

Romanian News Letter

20th July 2012

Romania adopted an energy bill which deregulates the local energy market.

Natural gas price deregulation will first apply to industrial consumers, starting December 2012. For households, the price deregulation will unfold in stages between 2013 and 2018.

Under its precautionary stand-by agreement with the IMF, the European Commission and World Bank, Romania has to deregulate its natural gas and electricity market. Household gas and electricity prices in Romania are currently regulated by energy regulator ANRE.

Energy producers to trade all available electricity on a competitive market.

Romanian lower house adopted the new energy Law, which deregulates the local energy and natural gas market. The document will be sent to the head of state for promulgation. Previously, energy producers were free to choose whether to sell their electricity on the local exchange OPCOM. Following a scandal regarding the low price of the energy sold outside OPCOM and on the urging of European Commission, the authorities decided to compel producers to trade electricity exclusively via OPCOM. Additionally, end-consumers cannot buy electricity at regulated prices once they have opted to negotiate their own price on OPCOM.

Norwegian Government has decided to lift the barriers for Romanian citizens.

The restrictions had been in place since Romania and Bulgaria joined the European Economic Area (EEA) on July 27, 2007, and were due to expire in 2014. Last year, Iceland, an EEA member and EU candidate state, also removed all restrictions for Romanian citizens.

The barriers remain in effect in ten EU member states: Austria, Belgium, France, Germany, Ireland, Italy, Luxembourg, Malta, the United Kingdom and the Netherlands.

The Government can issue ordinances during the summer parliament recess.

The Government may issue ordinances in the fields of public finance and economy, agriculture and rural development, transport and infrastructure, regional development and tourism, administration and interior affairs, culture, public procurement, and EU funding.

The European Court of Human Rights has accepted Romania's request to extend by nine months the deadline to amend its law on nationalized property.

The deadline imposed by the ECHR was set to expire on July 12 but the court accepted a nine-month extension, until early April 2013. The Government is analysing ways to amend the law and will initiate public consultations on the topic. The Government said it was planning to cap the value of compensation at 15% of the property value, payable in tranches in the next ten to twelve years.

The finance minister at that time said this was "all the state can afford," as Romania would need to spend 70 billion lei (EUR15 billion) to give cash compensations to former owners of nationalized property.

HBA Romania's energy regulator ANRE will not cancel or withdraw any authorization or license held by Hidroelectrica, which entered insolvency.

Hidroelectrica has the right to operate during insolvency procedures, in conformity with the law regulating insolvency, ANRE said in a press release. The Bucharest Court approved the start of insolvency proceedings for Hidroelectrica.

According to Hidroelectrica's balance sheet, the company's net profit fell last year 45 times, from 292.3 million lei to RON 6.4 million, as total revenues decreased.

In 2011, Hidroelectrica sold energy worth RON 1.52 billion through direct contracts, a figure which made up half its sales last year. The company reported operating profit of RON 161.15 million, compared with RON 502 million in 2010, and financial losses of RON 121.54 million, from RON 112 million two years ago. Short-term debts increased by RON 900 million in 2011, from RON 1.7 billion to RON 2.6 billion, including RON 400 million owed to banks (for a total of RON 1.1 billion) and RON 250 million to suppliers (RON 1.12 billion in total). Long-term debts also increased by more than RON 200 million, to RON 1.5 billion, with RON 1.42 billion in debts to banks.

HBA Romania needs to consider local problems and its economy's low competitiveness when it applies for funds in the 2014-2020 EU financial period.

Romanian authorities must not repeat their mistakes from 2006, when EU policies were simply copy-pasted into strategic documents, disconnected from the country's actual concerns. Romania also lacks studies on the impact of state aid and macroeconomic analyses by the competition watchdog, which could be used to select proper policies. The World Bank evaluations indicate the competition watchdog is one of Romania's most efficient institutions, but the ministries do not promote competition.

HBA Romania's Government has decided to place chemical producer Oltchim (OLT.RO) under administration.

The Economy Ministry will put forward a basic plan to unfreeze Oltchim's activity. Oltchim needs to be brought back online to improve its chances of privatization. Negotiations are underway with a number of investors. Oltchim might be sold in a bundle with the Arpechim refinery, owned by OMV Petrom (SNP.RO), who has agreed in principle with this plan.

The sale of the state's stake in Oltchim remains one of the Government's priorities. The deadline agreed upon with the International Monetary Fund is the end of September. Oltchim is also one of the first state-run companies to have private management. The state owns 54.8% of the chemical producer's stock, through the Economy Ministry. The shareholders also include German company PCC SE (18.3%) and UK-registered investment fund Carlson Ventures (14.02%), through Nachbar Services.

HBA Telecom Auction. Companies must file their documents by August 13, with the auction to begin on September 10.

Telecom regulator ANCOM has published the official announcement for the tender to sell licenses for radio frequency bands 800 MHz, 900 MHz, 1800 MHz and 2600 MHz for mobile communications services in the period 2013-2029. The tender committee will evaluate the documents and announce by August 20 which of the candidates has qualified for the next stage. The auction will start on September 10 and final results are expected to be announced in October.

The participants must have paid their debts to the state budget, social security budget and special funds, have had an average turnover in the last three years of at least EUR 10 million, must not be insolvent, under special administration, undergoing liquidation or suspended.

ANCOM will auction 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 will also sell 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: EUR 1.7 million in the 900 MHz band and EUR 8 million in the 1,800 MHz band. Block awarded for 15 years in the 800 MHz band will have a minimum price of EUR 35 million, those in the 900 MHz band – EUR 40 million, in the 1,800 MHz band –

EUR 10 million, paired blocks in the 2,600 MHz band – EUR 4 million, unpaired blocks – EUR 3 million.

To encourage the creation of mobile virtual operators, ANCOM has stipulated incentives for bidders that will allow them access to their networks, such as a lower required value for the letter of guarantee and more generous deadlines to meet coverage demands.

HBA Industrial property taxes will be cut to the level applied in 2006.

At the beginning of 2012 industrial property taxes, which are paid by legal entities and natural persons to have their industrial property, inventions, trademarks, industrial drawings and models protected, were increased by 20%. The level of the tax may be updated annually, through a Government decision, considering inflation and the exchange rates valid on November 1. The Government decision takes effect on January 1 the next year.

On January 1, 2011, industrial property taxes should have been updated using an exchange rate of 4.3 lei to the euro, and not of RON3.6 to the euro, which would have translated into a 20% increase. The Government decided through an emergency ordinance approved on December 30, 2010 to postpone the increase by one year, until January 1, 2012, as the measure would have reduced the number of protection requests. In 2011, the Government failed to postpone the tax increase for the following year, so industrial property taxes are 20% higher starting January 2012.

HBA Romanian public institutions and state-owned companies spent over 150 million lei on legal services between 2009 and May 31, 2012, during the democrat liberal administration.

In June, the Government issued an emergency ordinance barring public institutions and state-owned companies from buying consultancy and legal assistance services if they already have specialized staff. The prime minister's inquiry body also requested information on the institutions' contracts with law firms, to inform the public about the way tax money is spent.

The audit was completed this week and reveals that public institutions gave more than RON 150 million to law firms for legal services. The Romanian Lottery spent the most money – RON 20.6 million, followed by Electrica – RON 14.5 million, Hidroelectrica – RON 11.5 million, and the State Asset Privatization Authority (AVAS) – RON11.2 million.

Other bodies that spent significant amounts of money on legal services are: public road authority CNADNR (RON 5.9 million), the National Printing Press (RON 5.5 million), subway operator Metrorex (RON 5.2 million), airline Tarom (RON 4.9 million), the Ministry of Regional Development and Tourism (RON 4.8 million), Nuclearelectrica (RON 4.3 million), Oltchim (RON 4.1 million), the Bucharest airport company (CNAB, RON 2.9 million), Electrica Serv (RON 2.6 million) and Termoelectrica (RON2.6 million).

The list also includes the National Employment Agency (RON 2.4 million), the National Water Administration (RON 2.2 million), Oil Terminal (RON 2 million), national postal service (RON1.99 million), Romatsa (RON 1.98 million), Romsilva (RON 1.7 million), National Salt Company (RON 1.6 million), Lower Danube Administration (RON 1.5 million), Environment Guard (RON 1.47 million), State Building Administration RAPPS (RON 1.41 million), Dobrogea-Coast Basin Administration (RON 1.2 million), Sea Port Administration (RON 1.18 million) and Romgaz (RON 1.13 million).

HBA The Government has informed the IMF of its intention to allow VAT payments upon cashing in invoices for companies with turnovers of up to EUR 500,000.

The Government's decision is to change the VAT legislation in order to allow VAT payments upon payment of invoices, instead of upon issuance, for companies with a turnover of up to EUR 500,000. VAT deductions will be allowed for projects financed from European Union funds and the VAT deduction ceiling will be raised from 20% to 50% for investments in the Research & Development sector.

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