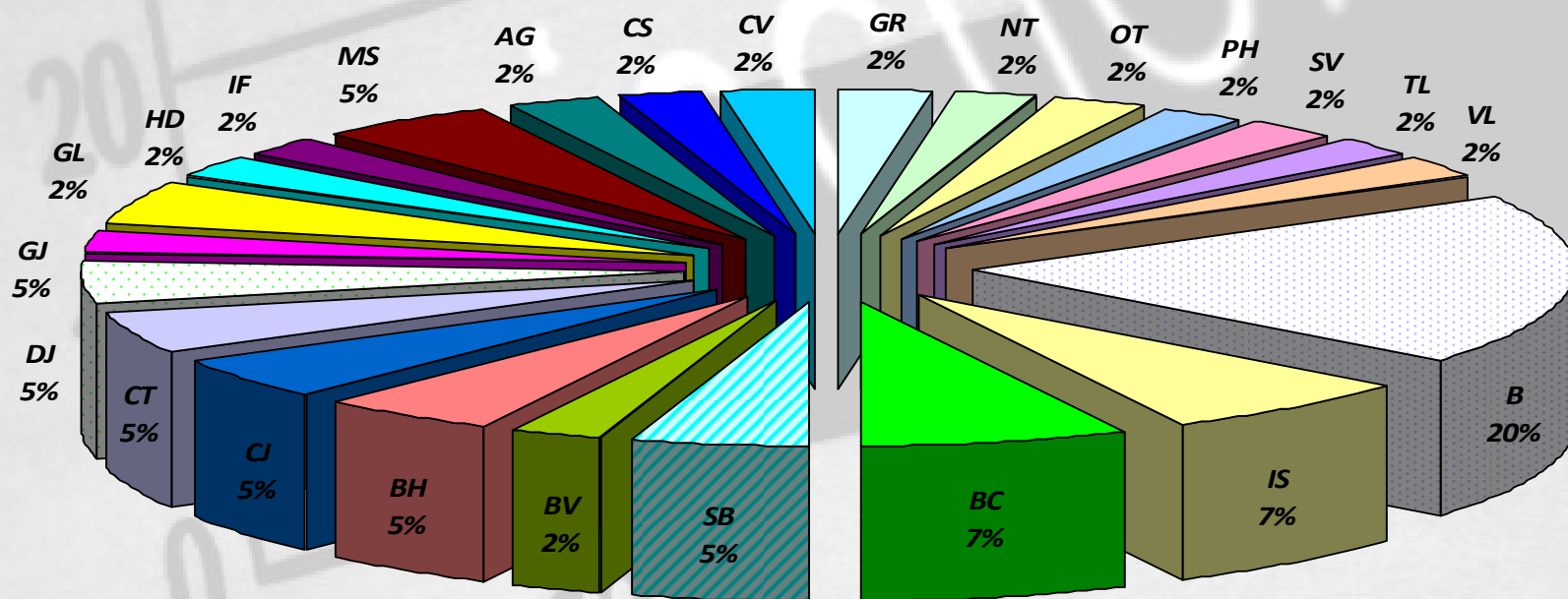
State aid for restructuring: the support measure granted to an undertaking in difficulty in order to become viable in the long run, conditioned by implementing a restructuring plan.

Compensatory measures: the measures necessary to be implemented by the state aid receiving companies, aimed at minimizing the negative effects upon the trade conditions.

Information regarding the beneficiaries of state aid

Location (repartition on development regions and counties)

Development regions	BUCURESTI ILFOV	SOUTH	NORTH EAST	CENTER	NORTH WEST	SOUTH WEST	SOUTH EAST	WEST	Total
No. of undertakings	9	3	8	6	4	6	4	2	42



Source: Department of State aid of the Competition Council; questionnaires companies.

Information regarding the beneficiaries

Sector of activity

Sectors of activity	Mining	Manufacturing	Constructions	Road freight and inland water transport	Research and development	Total
No. of undertakings	5	32	1	3	1	42

Source: The National Trade Register Office; questionnaires beneficiaries.

Legal Status

Legal Status	No. of firms
active firms	37
active firms, but which are in a procedure of insolvency	5
TOTAL	42

Source: The National Trade Register Office; questionnaires beneficiaries

Information regarding the beneficiaries

Registered capital

Registered capital	No. of firms
has increased	31
has decreased	3
has not changed	8
Total	42

Legal status	Weight in the total registered capital
active firms	82,14%
active firms, but which are in a procedure of insolvency	14,30%

Sector of activity	Total registered capital (lei)	No. of firms	Average value of the registered capital (lei)
manufacturing	780.055.275	32	24.376.727
mining	383.623.501	5	76.724.700
road freight and inland water transport	74.984.408	3	24.994.803
constructions	7.279.140	1	7.279.140
research and development	1.791.747	1	1.791.747
Total	1.247.734.070	42	-

Source: The National Trade Register Office; questionnaires beneficiaries, Ministry of Public Finance

Information regarding the state aid granted

Authorizing decisions and grantors

Year	No. of authorizing decisions issued
2004	5
2005	15
2006	22
Total	42

Item no.	State aid grantors	No. of undertakings supported through measures of state aid implemented by the grantor
1	The Authority for State Assets Recovery	37
2	The Ministry of Public Finance	26
3	Local public authorities	10
4	The Ministry of Labor, Family and Social Protection	8
5	The Ministry of Economy, Trade and the Business Environment	7
6	National Health Insurance Fund	4
7	The Ministry of Education, Research, Youth and Sports	1
8	EximBank SA	1

Information regarding the state aid granted

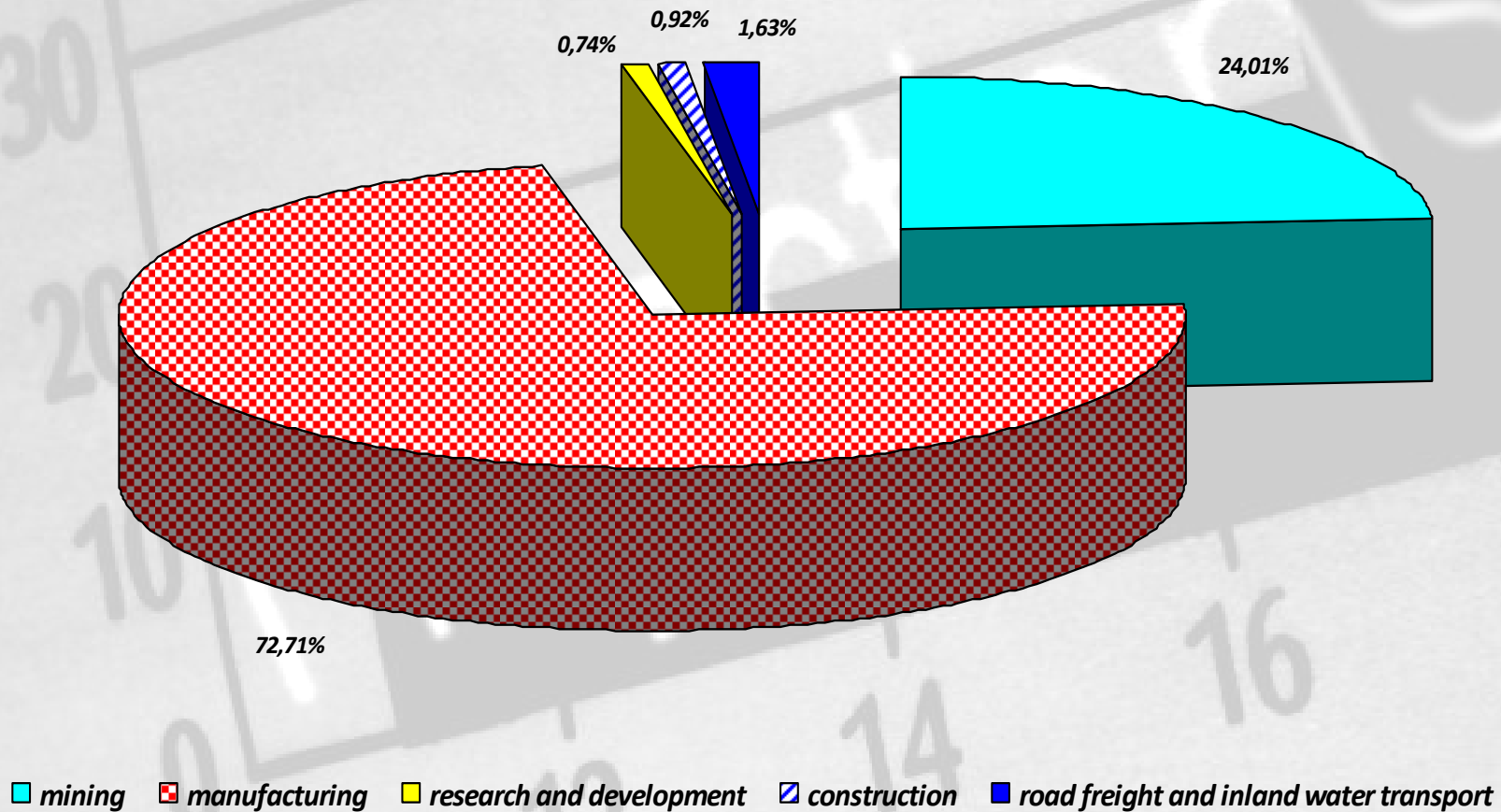
Amount of state aid authorized and paid

Amount of state aid authorized	Amount of state aid paid	Unpaid difference
1.686.664.904,32 lei	1.548.646.396,26 lei	138.018.508,06 lei
100%	91,81%	8,19%

	Active firms	Active firms, in insolvency	Total
no. of firms that have fully received the authorized state aid	10	0	10
no. of firms that have received lesser state aid than the authorized amount	27	5	32
no. of firms that have received more state aid than the authorized amount	0	0	0
Total	37	5	42

Information regarding the state aid granted

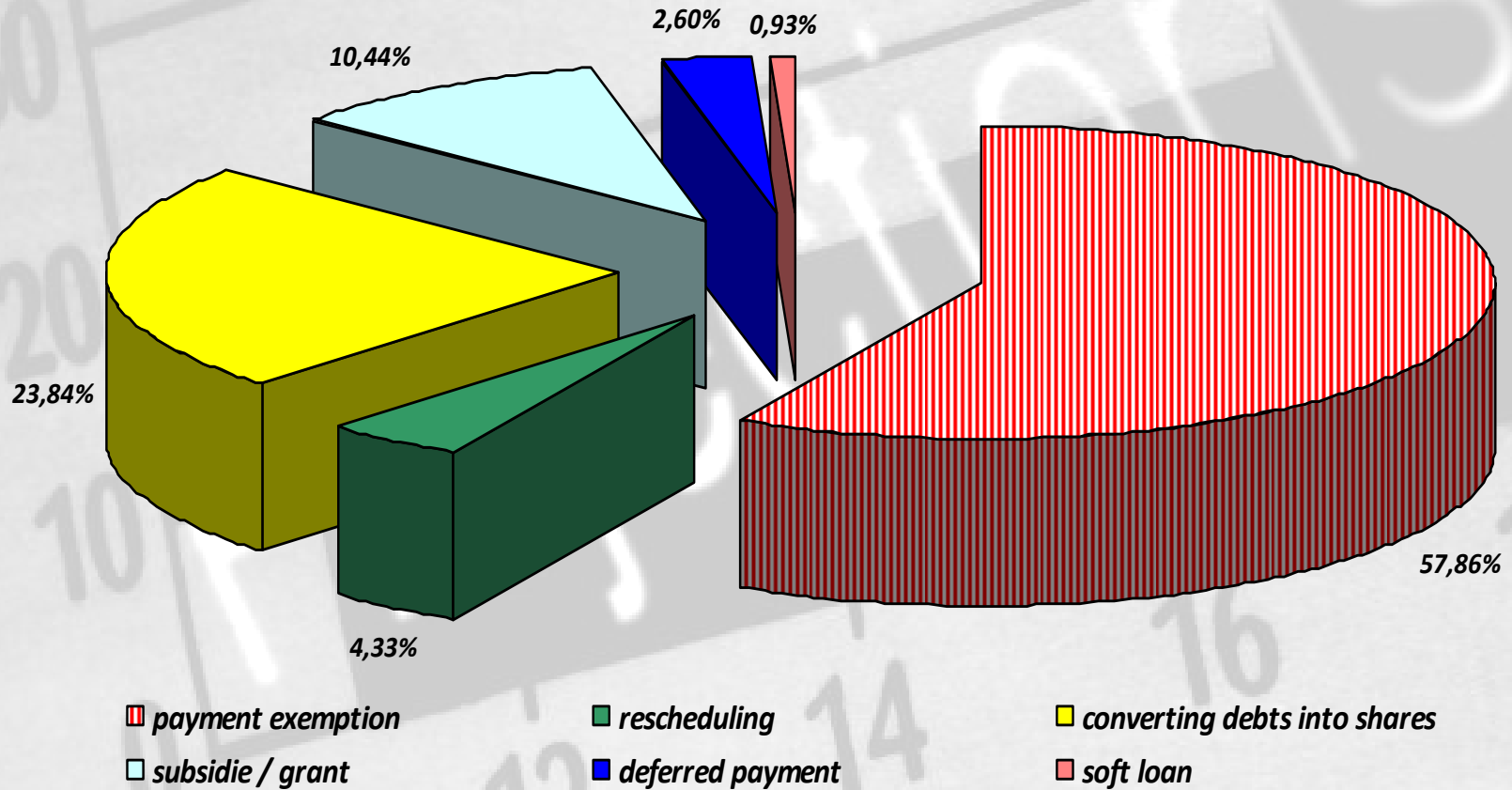
Amount of state aid paid, by sector of activity



Source: Department of State aid of the Competition Council; questionnaires companies, grantors.

Information regarding the state aid granted

Instruments used in granting state aid



Source: Department of State aid of the Competition Council; questionnaires companies, grantors.

Information regarding the state AID granted

The **length** of the restructuring programs

Item no.	The period of execution of the restructuring programs	No. of restructuring programs executed		
		Total firms	Active firms	Firms in insolvency
1	2 years	3	3	0
2	3 years	1	1	0
3	4 years	28	25	3
4	5 years	7	6	1
5	6 years	3	2	1
Total		42	37	5

Source: Department of State aid of the Competition Council; questionnaires companies, grantors.

Information regarding the restructuring plans

Costs for executing the restructuring programs

	Total restructuring measures	Active firms ^[1]	Active firms, in insolvency ^[2]
estimated total cost for carrying out the restructuring measures	3.718.691.703 lei	3.431.390.226 lei	287.301.477 lei
total cost effectively realized	3.417.036.013 lei	3.126.906.516 lei	290.129.497 lei
total state aid granted	1.548.646.396 lei	1.412.575.118 lei	136.071.278 lei
weight of the granted state aid in the <i>effectively realized cost</i> within the restructuring measures	45,32%	47,17% ^[3]	46,90% ^[4]
weight of the undertaking's own sources in the <i>total effectively realized cost</i> within the restructuring measures	36,16%	35,75% ^[5]	40,48% ^[6]
weight of the investor's sources in the <i>total effectively realized cost</i> within the restructuring measures	18,52%	19,06% ^[7]	12,62% ^[8]

Source: Department of State aid of the Competition Council; questionnaires companies, grantors.

^[1] 37 companies

^[2] 5 companies

^[3] weight in the effective realized cost by active firms

^[4] weight in the effective realized cost by firms in insolvency

^[5] weight in the effective realized cost by active firms

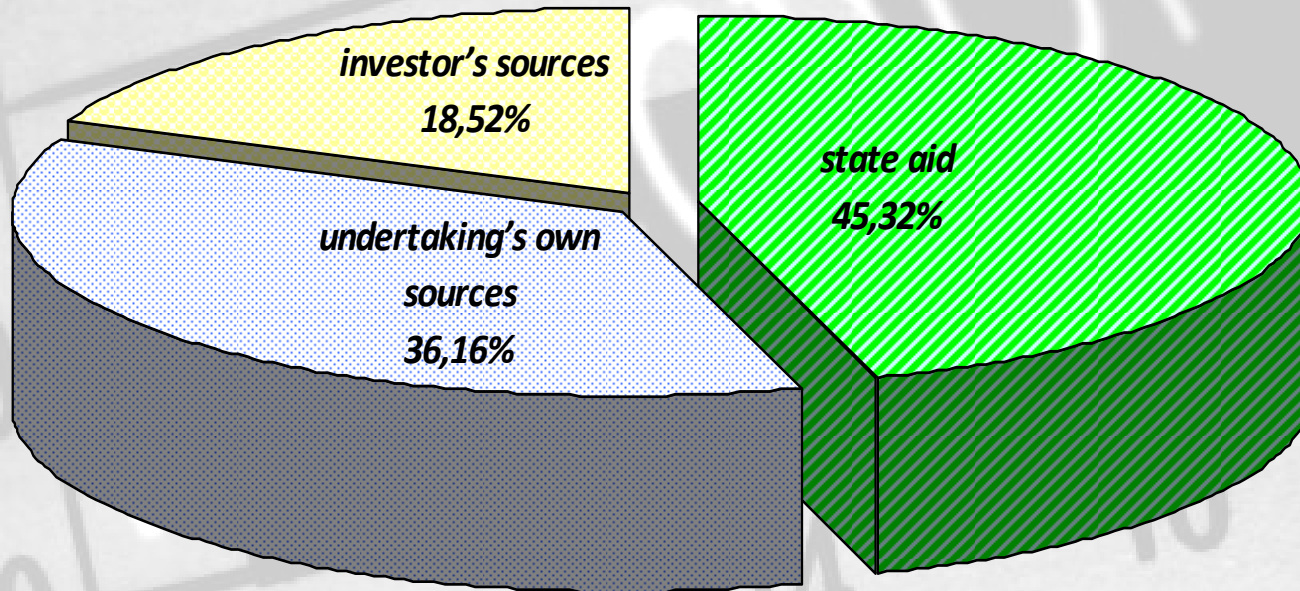
^[6] weight in the effective realized cost by firms in insolvency

^[7] weight in the effective realized cost by active firms

^[8] weight in the effective realized cost by firms in insolvency

Information regarding the restructuring plans

The structure of costs depending on the source of the funds used



Source: Department of State aid of the Competition Council; questionnaires companies, grantors.

Information regarding the restructuring plans

Costs for the execution of specific measures

	Total organizational measures	Total technological measures	Total environmental measures	Total financial measures
Amount:				
total estimated cost for executing the measures	448.802.600 lei	1.252.125.573 lei	175.206.175 lei	1.842.557.355 lei
total effectively realized cost	506.398.361 lei	892.667.667 lei	75.169.228 lei	1.942.800.757 lei
total state aid granted for realizing the measures	37.989.940 lei	82.528.201 lei	0	1.428.128.255 lei
Weight of granted state aid for realizing measures in:				
<i>total state aid granted</i>	2,45%	5,33%	0,00%	92,22%
<i>cost effectively realized within the measures</i>	7,50%	9,25%	0,00%	74,40%
Weight of own sources of the undertaking in the realized effective cost within the measures	77,48%	55,01%	69,99%	15,41%
Weight of investor's sources in the realized effective cost within the measures	15,02%	35,74%	30,01%	11,08%

Source: The state aid directorate within the Competition Council; questionnaires completed by beneficiaries and grantors.

100%

100%

100%

100%

Information regarding the restructuring plans

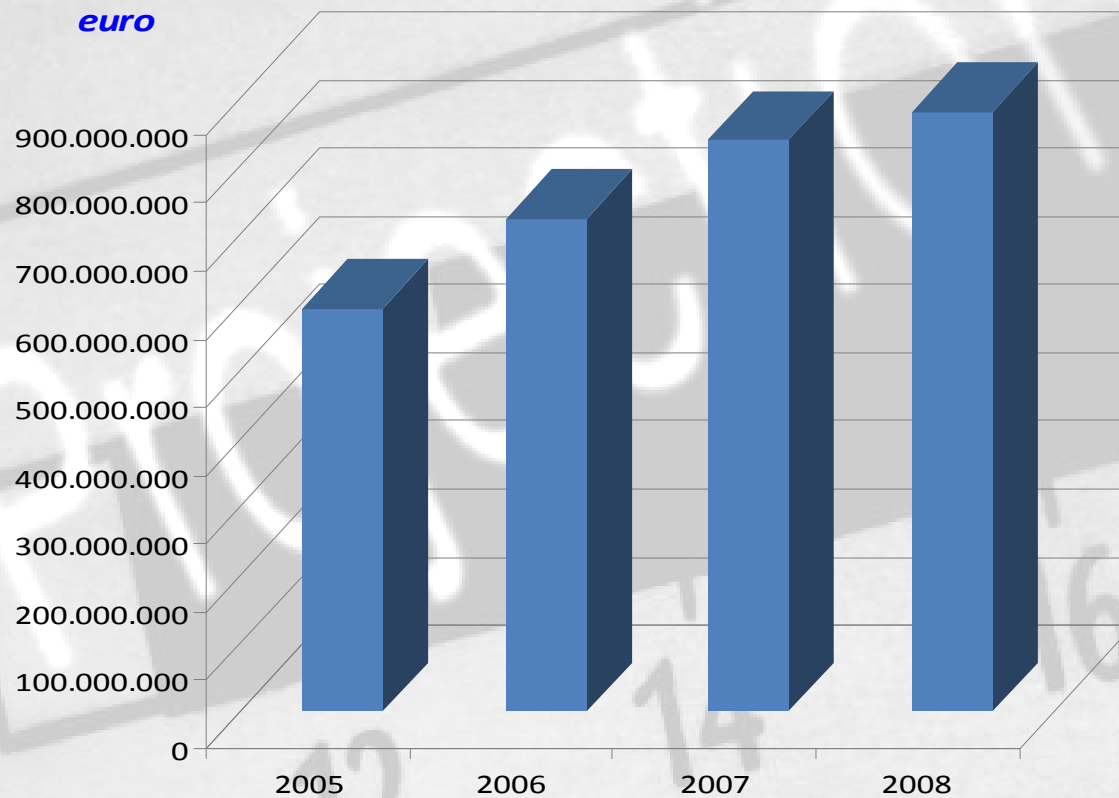
Compensatory measures

Types of required compensatory measures	No. of firms which were imposed a certain type of condition	Degree of fulfillment of the compensatory measures
		100%
reducing the production capacity	34	34 firms
not increasing the production capacity	5	5 firms
feimbursement of previously granted state aid	3	3 firms
renouncing to carry on with a certain activity	3	3 firms
limiting the production	1	1 firms
not increasing the market share	1	1 firms
cutting personnel	1	1 firm
reducing the degree of utilization of the projected capacity	1	1 firm
selling some assets	1	1 firm

Source: The state aid directorate within the Competition Council; questionnaires completed by beneficiaries and grantors.

Economic and financial situation

Production



Source: Department of State aid of the Competition Council; questionnaires companies.

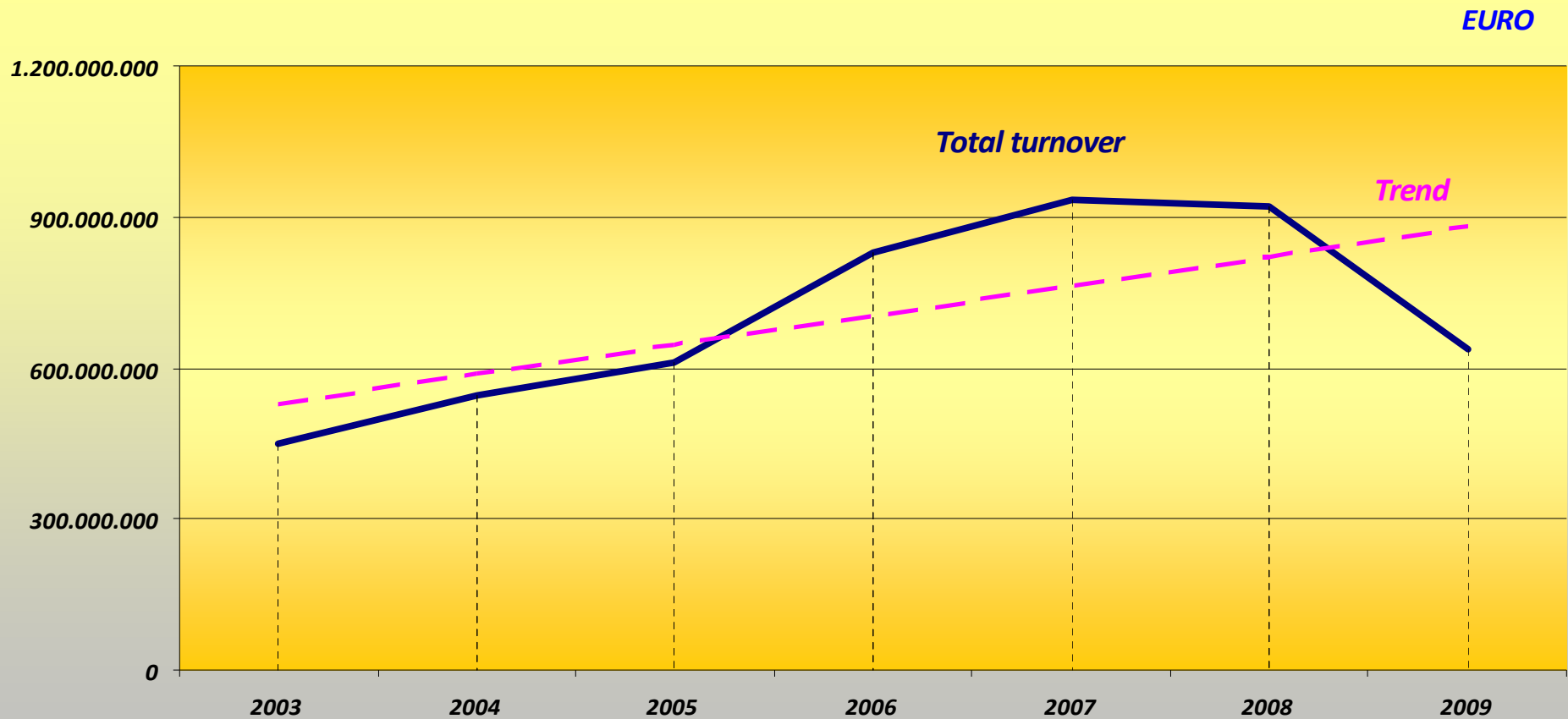
Economic and financial situation

Production

	No. of companies with <u>increase</u> of production first year / final year of the restructuring program	No. of companies with <u>decrease</u> of production first year / final year of the restructuring program
Total, of which	28	14
Legal Status:		
active firms	25	12
active company in insolvency	3	2
Sector:		
mining	4	1
manufacturing	19	13
construction	1	0
road freight and inland water transport	3	0
research and development	1	0

Economic and financial situation

Turnover



Source: Department of State aid of the Competition Council; questionnaires companies; Ministry of Public Finance.

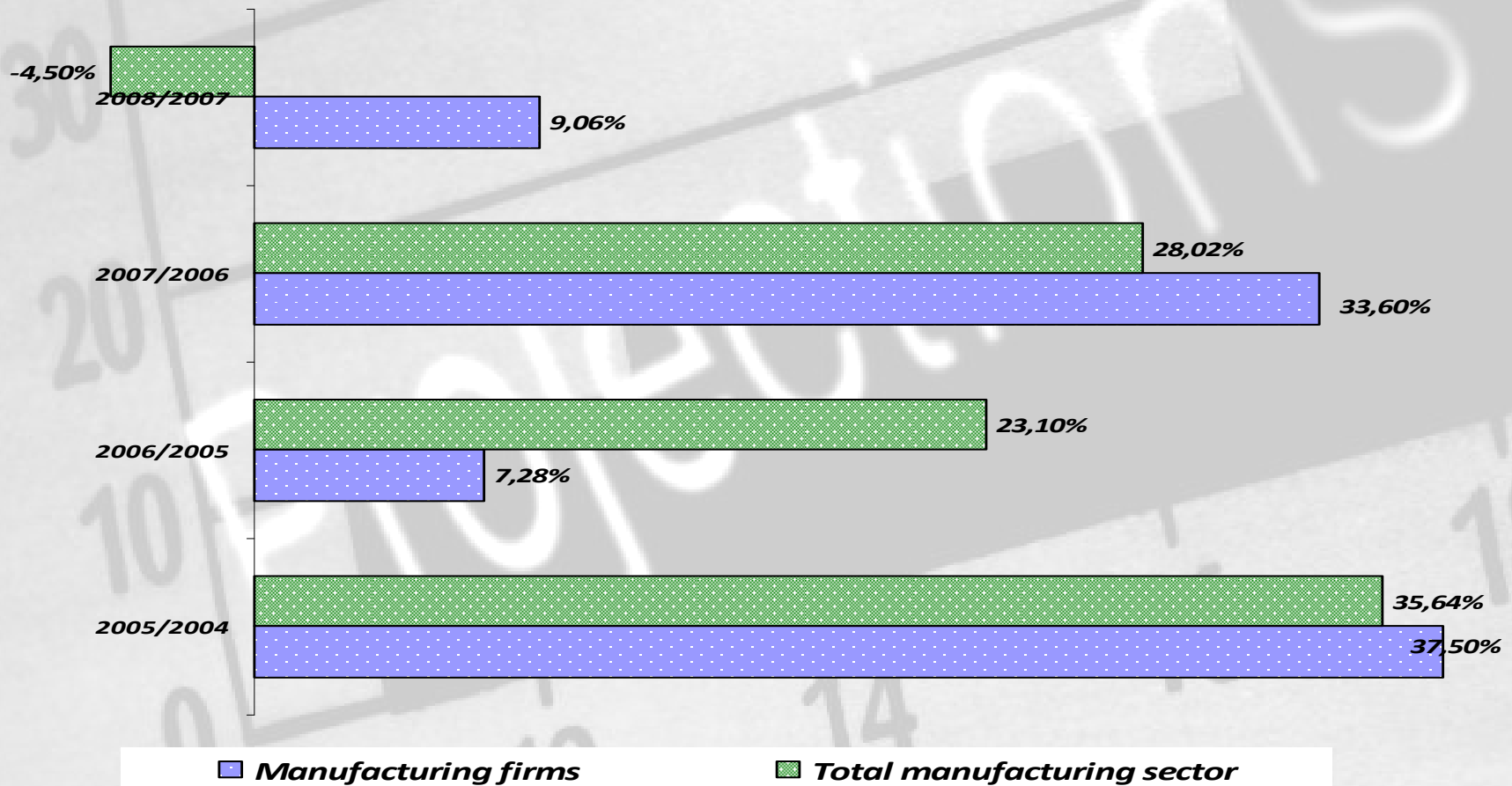
Economic and financial situation

The turnover

	No. of companies with <u>increase</u> of turnover 2009 / 2004	No. of companies with <u>decrease</u> of turnover 2009 / 2004
Total, of which	17	25
Legal Status:		
active firms	16	21
active company in insolvency	1	4
Sector:		
mining	2	3
manufacturing	12	20
construction	0	1
road freight and inland water transport	2	1
research and development	1	0

Economic and financial situation

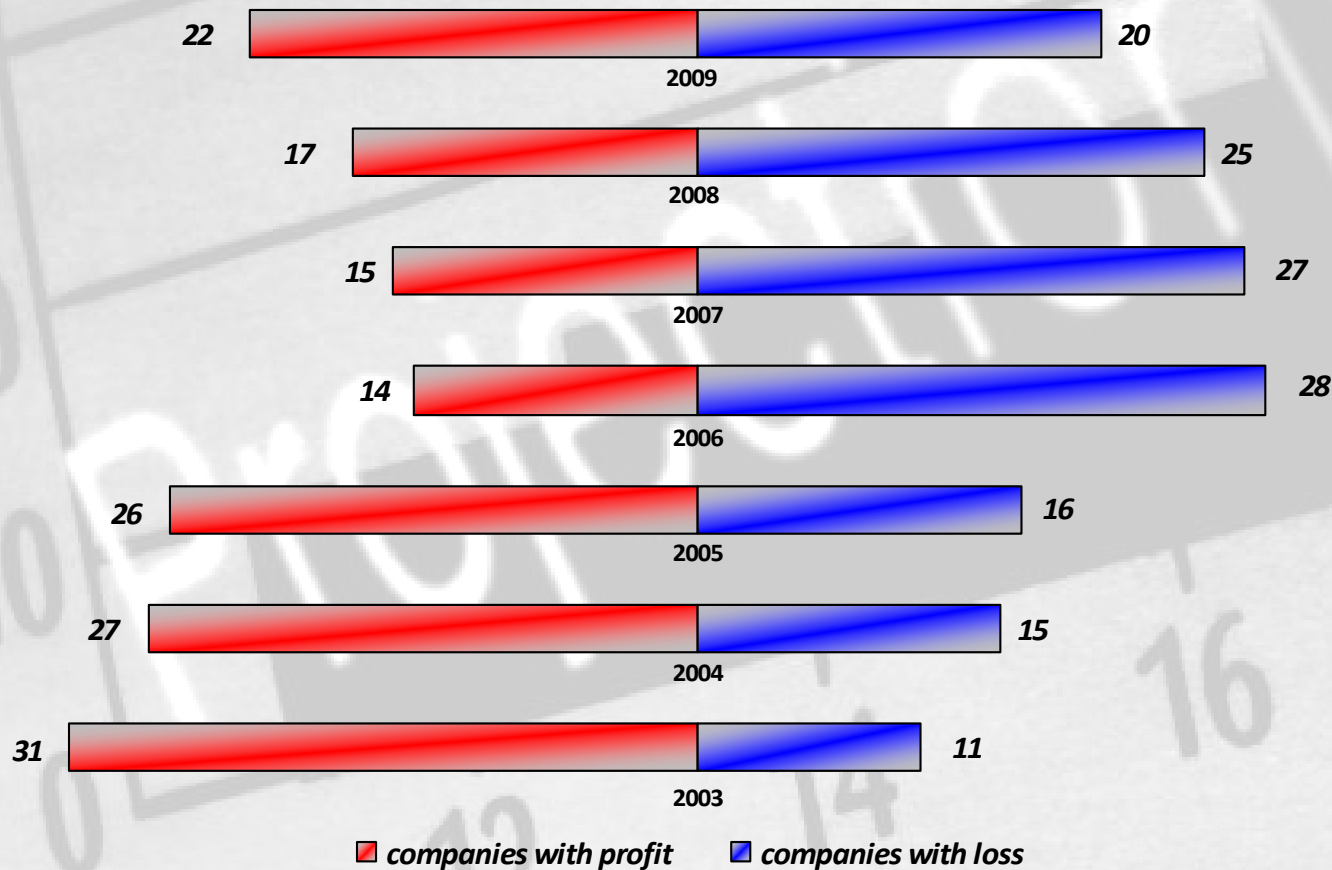
Evolution of the ratio between turnover on current year over the previous year, for beneficiaries and sector (i.e. manufacturing)



Source: Department of State aid of the Competition Council, National Institute of Statistics.

Economic and financial situation

Profit and loss statement (no. companies with profit / loss)

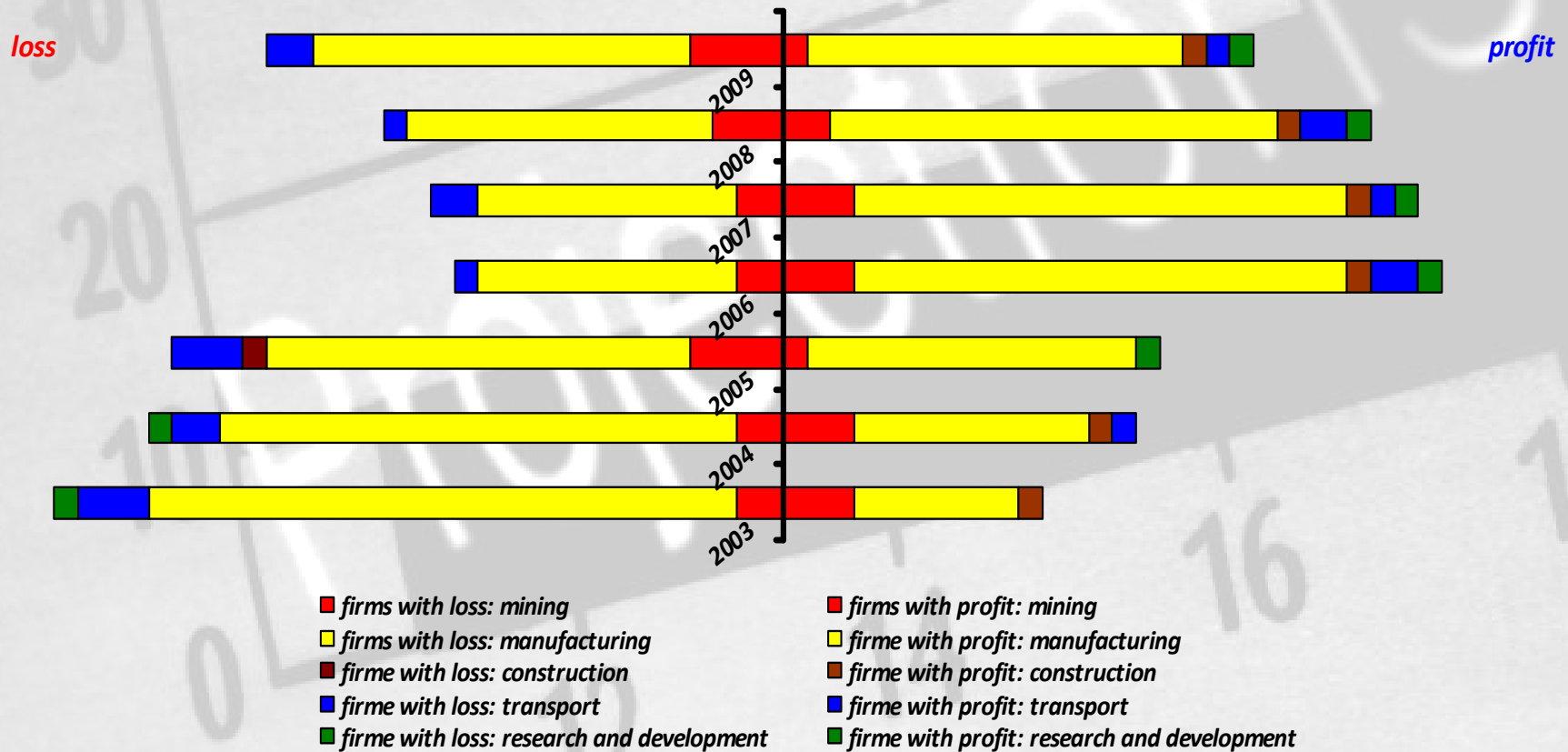


Source: Department of State aid of the Competition Council; questionnaires companies, Ministry of Public Finance.

Economic and financial situation

Profit and loss statement

(companies with profit / loss, by sector of activity)



Source: Department of State aid of the Competition Council; questionnaires companies, Ministry of Public Finance.

Situația economico - financiară

Economic and financial indicators

Outstanding debts of the active firms to the state budget, on September 30, 2010:

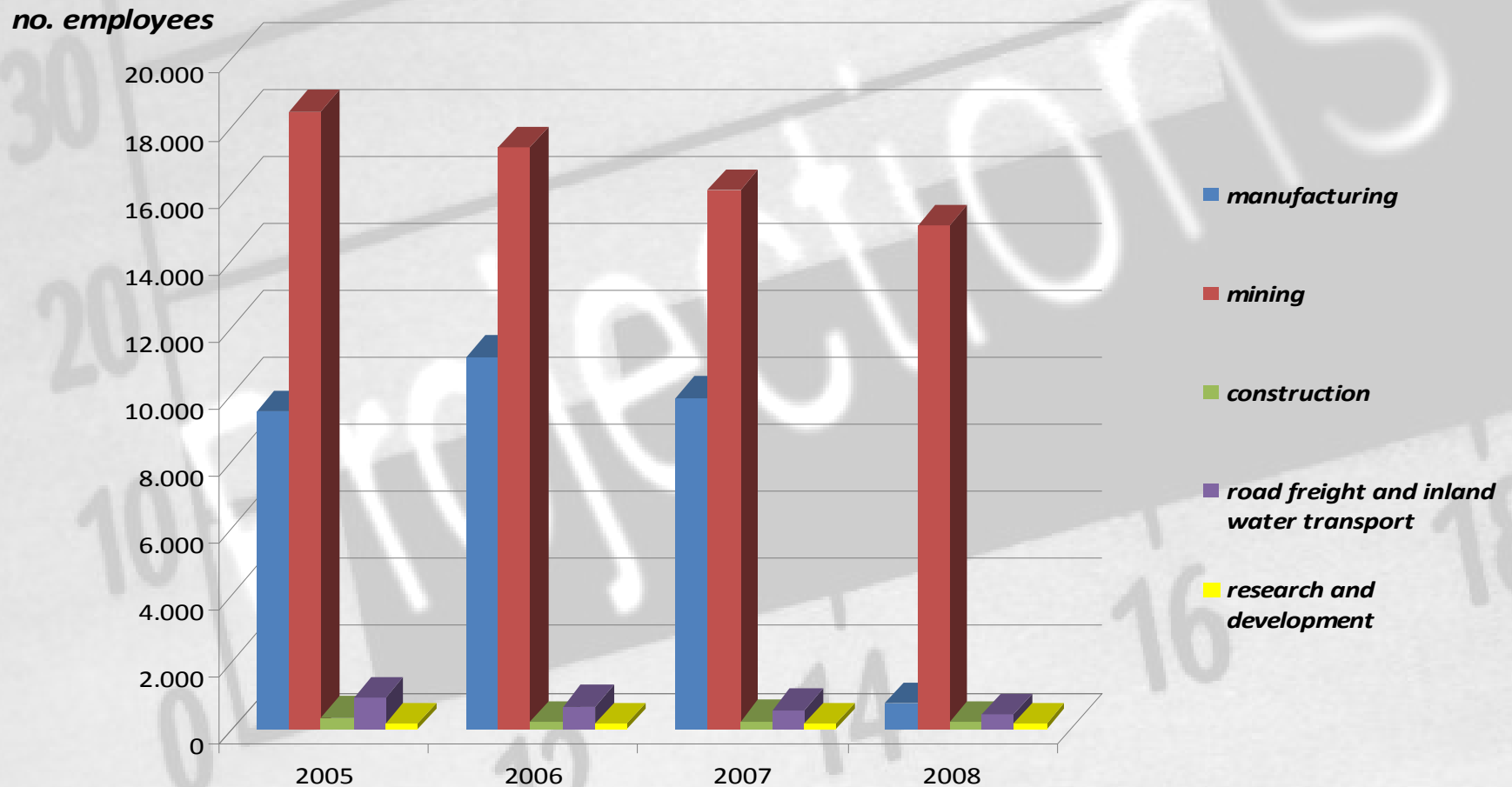
State Budget		Social Security Budget		Unemployment Budget		Health Budget	
No. firms	Outstanding debts	No. firms	Outstanding debts	No. firms	Outstanding debts	No. firms	Outstanding debts
18	<i>160.983.792 lei</i>	15	<i>117.268.263 lei</i>	15	<i>2.915.641 lei</i>	15	<i>23.424.266 lei</i>

Source: Department of State aid of the Competition Council, Ministry of Public Finance.

The weight of Outstanding debts in 2009 turnover	No. firms
up to 0,1%	7
between 1% - 5%	5
between 7% - 37%	4
between 150% - 230%	2
Total	18

Human resources policy

Evolution of the number of employees by sector of activity



Source: Department of State aid of the Competition Council, National Institute of Statistics.

Price policy

70% of companies had adjusted the price to the market conditions (at the level of their competitors).

7.5% of companies do not apply a certain policy regarding pricing, often, the final price being the result of the direct negotiation with the customers.

One company had prices approved by the Ministry of public Finance (prices for sand, ballast etc.), and another one had used the prices fixed by the group (the group provides commercial contracts and orders).

The practiced profit margin is between 5% and 25%.

Product policy

Most companies have a policy of flexible products, to meet customer needs and to produce a larger added value.

27.5% of companies said they had made products with a high added value (value added share of up to 75%), which is also a substantial share of total company sales (i.e. 40% of sales).

7.5% of companies had focused on creating products that require a continuous flow manufacturing, with large production capacity, being preoccupied in this way to lower the costs.

15% of companies said that they chose to make low added value products, in large quantities, especially during the crisis (due to rising of the prices for energy, raw materials etc.).

The undertakings denounce the existence on the market of the cheap and poor quality products (especially from China) that, amid the current crisis, slows the development of their activity.

EFFECTS OF THE STATE AID

Effects at the company level

- **improving the economic and financial situation**, helping to restore viability, increasing the credibility for companies toward suppliers, customers and banks;
- substantially **reduce or eliminate the state debt**;
- **continued existence on the market** of companies that make products with high added value, incorporating high technology, with a very small market of manufacturers;
- **retention of qualified personnel**;
- **modernization of production flows**, of processes and technologies used (higher quality products);
- **changing the structure of production** to meet the demand in continuous changing from competitive market.

EFFECTS OF THE STATE AID

Effects at the sector and region level

- **maintaining the competition**
- **employee retention**
17,000 jobs kept.
- **investments**
1.87 billions lei – financial effort of the beneficiaries and shareholders.
- **taxes paid to public budget**
578 milions euro paid in 2004 – 2010.
- **export**
1.2 billions euro in 2004 – 2009

CONCLUSIONS

- **Companies that received restructuring state aid:** 42;
- **Undertakings in insolvency:** 5;
- **Sectors:** manufacturing (32), mining (5), construction (1), road freight transport (2), inland water transport (1) research and development (1);
- **Shareholding:** public (4), private (38);
- **Registered capital:** increased with 73,81%;
- **State aid paid:** 1.55 billions lei (approx. 432 millions euro);

CONCLUSIONS

- **Turnover:** growth 2009 / 2004 for 40% of the undertakings;
- **Export:** 1.2 billions euro in 2004 – 2009;
- **Profit:** 2003 – 11 firms, 2006 – 28 firms, 2009 – 20 firms;
- **Employee retention:** 17.000 employees in 2009 from 29.000 in 2005;
- **Investments:** 1.87 billions lei – financial effort of the state aid receiving companies and shareholders;
- **Taxes paid to public budget:** 578 millions euro, in 2004 – 2010.