

DECISION OF THE COMPETITION COUNCIL
no. 317 of 29.11.2004
regarding the State aid that is intended to be granted to
S.C. SOFE BUHUSI S.A.

THE COMPETITION COUNCIL,

Having in regard the provisions of the Decree no. 57/2004 for the appointment of the Competition Council's members,

Having in regard the provisions of the Competition Law no.21/1996, published in the Official Gazette, Part I, no. 88 of April 30, 1996, amended and completed by GEO no. 121/2003, approved by Law no. 184/2004,

Having in regard the provisions of the Law on State Aid no. 143/1999, published in the Official Gazette, Part I, no. 370 of 03.08.1999, amended and completed by Law no. 603/2003,

Having in regard the provisions of the Europe Agreement establishing an association between Romania, on one hand, and the European Communities and their Member States, on the other hand, ratified by Law no. 20/1993, published in the Official Gazette, Part I, no. 73 of 12.04.1993,

Having in regard the provisions of the Regulation on State aid for rescue and restructuring firms in difficulty, published in the Official Gazette, Part I, no. 470 of July 2, 2002, with subsequent amendments and completions,

On the basis of the following grounds,

(1) By letter no. 108332/11.06.2004, registered at the Competition Council by no. RS-AS 62/11.06.2004, the Ministry of the Public Finance notified, in the basis of art. 6 of Law no. 143/1999 on State aid, amended and completed by Law no. 603/2003, the intention to grant a specific allocation to S.C. STOFÉ BUHUSI S.A as part of the existing scheme contained by

GEO no. 40/2002 for recovering budgetary arrears, approved and amended by the Law no. 491/2002 with subsequent amendments and completions.

(2) The Competition Council notes that, previously, the Ministry of Public Finance notified the intention to grant a state aid for the same company which was prohibited by the Decision no. 152/14.05.2004 because there were not respected the provisions of the Regulation on State aid for rescue and restructuring firms in difficulty referring to the contribution of the beneficiary to the implementation of the restructuring plan. S.C. STOFÉ BUHUSI S.A. sent to the Competition Council the adress no. 3035/27.05.2004 in which states that the data on which the decision was based were incorrect.

(3) Pursuant Article 10 of the Law no. 143/1999 regarding state aid, with subsequent amendments and completions a decision previously made could be revoked after presenting by the grantor of the arguments, if the decision was based upon incorrect information received during the procedure and which were decisive in adopting the decision. As a consequence, the Ministry of Public Finance, as the grantor of state aid, the recipient and the National Institute for Research and Development for Textiles and Leather Bucharest elaborated a new restructuring plan following the reanalysing of the economic and financial situation of S.C. STOFÉ BUHUSI S.A. Thus, the Ministry of Public Finance initiated a new notification procedure as presented in paragraph (1).

(4) By letter no. DAAS/475/30.06.2004 it was requested the information for completing the notification form. The Ministry of Public Finances transmitted the answer to the supplementary requested information, as well as a new restructuring program of the company, including the market research, by letter no. 688131/16.07.2004, registered at the Competition Council by no. RG 4699/21.07.2004.

(5) As, following the analysis of the file submitted by the Ministry of Public Finances, it was found that there are doubts regarding the compatibility of the State aid measure with the in force legislation on this field, existing thus doubts regarding the significant contribution of the State aid beneficiary at the finance of the restructuring plan according to the provisions of the Regulation regarding the State aid for rescue and restructuring the firms in difficulty, it was decided to open an investigation.

(6) The investigation having as object the analysis of the State aid measures intended to be granted to S.C. STOFÉ BUHUSI S.A. was opened by the Order of the President of the Competition Council no. 226/10.09.2004, its results being presented in the followings. The Order to open the investigation was published on the Competition Council's site. There were no commets received from the third parties, referring to the granting of the state aid.

(7) On 08.10.2004, it took place at the premises of the Competition Council a meeting with the representatives of S.C. STOFÉ BUHUSI S.A. Within this meeting there were requested new information (by letter no. DAAS/760/08.10.2004). The information was provided by the company by letter no. 5671/11.10.2004, registered to the Competition Council with the no.RG 7320/15.10.2004. In the same time, by the address no. DAAS/841/28.10.2004 were

requested new supplementary informations, to which the beneficiary answered by the address no. 6058/29.10.2004.

2. DESCRIPTION OF THE STATE AID MEASURE

2.1. The legal basis for granting the State aid

- GEO no. 40/2002 for the recovery of the budgetary arrears, approved with amendments and completions by Law no. 491/2002 with subsequent amendments and completions;
- The methodological norms regarding the procedure and competences for granting the facilities for payment of the overdue obligations to the State budget, administered by the Ministry of the Public Finances, approved by Order of the Finances Minister no. 580/2002, with subsequent amendments and completions.

2.2. The concrete method for granting the State aid

(8) By the State aid proposed by the Ministry of Public Finances, in total value of ROL 224,177,735,726, it is intended the granting of certain facilities that consist in:

- exemption from payment of the interests and penalties for payment delay afferent to the obligations to the consolidated State budget, calculated until 08.04.2002 for the overdue debts at 31.12.2001 and of the majorarilor calculated for the period 09.04.2002 – 31.10.2003, in total amount of ROL 161,031,904,656;
- exemption from payment of the interests and penalties for payment delay afferent to the obligations to the health insurance budget, in value of ROL 19,532,842,098;
- scheduling the payment for a period of 60 months of the overdue obligations to the consolidated State budget in amount of ROL 43,612,988,972.

3. THE BENEFICIARY OF THE STATE AID MEASURES

(9) The beneficiary of the financial measures granted by the State is S.C. STOFÉ BUHUSI S.A.

(10) S.C. STOFÉ BUHUSI S.A. derives from the former INTREPRINDERÉ DE POSTAV BUHUSI established in 1885. On 29.01.1991 the company converted, according to the Romanian legislation, in stock company, having its premises in Buhusi, being registered at the Commerce Register with no. J04/52/1991, fiscal code 962838.

(11) The company was privatized in 2000, the structure of the shareholders after privatization being presented in table no. 1.

Table no. 1

	Shareholders
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SHAREHOLDERS	Number of shares	Weight in the registered capital (%)
The association of employers STOFE BUHUSI S.A.	1,021,795	51.00
SIF Moldova	322,224	16.23
Other shareholders	650,854	32.77
Total	1,994,873	100.00

Source: Ministry of Public Finances

(12) The company operates in the industry field. S.C. STOFE BUHUSI S.A. has as main activity object the production and trading of the wool and woolen type articles (in composition with chemical fibers) of carded and combed wires, based on a classic technology (spinning-weaving-finishing).

(13) The company produces carded and combed wires of wool and woolen type and textures of carded and combed wires. The textures can be used for the whole range of ready-made clothes (dresses, costumes, topcoats, overcoats, blankets, plaid, textures for furniture, technical articles)

(14) The activity of the company is developed in 3 sections, as follows:

Table no. 2

No.	Section	Products or function
1.	Spinning mill	Wires carded and combed of wool and wool type
2.	Weaving mill	Raw Textures of wool and wool type
3.	Finisaj	Finished Textures of wool and wool type

Source: SC BUHUSI SA

(15) The company has the following production capacities:

- 3,0 mill. Square meters textures
- 700 tones combed wool and woolen type wires
- 150 tones wool and woolen type carded wires
- 300 tones washed wool

On 31.12.2003 these production capacities had 376 employees.

(16) S.C. STOFE BUHUSI S.A. has fabrication technologies for a wide range of articles for the entire integrated production flow, starting from raw wool to finished textures. Each article from the fabrication classified list is produced on the basis of well defined technical documentations, known by the entire productive and quality control personnel, having as main objective to satisfy as much as possible the requests of each client of the company.

(17) The production system of S.C. STOFE BUHUSI S.A. ensures a high degree for production integration. These technologies ensure the achievement of a high number of textile products that would be requested by the beneficiaries. The homologated technologies possible to be applied to S.C. STOFE BUHUSI S.A. can be grouped as follows:

- sorting and washing fine wool, semi-fine wool, semi-thick and thick wool;

- sorting and preliminary prepare of numerous types of textile wastes, own and supplied from diverse suppliers;
- wool and wool waste carbonizing and neutralizing;
- fiber color and pitchfork color, all wool fiber and woolen type fiber categories;
- technologies for producing articles of combed wires, semi- combed wires and carded, in very diversified composition and colored, for textures, knitwear and technical articles;
- technologies for weave preparing and weaving, for a very diversified range of textures articles having as destination: clothes, blankets and technical articles;
- technologies for finishing the raw textures achieved in the weaving mill section, with a wide range of finishing types, according to the technical documentation of each article and the clients requests.

(18) The economic – financial results on the basis of the data from the accounting balance sheets for the last 4 years are the followings:

Table no. 3

Turnover (ROL millions)			
2000	2001	2002	2003
78,205	65,388	77,496	65,761
Turnover on the Romanian market (ROL millions)			
2000	2001	2002	2003
38,484	34,583	49,635	38,502

Source: Ministry of the Public Finances

(19) From the analysis of evolution of the total turnover achieved by the company, it is found that this records an oscillating evolution, in 2003 recording a decrease of 15% comparative to 2002. The company produces mainly for the internal market, the export weight in the total turnover recording in 2003 a slight decreasing comparing to 2002.

(20) The evolution of losses of S.C. STOFÉ BUHUSI S.A. is presented as follows:

Table no. 4

Losses (-) (ROL millions)			
2000	2001	2002	2003
57,700	14,902	36,397	17,087

Source: Ministry of Public Finances

(21) Until 2000 the company recorded overdue fiscal debts that were caused by the financial blockage from 1996-2000, situation that did not allow the achievement of cash flow at the evaluated level and, implicitly, it led to the incapacity for paying these in the deadline. At

these overdue fiscal debts, there were added supplementary charges and penalties for payment delay that harmed even more the economic – financial situation of the company.

4. DESCRIPTION OF THE PRIVATIZATION PROCESS

(22) The procedure for selling the stock package representing 51% of the registered capital of the company was initiated by FPS – Branch Bacau in March 1999 by advertisements in the central and local press as well as at a local TV station; as at the first term no bidder presented, there were fixed and announced on the same procedure consecutive terms, according to the legislation and at the 6th term (4th of September 2000) there were presented 2 bidders: the Association of the Employees of the company and a natural person, Nenciu Ioan Sorin of the city Bacau.

(23) The selling offer was of 51% from the registered capital, respectively 1,012,795 shares; the offer price (reserve price) was of ROL 5,800 per share. It was settled the bidding pace of ROL 1,000 and the 5th bidding pace of ROL 800 per share offered by the Association of Employees, the auction closed because Nenciu Ioan Sorin did not offer this price.

(24) Following the winning of the auction by the Association of Employees, it was closed the selling – purchase contract of shares no. BC/33 of 04.09.2000.

5. THE RELEVANT MARKETS ON WHICH THE STATE AID BENEFICIARY ACTS

(25) The Romanian textile industry is characterized by the following opportunities:

- around 55% of the necessary material resources can be ensured from the internal production (flax, hemp, wool);
- the existing of a chemical industry relatively developed and which, after modernization, can achieve a large part of the raw materials and necessary textile industry;
- the long tradition in this branch as supplier of specific products on the external markets;
- the existence of an important production capacity, out of which a large part can be modernized with a reduced investment effort comparing to other industrial branches and with immediate effects;
- the internal market can absorb an important part of the production both for population and for other branches consumers of textile articles;
- the necessary labor force is obtainable at competitive prices;
- large availability for placing the production capacities in all geographic areas of the country and for attracting in the economic circuit the available labor force and the specific local resources;
- the reduced costs for creating a job comparing to other industrial branches;
- has the capacity to sustain the imports;

- existing a real competition environment due to the large number of undertakings in this field.

(26) The relevant markets on which S.C. STOFÉ BUHUSI S.A. operates are the market of wool and wool type textures and the market of combed wool and wool type wires.

(27) The company trade a small quantity of wires on the internal and on the external market because almost the entire production of the spinning mill (carded and combed wires) is used in the own consumption at producing textures.

(28) S.C. STOFÉ BUHUSI S.A trades its products on both the internal market and external market.

a) Internal market

(29) On the internal market, trading the wires produced by the company addresses to units producing textures, that do not have technological process for producing wires, and to small producers of knitwear, and the trading of textures is achieved by the companies of ready-made clothes from the category of small enterprises (around 50-60% of the total of internal supplies), and the rest to the units of the consumption cooperative, the network of shops from all over the country with stuff in consignment and encashing in proportion as it is sold, as well as the own shop from the city of the company

(30) The products' sales of the company on the internal market recorded a decreasing trend in the last years as it can be observed from the table no. 5.

Table no. 5

Product	2000		2001		2002		1 st Quarter 2003	
	Sales (bill. ROL)	%	Sales (bill. ROL)	%	Sales (bill. ROL)	%	Sales (bill. ROL)	%
Combed wires	3,549	5	2,002	3	8,059	11	5,542	19
Textures	65,826	95	56,009	97	62,451	89	24,062	81
Total	69,375	100	58,011	100	70,510	100	29,604	100

Source : Market research, part of the restructuring Program of SC STOFÉ BUHUSI SA

(31) The decreasing of the sales volume is mainly due to the following cases:

- deterioration on of the macro-economic conditions having as result the reduction of the internal consumption and thus the restraint of the internal textile market;
- the internal textile market is invaded by textures from China, Taiwan, India, that produces, based on up-to-date technologies, textures with very low prices, at half of the prices achieved by the units in Romania;
- developing the lohn production and the internal market production;
- increasing the competition by the external participants that benefits of more performing technology and thus a better quality – price ratio;
- a series of severe disequilibria that impeded the development of the activity in the sector, such as the existing of the arrears between the companies resulted from the

general financial blockage from the Romanian business environment, that had as result a high value of the accounts of the borrowers, expensive financing because of the inflationist environment, limiting the financial resources for modernization and the needs for working capital;

- exposing the utilities suppliers (energy and gas) to the higher prices policy.

(32) The internal demand is very elastic, without the possibility of significant price fluctuations, because any attempt to increase the price comparative to the market price can reduce the volume of the sales or can lead to the elimination from the market.

(33) The price policy of the company is targeted to maintain the price at the levels closed to the other producers from the internal market in order to maintain its competitiveness on the market. Despite the existing technology, the company tries to reach the purpose by a low budget and a careful monitoring of the production expenditures, respectively a significant reduction of the consumption of raw materials, of the combustibles and electric energy.

(34) As it results from the table no. 6, the company directed its sales towards the private sector, the distribution system being based on the direct distribution chains.

Table no. 6

Clients	Weight in total sales (%)			
	2000	2001	2002	2003
Private Sector	76.0	81.3	83.5	85.7
Kraftmen' cooperative	6.0	5.2	4.3	3.7
Others	18.0	13.5	12.2	10.6

Source : Market research, part of the Restructuring Program of SC STOFÉ BUHUSI SA

(35) Among the clients of the company, we name: Confex Moda SRL Ploiesti, Global Conf SRL Bacau, Plus D SRL Roman, Trading text Dora SRL Braila, Contexim SA Constanta, Orintex SA Oradea, Smart SRL Tg. Secuiesc, Gardenia SRL Alexandria.

(36) The company benefits of an important share on the internal market due to the recognized quality of the products and of the long experience in the field. On the market, the competition is generated both by the internal producers (a part of them having a better technological endowment) and by the external competitors, especially China and India, which have lower prices.

(37) The main competitors of S.C. STOFÉ BUHUSI S.A. are: Dorobantul Ploiesti, Postavaria Romana Bucuresti, Carpatex Brasov, Libertatea Sibiu, Pobac Bacau, Argeseana Pitesti. These producers together with S.C. STOFÉ BUHUSI S.A. cover around 55% of the internal market, the rest being covered by the imports from China, Coreea and India.

(38) S.C. STOFÉ BUHUSI S.A. has on the market of textures of wool and wool type wires a quota of 5%, and on the market of combed wires a quota of 0.7%.

b) External market

(39) Until 1990 the export of the Romanian producers (direct and indirect – by ready-made clothes produced with own produced textures) represents over 70% of the total textures production. After 1990, the exported production decreased constantly each year. The products destined to be exported are sold both direct to the exporter as lengths (texture) and through the ready-made clothes plants from the country, the texture being included in the ready-made clothes that is exported.

(40) S.C. STOFÉ BUHUSI S.A. exports only textures of combed wires of wool and wool type, the trading being ensured on the basis of contracts closed with companies: Textura, Confitalia and Incom from Italy, Altimo from England, Durelle from USA, NAS from France, Wilson Mc Brinn from Irland. The weight of the company export on the main countries is presented in the table no. 7.

Table no. 7

(%)

Destination Country	2000	2001	2002	2003
USA	40	45	27	18
Italy	30	28	30	45
England	5	6	7	8
France	7	6	6	7
Germany	3	4	7	7
Irland	4	5	5	6
Others	11	6	18	9
	100	100	100	100

Source : Market research, part of the Restructuring Program of SC STOFÉ BUHUSI SA

(41) The evolution of the export sales of S.C. STOFÉ BUHUSI S.A. is presented in the table no. 8.

Table no. 8

year	2000	2001	2002	2003
The weight of the export in the achieved turnover	51%	47%	36%	41%

Source : Ministry of Public Finance

(42) The company succeeded to establish important commercial relations with two textures companies of USA and Italy that represents in 2003, over 50% of the total export sales.

(43) S.C. STOFÉ BUHUSI S.A. has on the external market of texture of combed wool and wool type wires an insignificant quota nesemnificativa, below 1%.

6. THE RESTRUCTURING PROGRAM

(44) The state aid is granted for restructuring of S.C. STOFÉ BUHUSI S.A and to restore its viability.

(45) In order to overcome the difficult situation of company it was elaborated a program of restructuring measures and financial restoration for the period 2004-2005, in collaboration with the National Institute of Research – Development for Textile and Leather Bucharest.

(46) The restructuring program was elaborated in the basis of the market research elaborated by a collective of specialists from Technical University «Gh. Asachi» Iasi. The market research reveals the evolution trends on the market in 3 work hypothesis, namely:

1. pessimistic hypothesis – a slight increase, but continuous, of the Romanian market, with an anticipated annual rate of 5% in the next two years, and over 6% in the next five years;
2. optimistic hypothesis – it could be estimated through extrapolation of the factors an increasing of the domestic market with 20-22% in the next two years and over 40% for the next five years;
3. intermediary hypothesis – an increasing of the demand of textures of wool and wool type fibres of 30%.

(47) S.C. STOF BUCURSI S.A. drafted a restructuring program including restructuring measures on technological, organisational, management measures and financial restructuring, amounting at a total of ROL 330,919 millions.

(48) Synthetically the restructuring program foresees the following: [...] ¹

(49) Synthetically, the measures from the restructuring plan are presented as follows:

Table no. 9

No.	Measures	Evaluation of implementation costs [ROL million]	
		Own sources	State aid
1.	Organisational restructuring	[...] ²	-
2.	Technical and technological restructuring	[...] ³	-
3.	Management measures	[...] ⁴	-
4.	Financial restructuring		224,178
	TOTAL	[...] ⁵	224,178
TOTAL GENERAL		330,919	

Source: Restructuring Program of SC STOF BUCURSI SA

¹ Confidential data

² Confidential data

³ Confidential data

⁴ Confidential data

⁵ Confidential data

(50) The restructuring program, by the financial restructuring component, permits the increase of the cash flow, ensuring a stable cash flow, which will ease the financial activity. In this way, the company will be able to pay the current debts owed to the State and to allocate the necessary liquidities as to carry out the investment planned and necessary.

7. STATE AID CHARACTER OF THE FINANCIAL SUPPORT GRANTED BY THE STATE

(51) The measures of financial support are granted for restructuring S.C. STOFÉ BUHUSI S.A., taking into account that the company needed a financial restructuring for the production activity to function within normal parameters. The State aid granting, corroborated with actions had in view by the restructuring program, will determine the increase of the economic efficiency of the company's activity.

(52) These facilities consist in payment scheduling and exemptions from the payment of overdue budgetary obligations, representing taxes, contributions and other budgetary incomes, as well as from the payment of interests and delay penalties overdue and unpaid to the consolidated State budget; these facilities are granted for company's restoration.

(53) Competition Council, when analysing the financial support measures, noticed that there are no doubts as regards these being financed by state resources and that these confer an advantage to S.C. STOFÉ BUHUSI S.A. As well, there are no doubts as regards the financial measures affecting the trade with the EU Member States since the products made by the company are also commercialised on the external market, and on the internal market these compete with similar imported products, including those from European countries.

(54) In conclusion, the granted financial support measures are considered as State aid and fall under the provisions of the Law no. 143/1999 on State aid, amended and completed by Law no. 603/2003.

8. EVALUATION OF THE STATE AID MEASURES INTENDED TO BE GRANTED TO S.C. STOFÉ BUHUSI S.A.

(55) The objective of the State aid is the restructuring of S.C. STOFÉ BUHUSI S.A, in view of restoring its viability at the end of the restructuring period. The State aid must be analysed according to the criteria of the Regulation on State aid for rescue and restructuring firms in difficulty.

(56) S.C. STOFÉ BUHUSI S.A. did not benefit from State aid for rescue and/or restructuring before.

(57) After 1990, the company registered a constant involution determined, in principal, by the following factors:

- on internal market:
 - market diminution due to the decrease of the people's purchase power;

- conversion of the majority ready-made clothing manufacturers to production in lohn;
- continuous increase of prices for utilities (electric power and gas);
- high interests afferent to short term loans;
- enter on the Romanian market of low quality and cheaper products from China, India, Korea;
- lack of liquidities (due to the generalized financial blockage) and implicitly small possibilities for maintaining into operation all the working capacities, respectively ensuring the spare parts necessary for the entire production park;
- selling in large quantities the second-hand ready-made clothes from import at low prices.
- on external market:
 - the crisis of the trade with textiles on international market;
 - heavy access, impossible sometimes to external loans for re-technology.

(58) Due to the constant decrease of physical production, of more an unfavourable report between the constant and variable expenses, but especially of decreasing the financial basis from own sources of orders, and due to this fact of calling on constantly to credits, the financial situation worsened at its turn.

(59) The lack of liquidities made the company to postpone the payment of obligations owed to the budget, fact that generated the calculation of delay increases, respectively the increase of exceptional expenses; those ones and the financial expenses (interests for credits) not only annulled the results from exploitation, but also exceeded them, fact that made the company to register year by year losses.

(60) The granting of the state aid will allow S.C. STOFÉ BUHUSI S.A. to achieve the restructuring program planned for the period 2004 - 2005, thus assuring the maintaining in activity and the economic recovery of the company.

(61) To continue the company's activity without the implementation of a restructuring program would lead to:

- the loss of market segment due to the lack of financial measures necessary to resume the production cycle and of a proper marketing strategy;
- degradation of existing assets means by constant diminishing of the level of capacities usage;
- the staff non-satisfaction with negative consequences over the quality of products and of social atmosphere.

(62) The analysis of the notified measure was achieved according to the criteria for granting the State aids contained by the Regulation on state aid for rescue and restructuring firms in difficulty:

8.1. ELIGIBILITY OF S.C. STOFÉ BUHUSI S.A – COMPANY IN DIFFICULTY

(63) S.C. STOFÉ BUHUSI S.A. is a company in difficulty since it was confronted with several problems that negatively influenced the production and economical and financial activity.

(64) Thus, the company reached the situation that the loss registered in 2003 of ROL 17,087 million to represent 49% of the own capital (ROL 35,210 million).

(65) Taking into account the evolution of the main economic and financial indicators registered until 2003, it can be noticed:

a) turnover decrease

Table no. 10		- ROL million -		
Indicator	2000	2001	2002	2003
Turnover	88,906	89,240	96,359	64,378
Turnover in 2000 comparable prices	88,906	68,646	62,815	36,813

(66) The turnover calculated in nominal values registers a decrease in 2003 in comparison with 2002 of 15%. Analysing the evolution in 2000 comparable prices it was registered a descendent trend starting with 2001, the turnover achieved in 2003 representing around 41% from the one registered in 2000.

b) Increase of the stock volume

Table no. 11		- ROL million -		
	2000	2001	2002	2003
Stocks	84,766	93,742	101,695	100,989

(67) The stocks registered an ascendant trend during 2000-2003 from ROL 84,766 million in 2000 to ROL 100,990 million in 2003. From the total current assets of ROL 115,741 million registered at 31.12.2003, the stocks represent 87.25%, the claims represent 7.5%, the rest being represented by liquidities. The stocks of finite products still have high values (50.14% of total current assets), especially due to the stocks from the productions of previous periods hard to be sold (1993-1999), which do not correspond to the actual fashion trend, as regards the fibre composition and colours and finishing.

c) Operating output

Table no. 12		- ROL million -		
	2000	2001	2002	2003
Operating incomes	88,906	89,240	96,359	64,379
Operating costs	66,601	91,569	127,720	65,647

Operating output	+22,305	-2,329	-31,361	-1,269
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(67) It is noticed that, beginning with 2001, the operating output registers negative values.

d) evolution of the net result

Table no. 13

- ROL million -

	2000	2001	2002	2003
Net result	57,700	14,902	36,397	17,087

(68) In entire analyzed period, the company registered losses from operating activity and financial, because of increased value afferent to historical debts.

e) evolution of the debts

Table no. 14

- ROL million -

	2000	2001	2002	2003
Total debts	219,429	229,748	261,653	268,175
Own capital	42,134	58,565	23,594	35,210

(70) The company debts has increased in the analyzed period and it influenced negatively the own capital of the company. This evolution indicates the worsening of the company situation by its incapacity to make profit. The share of budgetary debts in total debts has increased from 78.33% in 2000 to 98.00% in 2003 even if the company paid the debts afferent of current budgetary debts and a part of overdue debts, the share of these decreased from 23.46% in 2000 to 12.84 % in 2003. Although the company makes great efforts to reduce the current costs, it still isn't able to cover on short term the historical debts from taxes and their accessories.

f) overproduction

(71) On the market of the wool and wool type textures is registered production overcapacity as the total production capacity existing on the market reaches 27.0 mill. sm/year, and the textures demand, expressed in the sales from 2003 is of 10.7 mill. sm. As far as the market of wool and type wool wires is concerned, the production capacity is of 23.5 thousand tons/year, while the sales for 2003 were of 21.0 thousand tons, which means there is no production overcapacity on this market.

(72) For a clear evidence of the worsening of the financial indicators, there were calculated several financial ratios starting with 2001:

Table no. 15

Indicator	2001	2002	2003
General liquidity	49.0%	46.0%	53.0 %

Short term liquidity	6.0%	4.0%	7.0%
Financial autonomy	2.9	1.26	0.73
Patrimonial solvability	20.0%	8.0%	11.61%
Indebtness degree	36.59%	82.71%	93.02%
Profit ratio	-16.0%	- 41.4%	- 25.98%
Profitability of the involved capital	-0.18	-1.36	-0.25
Average number of personnel	619	534	376

Source : Restructuring Program of SC STOFE BUHUSI SA

a. General liquidity

The general liquidity indicator reflects the possibility to cover all obligations chargeable with current assets; the general liquidity rate is unfavourable, fact that demonstrates the reduced capacity to cover the debts.

b. Short term liquidity

The indicator reflects the immediate possibility to cover the obligations chargeable with current assets from which the stocks were cut out. The level of this indicator shows the fact that the company does not own sufficient liquidities to cover its current debts.

c. Financial autonomy

This indicator reflects the report between the regulatory capital and long and medium term debts. A decrease of this indicator between 2002 and 2003 can be noticed as a consequence of negative influences of the reported result over the regulatory capital which is diminished by it.

d. Patrimonial solvability

It expresses the weight of regulatory capital in the company's liabilities. Assessing the evolution of this indicator, a diminishing tendency that respects conformably the diminishing of regulatory capital may be noticed.

e. Indebtness degree

This indicator expresses the risk degree that the company is reaching as a consequence of borrowed capital accumulations and it is calculated as report between the borrowed capital and the regulatory capital. The indicator has a significant increase in 2002 and 2003 due to the decrease of own capitals.

f. Profit ratio

This indicator, calculated as report between gross profit and turnover, through its negative values, reflects the influence of debts accumulated successively that affected the financial exercises in the assessment period..

g. Profitability of the involved capital

This indicator represents the profit that the company earns from the investments made. In conditions in which the gross profit is negative and the capital used is diminished by the reported results and this indicator registers in all assessed period negative values.

(73) Having in view the annual loss related to each financial year, the annual increase of debts, especially that owed to budgetary creditors, the increase of indebtedness degree, the raised value of stocks, it may be summarised that S.C. STOFÉ BUHUSI is a firm in difficulty.

8.2. BELONGING TO A BUSINESS GROUP

(74) According to the provisions of Art. 2 paragraph (5) of the Regulation on state aid for rescue and restructuring firms in difficulty, a company belonging to a group is normally not eligible for rescue and restructuring aid, except for the case when it can be proved that the difficulties of the company are its own and do not result from an arbitrary allocation of costs inside the group and that the difficulties are too serious to be dealt within the group.

(75) SC STOFÉ BUHUSI SA does not belong to any group and it is held by the Employees Association in proportion of 51%, thus the company is eligible for granting State aid.

8.3. THE RESTORATION OF THE COMPANY VIABILITY

(76) According to Article 12 of the Regulation state aid for rescue and restructuring firms in difficulty the restructuring plan has to include the elimination of unprofitable activities and to offer to the company the long term viability, allowing to it to function with own resources.

(77) The restructuring plan of SC STOFÉ BUHUSI SA was worked out after the diagnostic analysis that includes strong and weak points from juridical, commercial, production, financial and human resources view points, and describes the circumstances that lead to the appearance of difficulties the company face with.

(78) The strategy of SC STOFÉ BUHUSI SA is to conserve the strong points, respectively the possibility of producing various textures, thus covering the market demand, the competitiveness of products as design and quality, and the existence of traditional commercial relations with American and Italian clients, and also to limit the weak points and the competition of importers of cheap and second hand textures.

(79) Having in view the situation on the markets where the company acts, and the foreseen situation of wool and woolen type textures demand, the restructuring plan with three working hypothesis (pessimistic, intermediary and optimistic) proposes measures to be taken to restore the company on long term, in a reasonable period, respectively 2 years.

(80) The restructuring actions aim at:

I. Immediate Actions:

- localization and inventorying of machines and gears to be used or of those that need to be dismantled and their valorification if they are fizical depreciated;
- inventorying of buildings, evaluation and selling of those that are not necessary for the production process;
- the valorification of supplementary production spaces by leasing them;
- the valorification of old stocks that could not be sold;
- the correction of consume norms at places that are under reorganization ;
- the updating of working contract on the basis of increasing the efficiency and increasing the interest of employees for a good functioning of the company;

II. Short and medium term actions:

- -realization of a clear evidence of indirect expenses and improving their allocation on sections and products;
- realization of a marketing plan by establishing products schedule, characteristics and prices in comparison with those of competitors and by stimulating the creation of new products;
- the extension of informatics system to the sections level;
- the re-dimensioning of personnel number by: re-norming, revision of position statutory and re-actualization of job description;
- organizational restructuring of company by unifying the maintenance and reparations activities and by moving currying room at the available space from filature-weaving sections;
- re-technologizing of filature-weaving sections;
- projecting the management strategy for increasing the role and importance of control position, continuation of working out the insurance system and management system of quality, and by projecting marketing strategy;

(81) Following the implementation of restructuring plan, the assurance of viability's company is envisaged by:

- continuation of production activity having in view demand on the market;
- improvement of economic-financial indicators and of the quality;
- reduction of production costs and obtaining competitive selling price aiming at obtaining a safe and various marketing market;
- intensification of research market in order to find new clients and suppliers, diversification of distribution means;
- initiation of measures for introduction an integrated informatics system.

(82) The implementation of restructuring program has as main purpose, first, the reduction of losses and reaching the operational balance, in the perspective of obtaining the profit, especially from exploitation activity, and subsequent from whole activity.

(83) After implementation of restructuring program in all three evolution hypothesis of market, the company becomes viable and will have a positive evolution of own capital and of financial and economic profitability, being able to carry out the activity only with own resources.

(84) The fact that implementation of measures comprised in restructuring plan lead to the assurance of viability of company is demonstrated by the profit-losses account prognosis, in the intermediary hypothesis, in the following 5 years that is presented in table 15.

Table no. 16

- ROL million-

Indicators	2004	2005	2006	2007	2008
1 TOTAL revenues, of which:	351,896	122,431	105,300	115,500	129,355
- Operating revenues	170,230	120,931	103,300	113,500	127,355
- Net turn-over	70,480	89,260	99,760	110,310	124,515
- Financial revenues	1,100	1,500	2,000	2,000	2,000
-Extraordinary revenues	-	-	-	-	-
2 TOTAL expenses, of which:	334,649	99,890	78,995	85,913	94,839
a) operating, of which:	152,283	98,290	77,295	84,013	92,539
b) financial	1,800	1,600	1,700	1,900	2,300
c) extraordinary	-	-	-	-	-
3 Gross profit	17,247	22,541	26,305	29,587	34,516
4 Net profit	12,935	16,906	19,729	22,190	25,887

Source : Restructuring Program SC STOFÉ BUHUSI SA

(85) After the realization of measures at the end of implementing period of restructuring plan – year 2005 – it is comes out the reaching of target indicators, as follows:

Table no. 17

	UM	2005
1. Net profit	million ROL	16,906
2. Turn-over	million ROL	89,260
3. Employees number	persons	350
4. Own capital	million ROL	187,493
5. Recovery period of debts	day	33
6. Payment period of debts	days	27
7. Economic profitability	%	8.72
8. Financial profitability	%	9.02
9. Cash flows	million ROL	1,300

Source: SC STOFÉ BUHUSI SA

7.4 AVOIDANCE OF SIGNIFICANT DISTORTION OF THE NORMAL COMPETITIVE ENVIRONMENT

(86) Through the grant of the aid and application of the restructuring program of S.C. STOFÉ BUHUSI S.A. the structure of the relevant market is not modified by anti-competitive effects; this operation has the purpose of raising economic efficiency of the company by reducing the production costs and does not lead to a liquidity surplus which might be used in aggressive activities that distort competition on the market without any connection with the restructuring process.

(87) S.C. STOFÉ BUHUSI S.A. has held, in 2003, 5% of wool and woolen type textures market and 0.7% of combed wool wires market.

(88) By the restructuring program the S.C. STOFÉ BUHUSI S.A. does not increase its market share on internal market and will improve the utilization level of production capacity.

(89) The utilization level of production capacity in 2002 and 2003 is presented in table no. 18.

Table no. 18

No	Specificity	2002			2003		
		Value (million ROL)	Track record (million ROL)	%	Value (million ROL)	Track record (million ROL)	%
1.	Textures	290,416	78,412	27	333,881	56,760	17
2.	Combed wires	160,647	63,318	41	179,795	57,814	31
3.	Carded threads	13,800	6,625	48	14,700	3,970	27
4.	Washed wool	478,363	148,355	31	542,476	118,544	22
	TOTAL	943,226	296,710	32	1,070,852	237,088	22

Source: SC STOFÉ BUHUSI SA

(90) State aid will be used only for restoring the viability of the company, not allowing the beneficiary, during the application of the restructuring plan, to extend its production capacities.

(91) For diminishing as much as possible the state aid's granting unfavorable effects on the competition, until the end of the restructuring period the company will reduce its production capacity with 30.7% respectively with 921 thousand sm/year to wool and woolen type textures and with 30% respectively with 345 tons/year to wool and woolen type wires.

(92) The production capacities to be liquidated until the end of 2005 are the following:

Table no. 19

Type of equipment	Production capacities to be reduced (dismantled)	
	No.equipments	Capacity per 24h
<u>FILATURE:</u>		
- equipments for painting under pressure	5	4,500 Kg
- equipments for filating with rings	14	2,100 Kg
- equipments for duplicating	3	3,780 Kg
- equipments for twining	3	630 Kg
- equipments for reeling	3	5,040 Kg
<u>WEAVING MILL</u>		
- equipments for warping	4	272 pieces
- mechanical equipments for twining	54	1,950 sq.m.
- automatic equipments for twining	29	9,079 sq.m.
<u>FINISHING</u>		

- milling machine	7	1,680 ml
- hymaker	3	44,400 ml
- napper	6	5,760 ml
- pressing machine	4	45,600 ml
- final cutting machine	5	39,000 ml

Source: SC STOFÉ BUHUSI SA

8.5. AID LIMITED TO THE MINIMUM

(93) According to the provisions of Article 14 of the Regulation on state aid for rescuing and restructuring firms in difficulty, the amount and intensity of the state aid must be limited to the minimum necessary in order to allow the restructuring to be made depending on the existing financial resources of the company and shareholders.

(94) Before granting the State aid, the beneficiary analyzed all financing possibilities of restructuring plan. Thus, in order to contribute to the restructuring program, the beneficiary will appeal to sales and assets leasing, that are not related to main object of activity; these measures are parts of the restructuring plan.

(95) The restructuring program is financed by own resources of the company and state aid, which proves that the value of the state aid is reduced to the minimum necessary for the program to be finalized in the operating conditions proposed by the company as state aid beneficiary.

(96) The contribution of S.C. STOFÉ BUHUSI SA. to the implementation of the measures in the restructuring program is 32.3% of the total financial effort. The required State aid amounting 224,178 million ROL relieves the company of payment of debts and allow it to become eligible to obtain a credit; in this condition the State aid is limited to the minimum strict necessary.

(97) The company's own contribution to the financing of the restructuring program is insured from the following sources:

- incomes from the sales of assets;
- incomes from the capitalization of the stoks of finished products;
- contracting a credit in market conditions taking into account that by granting the state aid the company will be eligible for bank credit.

8.6 STATE AID INTENSITY AND RESTRUCTURING COST

(98) The restructuring cost of S.C. STOFÉ BUHUSI SA. amounts to ROL 330,919 million, born as follows :

- own resources of the company	ROL 106,741 million
- State aid	ROL 224,178 million

(99) The state aid intensity, calculated as ratio between the state aid value and the restructuring cost, is of 67.7%.

(100) The Competition Council notes that the beneficiary is situated in North – East development region, where the unemployment rate is one of the highest in Romania. The citizen number of city Buhusi is of 22,000 and it is a mono-industrial zone, the unemployment rate is of 50%. The maintenance of the activity of S.C. STOFÉ BUHUSI SA assures jobs for approximately 360 persons and subsistence for their families. Also, indirectly, jobs for commercial partners in the supplying and marketing activity are assured.

8.7. OBSERVANCE OF THE PRINCIPLE „ONE TIME, LAST TIME”

(101) S.C. STOFÉ BUHUSI SA has never received restructuring aid, so that Art. 18 of the Regulation on state aid for rescue and restructuring firms in difficulty, which stipulates the fact that restructuring aid must only be granted once, is observed.

8.8 MONITORING AND ANNUAL REPORTING

(102) In accordance with the provisions of Art. 17 of the Regulation on state aid for rescue and restructuring firms in difficulty, the Competition Council is permanently monitoring the way of implementation of the restructuring plan, so that this does not fail to accomplish the objectives of the restructuring plan.

(103) The Competition Council will continue to monitor the implementation of the restructuring plan until the end of the period, so that it will ensure that there will be no increases in production capacities, major deviations from the achievement of the restructuring measures and that the aid will not lead to supplementary liquidities to be used for other activities than the ones comprised in the restructuring programs.

8. CONCLUSIONS

(104) After carrying out the investigation, the Competition Council concludes that the aid intended to be granted to S.C. STOFÉ BUHUSI SA is not in the position to significantly distort the normal competitive environment and does not infringes the proper application of the international treaties to which Romania is a party.

(105) Following the analysis made, it was found out that the state aid in total amount of ROL 224,178 million consisting of payment facilities granted on the basis of the G.E.O no. 40/2002 for recovering the budgetary arrears, approved with modifications and completions by the Law no. 491/2002 with subsequent modifications and completions, fulfills the granting criteria in accordance with the Regulation on state aid for rescue and restructuring firms in difficulty.

DECIDES

Art. 1. The measure notified by the Ministry of Public Finance, whose beneficiary is S.C. STOFÉ BUHUSI SA represents State aid in the meaning of Art. 2(1) of the Law no. 143/1999, modified and completed by Law no. 603/2003 and by Government Decree no. 94/2004 concerning the regulation of some financial measures.

Art. 2. On the basis of Art. 10 of the Law no. 143/1999 on state aid, with subsequent modifications and completions, the Competition Council Decision no. 152/14.05.2004 is revoked.

Art. 3. On the basis of Art.12 paragraph(2) c) corroborated with Art.14 paragraph(1) e) of the Law no. 143/1999, with subsequent modifications and completions, the State aid in the view of restructuring that is intended to be granted to S.C. STOFÉ BUHUSI SA, is authorized, conditional on the observance of Art. 4 and Art. 5 of the present Decision.

Art. 4. The company is obliged to implement in whole the assumed restructuring plan.

Art. 5. The undertaking will reduce its production capacities with 30.7%, respectively with 921 thousand sm/year to wool and wool type textures and with 30% respectively with 345 tons /year to wool and type wool wires.

Art. 6. In the case of unfulfilment of the conditions imposed by the present decision, will be applied the provisions of art. 13 in the Law no 143/1999 on the state aid, with the subsequent modifications and completions.

Art. 7. The value of the state aid that will be granted is ROL 224,177,735,726.

Art. 8. This Decision becomes applicable on the communication date.

Art. 9. According to the Art. 24 of the Law no.143/1999, with the subsequent modifications and completions, the granting authorities will transmit to the Competition Council information on the state aids granted, with the view to their inventoring and monitoring. The Ministry of Finance will transmit to the Competition Council annual reports on the implementation of the restructuring plan. The first report will be transmitted to the Competition Council in 6 months since the decision is issued. The following reports should show that the undertaking fulfilled the compensatory measures regarding the reduction of production capacities imposed by the present decision.

Art. 10. According to the provisions of Art. 29 of the Law no. 143/1999 on State aid, with subsequent modifications and completions, the present decision may be challenged by the interested persons by administrative proceedings before the Bucharest Court of Appeals, within 30 days following the communication date.

Art. 11. This Decision will be communicated by the General Secretariat of the Competition Council to:

- the Ministry of Public Finance, Apolodor Street, no. 17, sector 1, Bucharest;
- SC STOFÉ BUHUSI SA, Libertatii Street, no. 36, 605100, Buhusi, Bacau.

Art. 12. The General Secretariat and the State Aid Authorization Department of the Competition Council will assure the enforcement of this Decision.

PRESIDENT
MIHAI BERINDE