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COMMISSION DECISION

of 8.11.2018

**ON THE STATE AID
SA.43785 (2018/C) (ex 2015/PN, ex 2018/NN)
implemented by Romania
for restructuring Complexul Energetic Hunedoara**

(Text with EEA relevance)

(Only the Romanian version is authentic)

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PUBLIC VERSION

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THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union, and in particular the first subparagraph of Article 108(2) thereof,

Having regard to the Agreement on the European Economic Area, and in particular Article 62(1)(a) thereof,

Having called on interested parties to submit their comments pursuant to the provision(s) cited above¹,

Whereas:

1. PROCEDURE

- (1) By letter dated 12 March 2018, the Commission informed Romania that it had decided to initiate the procedure laid down in Article 108(2) of the Treaty on the Functioning of the European Union ('TFEU') ("the opening decision") in respect of the restructuring aid for Complexul Energetic Hunedoara S.A. ("CE Hunedoara"). The opening decision followed earlier notifications and contacts between the Commission and Romania concerning State aid to CE Hunedoara or its predecessors, as further described in the opening decision and section 2.1 below.
- (2) The Commission decision to initiate the procedure was published in the *Official Journal of the European Union*². The Commission invited interested parties to submit their comments thereon.

¹ OJ C 158, 4.5.2018, p. 47.

² Cf. footnote 1.

- (3) On 15 May 2018, Romania provided comments on the opening decision. The Commission did not receive comments from interested parties. In addition to the comments received on 15 May 2018, the Commission also held a video conference with the Romanian authorities on 31 July 2018.

2. DETAILED DESCRIPTION OF THE AID

2.1. Earlier decisions concerning CE Hunedoara

- (4) On 22 February 2012, the Commission had decided not to raise objections on the planned aid totalling RON 1 169 million (ca. EUR 251,3 million) for the closure of three out of the seven coal mines exploited by the National Hard Coal Company JSC Petrosani³ ("Decision regarding the first aid to coal mines"). In that decision, the Commission found that the planned aid was compatible with the internal market pursuant to Council Decision 2010/787/EU of 10 December 2010 on State aid to facilitate the closure of uncompetitive mines ("the Council Decision on aid to coal mines")⁴.
- (5) On 20 April 2015, the Commission had considered that Electrocentrale Paroşeni and Electrocentrale Deva, two electricity generation companies that had been merged into CE Hunedoara in 2012, had received between 2009 and 2011 operating State aid which was incompatible with the internal market. In its decision⁵ ("the Decision regarding the incompatible aid "), the Commission requested Romania to recover the aid and interest from CE Hunedoara as the successor company of the two electricity generation companies, in case the beneficiaries failed to repay. On 10 June 2015, the Romanian authorities provided information showing that the amount of RON 34 785 015,45 (approx. EUR 7,48 million) covering the aid amount to be recovered and the recovery interest was transferred from CE Hunedoara to the Romanian Ministry of Energy, thereby implementing the recovery decision.
- (6) On 21 April 2015, the Commission decided not to raise objections on State aid planned to be granted to CE Hunedoara in the form of dedicated loans up to RON 167 million (approx. EUR 37,7 million)⁶ ("the rescue aid decision")⁷. In that decision the Commission found that the loans constituted rescue aid to CE Hunedoara and declared that the aid was compatible with the internal market pursuant to the Guidelines on State aid for rescuing and restructuring of non-financial undertakings in difficulty ("the R&R aid Guidelines")⁸, taking into account a number of commitments provided by Romania (see recitals (120) and (123) below).
- (7) On 21 October 2015, six months after the rescue aid decision, Romania transmitted a restructuring plan for CE Hunedoara ("the first restructuring plan")⁹. The aim of Romania was to extend the period of reimbursement of the rescue loan, which was the subject of the rescue aid decision and to grant restructuring aid to CE Hunedoara

³ OJ C/23/2013.

⁴ OJ L 336, 21.12.2010, p.24.

⁵ Commission Decision (EU) 2015/1877 in case SA.33475 on tariffs charged by S.S. Hidroelectrica SA of Romania to S.C. Termoelectrica SA and S.C. Electrocentrale Deva SA (OJ L 275, 20.10.2015, p. 46 recitals 117 to 124).

⁶ The exchange rate used for information in this decision is RON/EUR= 0.215 (31.1.2018).

⁷ Commission Decision of 21.4.2015, SA.41318 (2015/N) – Romania – Notification of the rescue aid to Complexul Energetic Hunedoara (OJ C 203, 19.6.2015).

⁸ OJ C 249, 31.7.2014, p.1.

⁹ That plan was also discussed at a meeting with the Romanian authorities on 23 October 2015.

to finance costs included in the first restructuring plan. By letter transmitted on 3 December 2015, Romania communicated its intention to provide information on the restructuring aid four weeks later. The following day, the Commission administratively opened case SA.43785 (2015/PN) concerning the restructuring aid to CE Hunedoara.

- (8) On 8 January 2016, Romania pre-notified its intention to grant restructuring aid to CE Hunedoara on the basis of a new restructuring plan, modified as compared to the first restructuring plan ("the amended restructuring plan") and submitted additional supporting information, further complemented on 11 January 2016. On 12 January 2016, a meeting was held with the Romanian authorities regarding the information submitted.
- (9) On 15 January 2016, Romania was informed that significant modifications of the envisaged restructuring aid and the first restructuring plan would be advisable before Romania proceeded with a formal notification. Romania did not provide any new restructuring plan thereafter.
- (10) In January 2016, CE Hunedoara entered into formal insolvency proceedings under Romanian law, which however was later on dismissed by a national court.
- (11) Thereafter, Romania considered that, whilst CE Hunedoara would eventually be liquidated, it would be necessary to temporarily keep in operation some of the power generation units along with some coal mines and related coal preparation services supported with a compensation for generation costs. Based on those considerations and new plans as to possible future successor(s) of CE Hunedoara operating with part of the latter's assets, on Commission's request, the Romanian authorities submitted information on 12 May 2016, during a videoconference on 18 May 2016, on 9, 25 and 29 August 2016, during a meeting on 12 October 2016, as well as on 9 November 2016, 17 May 2017 and 1 September 2017. The information supplied on 17 May 2017 included, in particular, a timeline for the eventual liquidation of CE Hunedoara.
- (12) On 24 November 2016, based on a separate notification, the Commission decided not to raise objections on RON 447,8 million (ca. EUR 96,2 million) planned to be granted to CE Hunedoara for the closure of two out of the four coal mines still operated by CE Hunedoara which were not the subject of the Decision regarding the first aid to coal mines¹⁰ ("Decision regarding the second aid to coal mines "). In that decision the Commission found that the planned aid was compatible with the internal market pursuant to the Council Decision on aid to coal mines.

2.2. The beneficiary: CE Hunedoara

- (13) CE Hunedoara is a vertically integrated power generation company headquartered in Petrosani, Hunedoara County. Its shares are fully owned by the Romanian State. CE Hunedoara uses mainly indigenous coal, which it extracts from its coal mines, to produce electricity heat for the surrounding cities. Its two power plants, Deva¹¹ and

¹⁰ Authorisation for State aid pursuant to Articles 107 and 108 of the Treaty on the Functioning of the European Union — Cases where the Commission raises no objections (OJ C 127, 21.4.2017, p. 1).

¹¹ Commissioned in two stages, the first one between 1969 and 1971 and the second one between 1977 and 1980 - see the *GMC Insolvency Consulting* report of March 2016, page 37, cigmc.ro/files/Raport%20art.%2097.pdf

Paroseni¹², have a total installed nominal capacity of 1225 MW. CE Hunedoara produces approximately 4,2% of the electricity consumed in Romania, where it is the only major producer of electricity in the centre and northwest areas. The company employs approx. 6 600 people, of which 1 750 jobs relate to power generation and 4 700 to mining activities.

- (14) CE Hunedoara was established in November 2012 by merging two previously failing and now liquidated State owned companies, Electrocentrale Paroseni and Electrocentrale Deva ("the predecessor companies"). Following the liquidation of the National Hard Coal Company JSC Petrosani, there were four coal mines planned to remain in operation and not planned to receive closure aid under the Decision regarding the first aid to coal mines. These were merged into CE Hunedoara together with the power generation units and related administrative staff and real estate of Electrocentrale Paroseni and Electrocentrale Deva, since virtually all of the coal supplied by the four coal mines was used by Electrocentrale Paroseni and Electrocentrale Deva as fuel for power generation and heat supply. In particular:
- CE Hunedoara initially took over production assets and liabilities from the predecessor companies. Both companies were consistently unable to sell electricity at competitive market prices in Romania and received incompatible operating aid in the amounts of RON 22,62 million and RON 3,65 million between 2009 and 2011 (ca. EUR 5,6 million in total), which the Commission ordered Romania to recover with interest from CE Hunedoara in the Decision regarding the incompatible aid, because of the economic and legal continuity with the beneficiaries¹³.
 - Subsequently, in August 2013, CE Hunedoara took over four of the seven coal mines from the National Hard Coal Company JSC Petrosani. Earlier, by 2011, National Hard Coal Company JSC Petrosani was operating seven mines; three of them received aid to closure under the Decision regarding the first aid to coal mines. The other four mines later incorporated into CE Hunedoara were allegedly viable. These four coal mines and other productive assets were transferred to CE Hunedoara net of any liability, in particular regarding ca. EUR 1,2 billion debts previously accumulated towards the State or other public bodies, mainly stemming from unpaid taxes and contributions. The debts accumulated had not been taken into account when evaluating the viability of the four mines. The Commission noted the commitment of Romania to notify under State aid rules, if necessary, any State measure concerning the debts towards the State. Romania did not notify the process¹⁴ whereby the four coal mines were transferred free of debt to CE Hunedoara.

¹² Commissioned in two stages, the first one between 1956 and 1959 and the second one between 1962 and 1964 - see publicly available information at <https://uzinaparoseni.wordpress.com/>.

¹³ Decision regarding the incompatible aid adopted on 20 April 2015, recitals 84, 88 to 90, 98 and 117 to 124. Rescue aid decision of 21 April 2015, recitals 13 and 63.

¹⁴ Decision regarding the first aid to coal mines adopted on 22.2.2012, recitals 4 to 10.

2.3. The operational and financial performance of CE Hunedoara

2.3.1. The operational performance

- (15) According to the Romanian Energy Regulator,¹⁵ the share of net electricity generation of CE Hunedoara between 2013 – 2015 was as follows:

Table 1: Total electricity feed-in 2013 -2015 by CE Hunedoara compared to total production:

Generator	Capacity used (MW)			Total electricity generated (TWh)		
	2013	2014	2015	2013	2014	2015
CE Hunedoara	1 110 (6%)	998 (5%)	1063 (5%)	3 (5%)	2,7 (4%)	1.84 (2,9%)
Market volume	18 142 (100%)	18448 (100%)	19086(100%)	55,8 (100%)	62 (100%)	62,6 (100%)

- (16) In Romania, electricity is generated by various types of power plants with varying generation costs. As of July 2012, electricity is traded at wholesale level through the exchange, i.e. spot and forward markets of the Romanian Power Exchange ("OPCOM").
- (17) An important criterion for a power plant operation is a comparison of the day-ahead market price and the marginal costs for electricity generation in that power plant. In case of thermal power plants, the main marginal costs are fuel costs, the costs of CO2 emission certificates and operational marginal costs.
- (18) CE Hunedoara registered an average production cost of 274,27 RON/MWh (approx. 59 EUR/MWh) in 2013 310,19 RON/MWh (approx. 67 EUR/MWh) in 2014 and 358,90 RON/MWh (approx. 77 EUR/MWh) in 2015. Moreover, the average cost of the hard coal (the fuel) extraction within CE Hunedoara was around 126 RON/MWh (approx. 27 EUR/MWh), compared to the price of the hard coal on the market of about 40 RON/MWh (approx. 9 EUR/MWh).¹⁶
- (19) However, the weighted average annual price of electricity on the day-ahead market on OPCOM was 165,06 RON/MWh (approx. 35 EUR/MWh) in 2013, 158,93 RON/MWh (approx. 34 EUR/MWh) in 2014 and 166,35 RON/MWh (approx. 36 EUR/MWh) in 2015. Also, on the bilateral centralised market of OPCOM the average annual price of electricity price varied between 182,94 RON/MWh (approx. 39 EUR/MWh) and 162,41 RON/MWh (approx. 35 EUR/MWh) during 2013 to 2015.¹⁷ In other words, between 2013 and 2015 when the loans at issue were granted, the average production costs of CE Hunedoara were between 66% to 116% higher than the prices at which electricity was traded on the day ahead market and between 50% and 121% higher than the prices on the bilateral centralised market of the Romanian power exchange.
- (20) It can be noted that under such market prices CE Hunedoara could not operate profitably on a lasting basis because the day-ahead prices and forward prices were below the production costs of CE Hunedoara. In a competitive electricity market, one would expect any production to be sold at a price above its marginal costs to attain a margin of profit. However, CE Hunedoara was manifestly unable to do so as from its

¹⁵ ANRE Annual reports for 2013, 2014 and 2015, available at: <http://www.anre.ro/en/about-anre/annual-reports-archive>. See also Transelectrica data on total and available installed generation capacity for each dispatchable unit, per primary sources of energy, available at: <http://transelectrica.ro/web/tel/productie>.

¹⁶ CE Hunedoara, Reports issued by the Board of Administration for 2013, 2014 and 2015, available at: <http://www.cenhd.ro/index.php/situatii-financiare/>.

¹⁷ OPCOM annual reports for 2013, 2014 and 2015, available at: <https://www.opcom.ro/compania/compania.php?lang=ro&id=6>.

establishment other than occasionally, as evidenced by the failure of CE Hunedoara to set aside sufficient operating revenues to purchase the CO2 emission certificates needed in 2014 and 2015. Coal fired power plants usually operate as baseload operating power plants with load factor of 70% or higher¹⁸. However, it can be seen from the electricity generation data in Table 1 that the load factor of CE Hunedoara was 30.8% in 2013 and 2014 dropping below 20% in 2015. This can be explained by the fact that the productive assets in the form of coal mines and the two power generation plants which merged into CE Hunedoara in November 2012 were the same as those operated by the failed predecessor companies previously, without any significant productive or technological improvement aiming to lower production costs. As a result, CE Hunedoara sold its production at an average price of 199,22 RON/MWh (approx. 43 EUR/MWh) in 2013, 167,68 RON/MWh (approx. 36 EUR/MWh) in 2014 and 181,52 (approx. 39 EUR/MWh) in 2015¹⁹ and, like its predecessors, was unable to generate sufficient profits to meet both operating costs and debt, including debt to public entities, as shown in table 2 below.

2.3.2. *The financial performance*

- (21) As shown in Table 2 below, in 2012, the first year of operation, CE Hunedoara made a profit (net earnings) of RON 37,9 million (approx. EUR 8,1 million). However, as from 2013 when the four coal mines and the related coal preparation unit were transferred, CE Hunedoara started to generate increasing losses amounting to RON 147,6 million (EUR 31,7 million) in 2013 and RON 352,3 million (EUR 76 million) in 2014, whilst showing deteriorating financial indicators as to operating income, debt to equity and liquidity. By the end of 2015, CE Hunedoara had negative equity of RON 1 082,6 million (EUR 232,7 million). By the end of 2017, negative equity had doubled to RON 2 842,7 million (EUR – 611,18 million). As from 2013, the operating result was negative, and the company had no free cash flows to service financial debt reimbursement and payments, not including additional debt owed to the State non-commercial bodies, like for example the tax authorities.

Table 2 – Financial results of CE Hunedoara 2012-2017

Million RON	2012	2013	2014	2015	2016	2017
Total revenues	249,4	1 061,1	691,5	574,74	448,4	568,7
Operating Profit/Loss (EBITDA)	20,2	-167,1	-341,7	-1 647,6	-838,2	-744,6
Net Earnings/Loss	37,9	-147,6	-352,3	-1 661,6	-858,4	-768,8
Share capital	203,4	349,8	354,5	354,5	354,5	354,5
Equity	678,7	980,1	629,3	-1 082,6	-2 071,3	-2 842,7

¹⁸ See for example the load factors reported in Decision SA.38760 (2016/C) published in the Official Journal: JOCE C/46/2016.

¹⁹ <http://www.cenhd.ro/images/File/Situatii%20financiare/2013/Raportul%20administratorilor%20-%202013.pdf>, page 3.
<http://www.cenhd.ro/images/File/Situatii%20financiare/2014/Raportul%20administratorilor%20-%202014.pdf>, page 3.
<http://www.cenhd.ro/images/File/Situatii%20financiare/2015/Raportul%20administratorilor%20-%202015.pdf>, page 11.

Long term Debt	170,0	269,5	258,7	270,5	245,4	237,4
Other current debt including taxes	72,3	243,2	371,6	726,7	922,2	1 099,1

*Source: *www.cenhd.ro*, according to publicly available financial reports accessed in June 2018

- (22) By April 2015 at the latest, CE Hunedoara met the criteria for being subject to collective insolvency proceedings under Romanian law²⁰. In January 2016, CE Hunedoara was temporarily subject to an insolvency proceeding. In March 2016, the insolvency administrator of CE Hunedoara published a report ("the report of the insolvency administrator") containing information about the liabilities of the company, from which it transpired that CE Hunedoara owed around RON 2 360 million (ca. EUR 507,4 million) to various State bodies. This amount referred among others to the loans covered by the present decision as well as to fines charged by the Environment Agency for failure to acquire carbon allowances, green certificates and other debts to the State and to the Social Security budget. According to Romania, the Environment Agency also requested the payment of amounts owed to it by CE Hunedoara, similarly to other private creditors.
- (23) As the equity position of CE Hunedoara shows, the company is technically bankrupt but continues to operate on the expense of not paying the majority of its debts and its fiscal liabilities. According to the information provided by Romania, in line with applicable national rules, the process of liquidation of CE Hunedoara could last a minimum of three years if initiated by the Romanian State in its capacity as shareholder and main creditor of CE Hunedoara. So far the insolvency requests filed at the national Company Court have not led to the declaration of permanent insolvency of CE Hunedoara.

2.4. The loans provided to CE Hunedoara

- (24) In the opening decision, the Commission examined five publicly financed or supported loans granted to or benefitting CE Hunedoara for its current electricity generation business and which, by 30 June 2016 amounted to debt outstanding to the Romanian State for a total amount of RON 337 107 835 (approx. EUR 72,48 million), including outstanding principal, interest, interest for late payments and other costs. Table 3 below shows Romania's updated information regarding the outstanding capital of those loans, as of 31 March 2018.
- (25) Following the opening decision, the Romanian authorities provided the loan contracts according to which the main initial terms and conditions of the loans were as follows:
- (a) *International Bank for Reconstruction and Development ("IBRD") loan guaranteed by the Romanian State through the Ministry of Public Finances - "IBRD loan"*
- (26) This loan concerned the project of rehabilitation and modernisation of the energetic block no.3 at CET Mintia.
- (27) For this purpose, in August 1995, the Autonomous Direction for Electric Energy "RENEL" (Regia Autonomă de Electricitate) contracted a loan from the World Bank

²⁰ Rescue aid decision of 21 April 2015, recitals 14, 16 and 17.

in the amount of USD 110 000 000 out of which an amount of USD 33 500 000 was later cancelled, in February 2001. By 17 May 2001, when the agreement was suspended by IBRD, drawdowns had been made in a total amount of USD 10 930 016.

- (28) On 31 May 2002 IBRD resumed the loan agreement with Electrocentrale Deva. This agreement was guaranteed by the Romanian Government and foresaw that Electrocentrale Deva could dispose of a maximum amount of USD 69 908 805 (out of which an amount of USD 1 162 752 was later cancelled, in February 2005).
- (29) The maturity date of the loan was 1 November 2015 and the payment schedule foresaw a reimbursement in biannual instalments (payable in May and November) over 14 years, starting from 2002.
- (30) The interest rate equals the cost of the qualified loans and is determined on the basis of the previous semester plus a half of percentage point; additionally, for amounts in respect of which no drawdowns had been made, Electrocentrale Deva was also due to pay a commitment fee of 0,25%.

(b) Romanian Commercial Bank ("BCR") loan contracted by the Ministry of Finance for the benefit of CE Hunedoara – "BCR loan"

- (31) This loan was contracted for financing 25% of a greater project named "Centrala Electrica Paroseni" regarding the installation of waste gas desulphurisation and the changing of the technology for collecting, transporting and depositing slag and ash. The financing of the other parts was assured by a BRD loan (covering 25% of the total costs – information on this loan is provided under letter (d) below) and a European Investment Bank ("EIB") loan (for 50% of the total costs; this loan is not covered by the opening decision).
- (32) By way of a loan contract entered into on 3 December 2013 between BCR and the Ministry of Public Finances, an investment loan was granted by the bank to the borrower, which then subsequently granted it further to CE Hunedoara by way of a subsidiary loan agreement entered into on 5 December 2013.
- (33) The loan contract and the subsidiary loan agreement both concerned the same principal amount of RON 83 485 450 (i.e. EUR 17 950 000) which was initially granted by the bank to the Ministry of Public Finances and thereafter by the latter to CE Hunedoara.
- (34) The maturity of the loan was 15 years, with a grace period of 3 years. The payment schedule foresaw a reimbursement by way of 25 equal biannual instalments. The interest rate was set at 4,20% per year.
- (35) The collaterals related to this BCR loan, but serving as collaterals also for the BRD loan of EUR 14 700 000 (i.e. RON 68 369 000) dealt with under letter (d) below as well as for a related EIB loan of EUR 32 650 000 (i.e. RON 151 855 150) not dealt with in the opening decision, were established by way of a mortgage over the real estate and moveable assets of CE Hunedoara with a total value of EUR 93 323 204 (i.e. RON 417 481 353,09).
- (36) In relation to this BCR loan, CE Hunedoara was also due to pay the Ministry of Public Finances a 2,5% risk commission, i.e. EUR 448 750 divided in 8 equal tranches, for the "Fund of risk for public government debt".

(c) Romanian Development Bank ("BRD") loan contracted by the Ministry of Finance and subordinated to CE Hunedoara – "BRD loan"

- (37) This loan was contracted for financing the “Centrala Electrică Paroşeni” project.
- (38) By way of a financing contract entered into on 19 May 2014 between BRD and the Ministry of Public Finances, a loan was granted by the bank to the borrower, which then subsequently granted it further to CE Hunedoara by way of a subsidiary loan agreement entered into on 5 June 2014.
- (39) The above-mentioned financing contract and the subsidiary loan agreement both concerned the same principal amount of RON 68 371 170 (approx. EUR 14 700 000) which was initially granted by the bank to the Ministry of Public Finances and thereafter by the latter to CE Hunedoara.
- (40) The maturity of the loan was 15 years, with a grace period of 3 years. The payment schedule foresaw a reimbursement by way of 25 equal biannual instalments. The interest rate was set at 3,79% per year.
- (41) The collaterals related to this BRD loan, but serving as collaterals also for the BCR loan of EUR 17 950 000 (approx. RON 83 485 450) dealt with under letter (c) above as well as for a related EIB loan of EUR 32 650 000 (approx. RON 151 855 150) not dealt with in the opening decision, were established by way of mortgage over real estate and moveable assets with a total value of EUR 93 323 204 (approx. RON 417 481 353,09).
- (42) In relation to this BRD loan, CE Hunedoara was also due to pay the Ministry of Public Finances a 2,5% risk commission, i.e. EUR 367 000 divided in 8 equal tranches, for the “Fund of risk for public government debt”.
- (43) The BRD loan and the BCR loan financed investments for environmental compliance in the Paroseni plant (EU standards set in the Industrial Emissions Directive). Such investments could not generate additional output or reduce production costs allowing additional operating revenues to reimburse the loans. They were only a pre-condition for the plant to continue operating. Actually, the recourse to private loans granted to and subsequently by the Romanian State in order to finance environmental compliance in 2013-2014 followed a case in which Romania had provided grants for the same type of installation (flue gas desulphurisation) for other thermal power plants in 2010 (CE Turceni) and in 2011 (CE Craiova II) and in which exchanges took place with the Romanian authorities in 2012²¹. It seems therefore appropriate to consider that the BRD loan and the BCR loan transferred by the State and financing environmental compliance were *de facto* grants, like the predecessors for other power plants in 2011 and 2012.
- (d) *Loan provided for the payment of the incompatible aid requested to be recovered by the Decision regarding the incompatible aid; capital and interest – "the loan to repay the incompatible aid"*
- (44) On the basis of the Government Emergency Ordinance no.11 of 13 May 2015 regarding the granting of a loan to CE Hunedoara S.A., a loan convention was entered into on 9 June 2015 between the Ministry of Public Finances, CE Hunedoara and the Ministry of Energy, SMEs and Business Environment.
- (45) The above-mentioned loan convention granted CE Hunedoara a loan in the principal amount of RON 34 785 015 (approx. EUR 7 478 778). This loan was used to repay the incompatible aid referred to in recital (5).

²¹ SA. 33812 (2012/NN) –Romania - Unlawful State aid for mandatory environmental projects.

- (46) The maturity of the loan was 90 days and was hence due on 8 September 2015. The agreed interest rate of the loan was set at the value of ROBOR at 3 months plus 5% i.e. 6,27% per year and was set to remain fixed throughout the loan period.
- (47) In accordance with art. 2(2) of the above-mentioned Government Emergency Ordinance no.11 of 13 May 2015, collaterals were established at the value of RON 49 380 000 (approx. EUR 10 616 700), i.e. 120% of the loan.
- (e) *Loan representing aid granted in accordance with the rescue aid decision and interest – "the rescue aid loan"*
- (48) On the basis of Government Emergency Ordinance no.22 of 24 June 2015 regarding the granting of a loan to CE Hunedoara S.A., a loan convention was entered into on 14 July 2015 between the Ministry of Public Finances, CE Hunedoara and the Ministry of Energy, SMEs and Business Environment.
- (49) The above mentioned loan convention foresaw the granting of a principal amount of RON 167 000 000 (approx. EUR 35 905 000) to CE Hunedoara, divided into two tranches; the first tranche amounting to RON 98 476 900 (approx. EUR 21 172 533) was granted on 20 July 2015, while the second tranche of RON 68 523 100 (approx. EUR 14 732 466) was no longer granted as CE Hunedoara failed to reimburse another loan, which was granted on the basis of Government Emergency Ordinance no. 11/2015 and which related to the repayment of the Decision regarding the incompatible aid (see point (d) above).
- (50) The maturity of the rescue aid loan was 6 months i.e. for the period April - September 2015; however, due to the reasons explained above, CE Hunedoara only received the first tranche of the loan.
- (51) The agreed interest rate of the loan was set at the value of ROBOR 6 months plus 5%, i.e. 6,57% per year and was set to remain fixed throughout the loan period.
- (52) In accordance with art. 3(3) of the above mentioned Government Emergency Ordinance no.22 of 24 June 2015, collaterals were established at the value of RON 123 960 000, (approx. EUR 26 651 400) i.e. 120% of the loan.

2.5. Grounds for initiating the procedure

- (53) In the opening decision the Commission preliminarily found that the five publicly financed or supported loans granted to or benefitting CE Hunedoara could constitute State aid within the meaning of Article 107(1) TFEU still outstanding for an amount of 337 million RON (approx. EUR 73 million) in total as of 30 June 2016.
- (54) In the opening decision the Commission also raised doubts if the conditions for compatibility with the internal market under Article 107(3)(c) TFEU for restructuring aid set out in the R&R aid Guidelines were met. The Commission pointed out that the Romanian authorities had not submitted a valid restructuring plan or a clear liquidation plan under a reasonable timeline for the company, and no identifiable and valid contribution by CE Hunedoara to the restructuring costs, nor measures limiting distortions of competition could be identified, which are conditions for compliance of the restructuring aid with the R&R aid Guidelines. Finally, CE Hunedoara had not repaid neither the rescue aid nor the loan, which allowed it to repay past incompatible aid.
- (55) In the opening decision, in order to allow an assessment of whether the loans at issue would have been available to CE Hunedoara on the financial markets and were granted at market conditions, the Commission requested Romania to submit

- the considerations as to creditworthiness, market benchmarks and ratings of CE Hunedoara which the Romanian authorities took into account in order to set and establish the conditions of their support, as documented by evidence contemporary with the dates of granting, subordinating or guaranteeing each loan;
- evidence of offers of loans to CE Hunedoara made by market financial institutions or banks between 2012 and 2016, specifying whether a State or public guarantee was requested, and
- all information which may help to assess the five loans.

3. COMMENTS FROM ROMANIA

(56) In its comments on the Commission's opening decision, Romania submits information and a number of observations, as follows.

3.1. Comments concerning the outstanding capital and amounts due on the five loans

(a) The IBRD loan

(57) Starting with the instalment due in November 2014, due to its financial difficulties, CE Hunedoara was no longer able to undertake payments and asked its guarantor, the Ministry of Public Finances, to pay the remaining instalments instead.

(58) The Ministry of Public Finances, as CE Hunedoara's guarantor, disbursed the 3 remaining instalments (i.e. November 2014, May 2015 and November 2015) and calculated penalties and late payment interest owed to it by CE Hunedoara. The outstanding debt of CE Hunedoara towards the Ministry of Public Finances (comprising the three instalments and their corresponding penalties and interest) amounted to EUR RON 60 711 568 (approx. EUR 13 052 987) on 31 March 2018.

(b) The BCR loan

(59) As of October 2015, due to its financial difficulties, CE Hunedoara informed the Ministry of Public Finances that it can no longer honour its payments. At 31 December 2017 CE Hunedoara owed to the Ministry of Public Finances EUR 5 343 411 (approx. RON 24 853 078) corresponding to the amounts due as principal, interest and risk commission, plus an additional EUR 564 163 (approx. RON 2 763 553) in the form of late payment interest and penalties.

(60) On 31 March 2018, out of the principal amount of EUR 17 950 000 (approx. RON 83 485 450), the amount of EUR 2 154 000 had been reimbursed (approx. RON 10 018 254) and hence EUR 15 796 000 (approx. RON 73 467 196) was still owed.

(c) The BRD loan

(61) As of February 2016, due to its financial difficulties, CE Hunedoara informed the Ministry of Public Finances that it can no longer honour its payments. At 31 March 2018 CE Hunedoara owed to the Ministry of Public Finances EUR 3 000 357 (approx. RON 13 955 150) corresponding to the amounts due as principal, interest and risk commission, and late payment interest and penalties.

(62) On 31 March 2018, out of the principal amount of EUR 14 700 000 (approx. RON 68 371 170), the amount of EUR 1 764 000 had been reimbursed (approx. RON 8 204 364) and hence EUR 12 936 000 (approx. RON 60 166 806) was still owed.

(d) *The loan to repay the incompatible aid*

- (63) On 8 September 2015, when the loan became due and was not paid, late payment interest had been calculated and accrued by the Ministry of Public Finances for each day of delay. On 31 March 2018 the outstanding debt of CE Hunedoara related to this loan amounted to RON 42 339 794,26 (approx. EUR 9 103 055), consisting in the principal amount of RON 34 785 015 (approx. EUR 7 478 778), loan interest of RON 545 255,11 (approx. EUR 117 229) and late payment interest of RON 7 009 525,58 (approx. EUR 1 507 048)

(e) *The rescue aid loan*

- (64) Out of the amount of RON 98 476 900 (approx. EUR 21 172 533) representing the first tranche, CE Hunedoara utilised only RON 93 450 841,17 (approx. EUR 20 091 930) and returned the difference of RON 5 026 058,86 (approx. EUR 1 080 602) to the Ministry of Public Finances. On 31 March 2018 the outstanding debt of CE Hunedoara related to this loan amounted to RON 112 579 946,05 (approx. EUR 24 204 688), consisting of the principal amount of RON 93 450 841,17 (approx. EUR 20 091 930) and loan interest of RON 3 306 854,30 (approx. EUR 710 973) and late payment interest of RON 15 822 250,68 (approx. EUR 3 401 783).

Table 3 – Romania’s information regarding, as of 31 March 2018, the outstanding capital and amounts due concerning the five loans

	IBRD loan	BCR credit	BRD credit	Loan to repay incompatible aid	Rescue aid loan
Date of granting	31/05/2002	05/12/2013	05/06/2014	09/06/2015	14/07/2015
Original capital	USD 68,75 million	EUR 17,95 million	EUR 14 million	RON 34,8 million	RON 98,5 million
Outstanding loan principal as of 31/3/2018	0	EUR 15,79 million (RON 73,5 million)	EUR 12,9 million (RON 60,1 million)	RON 34,8 million	RON 93,4 million
Due to the Ministry of Finance as of 31/3/2018 capital, penalty & interest	RON 60,7 million (EUR 13,1 million)	EUR 5,3 million (RON 24,9 million)	EUR 3,0 million (RON 13,9 million)	RON 42,3 million	RON 112,6 million

3.2. Other comments

- (65) First, Romania offered a clarification with respect to the rescue aid loan approved by Commission decision of 21 April 2015. As also indicated in the opening decision, at the time the rescue loan was approved Romania had committed to submitting, within maximum six months from the date of the rescue aid decision, either: (i) the proof that the loan was reimbursed, or (ii) a valid restructuring plan or (iii) a substantiated liquidation plan setting out the steps leading to the liquidation of CE Hunedoara within a reasonable time frame, without further aid. In this respect, Romania confirmed that it has indeed opted for the alternative of restructuring CE Hunedoara.
- (66) Second, with regard to the opening decision, Romania submitted that, in its opinion, the rescue aid loan approved by the rescue aid decision granted no real economic advantage to the beneficiary (i.e. to CE Hunedoara). Romania claimed, that the loan was granted in line with existing conditions on the banking market i.e. on the basis of

an economic-financial analysis performed by EximBank; additionally, the guarantees imposed by the National Tax Administration Authority took into account the market value of the collateral, which covered at least 120% of the loan value.

- (67) Third, regarding the liquidation process of CE Hunedoara and the legal separation between the coal mining business and the electricity generation business, Romania explained that: (i) the lack of financial resources, (ii) the fact that CE Hunedoara temporarily entered into insolvency upon the request of the Company twice in 2016 and was then subsequently taken out of insolvency each time, as well as (iii) the fact that the national courts had at the time of Romania's submission still not taken a decision on another request to open insolvency proceedings, all constitute reasons that prevented the legal separation of the coal mining from the electricity generation.
- (68) Romania explained that the legal separation requires the observance of certain legally foreseen procedural steps and that, absent any interventions from interested third parties, the process would normally last between 6 and 9 months. Romania furthermore stressed that separate accounts are nevertheless held for the coal mining and the power generation activities, and that the rescue aid would be used exclusively for the energy business, as it had been also presented in the rescue aid notification.
- (69) Fourth, with regard to the opening decision concerning the conditions for aid to providers of services of general economic interest ("SGEI"), Romania submitted that CE Hunedoara would be the provider of indispensable services for the functioning of the national electric energy system, which would in fact entitle CE Hunedoara to receive compensation, according to legal provisions in force²². In this respect, Romania added that information necessary for defining the SGEI, its entrustment, calculation of the compensation and duration started to be provided to the Commission since 2016 and would be near completion.
- (70) Fifth, Romania also submitted that according to studies undertaken by the National Company of Electric Energy Transport Transelectrica S.A., the discontinuance of the two power generation plants Mintia and Paroseni would negatively influence the functioning of the national electric energy system.
- (71) Sixth, according to Romania's estimations, other electric energy producing units would be expected to become unavailable in the very near future due to the entry into force of the Commission Implementing Decision (EU) 2017/1442 of 31 July 2017 establishing best available techniques (BAT) conclusions, under Directive 2010/75/EU of the European Parliament and of the Council, for large combustion plants.
- (72) However, Romania has not provided any information evidencing ex ante assessment by the Romanian authorities or market players prior to the granting of the loans, and did not provide supporting evidence for the compatibility of the loans with State aid rules.
- (73) In its comments on the opening decision Romania did not dispute that the rescue aid loan, the loan granted to repay the incompatible aid, and the three other loans represent State resources and are imputable to the State.

²² Government Emergency Ordinance no. 26/2018 and Government Decision no. 760/2017.

4. ASSESSMENT OF THE AID

- (74) The present decision concerns the five publicly financed or supported loans described in section 2.4.
- (75) The present decision is without prejudice to the assessment of any other support measures granted to CE Hunedoara. This includes, in particular, the postponement or cancellations of debt by public bodies for CE Hunedoara's direct benefit, as referred to in the opening decision as well as earlier cancellations or abandonment of public debts owed by National Hard Coal Company JSC Petrosani before its liquidation, should CE Hunedoara be held to be the economic successor of the latter company.
- (76) The Commission will first examine whether the five measures at hand involve State aid within the meaning of Article 107(1) TFEU. The Commission will then examine whether the aid was already implemented and whether such aid might be compatible with the internal market.
- (77) As a preliminary observation, the Commission disagrees with Romania's comments as to the BCR and BRD loans. First, while Romania did actually pay a part of the principal amount towards BCR and BRD respectively (in its quality of borrower), this does not hold true for CE Hunedoara, as the latter did not pay any part of the principal (of the subordinated loans) towards the Romanian State so that in reality the whole original capital (of the subordinated loans) and not just a part of it remains still outstanding. Second, the Commission also disagrees with Romania's comments as to the sums due to the Ministry of Finance as of 31 March 2018 for these two loans; indeed, as it shall be explained below, the Commission considers that the whole principal amounts of the (subordinated) BCR and BRD loans (and not just the principal instalments payable by 31 March 2018 according to the payment schedule) are already due in their entirety by CE Hunedoara to the Romanian State.

4.1. Existence of State aid within the meaning of Article 107(1) TFEU

- (78) By virtue of Article 107(1) TFEU "*any aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, in so far as it affects trade between Member States, be incompatible with the internal market.*"
- (79) The qualification of a measure as aid within the meaning of this provision therefore requires the following cumulative conditions to be met: (i) the measure must be imputable to the State and financed through State resources; (ii) it must confer an advantage on its recipient; (iii) that advantage must be selective; and (iv) the measure must distort or threaten to distort competition and affect trade between Member States.

4.1.1. State resources and imputability to the State

- (80) As has been stated by the Court²³, for measures to be qualified as State aid within the meaning of Article 107(1) TFEU, (a) they have to derive from the State's resources, either directly or indirectly by any intermediary body acting by virtue of powers conferred on it and (b) they have to be imputable to the State. The notion of Member

²³ See Case C-482/99 *France v Commission (Stardust Marine)*, ECLI:EU:C:2002:294.

State includes all levels of public authorities, regardless of whether it is a national, regional or local authority.²⁴

- (81) Concerning the IBRD loan, Romania explained that this loan was the outcome of an agreement signed on 31 May 2002 between IBRD and Electrocentrale Deva, the legal predecessor of CE Hunedoara. This loan agreement was guaranteed by the Romanian Government. According to the case law²⁵, the creation of a concrete risk of imposing an additional burden on the State in the future, by a guarantee or by a contractual offer, is sufficient for the purposes of Article 107(1) TFEU. As such, the IBRD loan guarantee involved resources from the State budget.
- (82) Concerning the BCR loan, Romania confirmed that this loan was a result of a contract entered into on 3 December 2013 between BCR and the Ministry of Public Finances to fund one quarter of investment project “Centrala Electrică Paroşeni”. This loan was then subsequently granted further to CE Hunedoara by way of a subsidiary loan agreement entered into on 5 December 2013. As such, the subsidiary loan agreement (related to the BCR loan contracted by the Romanian State) was offered to CE Hunedoara out of resources stemming from the State budget.
- (83) Concerning the BRD loan, Romania confirmed that this loan was the outcome of an agreement signed on 19 May 2014 between BRD and the Ministry of Public Finances. This loan was granted by the bank to the borrower who then subsequently granted it further to CE Hunedoara by way of a subsidiary loan agreement entered into on 5 June 2014 to fund another quarter of the “Centrala Electrică Paroşeni”. As such, the subsidiary loan agreement (related to the BRD loan contracted by the Romanian State) was offered to CE Hunedoara out of resources stemming from the State budget.
- (84) The rescue aid loan, including the prolonged and not repaid portion of it, and the loan to repay the incompatible aid involve State resources, since they were provided from funds set aside in and stemming from the State budget.
- (85) The various acts by which the Ministry of Finance contracted, subordinated or guaranteed loans to CE Hunedoara, whether of its own motion, by virtue of the State powers vested on it or instructed by the Council of Ministers of Romania, are imputable to the Romanian State.
- (86) Based on the above, the Commission concludes that the five loans in question involve State resources and they are imputable to the Romanian State.

4.1.2. *Economic advantage*

- (87) Article 107(1) TFEU requires that a measure, in order to be defined as State aid, favours certain undertakings or the production of certain goods. Loans or guarantees provided by the State directly or indirectly, may favour the beneficiary undertaking when they provide funding which the beneficiary would not find on financial markets at the same conditions, if at all. In order to verify whether an undertaking has benefited from an economic advantage the Commission applies the criterion of the "market economy operator principle" ("MEO principle"). According to this principle, the assessment focuses on the transaction from the perspective of a

²⁴ Case C-248/84 *Germany v Commission*, ECLI:EU:C:1987:437, paragraph 17.

²⁵ Judgment of the Court of Justice of 19 March 2013, *Bouygues and Bouygues Télécom v Commission and Others*, Joined Cases C-399/10 P and C-401/10 P, ECLI:EU:C:2013:175, paragraphs 137, 138 and 139.

hypothetical prudent private creditor/investor, in a situation as close as possible to that of the State²⁶.

- (88) In the case at hand, the Romanian State is both a creditor and the main shareholder of CE Hunedoara. In such setting, Romania could provide or guarantee a MEO-compliant loan or a guarantee on a stand-alone basis if the terms at which the loan is granted are in line with market conditions, provided that there is likelihood of repayment or increased return to the shareholder in a different form.
- (89) Therefore, the assessment of the conditions at which loans are granted by a shareholder needs to take into account the possible returns from the stake that the shareholder may reasonably expect in its capacity as shareholder. In the present case, it is manifest in light of (i) the financial figures of CE Hunedoara portrayed in Table 2 above, (ii) the substantially higher marginal production costs of CE Hunedoara compared to market prices, and (iii) the history of the predecessor companies, that the Romanian State, or any market investor in a similar position as the State, could not expect any possible return in the form of dividends or capital gain from its shareholding in CE Hunedoara as from 2013.
- (90) First, for the three IBRD, BCR, and BRD loans contracted or guaranteed by the Romanian Ministry of Finance for the benefit of CE Hunedoara, the financial situation of the company and the history of its predecessors must be taken into account for the assessment, as it would have been examined by any prudent market lender or investor. Even before April 2015 when CE Hunedoara was reportedly unable to access finance at market terms, the company was consistently loss making as from its first year of full operation encompassing coal mines and power generation under the same company.
- (91) Second, as regards the loan to repay the incompatible aid, the opening decision noted that, an economic advantage of a similar nature (as the one related to the rescue loan) was conferred on CE Hunedoara as successor company operating the power generation assets of Electrocentrale Paroşeni and Electrocentrale Deva through the State aid which was the subject of the Decision regarding the incompatible aid adopted on 20 April 2015 and, by way of inference, through the public loan granted to CE Hunedoara to repay it. The loan to repay the incompatible aid was granted at a time when, according to Romania, CE Hunedoara fulfilled the criteria for being subject to insolvency proceedings under Romanian law and, accordingly, it can be excluded that the company could have found such finance at market terms.
- (92) Third, regarding the rescue aid loan, as pointed out in the opening decision, the Romanian authorities declared that CE Hunedoara was unable to obtain it from commercial banks and, more generally, they acknowledged that it was providing a (selective) advantage²⁷. The prolonged and still not repaid portion of the rescue aid loan kept by CE Hunedoara also entails an economic advantage that the company could not possibly obtain at market conditions, e.g. by refinancing and repaying the non-repaid portion with a loan from a commercial bank.
- (93) In its comments on the opening decision, Romania argued that it had indeed intended to restructure CE Hunedoara and turn the rescue loan to part of a restructuring aid. The Commission notes however, that Romania has not submitted a valid

²⁶ Case C-300/16P *Commission v Frucona Košice*, ECLI:EU:C:2017:706, paragraph 28.

²⁷ Rescue aid decision of 21 April 2015, recitals 30 and 31.

restructuring plan in accordance with the R&R aid Guidelines and the mere intention to restructure does not take away the advantage granted by the rescue aid loan as the loan has not been repaid in six months following the granting of the aid.

- (94) Romania furthermore argued in its comments to the opening decision that the rescue loan was granted at “existing conditions at the banking market” following the analysis by EximBank and it was collateralised. This claim is however proven wrong by the simple fact that CE Hunedoara was not able to obtain the loan from commercial banks as pointed out in recitals 100 and 101 of this decision. Furthermore, Romania has not provided the credit risk analysis of the EximBank.
- (95) Fourth, also CE Hunedoara’s predecessor companies were unable to honour their liabilities of which more than EUR 1,2 billion were left unpaid in liquidation. As a recently created company, despite being cleansed of most of the liabilities of Electrocentrale Paroşeni and Electrocentrale Deva and of the National Hard Coal Company JSC Petroşani, CE Hunedoara had no reliable and solid credit history, absent which market lenders are reluctant to finance operations. Indeed, the five loans which are the subject of the present proceedings were all granted out of resources belonging to the State budget (see 4.1.1 above). By contrast, there is no evidence of any private market creditor having provided loans to CE Hunedoara to any comparable extent. Despite the invitation to Romania in the opening decision to provide evidence of offers of loans to CE Hunedoara made by market financial institutions or banks between 2012 and 2016, specifying whether a State or public guarantee was requested, no such offers or evidence of positive appraisals by market lenders has been provided.
- (96) Fifth, as explained in recital (20) above, CE Hunedoara’s productive assets were also those operated by the predecessor companies before without any significant productive or technological improvement allowing stakeholders to reasonably expect better or more remunerative sales of electricity and heat on the Romanian electricity market. The Romanian authorities, with full ownership of CE Hunedoara and predecessors, whilst being also its main creditor, could not ignore the structural inability of CE Hunedoara to generate enough operating profits to meet its liabilities. They provided with public finance the funds, which CE Hunedoara would have been unable to obtain in the financial market at any rate.
- (97) All five abovementioned facts influence the creditworthiness of CE Hunedoara and make it implausible that without State intervention, CE Hunedoara would have found willing lenders at market terms trusting that CE Hunedoara would repay the loans. Likewise, it is unlikely that Romania could anticipate returns from its shareholding in CE Hunedoara and, in particular, from revenues foregone when granting loans to CE Hunedoara below market terms.
- (98) In conclusion, the loans in question appear to have favoured CE Hunedoara. Indeed, CE Hunedoara was a borrower with a poor credit history of its insolvent and liquidated predecessors, and had no credit history in 2012-2013 when the company was established. CE Hunedoara had increasing operating losses not allowing to meet debt service as from 2013-2014 and actually defaulted in meeting liabilities causing the company to be potentially subject to insolvency proceedings as from 2015. Moreover, there is no indication that the Romanian authorities have taken any timely steps that a diligent creditor would take to recover its claims, such as summoning the borrower to repay the loans or requesting forced execution of payments for defaulted reimbursements. Although in January 2016 the claim for insolvency against CE

Hunedoara was filed (see recital (22) above), it has not produced any effective recovery to date. Owing to the difficult financial situation of the company and the low likelihood of repayment when the loans were granted or prolonged, the loans in question conferred an economic advantage to CE Hunedoara in the form of finance and funds, which it would not have been able to obtain on the market.

- (99) Regarding the quantification of this economic advantage, in recital 34 of the opening decision, the Commission referred to the General Court's judgment in *Larko*²⁸ that in circumstances where the borrower is in a delicate financial situation characterised notably by decreasing turnover, negative equity, and inability to reimburse loans from its own funds, the economic advantage embedded on a loan may equal the total amount of the funds borrowed, even if the State only guarantees the loan. The Romanian authorities have not provided any evidence that CE Hunedoara had access to market finance at market conditions, indicating that CE Hunedoara tried, let alone succeeded in, borrowing from the market without State support.
- (100) As noted in recital 43, the BRD loan and the BCR loan transferred by the Romanian State in order to finance environmental compliance in 2013-2014 follows instances where Romania had provided grants for the same type of installation (flue gas desulphurisation) for other thermal power plants in 2010 (CE Turceni) and in 2011 (CE Craiova II) and decided to discontinue the practice of providing such grants as aid instrument. However, given the characteristics, purpose and financial situation of CE Hunedoara, it seems therefore appropriate to consider that the BRD loan and the BCR loan transferred by the State and financing environmental compliance were de facto grants, despite their legal qualification of loans.
- (101) In the meantime, the recourse to the Romanian State transferring the loans it was granted by BDR and BCR shows that these private banks did not wish to take any liquidity risk on CE Hunedoara as they considered the default on repayment virtually certain.
- (102) As such, based on the above, the Commission concludes that the five loans granted to CE Hunedoara provided an economic advantage and considers this advantage to equal the total amount of the loans' principal when granted.

4.1.3. *Selectivity*

- (103) Article 107(1) TFEU requires that a measure, in order to be defined as State aid, favours *certain undertakings or the production of certain goods*. The Commission notes that the five loans were provided on an ad hoc basis to CE Hunedoara to support its continued operation in specific situations requiring investments for environmental compliance, operating costs or repayment of incompatible aid and were not part of a broader measure of general economic policy to provide support to undertakings, in a comparable legal and economic situation, active in the electricity generation or other economic sectors. Therefore, the Commission concludes that these loans are selective within the meaning of Article 107(1) TFEU.

4.1.4. *Effect on trade and distortion of competition*

- (104) When aid granted by a Member State strengthens the position of an undertaking compared to other undertakings competing in intra-Union trade, the latter must be

²⁸ Case T-423/14, *Larko Geniki Metalleftiki kai Metallourgiki AE v Commission*, ECLI:EU:T:2018:57, paragraph 193 and case law cited.

regarded as affected by that aid.²⁹ It is sufficient that the recipient of the aid competes with other undertakings on markets open to competition.³⁰

- (105) CE Hunedoara supplies electricity and heat in Romania. Pursuant to the applicable Union rules on the internal electricity market³¹, electricity suppliers can freely establish operations and seek customers in Romania. Indeed a variety of competitors from Romania (e.g. SN Nuclearelectrica, SN Hidroelectrica) or other Member States (e.g. CEZ, Alpiq) have actually done so. The Commission notes that the Romanian electricity system is at present interconnected with the electricity systems of Bulgaria and of Hungary, so that flows of electricity are produced in and traded between those Member States.
- (106) Therefore, the Commission concludes that the loans under scrutiny are liable to affect EU trade and to distort or threaten to distort competition in the internal market.

4.1.5. *Conclusion on the presence of aid*

- (107) The Commission concludes based on the arguments presented above that the IBRD loan guaranteed by the Romanian State for CE Hunedoara, the BCR and BRD loans contracted for the benefit of CE Hunedoara, the loan granted to repay earlier incompatible aid, and the rescue aid loan, including the prolonged and not repaid portion of it, constitute State aid within the meaning of Article 107(1) TFEU.

4.2. **Lawfulness of the aid**

- (108) The State-guaranteed IBRD loan agreement benefiting CE Hunedoara was signed on 31 May 2002 with Electrocentrale Deva, one of the legal predecessors of CE Hunedoara, so before the accession of Romania to the European Union in 2007; as such the IBRD loan was not unlawful, even if it were to be established that the loan involved State aid. Therefore, the payments by the State as a guarantor, even though occurring post-accession, represent existing aid and are not, as such, unlawful, without prejudice to the qualification under State aid rules of a possible future failure of the State subsequently exercising its recourse right against CE Hunedoara.
- (109) However, the BCR loan, the BRD loan and the loan granted to repay the incompatible aid, constitute State aid within the meaning of Article 107(1) TFEU and, since they have been disbursed in violation of Article 108(3) TFEU, they constitute unlawful State aid.
- (110) The rescue aid loan on which the Commission raised no objections by its rescue aid decision of 21 April 2015 was not put into effect before the Commission decision and was therefore not unlawful State aid. However, its excessive prolongation and non-repayment well beyond the six-month period for which it was granted render the prolongation unlawful.

4.3. **Compatibility of the aid and the legal basis for the assessment**

- (111) The Commission must assess if the aid measures identified above can be found compatible with the internal market. According to the case law of the Court, it is up

²⁹ See, in particular, Case 730/79 *Philip Morris v Commission*, ECLI:EU:C:1980:209, paragraph 11; Case C-53/00 *Ferring*, ECLI:EU:C:2001:627, paragraph 21; Case C-372/97 *Italy v Commission*, ECLI:EU:C:2004:234, paragraph 44.

³⁰ Case T-214/95 *Het Vlaamse Gewest v Commission*, ECLI:EU:T:1998:77.

³¹ Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in electricity, OJ L 211, 14.8.2009, p. 55.

to the Member State to invoke possible grounds of compatibility, and to demonstrate that the conditions for such compatibility are met.³² Except initially for the rescue aid loan and its prolongation after six months from the Commission decision of 21 April 2015 and the IBRD loan which was not notifiable since it was granted before the accession of Romania to the Union, Romania has not notified the loan granted to repay the incompatible aid, the BCR loan and the BRD loan nor invoked possible grounds of compatibility with the internal market.

- (112) On the basis of the information available and, as noted in the opening decision, the Commission considers that the sole possible compatibility basis for the measures under assessment would be the R&R aid Guidelines. These Guidelines provide rules and conditions for the purposes of the compatibility assessment of rescue and restructuring aid to undertakings in difficulty pursuant to Article 107(3)(c) TFEU.

4.3.1. *Applicability of the R&R aid Guidelines*

- (113) According to points 137 and 138 of the R&R aid Guidelines, "[t]he Commission will examine the compatibility with the internal market of any rescue or restructuring aid granted without its authorisation and therefore in breach of Article 108(3) [TFEU] on the basis of these guidelines if some or all of the aid is granted after their publication in the Official Journal of the European Union" and "[i]n all other cases it will conduct the examination on the basis of the guidelines which applied at the time the aid was granted".

- (114) The rescue aid loan and the loan granted to repay the incompatible aid were granted after the entry into force of the R&R aid Guidelines on 1 August 2014. Therefore, the R&R aid Guidelines are applicable to these two loans.

- (115) In addition, the BCR and the BRD loans were not notified to the Commission, in breach of Article 108(3) TFEU. It follows that even if these two loans had been granted before 1 August 2014, insofar as they must be assessed jointly as part of a single operation providing aid to a company in difficulty, the R&R aid Guidelines also apply to the BCR and BRD loans.

4.3.2. *Application of the R&R aid Guidelines*

- (116) Only undertakings in difficulty as defined in point 20 of the R&R aid Guidelines and not active in the coal, steel and financial sectors as defined in point 16 thereof can benefit from rescue or restructuring aid. As noted in the rescue aid decision, CE Hunedoara fulfilled already in April 2015 the criteria for being placed in collective insolvency proceedings set out in point 20(c) of the R&R aid Guidelines and, indeed, in January 2016, the company entered into such proceedings (see recital (22) above). Therefore, CE Hunedoara can be considered a firm in difficulty in the sense of the R&R aid Guidelines.

- (117) The Commission first notes that Romania has not provided any evidence on possible compliance with the conditions for compatibility for rescue or restructuring aid set out in the R&R aid Guidelines.

- (118) As regards, the BCR loan, the BRD loan, and the loan granted to repay the incompatible aid the Commission will in the following assess them jointly because they were granted to a company in difficulty as investment or operating aid allowing CE Hunedoara to meet its costs in the absence of access to financial markets (see

³² See Case C-364/90, *Italy v Commission*, ECLI:EU:C:1993:157, paragraph 20.

recital (99)). On this basis, the Commission considers that the compatibility conditions for restructuring aid laid down in the R&R aid Guidelines are not met, because (i) the restructuring plan (submitted in October 2015 and amended in January 2016) was not valid at the outset insofar as it could not ensure the long term viability of CE Hunedoara without further continuous aid and has not been pursued, (ii) there is no discernible own contribution of CE Hunedoara in line with points 62 to 64 of the R&R aid Guidelines, and (iii) no measures limiting distortions of competition in line with points 74 to 86 of the R&R aid Guidelines could be identified.

- (119) Regarding points 99 to 103 of the R&R aid Guidelines, even though they provide for specific conditions for aid to SGEI providers in difficulty, the Commission comes to the view that the loans under assessment cannot be assessed or taken into account as a compensation for the provision of such services as referred to in point 100 of the R&R aid Guidelines. First, it is not claimed nor established that CE Hunedoara has been operating on the basis of valid entrustment acts singling out any justifiable difference with the production of electricity by other electricity generators active in Romania; according to established case law of the European Court of Justice³³, the presence of a valid entrustment act is an essential condition for state aid to be considered as valid compensation of a Service of General economic Interest. Second, the loans at issue were *ad hoc* loans for specific purposes and have not been granted with regard to identifiable and justified extra costs of service provision. Third, the loan amounts have not been set, individually or cumulatively, on the basis of objective parameters set out in advance and calibrated specifically for the determined costs of the SGEI taking into account all revenues and costs of Hunedoara. Therefore, the Commission cannot, under points 100 and 101 of the R&R aid Guidelines, consider that the loans in question should be regarded as valid compensations under the SGEI Decision³⁴ or the SGEI Framework³⁵.
- (120) Romania has also failed to meet its commitment to legally separate the coal mines from the power generation within CE Hunedoara, which was a commitment it made at the time the rescue aid was approved and which, according to its submissions, could take between six and nine months. Two coal mines are receiving operating aid for closure pursuant to the Decision regarding the second aid to coal mines (recital (12) above). Romania has argued in its comments to the opening decision that separate accounts are held for the mining and electricity generation activities; however, separate accounts themselves do not prevent cross-financing of the mining activity. Romania did not demonstrate that cross-financing does not occur by e.g. presenting evidence that the use of the State aid only benefits the electricity generation activity. Absent this necessary evidence, it cannot be excluded that some of the loans covered by the present decision have benefitted directly or indirectly the coal mines of CE Hunedoara, in violation of point 16 of the R&R aid Guidelines which exclude the coal sector from R&R aid.

³³ Case C-280/00 *Altmark Trans and Regierungspräsidium Magdeburg v Nahverkehrsgesellschaft Altmark* [2003] ECR I-7747.

³⁴ Commission Decision of 20 December 2010 on the application of Article 106(2) of the Treaty on the Functioning of the European Union to State aid in the form of public service compensation granted to certain undertakings entrusted with the operation of services of general economic interest (OJ L7, 11.01.2012, p. 3).

³⁵ Communication from the Commission, European Union framework for State aid in the form of public service compensation (2011) (OJ C8, 11.1.2012, p. 15).

- (121) Finally, it is worth noting that the proceeds from loan granted to repay the incompatible aid remain available to CE Hunedoara. In light of the Deggendorf principle³⁶, the accumulation of a non-repaid loan granted to repay earlier incompatible aid with the other three loans, does not allow considering that the possible restructuring aid to CE Hunedoara is compatible with the internal market on the basis of point 94 of the R&R aid Guidelines. Yet, whilst benefitting from State aid in the form of the loans at issue to the extent that they have not been repaid, CE Hunedoara continues to operate at the detriment of competitors.
- (122) In conclusion, based on the above, the Commission considers that the BCR and BRD loans contracted for the benefit of CE Hunedoara, jointly assessed with the excessive prolongation of the rescue aid loan transforming it into a restructuring loan and the loan granted to repay the incompatible aid, are incompatible with the internal market.
- (123) As regards the rescue aid loan, in line with point 55(d) of the R&R aid Guidelines, Romania committed to submitting, within maximum six months from the date of the rescue aid decision or the disbursement of the first instalment (recital 54 of the rescue aid decision), either proof that the loan was reimbursed, or a valid restructuring plan, or a substantiated liquidation plan setting out the steps leading to the liquidation of CE Hunedoara within a reasonable time frame, without further aid. Romania did not meet this commitment, since (i) the rescue loan has not been fully reimbursed and (ii) Romania was informed that the restructuring plan (submitted by Romania in October 2015 and amended in January 2016) did not ensure that CE Hunedoara could reach long term viability without further continuous aid.
- (124) In addition to the above, the Commission notes that the timeline for the liquidation of CE Hunedoara with a minimum duration of three years, as submitted by Romania in May 2017 (that is 1,5 years after the deadline of October 2015, i.e. six months after granting the rescue aid approved by the rescue aid decision), appears to be rather long.
- (125) From the above the Commission concludes that the prolongation of the rescue aid loan is incompatible with the internal market.

5. RECOVERY

- (126) According to the TFEU and the Court's established case-law, the Commission is competent to decide that the Member State concerned must abolish or alter aid when it has found that it is incompatible with the internal market.³⁷ The Court has also consistently held that the obligation on a Member State to abolish aid regarded by the Commission as being incompatible with the internal market is designed to re-establish the previously existing situation.³⁸
- (127) In this context, the Court has established that this objective is attained once the recipient has repaid the amounts granted by way of unlawful aid, thus forfeiting the

³⁶ Cases T-244/93 and T-486/93 *TWD Deggendorf v Commission*, ECLI:EU:T:1995:160, paragraph 56.

³⁷ See Case C-70/72 *Commission v Germany*, ECLI:EU:C:1973:87, paragraph 13.

³⁸ See Joined Cases C-278/92, C-279/92 and C-280/92 *Spain v Commission* ECLI:EU:C:1994:325, paragraph 75.

advantage which it had enjoyed over its competitors on the market, and the situation prior to the payment of the aid is restored.³⁹

- (128) In this regard, Article 16(1) of Council Regulation (EU) No 2015/1589⁴⁰ states that "*where negative decisions are taken in cases of unlawful aid, the Commission shall decide that the Member State concerned shall take all necessary measures to recover the aid from the beneficiary [...]*".
- (129) Thus, (i) the BCR loan (ii) the BRD loan, (iii) the loan to repay the incompatible aid and (iv) the rescue aid loan – which became unlawful as from the moment when the rescue aid was not repaid within six months after its granting and/or disbursement – were implemented in violation of Article 108(3) TFEU, and are to be considered as unlawful and incompatible aid, they must be recovered in order to re-establish the situation that existed on the market prior to their granting. Recovery should cover the time from when the advantage accrued to the beneficiary, that is to say when the aid in the form of principal amount of loans was unlawfully put at the disposal of the beneficiary, until effective recovery, and the sums to be recovered should bear interest until effective recovery. The recovery interest is distinct from the contractual interest, the interest for late payments or other related sums related to the loans at issue owed by Hunedoara to the State.
- (130) In accordance with established case-law, the insolvency of the beneficiary and its inability to repay the aid do not constitute a valid reason for exempting it from its obligation to reimburse the aid⁴¹. In this case, restoring the situation prior to the payment of the aid and removing the distortion of competition can in principle be achieved by registering the liability relating to the repayment of the aid in the schedule of liabilities as part of the court-supervised liquidation procedure. Where the Member State is unable to recover the full amount of aid, registration of the liability can meet the recovery obligation provided that the insolvency proceedings result in the winding up of the undertaking which received the unlawful aid, that is to say, in the definitive cessation of its activities⁴². The liquidation of CE Hunedoara in case of non-recovery of the rescue aid within six-months from its approval or disbursement is also contemplated in the R&R aid Guidelines, in the rescue aid decision (recitals 20, 21 and 52, point d).
- (131) The Commission takes note of the recent discussions with Romania in which it was established that the winding up of CE Hunedoara may lead to its assets being liquidated and sold in order to meet liabilities, including those arising from the implementation of recovery imposed on Romania as a result of this Decision. In any case, the Romanian authorities confirmed the existence of legal provisions in the national legislation that would ensure the continuity of operation and mentioned in this respect Law no. 123 of 10 July 2012 of electric energy and natural gas, notably the provisions concerning energy security and safety.

³⁹ See Case C-75/97 *Belgium v Commission* ECLI:EU:C:1999:311, paragraphs 64 and 65.

⁴⁰ Council Regulation (EU) 2015/1589 of 13 July 2015 laying down detailed rules for the application of Article 108 of the Treaty on the Functioning of the European Union (OJ L 248, 24.9.2015, p. 9).

⁴¹ Judgment of the Court of Justice of 29 April 2004, *Germany v Commission*, C-277/00, ECLI:EU:C:2004:238, paragraph 85; Judgment of the Court of Justice of 15 January 1986, *Commission v Belgium*, C-52/84, ECLI:EU:C:1986:3, paragraph 14; Judgment of the Court of Justice of 21 March 1990, *Belgium v Commission*, C-142/87, ECLI:EU:C:1990:125, paragraphs 60 to 62.

⁴² Judgment of the Court of Justice of 11 December 2012, *Commission v Spain*, C-610/10, ECLI:EU:C:2012:781, paragraph 104.

- (132) In the context of a liquidation and considering its legal obligation to ensure continuity of supply, Romania may plan to adopt measures aiming to avoid abrupt disruptions of the supply of electricity and heat for the region in which CE Hunedoara operates and supplies services. However, such measures have to be proportionate, reasonable, and limited in time and scope to what is indispensable to maintain the value of the power generation assets. In enforcement of the present Decision, the Commission must be informed in advance and be in a position to verify that these conditions are met. Consequently, this decision is generally without prejudice to such appropriate measures and to the process concerning the transfer of power generation assets.
- (133) Furthermore, as evoked during the videoconference held on 31 July 2018 (see recital (3) above), Romania expressed its intention to take an appropriate measure to proceed with the process regarding the transfer of power generation assets from CE Hunedoara to a New Company (NewCo) still to be incorporated. This is planned to take the form of a Government Emergency Ordinance by way of which a three-stage *transfer in lieu of payment* (in Romanian '*dare în plată*') would occur with regard to the power generation assets only, i.e. without the mines. As per the minutes agreed with Romania, this process should involve:
- (i). First, the preparation of a mandatory evaluation report to determine the value of the power generation assets (currently pledged by the Ministry of Finance) and the amount of the debt owed by CE Hunedoara;
 - (ii). Second, these pledged assets would be transferred to the Ministry of Finance and then further on to the Ministry of Energy;
 - (iii). Third, these pledged assets would be transferred to a new company, and the latter would then be entrusted with the provision of a Service of General Economic Interest.
- (134) This decision is without prejudice to such asset transfer via the planned Government Emergency Ordinance, provided that the above envisaged transfer is conducted by the Romanian authorities in line with the legal requirements, including, in particular, a proper valuation of these assets.

6. CONCLUSION

- (135) The Commission accordingly concludes that Romania has granted to CE Hunedoara unlawful State aid which is incompatible with the internal market and which should be recovered.

HAS ADOPTED THIS DECISION:

Article 1

The International Bank for Reconstruction and Development loan (IBRD loan) guaranteed by the Romanian State and for which CE Hunedoara became the successor beneficiary was not unlawfully granted to CE Hunedoara, in breach of Article 108(3) of the Treaty on the Functioning of the European Union.

Article 2

The following loans in favour of CE Hunedoara and in the amounts set out in points (a) to (d), constitute State aid which was unlawfully granted (or not reimbursed as regards point (d)) by Romania, in breach of Article 108(3) of the Treaty on the Functioning of the European Union and are incompatible with the internal market:

- (a) Romanian Commercial Bank loan contracted by the Ministry of Finance and further made available to CE Hunedoara by way of subsidiary loan agreement (BCR loan) - RON 83 485 450.
- (b) Romanian Development Bank loan contracted by the Ministry of Finance and further made available to CE Hunedoara by way of subsidiary loan agreement (BRD loan) - RON 68 371 170.
- (c) loan provided for the payment of the incompatible aid requested to be recovered by the Decision regarding the incompatible aid (the loan to repay the incompatible aid) - RON 34 785 015.
- (d) loan representing aid granted in accordance with the rescue aid decision and interest (the rescue aid loan) – as effectively disbursed for the amount of RON 98 476 900 and not reimbursed after six months of disbursement.

Article 3

- (1) Romania shall recover the incompatible aid, referred to in Article 2 from the beneficiary.
- (2) The actual sums to be recovered shall equal the amounts effectively disbursed to the beneficiary and not reimbursed by the latter to the Romanian State; these sums shall also bear interest from the date on which they were put at the disposal of the beneficiary until their actual recovery.
- (3) The interest shall be calculated on a compound basis in accordance with Chapter V of Commission Regulation (EC) No 794/2004⁴³.
- (4) Romania shall cancel all outstanding payments of the aid referred to in Article 2 with effect from the date of adoption of this decision.

Article 4

- (1) Recovery of the aid referred to in Article 2 shall be immediate and effective, without prejudice of appropriate measures which Romania may adopt with a view to

⁴³ Commission Regulation (EC) No 794/2004 of 21 April 2004 implementing Council Regulation (EU) 2015/1589 laying down detailed rules for the application of Article 108 of the Treaty on the Functioning of the European Union (OJ L 140 30.4.2004, p. 1).

preserving the continued operation of electricity generation assets which are necessary to supply electricity and heating, provided such measures are proportionate, reasonable, and limited in time and scope to what is indispensable to maintain the value of the assets.

- (2) Romania shall ensure that this Decision is implemented within four months following the date of notification of this Decision.

Article 5

- (1) Within two months following notification of this Decision, Romania shall submit the following information to the Commission:
 - (a) the total amount (principal and recovery interests) to be recovered from the beneficiary;
 - (b) a detailed description of the measures already taken and planned to comply with this Decision;
 - (c) a detailed description of the measures already taken and planned to preserve the continued operation of electricity generation assets;
 - (d) documents demonstrating that the beneficiary has been ordered to repay the aid.
- (2) Romania shall keep the Commission informed of the progress of the national measures taken to implement this Decision until recovery of the aid referred to in Article 2 has been completed. It shall immediately submit, on simple request by the Commission, information on the measures already taken and planned to comply with this Decision. It shall also provide detailed information concerning the amounts of aid and recovery interest already recovered from the beneficiary.

Article 6

This Decision is addressed to Romania.

Done at Brussels, 8.11.2018

For the Commission

Margrethe VESTAGER
Member of the Commission