

Romanian Newsletter

20th March 2013

Metrorex allotted EUR 68.1 million for investments this year.

Currently, the company's largest project is the construction of a 6-kilometre subway line linking Universitate and Drumul Taberei.

Fondul Proprietatea reported a loss of 3.74 million lei for February 2013.

Its net assets increased 0.7% in February. The fund continued to invest in state bonds, increasing its portfolio value by 6.7%. Shares held in Romanian companies represent 99.01% of the fund's net assets, with the 0.99% difference represented by stakes in Austrian-listed companies.

Foreign investors increased their holdings in Fondul Proprietatea to 59.4% in February, from 59% a month earlier, the fund said Thursday.

Grup Servicii Petroliere is bidding for a contract with ExxonMobil and Petrom.

The contract starts at \$250 million and may go up to \$750 million, it entails drilling seven wells in the Neptun offshore block. Petrom and ExxonMobil are conducting exploration works in the block and have already got positive signs of a gas accumulation of up to 84 billion cubic meters. The bidding deadline was January 14, 2013 and the e-licitatie.ro (an electronic public procurement system website) showed winner selection was in progress.

Early last year, the two companies drilled the first ever deep water well in the Black Sea, Domino-1 and announced they found a gas accumulation of 42 to 84 billion cubic meters. Romania used some 14 billion cubic meters last year, which means the discovery in the Black Sea alone would be enough to meet domestic demand for four years at a recovery factor of 70%. On the other hand, the same amount, about 60 billion cubic meters would ensure Romania's independence from Russian gas imports for two decades.

Belgian group Etex will start the construction of a plasterboard factory in Romania.

The project, worth EUR50 million, is entirely financed by Etex and production will commence in March 2015. The Turceni power plant will supply the necessary raw material. Siniat Romania registered turnover of 97.1 million lei (EUR22 million) in 2012, up 1.5% on the year, and its market share increased to about 25% in 2012. Siniat Romania, formerly Lafarge Arcom Gips, became part of Etex group in late 2011, after the latter purchased 80% of Lafarge's plasterboard division in Europe and Latin America for EUR850 million.

Romanian foreign direct investment rose to EUR103 million in January 2013

Of the total FDI, equity stakes consolidated with estimated net loss reached EUR102 million, central bank data showed. Romania's current account balance posted a surplus of EUR465 million in January, versus deficit in the year-earlier month, helped by a surplus in the services

segment and lower income and trade deficits.

The President of Romania's National Sanitary-Veterinary and Food Safety Authority resigned following the scandal involving aflatoxin-tainted milk.

The food-safety chief, accused of ineffective crisis management in the toxic milk scandal, made the decision to resign after face-to-face discussions with Prime Minister Victor Ponta. Representatives of farmers and officials in the food industry have criticized ANSVSA for the lack of professionalism, following the scandal regarding toxins found in tainted milk.

Recently, Romania has been plagued by several cases of food safety issues: the horse meat scandal, the frozen mackerel infested with parasites, vegetables and fruits containing too much pesticide, aflatoxin-contaminated milk.

Acibadem group will open a representative office in Romania.

The private medical service sector is very well developed in Turkey and many Romanians travel there in search of treatment.

"We've reached that point where we felt we needed to open a local office because demand for complex treatment has been rising lately, as well as to develop and strengthen the already existing ties" said Anna Herkmen, director of international relations development -Eastern Europe of Acibadem.

Eighty per cent of Romanians know nothing about mandatory health insurance.

Private health insurance company MediHelp International, which analysed the survey, said in a statement that Romanians have little information about their mandatory health insurance.

When asked how much they pay for this service, 38% of Romanians said they had no idea and 62% of respondents knew the exact amount they pay. Also, only 18% of Romanians are aware of the advantages of this type of insurance and 82% of them know very little or nothing about it.

Several developers feel the right solution is to invest in new business centers.

Four investors started work on new office buildings with a lettable area of almost 80,000 square meters in the first two months of 2013 without knowing for sure what companies will rent them. At least two projects will be self-funded by developers as most banks are reluctant to share the risk with real estate investors no matter how safe a bet such a development might appear to be.

The hiring climate in Romania will remain favourable in the second quarter of 2013.

Of the 635 employers included in the survey, 21% expect to increase staff, while the vast majority will maintain their staff levels for the second quarter. The second quarter net employment outlook is +13%, up 2 percentage points both compared with the previous quarter and with the same interval a year ago.

The results for the second quarter do represent a continued trend of steady hiring patterns seen over the course of last year, and represents the strongest outlook reported by Romanian employers since the fourth quarter of 2008, reads the survey.

Capital of foreign-held banks accounted for almost 80% of the total capital.

The foreign capital rose by RON 5.2 billion compared with December 2011. Greek and Austrian financial groups own more than 40% Romania's banking system. The Austrian capital increased by EUR 300 million last year while Greek banks added EUR 240 million to the capital of their Romanian subsidiaries. Hungarian and French-held banks saw the highest rate of increase for their capital, as their owners contributed about EUR1 billion to their capital last year.

Romania is polluting more than it did before the 800 turbines were put in place.

In the absence of investments in small and fast facilities, balancing the energy system falls upon thermoelectric power plants running on coal and hydropower plants. This means high costs and higher carbon dioxide emissions. Moreover, green power drove prices down on the electricity exchange, which is bad news for the thermoelectric power plants whose costs are rising.

The National Wood Institute has been largely liquidated.

The institute has been bankrupt since 2011, with liquidator Remus Borza selling to an Iranian-held company 6,700 sq m of land for EUR2 million (EUR300/sq m) in Bucharest's most active real estate area. The National Wood Institute, which has since the interwar period designed most all of what has been developed in Romania in terms of furniture and wood processing, entered bankruptcy proceedings in the summer of 2011, with debts of almost 20 million lei (EUR4.7 million).

Tourism- Romania has fallen five places since 2011.

In Central and Eastern Europe, Romania lags behind Hungary, Poland and Bulgaria regarding tourism competitiveness. According to a recent report, Romanians are less hospitable than natives of Lesotho (120) and Malawi (121). The country comes in the 122nd position and is outranked by two countries in Central and Eastern Europe – Hungary (116) and Poland (118). Concerning environmental quality, Romania is ranked 107th, after Paraguay and Pakistan. It overtakes Hong Kong and Mexico, Malta (112), Russia (120), Bulgaria (121) and Serbia (125). Romania is also dragged down by other indicators including access to water and sewage services, as well as the quality of air transport and road infrastructure.

Romania is unlikely to return to pre-crisis level of growth without major reforms.

The government should focus on ensuring sustainable economic growth. Romania could use its many competitive advantages to obtain bigger growth rates, which, in turn, would attract more investments. Romania's economy increased by a meagre 0.3% in 2012, from a growth of 2.2% a year earlier, held back by falling exports and a weak agriculture harvest. The country was hit hard by the global economic and financial crisis in 2009, when the economy declined 7.1% after having expanded at an annualized pace of over 7% in the previous years.

USL's political agenda still awaits strategists to put it into practice.

The paradigm change to be expected after a change of power is not yet fully apparent and it is not yet clear when the announced projects will take place. Few concrete things have taken place these last few months: the agreement with the IMF will be kept, but there are delays in the restructuring, privatization area, and as far as taxation is concerned, extraordinary measures cannot be expected overnight. The government's political program provided for expanding the taxation base and for lowering taxes. But while the government has expanded the taxation base, it has no plans to cut taxes.

The lack of a clear idea, the fact that strategy elements have not been outlined has to do with the

fact that talks surrounding the distribution of positions in the government have been complicated and used up energy. On the other hand, from what has been done one can anticipate what will happen in the future - firstly the agreement with the IMF will be retained (which will keep Romania within certain parameters), on the other hand there is a slight tendency to redistribute the taxation system [additional taxes on extraordinary revenues] which shows us there is a governance philosophy going in this direction.

Romanian western Oradea airport will carry out works estimated at 114.1 million lei

The runway will be expanded from 1,800 meters to 2,100 meters. The project is co-financed with European Union funds, through the Transport Sectorial Operational Program. The 22-month contract is scheduled to be assigned July 15, through open bid, to the lowest-price bidder.

The law cutting the green energy support scheme could take effect as of July 1.

The latest form of the draft law cutting green energy support schemes, provides for a reduction from 2 to 1 or 1.5 certificates for each megawatt of wind energy, from 3 to 1.4 certificates for micro hydropower plants, from 6 to 3.5 for solar power and from 2 certificates to 1.6 for biomass energy. The draft law also provides for the maximum accepted trading price of green certificates to be EUR30/MW, down from EUR55 at present. The minimum guaranteed price will also be kept at EUR27/MW. In addition, a maximum quantity of green energy produced will be introduced - 3,500 MW. The new scheme is set to come into force as of July 1.

In its current form, the draft provides for non-retroactive enforcement, but the price limit for green certificates will most likely also apply for projects that have already been started. The stake is huge because the green energy sector boasts investments of hundreds of millions euro.

The Romanian Government aims to change the highway lease system.

The amendment aims to convince the investors to get involved in the highway construction, through lease. The Government will discuss a legislative solution on the lease. The lease is made from investors' funds, who will recoup their investment from highway taxes, but the Romanian state should engage to pay the difference between the investors' estimated revenues and the actual ones. Otherwise nobody wants to lease. The procedure will be negotiated with the investors, including the value of the recovered investment and the payoff period.

European Commission wants to recover agricultural policy funds improperly used.

The Commission wants to claims back EUR12.5 million from Romania for weaknesses in the controls of beneficiaries' eligibility and expenses as well as for deficiencies in the application of sanctions in the 'Modernization of agricultural holdings' measure under the European Agricultural Fund for Rural Development (EAFRD). Moreover, the EC calculated financial corrections of EUR 5.2 million for incomplete checks on parcels and on logbooks. The net financial impact of the correction is EUR 2.96 million, as EUR 2.2 million has already been recovered from Romania.

The European Commission has claimed back EUR414 million in unduly used CAP funds from 22 EU member states. The states targeted are Belgium, Bulgaria, the Czech Republic, Denmark, Germany, Romania, Ireland, Greece, Spain, France, Italy, Cyprus, Lithuania, Hungary, Malta, the Netherlands, Poland, Slovenia, Slovakia, Finland, Sweden and the UK.

Seven Romanian private companies are market leaders in the ranking by counties.

Dedeman (owned by Paval brothers) in Bacau, Romaqua (Constantin Cretu) in Harghita, Altex

(Dan Ostahie) in Neamt, Unicarm (Vasile Lucut) in Satu-Mare, Romstrade (Nelu Iordache) in Giurgiu, Interagro (Ioan Niculae) in Teleorman and Nexxon (Somai family) in Covasna manage to lead the ranking of the largest companies in the counties where they operate. In the remaining counties, it is multinationals who dominate or, in a few cases, state-run companies (Romgaz in Sibiu and Oltchim in Valcea for instance).

The share of local entrepreneurs who are market leaders is however extremely low (less than 20%), and the analysis also reveals a huge discrepancy between companies in different areas of the country.

The fact that only seven Romanian private companies are no. 1 in the ranking of the largest businesses per county shows that the local entrepreneurial environment is still largely made up of small and medium-sized businesses, with few locals being able to build businesses worth several million euros from scratch.

A structural problem is that Romania does not have enough medium-sized entrepreneurs with local capital that are able to expand regionally.

Romania needs local entrepreneurs, local investors. It does not matter whether they are Romanian banks or companies. Most rankings of companies in Romania include subsidiaries of multinationals. I hope both in the private and public sector we will have players who can become regional. The entrepreneurial culture, education and training, access to financing, taxation and regulation, as well as coordinated efforts by various associations supporting entrepreneurship are extremely important for the development of an entrepreneurial environment.

The diversity of financing sources is a challenge, there is no entrepreneurial education in schools, taxation is not helpful in a specific way and programs to support entrepreneurs are not significant. Local players need to be stimulated. Entrepreneurs are born, but they are also bred.

The European Commission expects unemployment rate to reach 6.9% in 2013.

Despite the difficult economic climate unemployment was brought down from 7.4% of the labour force (age group 15-74) in 2011 to 7% in 2012, However, as active labour market measures are set to remain small and not well targeted, unemployment is not expected to go down significantly over the forecast. The Commission also estimates that youth unemployment, currently at around 23%, is expected to be somewhat reduced but is to remain high.

Romania's unemployment rate inched down to 6.5% in December 2012, from 6.7% a month earlier, according to seasonally adjusted data from the statistics institute INS. An estimated 661,000 people were unemployed and looking for work in December, down from 674,000 a month earlier.

BWSP Hammond, Bogaru and Associates are a law firm based in Bucharest, Romania. We can be contacted on +40 21 326 6053 and more information regarding the Firm can be found on our web site www.hbalaw.eu. If you wish to subscribe to our monthly newsletter you can do that by either using the form on the website or sending an e-mail to admin@hbalaw.eu.

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