

# **Managing the State Aid in Romania According to European Union's Policy**

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## **ABSTRACT**

*The importance of state aid has gradually increased in the recent decades. Aid allocations in the EU Member States vary depending on the national priorities as they are set by each state. Starting from those facts, this paper presents the trends in Romania, as well as those at the European Union level, as a whole. The research is based on data analysis provided by Scoreboard reporting systems and, as a result, presents authors conclusions and recommendations for managing the State Aid in Romania.*

**KEYWORDS:** *state aid, management, European Union, Romania*

**JEL CLASSIFICATION:** *F35, P33, P45*

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## **INTRODUCTION**

### **Premises of the state aid's modernization reform**

The idea of modernizing the state aid, reflected in the current legislative package adopted by the European Commission was the result of a number of reform's ambitious objectives born in the context of the economic crisis dating from the period between 2009-2010. On the one hand, the orientation on the internal market was to save the financial resources; on the other hand, the intention was to invest the resources in projects with a major impact on some specific economic fields. The experiences gained at the level of the state aid control, based on the recommendations of the European Semester, represented an useful reference for outlining the new European approach. Therefore, control mechanisms have been improved in order to allow the careful examination of potentially distortive aids. The global phenomenon of the crisis oriented the economical thinking towards restructuring and investment, not by covering the private sector losses, but by means of supporting this sector in the sense of completing private financial resources with the ones owned by the state itself, its purpose being that of allowing the profitability of large investment projects.

Previously, the state aid control has long been located at the periphery of the competition policy. The importance of this field has gradually increased in the recent decades. The motivation is found in the targets set in the European Union Treaty and it materializes in the need to control the subsidization race arising at the level of the Member States of the Union. On the long term, the excessive subsidization may weaken the European industry position on the international market, acting as a barrier to restructuring and innovation. The liberalization process can also become a difficult one. It could be added that, in the absence of the state aid control, the differences between rich and poor regions increase. Unequal taxation may be also the source for attracting more capital in certain areas, where

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businesses are rapidly developing, where they become more prosperous and where they call for new investors at the expense of other regions with a higher level of taxation (Baldwin and Krugman, 2004).

Therefore, the state aid control does represent a very useful tool of cohesion policy. Last but not least, the achievement of Commission's objectives depends on the existence of state aid policy, such as regional development and employability (Combes and Ypersele, 2012).

According to the Commission's approach, the compensation-based argumentation is implemented in the decision making process that authorizes the state aid measures. According to Bilal and Nicolaides (1999), there are three criteria at the basis of this compensatory justification. First of all, the aid serves the general interest of the European Union. Secondly, the aid should meet a major objective at the level of the internal market. Thirdly, the amount of the aid should be proportionate to the pursued objective and correct the market failure.

Aid allocation in the Member States varies depending on the national priorities as they are set by each state. So, discrepancies between the Member States reflect different national approaches depending on their political objectives as well as on the administrative procedures in use. However, the economic sectors deeply affected by the economic crisis, such as the financial sector, have got the attention of the European Commission and of national governments through a policy mix involving particular interventions of the Member States in the form of state aids.

Before Romania's integration in the European Union, the state aid policy was under the national state's aegis; subsequent to 2007, the state aid policy has been coordinated by the European Commission, as guardian of the Treaty. The tasks remaining at the national level, consisting in counseling, control and monitoring, have completed the general frame, supporting the Commission to whom the Member States now have regular reporting obligation.

The national policy objectives may benefit from state interventionist measures as the state aid; however, the agreement on these measures is included in European Commission's decision-making powers.

## 1. SCOREBOARD DATA ANALYSIS

The evolutions registered at the global level on the internal market were not identified in all cases with the orientations shown at the national level because the national interests were often different from the general ones, those specific to the Union. The analysis of the below mentioned data, by comparing the graphs provided by Scoreboard reporting systems, allows us to observe the trends in Romania as well as those at the European Union level, as a whole.

**Table 1. State aid developments during 2007-2012 in EU**

Indicator (mil. Eur)	2007	2008	2009	2010	2011	2012
Total state aid non crisis, without transport	67,774.40	75,471.40	78,363.40	72,301.20	65,794.40	67,157.90
State aid for agriculture	11,334.40	11,588.40	10,710.90	9,187.40	8,863.30	8,771.70
State aid for fisheries and aquaculture	439.6	290.8	207.7	134.3	110.9	83.8

Indicator (mil. Eur)	2007	2008	2009	2010	2011	2012
State aid for horizontal objectives	44,583.00	50,758.90	55,001.90	52,162.70	49,316.10	49,628.90
Sectorial State Aid	11,417.40	12,833.30	12,442.90	10,816.80	7,504.00	8,674.10

Source: adapted from Scoreboard 2012 Report, DG COMP

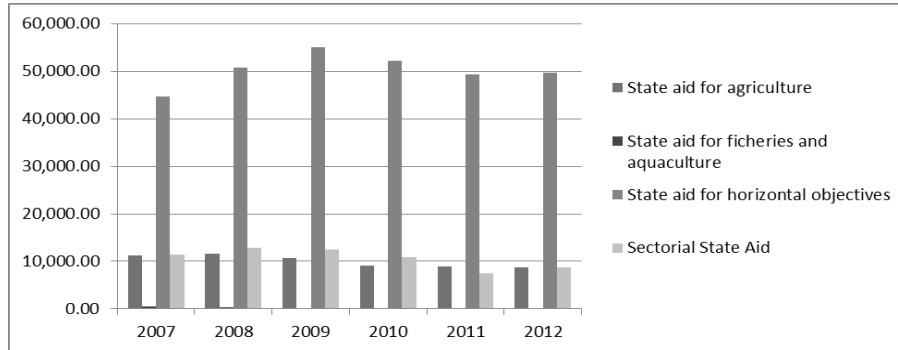


Figure 1. State aid developments during 2007-2012 in EU

Source: based on data presented in Table 1

Table 2. State aid developments during 2007-2012 in Romania

Indicator (mil. Eur)	2007	2008	2009	2010	2011	2012
Total state aid non crisis, without transport	1,537.70	869	847.2	296.2	635.2	828.2
State aid for agriculture	1,141.40	568.8	650.6	96.9	259	221.8
State aid for fisheries and aquaculture	0	0	0	0	0	0
State aid for horizontal objectives	117.1	157.8	93.5	137	373.6	559.7
Sectorial State Aid	279.1	142.5	104.6	64.6	4	47.1

Source: adapted from Scoreboard 2012 Report, DG COMP

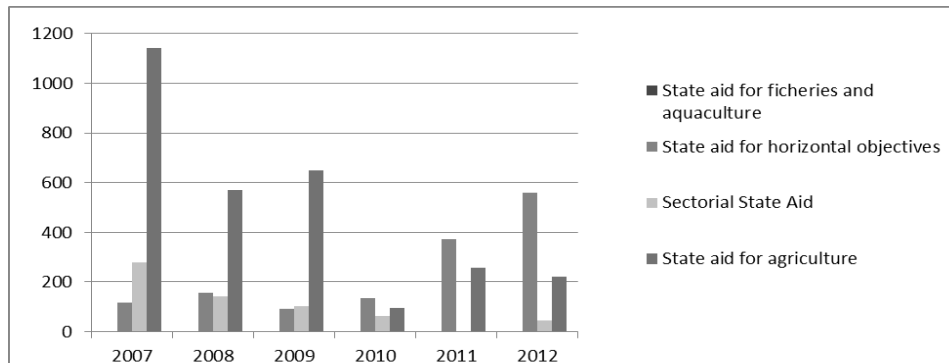


Figure 2. State aid developments during 2007-2012 in Romania

Source: based on data presented in Table 2

The Common Agricultural Policy has benefited from financial support which could be seen in the two graphs. Not only the Union's budget, but also the budgets of Member States have allowed the financing of this sector, especially during 2007-2012. In Romania, the volume of state aid designed for agriculture has been gradually reduced in recent years, leaving the place to funding the horizontal objectives.

The year 2012 also marked the beginning of state aid modernizing reform. Thus, in the Commission Communication Act designed for the Council and for the European Parliament, it was stated that state aid modernization should facilitate the analysis of the well-conceived aids whose purpose consisted in remedying certain identified market failures and achieving some objectives of common interest. Those aids could cause the least distortions of the competition („good aid”). This demarche ensures that public support stimulates innovation, green technologies and human capital development. It also avoids damages on the environment and, ultimately, it promotes growth, employability and the European Union competitiveness. The supporting measures contribute optimally to the named growth when they refer to a market failure and, thus they complete private investments without replacing them. As a consequence, the state aid control proves essential for improving the effectiveness and efficiency of public expenditures granted as state aids, the primary objective being that of stimulating the internal market growth whose prerequisite is the development of competition. State aid which does not involve market failures and which have a stimulating effect, not only wastes public resources, but also hampers growth by worsening the competition conditions within the internal market.

**Table 3. State aid evolution for horizontal objectives of common interest – EU**

<b>State aid earmarked - in mil. Eur</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Compensation of damages caused by natural disaster	2.8	12.5	3.7	42.3	112	34.4
Culture	1,435.10	1,551.40	1,634.60	1,808.30	1,936.70	2,223.60
Employment	3,009.80	3,256.50	2,826.10	2,869.50	2,780.00	2,813.70
Environmental protection including Energy saving	13,142.90	13,889.70	15,238.10	14,498.60	13,131.00	14,414.40
Heritage conservation	61.6	21.7	45.6	68.9	65.4	44.4
Promotion of export and internationalization	427.5	352.6	296.5	280.5	320.2	280.3
Regional development	10,449.60	13,686.60	15,737.60	13,593.70	12,524.20	12,126.30
Research and development including Innovation	8,332.80	9,437.00	11,458.00	11,277.40	10,315.80	9,732.40
SME including risk capital	6,041.80	6,641.00	5,342.80	4,202.50	3,632.70	3,423.80

State aid earmarked - in mil. Eur	2007	2008	2009	2010	2011	2012
Social support to individual consumers	869.5	877.6	1,177.20	2,201.60	3,450.00	3,261.70
Training	682.4	816.6	982.6	872.1	895.2	1,095.60
Other	127.2	215.6	259.1	447.4	152.9	178.4
<b>Total Horizontal State Aid</b>	<b>44,583.00</b>	<b>50,758.90</b>	<b>55,001.90</b>	<b>52,162.70</b>	<b>49,316.10</b>	<b>49,628.90</b>

Source: adapted from Scoreboard 2012 Report, DG COMP

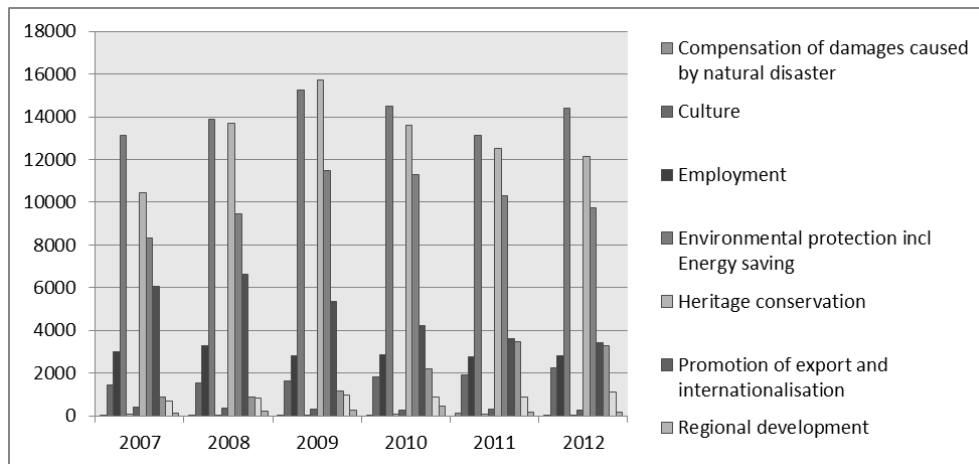


Figure 3. State aid evolution for horizontal objectives of common interest - EU

Source: based on data presented in Table 3

Table 4. State aid evolution for horizontal objectives of common interest – Romania

State aid earmarked for horizontal objectives of common interest (includes block exemptions) - in mil. Eur	2007	2008	2009	2010	2011	2012
Compensation of damages caused by natural disaster	0	0	0	0	0	0
Culture	6.8	8	6.9	0.3	0.6	0.4
Employment	0.9	0.7	0.2	0	0.1	0.2
Environmental protection including Energy saving	11.3	15	0	0	230.9	462.4
Heritage conservation	0	0	0	0	0	0
Promotion of export and internationalization	0	0	0	0	0	0
Regional development	34.7	53.7	50.8	97.7	132.8	86.5

State aid earmarked for horizontal objectives of common interest (includes block exemptions) - in mil. Eur	2007	2008	2009	2010	2011	2012
Research and development including Innovation	46.2	64.2	29	32.9	4.4	8.5
SME including risk capital	0.1	0	3.8	6.1	4.2	1.1
Social support to individual consumers	0	0	0	0	0	0
Training	0.2	0.8	0	0	0.5	0.6
Other	17	15.4	2.7	0	0	0
<b>Total Horizontal State Aid</b>	<b>117.1</b>	<b>157.8</b>	<b>93.5</b>	<b>137</b>	<b>373.6</b>	<b>559.7</b>

Source: adapted from Scoreboard 2012 Report, DG COM

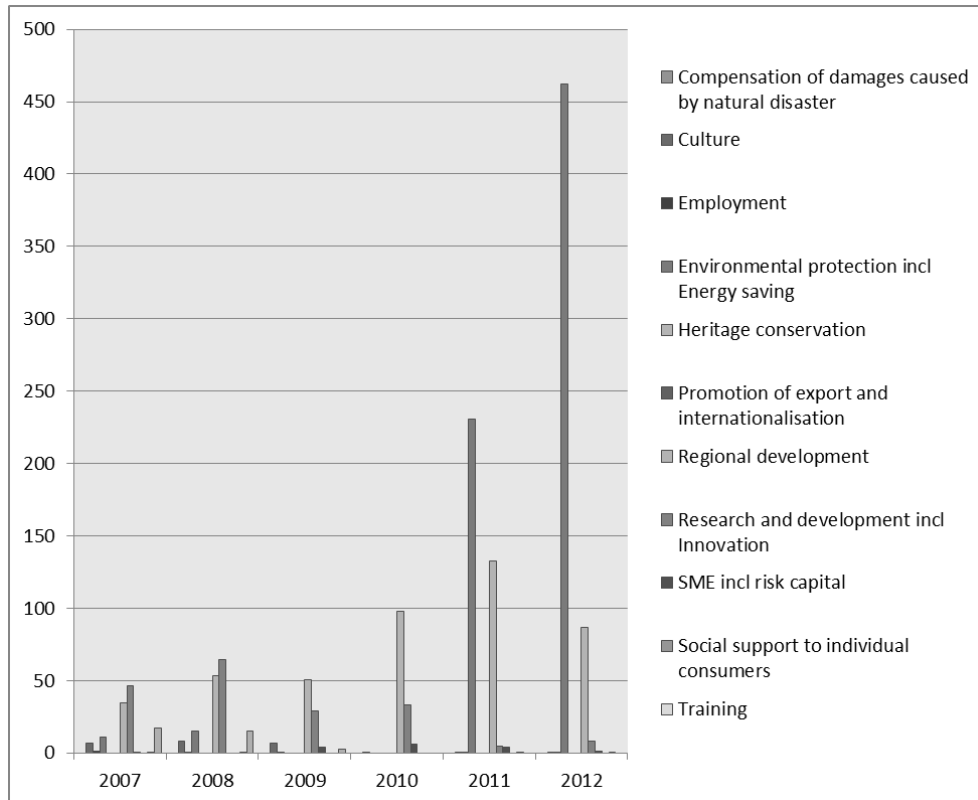


Figure 4. State aid evolution for horizontal objectives of common interest - Romania

Source: based on data presented in Table 4

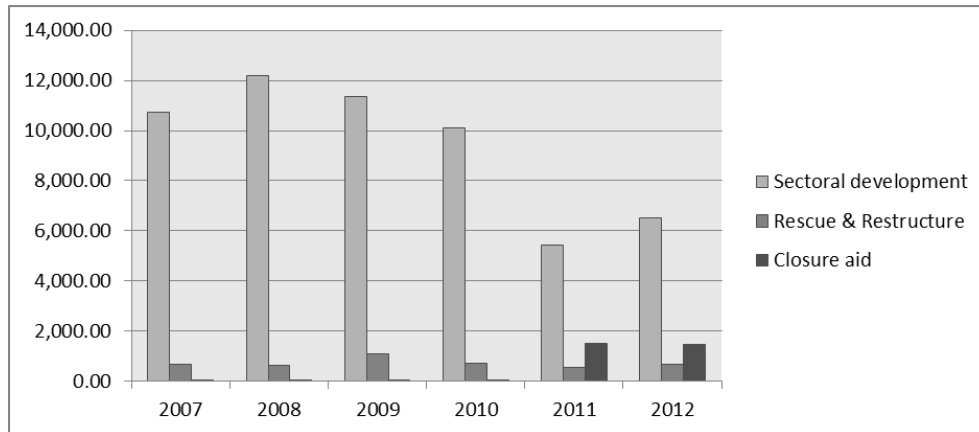
From the analysis of specific data corresponding to horizontal objectives, we could notice that interventions at national and European levels are predominant for environmental protection (here including the renewable energy) as well as for regional development. However, we highlight the fact that aids for research and development here in Romania still

hold a small place compared to their evolution at the European level. The aids granted within the European Union for small and medium sized enterprises become nowadays noteworthy in order to stimulate their competitiveness and to resist on the internal market, compared to the reduced values registered in Romania. However, from the Scoreboard reports, we notice that Romanian state has not granted social benefits to the consumers, for promoting exportation or for conserving its patrimony.

**Table 5. Evolution of sectorial aid amount in EU**

Sectorial state aid (mil. Eur)	2007	2008	2009	2010	2011	2012
Sectorial development	10,712.90	12,192.30	11,342.60	10,088.60	5,438.60	6,502.00
Rescue & Restructure	677	618.7	1,080.80	712.5	564.7	690.3
Closure aid	27.4	22.3	19.5	15.6	1,500.70	1,481.80
<b>Total state aid</b>	<b>11,417.40</b>	<b>12,833.30</b>	<b>12,442.90</b>	<b>10,816.80</b>	<b>7,504.00</b>	<b>8,674.10</b>

Source: adapted from Scoreboard 2012 Report, DG COM



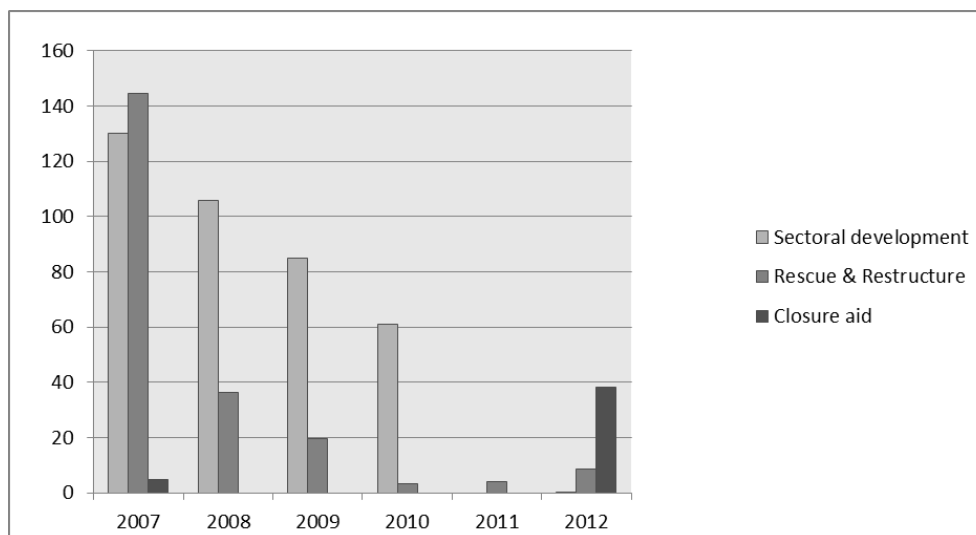
**Figure 5. Evolution of sectorial aid amount in EU**

Source: based on data presented in Table 5

**Table 6. Evolution of sectorial aid amount in Romania**

Sectorial state aid (mil. Eur)	2007	2008	2009	2010	2011	2012
Sectorial development	130	106	85	61.1	0	0.2
Rescue & Restructure	144.4	36.4	19.6	3.5	4	8.8
Closure aid	4.7	0	0	0	0	38.2
<b>Total state aid</b>	<b>279.1</b>	<b>142.5</b>	<b>104.6</b>	<b>64.6</b>	<b>4</b>	<b>47.1</b>

Source: adapted from Scoreboard 2012 Report, DG COM



**Figure 6. Evolution of sectorial aid amount in Romania**

*Source:* based on data presented in Table 6

Aid for rescue and restructuring is considered as having high potential for market distortion; usually, they are not subject to authorization. We also remark the tendency to reduce the amount of such aid in Romania which has recently reached very low levels. On the other hand, we notice aids for sectorial development that are present both at European and national level, pursuing a downward trend on the national plan.

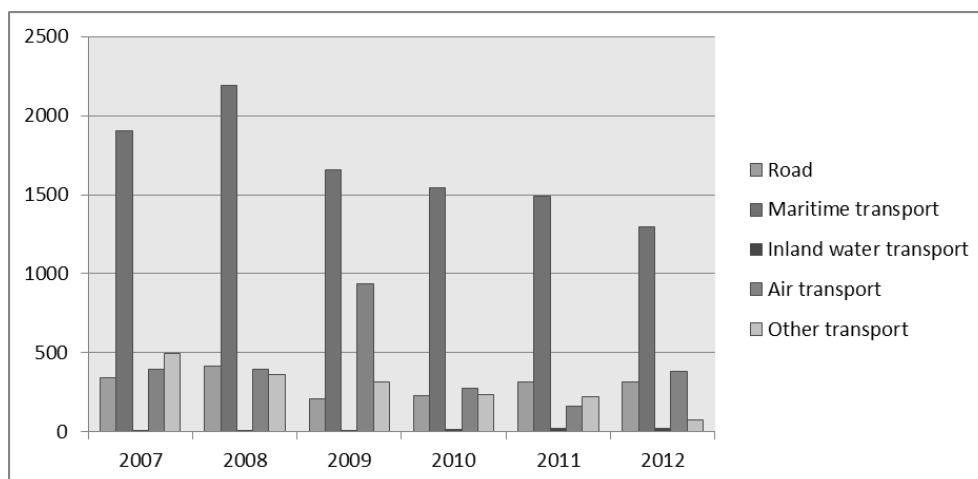
At the macroeconomic level, economic growth, productivity or unemployment decrease depend relatively on the effectiveness of state aid control. Aids for regional development have high potential to achieve those goals (Combes and Ypersele, 2012).

**Table 7. Evolution of the amount of State aid for transportation – EU**

Transport aid (excluding railways)	2007	2008	2009	2010	2011	2012
Road	342.9	413.8	210.4	229.1	316.8	317.9
Maritime transport	1,900.60	2,192.80	1,658.20	1,540.50	1,488.70	1,295.10
Inland water transport	11.4	10.4	10.7	18.7	22.2	19.3
Air transport	398.1	398.7	937.4	276.8	163.3	383.4
Other transport	493.5	364	317.8	233.1	219.9	78.5
<b>Total transport</b>	<b>3,146.50</b>	<b>3,379.80</b>	<b>3,134.50</b>	<b>2,298.20</b>	<b>2,210.90</b>	<b>2,094.10</b>

*Source:* adapted from Scoreboard 2012 Report, DG COM





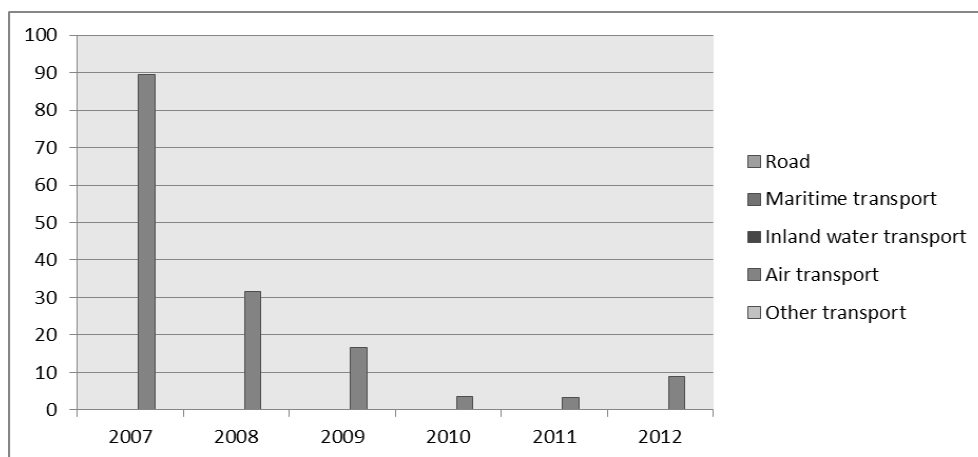
**Figure 7. Evolution of the amount of State aid for transportation - EU**

Source: based on data presented in Table 7

**Table 8. Evolution of the amount of State aid for transportation – Romania**

Transport aid (excluding railways)	2007	2008	2009	2010	2011	2012
Road	0	0	0	0	0	0
Maritime transport	0	0	0	0	0	0
Inland water transport	0	0	0	0	0	0
Air transport	89.5	31.6	16.5	3.5	3.2	8.8
Other transport	0	0	0	0	0	0
<b>Total transport</b>	<b>89.5</b>	<b>31.6</b>	<b>16.5</b>	<b>3.5</b>	<b>3.2</b>	<b>8.8</b>

Source: adapted from Scoreboard 2012 Report, DG COM



**Figure 8. Evolution of the amount of State aid for transportation – Romania**

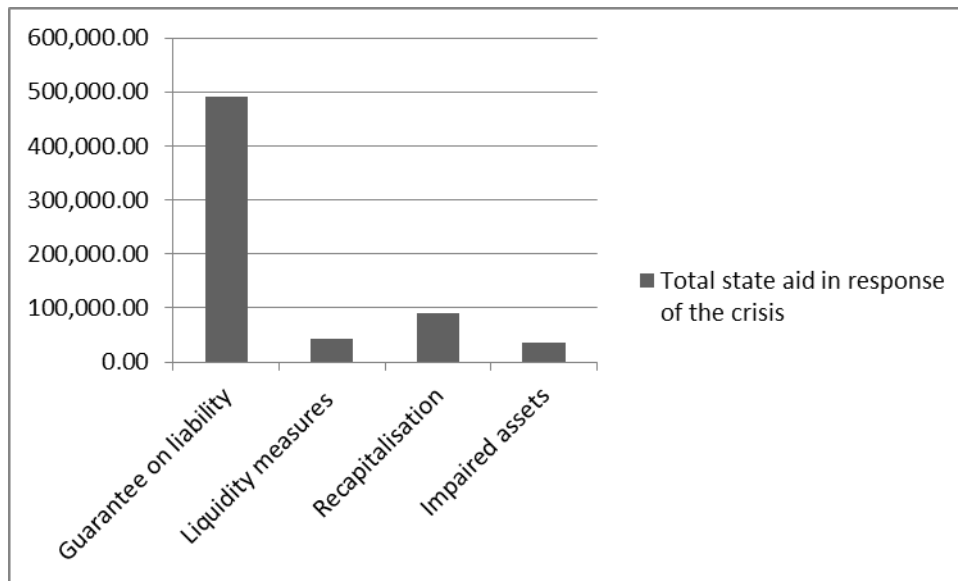
Source: based on data presented in Table 8

If at the European Union level, shipping holds the main place regarding the supportive measures coming from the budget of the Member States, in Romania, the only transportation sector is represented by the air transport to which the UE has authorized the support measures. Most of the times, these aids have had the purpose to contribute to the creation of new destinations to airlines, with departure from the regional airports in Romania (for example, it is the case of airports located in Craiova, Cluj and Oradea).

**Table 9. State aid granted to counteract the crisis in the EU in 2012**

Type of aid (nominal values, in constant prices)	Guarantee on liability	Liquidity measures	Recapitalization	Impaired assets
Total state aid in response of the crisis	492,295.40	42,183.00	90,825.60	35,425.00

Source: adapted from Scoreboard 2012 Report, DG COM



**Figure 9. Total state aid in response of the crisis**

Source: based on data presented in Table 9

In Romania, any support measure has been granted to the banking sector from the national budget resources, as it has happened in Great Britain, Germany, Ireland or Spain. In those countries, national governments supported a number of banks such as: RBS, Bankia or Anglo Irish Bank by means of recapitalization measures.

## CONCLUSIONS

Based on the analyses presented before, it followed to adopt a coherent state aid policy, in the spirit of respecting competition principles through a fair and open cooperation with the authorized bodies of European Commission (Busu, 2014).

To the extent to which, the authorized state aid is appropriately addressed for correcting market failures or for developing a particular economic sector or for achieving an objective involving environmental or cultural patrimony protection, it seems able to produce positive externalities, as we have noticed by interpreting data provided by Scoreboard reporting. In such a case, state aid may have a social character, being used for employability; it may also have an economic character, being proportionate to the pursued objectives. The European Commission's recommendations concerning the instruments found at the disposal of Member States governments, customizing for Romania, refer especially to the reduction of the support measures granted from the general consolidated budget, having a fiscal character, in terms of subsidies.

#### ACKNOWLEDGEMENTS

This work was cofinanced from the European Social Fund through Sectoral Operational Programme Human Resources Development 2007-2013, project number POSDRU/159/1.5/S/134197 „Performance and excellence in doctoral and postdoctoral research in Romanian economics science domain”

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