



R O M A N I A

CONSILIUL CONCURENTEI

www.competition.ro

Palatul Parlamentului
Calea 13 Septembrie, nr.1, sector 5
Bucuresti

Cabinet Presedinte
tel: 337.36.08; fax: 337.36.43
e-mail: mihaiberinde@rccomp.eunet.ro

DECISION No . 130
Of 16.04.2004

**On the authorisation of state aid granted to the National Company of
Romanian Air Transport – TAROM S.A.**

THE PRESIDENT OF THE COMPETITION COUNCIL,

On the basis of:

- 1.** Decree no. 57/2004 on the appointment of the members of the Competition Council;
- 2.** The Competition Law no. 21/1996, published in the Romanian Official Gazette no. 88, Part I, of 30.04.1996, with the ulterior modifications and completions;
- 3.** The Law no. 143/1999 on state aid, published in the Romanian Official gazette no. 370, Part I, of 03.08.1999, with the subsequent modifications and completions;
- 4.** The Regulation on organisation, functioning and procedure of the Competition Council, published in the Romanian Official Gazette no. 288, Part I, of 1.04.2004;
- 5.** The Regulation on the form, content and other details of a state aid notification, published in the Romanian Official Gazette no. 125, Part I of 24.03.2000;
- 6.** The Regulation on the state aid for rescuing and restructuring firms in difficulty, published in the Romanian Official Gazette, Part I, no. 470/02.07.2002;

7. The Notification of a state aid granted to the National Company of Romanian Air Transport– TAROM S.A., submitted by the Ministry of Public Works, Transportation and Tourism, by note no.499MM/5.02.2004, registered by the Competition Council no. RS-AS 6/06.02.2004 and effective on 15.04.2004;

8. The Note of the Department for the Authorisation of State concerning the notified state aid.

On the following grounds:

1. S.C. „Compania Nationala de Transporturi Aeriene Romane – TAROM” S.A., stock company, was set up in 1990 by Government Decision no. 1321/12.12.1990, following the reorganisation of the state-owned „Company TAROM”. The share capital of TAROM S.A. of ROL 8.791.347.175.000, is owned 92,81% by the Romanian state, which exercises all rights deriving from the status of shareholder through the Ministry of Public Works, transportation and Tourism.

2. The main activity of TAROM S.A. is the provision of internal and external aviation transport services, for passengers, luggage, goods and air postal services, through regular or charter flights.

The other services provided by the company are:

- Rental and sales of aircraft, engines, equipments, etc.;
- Operation, maintainance and repairs of aircrafts, equipments and plants for domestic and foreign partners;
- Technical assistance and services in the air transport field.

3. Individual state aid consists of :

- The guarantee by the Romanian state of an internal credit, which was contracted by TAROM S.A. in amount of USD 14,5 million, together with the interests and the costs corresponding to this credit, representing the advance payment of the purchase price of two aircrafts Boeing B737-700, purchased by contract no.1887/1995, concluded with Boeing Company USA;
- The guarantee by the Romanian state of five external credits contracted by TAROM S.A. IN AMOUNT OF USD 483,6 million, together with, if the case, the corresponding interests, commissions and costs, as well as the insurance premium for the purchase of four aircrafts Boeing B737-700, six aircrafts ATR 42-500 and four

- aircrafts Airbus A318, according to Government Decision no. 668/1997, no. 557/1998, no. 607/2002, no.607/2002 and no.1305/2003;
- The financing of a project in amount of the equivalent of EUR 40 million, according to the financing contract concluded between Romania, the European Investment Bank and TAROM S.A., for the purchase of an aircraft, the refinancing of falling due installments and the payment of the interests corresponding to previous commercial credits, the purchase of the necessary ground equipment of the initial spare parts, spare engines and the necessary training, as well as for the rehabilitation of the maintaining equipment hall of TAROM, including the equipment of the International Airport Bucharest – Otopeni, on the basis of Government Ordinance no.7/2000.

4. The total amount of the liability resulting from the credits concluded by TAROM for the internal and external credits is USD 715.364.044,63, of which:

- credit instalments: USD 515.780.193,72
- interests, commissions, others: USD 199.583.850,91

5. The purpose for granting the state aid is the restructuring of TAROM S.A.

6. The relevant market of the product is the market of public air transport services for passengers, cargo and air postal services. This market is undergoing deep transformation, namely: the tendency to concentrate air companies, the privatisation of some companies, the development of strategies meant to diversify the services and the cooperation between air companies of different sizes, that are located in outmost regions.

Depending on the specific charge, the flight schedule and the type of routes, the segmentation of the market may include: passenger or transport or air freight, regular or charter flights, internal or international flights. The company provide all these services, especially passengers' transport through regular air flights.

The market shares of the company corresponding to the regular external flights in 2003 are:

Destination	Passengers	% of total regular external flights
PARIS	86.010	10,9%
TEL AVIV	68.301	8,6%
LONDRA	59.699	7,5%
ATENA	59.040	7,5%
FRANKFURT	57.132	7,2%
MADRID	55.753	7,0%
ISTANBUL	54.078	6,8%
BRUXELLES	48.518	6,1%
NEW YORK	46.420	5,9%
ROMA	37.838	4,8%
VIENA	34.426	4,3%
LARNACA	24.797	3,1%
DUBAI	21.060	2,7%
MUNCHEN	20.492	2,6%
MILANO	18.283	2,3%
BUDAPESTA	15.880	2,0%
SALONIC	12.961	1,6%
CAIRO	12.637	1,6%
BEIRUT	10.233	1,3%
SOFIA	8.563	1,1%
CHISINAU	8.073	1,0%
VARSOVIA	7.692	1,0%
AMAN	7.144	0,9%
BEIJING	4.231	0,5%
PRAGA	4.219	0,5%
BERLIN	2.204	0,3%
ZURICH	2.165	0,3%
COPENHAGA	1.206	0,2%
MOSCOVA	1.165	0,1%
SHARM EL SHEIK	1.101	0,1%
DAMASC	863	0,1%
TOTAL	792.184	

The market shares of the company corresponding to the regular internal flights in 2003 are:

Destination	Passengers	% of total regular internal flights
Cluj	58.074	36,2%
Timisoara	57.941	36,1%
Oradea	15.689	9,8%
Iasi	13.163	8,2%
Baia Mare	5.472	3,4%
Satu Mare	4.716	2,9%
Constanta	2.891	1,8%
Tg. Mures	430	0,3%
Arad	1.292	0,8%
Suceava	231	0,1%
Sibiu	560	0,3%
Brasov	116	0,1%
Total	160.575	

TAROM S.A. is distorted by the rising competition on all markets on which it operates, which is mainly materialized in an aggressive policy of some air transport companies, which reduce the tariffs much under the operating costs, both for direct services and for connexion flights.

7. The assessment of the notified measure was made according to the criteria for granting state aid provided in the *Regulation on state aid for rescuing and restructurign firms in difficulty*. TAROM is a company in difficulty, confronted with a series of problems that have negatively influenced its economic-financial activity.

The company is in difficulty because: it has registered constant losses, the the tangible assets have a high share in the total assets, the total liabilities constantly have a high level. The dynamic analysis of the assets situation between 2000 and 2002 indicates:

- a unfavourable ratio of the general liquidity, which shows the risk that the company may not pay its short term-debts;
- an immediate liquidity ratio indicating the fact that the company does not have enough liquidities to cover its current liabilities;

- the ratios of the financial security, assets' solvability and financial solidity below the average acceptable standards – which is generated by the losses carried over each year, which led to the decapitalisation of the company.

The financial difficulties of the company to get liquidities may also be noticed in the rotation speed of the circulating assets index, which indicates a slow-down of 90-95 days compared to the average acceptable standard of 75-80 days.

8. Since 1997 TAROM has implemented some strategical measures in the view of restructuring the company. They have not lead to the envisaged result, so a clearly defined restructuring plan proves to be necessary. In 2002, in the view of preparing the company for privatisation, a restructuring plan has been adopted by the main shareholder, together with a business plan for 2002-2005, which includes organisational, management, technical, technological and financial measures.

9. The plan targets the restructuring concerning the orientation towards the market of the network, timetable and air fleet, the financial, accounting and management restructuring and the restructuring of the maintenance and operation services.

The restructuring concerning the orientation towards the market of the network, timetable and air fleet includes :

- the purchase of aircrafts in the view of modernizing the air fleet ;
- the conservation of two aircrafts Airbus A310 according to the Conservation Manual of the producer and to the Technical Conservation Program approved by the Romanian Aeronautic Authority, with a view to their sale;
- laying off of work of old planes, which do not correspond any more to the international standards;
- elaboration of a “marketing concept”;
- the establishment of sale centers based on the used flight coupons and of sale points;
- setting out the rules and concept for the future charter activities.

The financial, accounting and management restructuring includes:

- the implementation of a strategic approach and of a strategy project;
- the development of the communication with the marketing;
- the development of the accounting of profits and losses operations ;
- the set up of an integrated system to draft the budget and report ;

- the integration of scheduling the air crews;
- the development of the control of projects and investments;
- the integration of the system of proportional distribution COPS with the current accounting system;
- the affiliation to IATA clearing class;
- the modification of the organisational structure;
- the set up of an assessment centre in the view of assessing the capacity to enforce the restructuring measures;
- the promotion of a performance management;
- the promotion of a system for training the staff/career development applicable to all employees.

The restructuring of the maintenance and operation systems includes :

- the set up of an organisation compatible with JAR-OPS ;
- the set up of a Centre for the control of the Operations;
- the definition of the basic policy of the Ground Operations Division;
- the organization of the IT network for all the operational departments;
- the implementation of the department of flight analysis;
- the fuel management;
- the renegotiation of the handling contracts;
- the cost optimization for the inflight services;
- the organization of TAROM-Maintenance as profit centre;
- the concentration of all operations in the Otopeni operational centre.

10. The measures of the restructuring plan envisage the profitable operation of the company, in accordance with the actual possibilities of the company to absorb the market. TAROM uses the aid in order to restore the viability of the company. Thus, in the business plan annexed to the restructuring plan, a net profit of USD 6.300.000 is estimated for the end of the restructuring period.

The implementation of the restructuring plan will lead to saving financial and human resources in order to revigorate the activity of the company, to insure the continuation of the air transport activity. The generated effects will be the improvement of the quality of the services provided, a more flexible tariff structure, the rising level of performances of safety and punctuality of the company's flights. At the same time, the total number of aircrafts has been diminished from 28 to 17 by laying off the work of the old aircrafts, whose noise and gas emissions characteristics did not correspond any more with the international operating demands. Starting with 2003, the

operation of the long-courrier flights to Beijing and New York, which were the main cause of losses to the company, have been given up.

The grant of state aid will not determine a distortion of competition on the relevant market, thus the provisions of Art. 13 of the *Regulation on state aid for rescue and restructuring firms in difficulty* are complied with.

11. State aid is strictly limited to the minimum necessary and will be used only in order to make the company viable economically and financially, not allowing the beneficiary, during the application of the restructuring plan, to extend his transport capacity. The cost of the restructuring is USD 770.817.340.58.

Thus, the provisions of art. 14 of the *Regulation on state aid for rescue and restructuring firms in difficulty* are complied with.

12. TAROM has not benefited of restructuring aid, so the provisions of Art. 18 of the *Regulation on state aid for rescue and restructuring firms in difficulty* – stipulating that restructuring aid must only be granted once - are complied with.

13. The information in the notification submitted to the Competition Council leads to the conclusion that state aid granted to TAROM is not capable to significantly distort the normal competitive environment and does not breach the accurate application of the international treaties to which Romania is a party.

14. On the basis of art. 13 (1) of the Law no. 143/1999 on state aid, with the subsequent modifications and completions, the Competition Council will permanently survey all existing aids. If it will be noticed that the aid granted to TAROM significantly distorts the normal competitive environment and the application of the international agreements to which Romania is a party, the Competition Council will ask the state aid grantor to take the appropriate measures to eliminate its incompatibility with the Law no. 143/1999 on state aids, with the subsequent modifications and completions.

DECIDES

Art. 1. Within the meaning of art. 12 para. (2) let. c) corroborated with art. 14 para. (1) let. f) of Law no. 143/1999 on state aid, with the subsequent modifications and completions, the state aid granted to S.C. „Compania Nationala de Transporturi Aeriene Romane – TAROM” S.A., is authorized as state aid for restructuring.

Art. 2. The total value of the state aid to be granted to S.C. „Compania Nationala de Transporturi Aeriene Romane–TAROM” S.A. is of 24,507,656,804,979 ROL¹, the equivalent of 715,364,044.63 USD.

Art. 3. This Decision becomes effective on its communication date.

Art. 4. In accordance with the provisions of art. 24 of the Law no.143/1999 on state aid, with subsequent completions and amendments, the ministries, having the quality of state aid grantors, shall submit to the Competition Council information regarding the authorized state aids, for their inventorying and monitoring. The Ministry of Public Works, Transportation and Tourism shall submit annual reports on the implementation of the restructuring plan. The first report shall be submitted to the Competition Council within 6 months from the decision issuing.

Art. 5. In accordance with the provisions of art.29 of the Law no.143/1999 on state aid, with subsequent amendments and completions, the present Decision may be appealed by the interested persons to the Bucharest Court of Appeal, division Contentious Administrative, within 30 days from its communication date.

Art. 6. This Decision will be communicated by the General Secretariat of the Competition Council to:

¹ The ROL value was calculated at the NBR (National Bank of Romania) exchange rate of the date when the decision was issued, respectively 15.04.2004.
1USD = 34,259 ROL.

- the Ministry of Public Finances, Str. Apolodor nr. 17, sector 1, Bucharest;
- the Ministry of Public Works, Transportation and Tourism, Bd. Dinicu Golescu, nr. 38, sector 1, Bucharest;
- S.C. „Compania Nationala de Transporturi Aeriene Romane – TAROM” S.A., Otopeni, Soseaua Bucuresti-Ploiesti km 16,5, jud. Ilfov.

Art. 7. The General Secretariat and the Department for State Aid Authorisation of the Competition Council shall pursue the fulfilment of this Decision.

PRESIDENT

MHAI BERINDE