

Romanian News Letter

20th September 2012

HBA The Romanian telecom regulator ANCOM has decided that all the five bids for mobile telephony licenses received from operators Orange Romania, Vodafone Romania, Cosmote Romania, RCS&RDS and 2K Telecom are valid.

The five telecom operators filed with ANCOM the bids for mobile telephony licenses, whose starting value exceeds EUR700 million. The actual auction is due to start on September 10th and a result is expected by October.

Two types of licenses will be assigned based on the bid, namely a long-term one, on 15 years, until April 2029, and on short-term, namely for 15 months, until April 2014.

Orange Romania, part of France Telecom-Orange. Vodafone Romania, part of British mobile operator Vodafone Group. Cosmote Romania, a unit of Greek group Cosmote in turn owned by OTE, and RCS & RDS SA, is controlled by businessman Zoltan Teszari in Oradea.

Established in 2000, 2K Telecom is owned by Alexandru Ghita, Vasile Domete, and Vasile Radu.

HBA Romania's planned tax on extraordinary revenues in the natural gas and electricity market will be implemented as of January 2013.

The new tax will be accompanied by a new set of fiscal regulations which will be introduced in the second half of 2013.

"We have set up an inter-ministerial committee headed by the Finance Ministry to prepare a draft package of the tax, royalty and regulatory measures for the oil, gas and electricity sectors. The regulatory package will comprise two segments, namely a new tax levied on gas and electricity companies for the supplementary revenues obtained following price deregulations on the local market and a new oil and gas regulatory and taxation regime for the 2015-2024 period.

Romania has pledged to deregulate gas and electricity prices for both households and industrial consumers in several steps by 2018.

HBA Romania's Government will limit spending on co-financing for EU-funded projects.

The public sector wage bill will remain at 6.7% of GDP, as in 2011. In light of the interruption of EU fund reimbursements for a number of programs, capital outlays, including for co-financing of EU-funded projects, will need to slow down to remain within the budgetary envelope. Co-financing of EU-funded projects from the privatization fund will not be undertaken and any unspent funds from the [National Infrastructure Development Program, PNDI] will be saved.

The Fiscal Council has recommended the Government limit spending on co-financing and keeps a tight watch on the expenses of local authorities, so as to meet the year's budget deficit targets. The target is 2.2% of the GDP in cash terms, or 3% of the GDP according to ESA95.

The initial 2012 budget provided revenues of 12.53 billion lei (EUR 2.8 billion) and expenses of RON 11.64 billion from the absorption of non-reimbursable EU funds. The revised budget states revenues of RON 10.67 billion and expenses of RON 10.86 billion, meaning a RON 200 million deficit.

By mid-2012, Romania had paid EUR 824.8 million to the EU budget, from an annual quota of EUR 1.42 billion. In the first six months of the year, Romania absorbed EUR 713 million in structural and cohesion funds, slightly over 18% of its total allotment of EUR 3.78 billion. According to the Fiscal Council's data, Romania's absorption was better on other segments – EUR 665 million (45.2% of 2012 allotment) for rural development and fishing, EUR 910.7 million through the European Agricultural Guarantee Fund.

HBA The Association of Romanian Producers of Generic Drugs (APMGR) rejects the new claw back tax approved by the Government.

The association warned that hundreds of affordable products, used by 70% of Romanian patients, might disappear from the market, and called on authorities not to apply the claw back tax to cheap medicines. The new formula to compute the claw back tax continues to be a far too heavy fiscal burden for the generic medicine sector.

Romania's Government decided to change the claw back tax mechanism setting a formula that preserves the flaws of the previous mechanisms. According to the association, the sum obtained by the new formula does not reflect the real medicine consumption in the previous year.

The Government approved a new formula for the claw back tax, which will be reduced by 10% and charged starting on October 1, as well as a mechanism to adjust the healthcare system's arrears and ensure that hospitals stock drugs efficiently. The changes are set down in an ordinance which also states VAT will become due on invoice payment as of January 1, 2013.

HBA Romania's rural electrification program, targeting to provide electricity to households in 2,240 remote villages, will be carried out between 2012 and 2016.

The rural electrification program will be carried out through the Romanian Agency for Sustainable Development of Industrial Areas. It will be 90% financed from the state budget. The remaining 10% will be covered from the local budgets of the communities that will benefit from the program.

Cost analyses show the financing needed for the national electrification program amounts to about RON 1.032 billion. The cost to electrify a remote household stands at some RON 11,000. In 2003, the then Ministry of Economy promised the electrification program would be finished by 2005. The cost of the investment was estimated at \$150 million at that time. Four years later, the Government approved a decision which stated financing needed to implement the project amounted to EUR 150 million, and extended the program until 2009. In 2010, authorities announced remote villages will have electricity by 2012. At the beginning of 2012, the Government extended the rural electrification program until 2016 and estimated costs at RON 990 million.

HBA Romanian telecom regulator ANCOM will reduce mobile telephony interconnection fees by 24% on September 1, to a maximum of 3.07 eurocents per minute.

Last time ANCOM reduced the mobile interconnection charges was in March, when fees were lowered by 19% to 30%. Since March 1st mobile operators have charged a maximum of 4.05 eurocents per minute for calls outside their network.

The measure will apply to Cosmote Romania, Orange Romania, Romtelecom, RCS&RDS, Telemobil and Vodafone Romania.

HBA The European Commission has sent letters to Romania, Bulgaria and the Czech Republic to highlight EU laws concerning procurement.

Romania, a chief member of the EU's awkward squad, appears on another collision course with Brussels as it joins Bulgaria and the Czech Republic on a list of countries that have been warned about transparency in defence procurement,

All three countries are looking to buy fighter jets, part of a wider procurement program in Emerging Europe over the next decade that the defence industry estimates could generate sales of over 200 jets. With the economic downturn squeezing defence budgets across the world, these tenders are regarded as crucial for an industry suffering from cost cutting and job losses, hence the fierce competition amongst manufacturers such as the US Lockheed Martin, the Eurofighter consortium (made up of EADS Deutschland, Spain's EADS Casa, BAE Systems and Italy's Alenia Aeronautica), Sweden's Saab and France's Dassault, among others.

HBA Romania's Tourism Ministry has decided to transfer the Casino building in Constanta to the local authority.

The building required an investment of 40 million lei but only RON10 million was assigned to the project from the ministry's budget. Moreover, after a budget revision, the allocation was reduced to just RON 7 million.

Constanta mayor had called on the ministry to transfer the building back under the city hall's authority because it had failed to start rehabilitation works. He plans to hold an international auction for the monument's rehabilitation.

The Casino, an architectural landmark of the city of Constanta, built in the first decade of the twentieth century, was transferred under the authority of the Ministry of Regional Development and Tourism on August 31, 2011, so it could be rehabilitated and then returned under the administration of local authorities. Rehabilitation was supposed to start this year and not take more than three years.

HBA Romanian homeowners who want to buy voluntary home insurance to cover damages that exceed mandatory home insurance coverage will sign only one contract.

The pool of insurance will implement a system that will allow for risks to be covered through a single home insurance policy. Starting September 1, Romanian insurers are allowed to issue voluntary home insurance policies only for amounts higher than those covered by mandatory home insurance policies, of EUR 10,000 and EUR 20,000 depending on the type of building.

Homeowners are required to take out insurance against earthquakes, landslides and floods. The yearly premium for the mandatory policy sold by PAID is EUR 10-20.

HBA Romania's Government will rethink the system subsidizing railway passenger transport.

The new measure is included in Romania's latest letter of intent to a EUR 3.6 billion loan with the International Monetary Fund. CFR Infrastructura has begun executing cost reduction and revenue enhancement measures to move towards financial viability from 2013. This requires that decisive action is taken to ensure that the state-owned passenger and freight companies pay access charges in full to the infrastructure company. To facilitate full payment, the provision of subsidies and the public service obligations (PSO) of the passenger company will be analysed.

The subsidy scheme for railway passenger transport will be re-evaluated, and changes will target both several services offered to passengers, and the relation with private operators. Subsidies for private railway operators will no longer be computed considering their revenues. Fixed quotas are likely to be applied.

The measure might slightly increase tariffs for some services offered to passengers. The subsidy scheme needs to be changed, but the matter must be carefully analysed. Unions in the Romanian railway transport sector repeatedly complained that private operators' subsidies from the state are double compared to those allotted to state-owned railway passenger carrier CFR Calatori.

HBA Romania's Finance Ministry and the World Bank signed Wednesday the EUR1 billion loan agreement between the Eastern European country and the International Bank for Reconstruction and Development, a division of the international lender.

The 12-year loan has an option of postponed drawing and it is a precautionary financing. The loan is added to the state Treasury, but the ministry has no intention yet to use this amount as the foreign currency reserves are at the level agreed with international institutions.

The loan is granted on a 12-year period, 11.5-year of which represent the grace period. The reimbursement will be made in one installment, February 1, 2024.

Using this loan depends on Romania meeting reform measures in the sectors of public finance, fiscal administration, energy and health.

HBA Romania Could Award Tax Cheat Whistleblowers - Deputy FinMin

Romania's Finance Ministry could award citizens who report suspected tax evasion, an official with the ministry said Thursday.

"We will analyze the Swedish whistleblower system, which has been operational for quite some time and which could be translated into the local legislation as well," Liviu Voinea, state secretary at the ministry, told Mediafax.

Voinea is set to leave for Sweden in two weeks to study the country's laws regarding value added tax payment and property tax collection.

The ministry official said the Swedish Tax Agency awards citizens who report on their neighbors, acquaintances or even companies when they believe that fiscal laws are being broken.

"The tax agency relies on the fact that citizens know best about the financial situation of their neighbors. Those who send in quality information about them are being exempted from paying taxes, or they receive an award," Voinea said.

Sweden is not the only country that repays informants for ratting out tax dodgers. Recently, the US Internal Revenue Service awarded \$104 million to an ex-banker who helped unveil a scheme in which Switzerland's largest bank UBS aided American clients avoid paying taxes.

The IRS's whistleblower program can award up to 30% of the additional tax, penalty and other amounts it collects following information provided by citizens.

FBA Romania May Hike Taxes On Multiple Homes, Apply Taxes On Swimming Pools

The Romanian Finance Ministry plans to increase taxes paid by owners of two or more buildings and limit exceptions regarding taxes on property, income and profit, secretary of state Liviu Voinea told Mediafax Thursday.

The property tax reform will focus more on the solidarity principle, which entails higher taxes on multiple homes, Voinea said. Income taxes will be kept unchanged at 16%, he added.

Swimming pools on individual properties will also be taxed the same as buildings and land, Voinea said. The ministry is determined to eliminate as many exceptions as possible regarding taxes on property, income and profit, he highlighted.

Although Romania has changed its property tax system several times over the past years, revenues from this source are low, the ministry official added.

"We collect 0.7% of the GDP, while Poland collects 1.1% of its GDP. The European average stands at about 3%. Romania allows for too many exceptions," said Voinea.

In 2010, the Government raised the taxes paid by owners of multiple buildings by 65% for the first building other than their residence, by 150% for the second such building and by 300% for subsequent buildings.

Voinea said earlier Thursday he would visit Sweden to analyze the Swedish property tax system and the norms on VAT due on invoice payment.

FBA Auction To Award Romanian Mobile Telephony Licenses Will End With Assignment Round Next Week

Romania's telecom market regulator will organize Friday and next Monday seven assignment rounds to award mobile telephony licenses for radio frequency bands 800 MHz, 900 MHz, 1800 MHz and 2600 MHz.

According to ANCOM, the second additional round held Monday decided winning bids for the unassigned blocks and the price winners will pay for the frequency blocks they won. The authority did not disclose the winners' names.

In the assignment rounds, the winners may bid for the desired positioning in the four frequency bands, ANCOM said in a statement Monday.

The participants in the auction are: 2K Telecom, Cosmote Romania, Orange Romania, RCS&RDS and

Vodafone Romania.

So far, ANCOM has organized five auction sessions (three primary rounds and two additional rounds).

ANCOM auctions off 42 mobile telephony licenses valid from April 6, 2014 until 2029: six in the 800 MHz band, seven in the 900 MHz band, 15 in the 1,800 MHz band and 14 in the 2,600 MHz band, as well as three unpaired 15 MHz blocks in the 2,600 MHz band.

The regulator also sells short-term licenses for ten paired 2.5 MHz blocks in the 900 MHz band, and six paired 5 MHz blocks in the 1,800 MHz band, which will be valid for 15 months. These bands are currently used by Orange and Vodafone.

For blocks awarded for 15 months, the starting prices are as follows: EUR1.7 million in the 900 MHz band and EUR0.8 million in the 1,800 MHz band. Block awarded for 15 years in the 800 MHz band will have a minimum price of EUR35 million, those in the 900 MHz band - EUR40 million, in the 1,800 MHz band - EUR10 million, paired blocks in the 2,600 MHz band - EUR4 million, unpaired blocks - EUR3 million.

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