

Privatization in Romania – A Challenge both For the Government and For the Companies

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Abstract

The privatization in Romania was conceived as an extended program, including on one side a free component and on the other side selling block shares to interested investors. The positive aspect of this process, undoubtedly, is represented by the privatization of the economic activity, with direct measurable result in the increase of its contribution to the GDP. The privatization process was conducted in parallel with the establishment of the capital market that played the role of an accelerator that transmitted the information to possible investors from the company equally with the transmission of information toward the company from the investors. However, excepting the last 3 years, this method has been underused unlike traditional methods. The results obtained following the calling of this method have been positive, with little exceptions when deficiencies have been registered, while preparing the listing.

Keywords: privatization, MEBO, investors, listing, recovery.

JEL classification: H13, M16, O11

Introduction

After the year 1990, the Romania economy had to undergo a difficult road, through which the State gave up (gradually) the administrator right to private entities. Thus, the economic activity entered under the control of private investors and administrators that desired to obtain such performances and results to satisfy their aspirations to the detriment of social aspects (that were essential until 1990).

The privatization represents a phenomenon that cannot be geographically located, as many researches wrongly believe (Rondinelli, D. and Pacono, M, 1996), but presents global characteristics that begun before the fall of communism in Central and East Europe. Basically this phenomenon represents a paradigm modification in the economic development of a country through which the State gives up the quality of administrator of its own companies by selling them to private investors. In some cases, the national companies of one country have been privatized by selling them to foreign investors/companies, which in the country of origin were held by the State.

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At the beginning of the 1990, in the ex-communist states' case, the governments began to cease the direct involvement in the economy (through the companies held), making room for the emergence of private shareholders and the market economy. In Central and Eastern Europe, the privatization appeared as the saving solution after the fall of communism for the following reasons:

- transition from centralized economy to market economy;
- restructuring of national companies through methods specific to corporations and companies with experience in economies based on market principles;
- recapitalization of companies equally with the rebalance of national budget due to attracted funds;
- application of modern management strategies and attacking new markets.

1. Context

The stability of national economy by stabilizing the inflation rate, insuring the social measures and also insuring the national investments were a great challenge for ex-communist economies (based on planned production). Turning to external loans from external creditors and applying the imposed measures in a delayed or without transparency way led to rampant inflation rates that automatically led to affecting the national companies that were not sufficiently prepared. The privatization is not a spontaneous phenomenon, that can be accomplished by a simple decree or law; it is a complex process that requires time and especially an adequate strategy in which the situation of each public company is analyzed and its future is decided based on the economic policy's objectives linked to the requirements of the market and social-economic realities of the country (Viorel Lefter, 2006).

In the period 1992–1996, the main privatization method was MEBO (basically having an exclusive character). The difference between applying MEBO in Romania and other similar countries is represented by the property transfer of the assets toward the employees or PAS (Álmos Telegdy, 2002). If in the other ex-communist countries the MEBO privatization assumed taking control of the company by employees without receiving ownership rights over its assets, Romania was the only state that included ownership right over the assets. For this reason, the privatization contracts (1993-1994) includes a series of restrictions, as follows:

Table 1 Restrictions of privatization contracts 1993-1994

Restriction	Company percentage	Average restriction duration
Personnel reductions	96%	2,1 years
Main activity	91,1%	4,4 years
Sale price of assets	95%	5,2 years

Source: CEU Labor Project

In 1995, a mass privatization was applied, through which almost 4000 national companies (mostly state capital) became marketable by offering coupons / vouchers / shareholder certificates to the public.

In the period 1997–2000, based on the desire to fulfill the objectives regarding the privatization, the legislative framework began to suffer continuously modifications giving rise to confusion which led to slowdown in achieving privatizations and even stopping it. Due to the vague legislative framework, the privatization contracts did not contain clauses to fulfill or restrictions, therefore a big number of litigations appeared that attracted the mistrust of foreign investors and blockages in the functioning of the economy. According to the progresses made in the privatization domain for 26 countries that aspired to the integration in the European Union, Romania located on the following positions:

Table 2 Romania’s position regarding the privatization progresses

Year	<i>1993</i>	<i>1996</i>	<i>1999</i>
Place	14	19	16

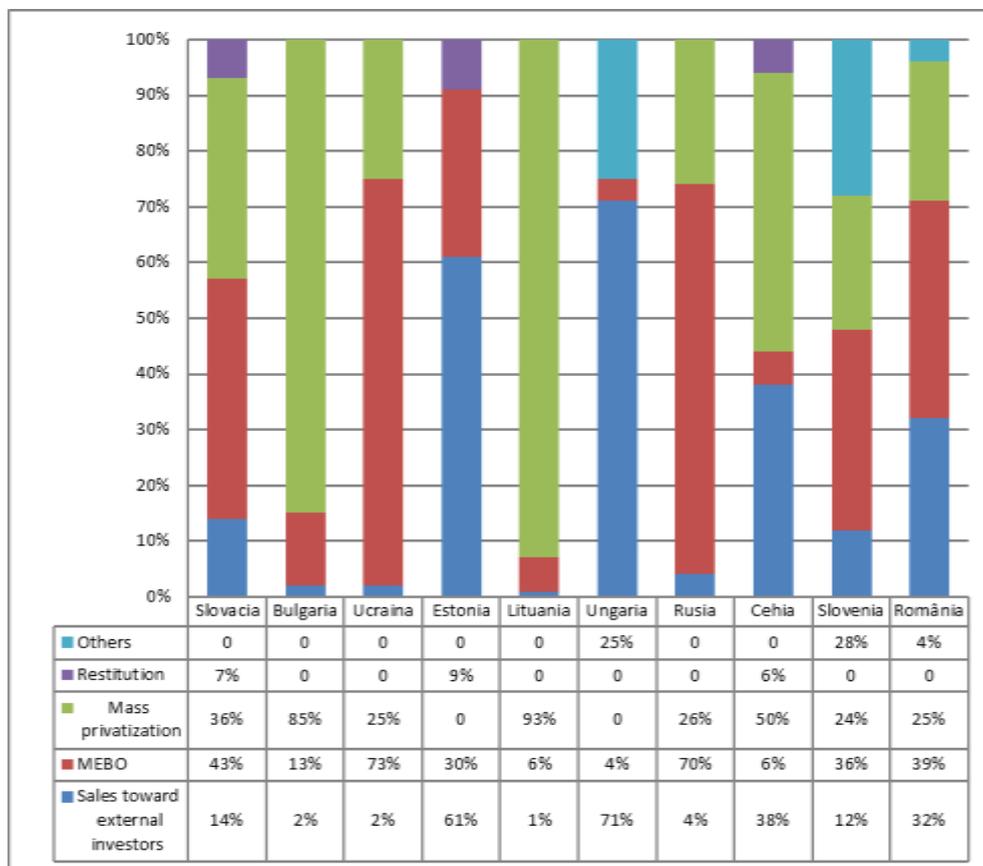
Source: EBRD, “Transition Report”

The data previously presented show the fact that the legislative modifications in the privatization domain did not have the desired effects, Romania not being able in the first 10 years after the communism to situate itself in the first half of progresses regarding the privatization. The limits of these reports come from the quantitative point of view of the analyzed data, without being analyzed also the quality of the privatization processes.

The privatization process conducted in Romania can be analyzed and compared to the privatization processes conducted in the other states from the region, that went through a regime change, from the privatization’s method point of view (being taken in consideration data until Dec 31st 1998) – according to the Graphic 2. From the presented data, the following conclusions arise:

- Privatization through restitution was found, at that time, only in Slovakia, Estonia and the Czech Republic and it refers to both restitution of terrain surfaces and of factories ex-nationalized by the communist regime. In the other countries, the legislation standing did not foresee such privatizations or they were not considered such, thus they have not been included in the data at that time;
- The great winners of that period, that were given as example of good practice, were represented by Estonia and Hungary that have privatized by attracting foreign investments of 61% respectively 71% of the whole privatized companies.
- At the opposite end Lithuania, Ukraine, Bulgaria and Russia were considered because they resorted to internal privatizations (in mass and MEBO) through which they transferred the administration and property right toward the citizens and blocking the access of the foreign investors, delaying the manifestation of the capitalist spirit and the national economy reform;

▪ In Hungary (25%), Slovenia (28%) and in a small extent in Romania (4%) as optimal privatization measure, the privatization through liquidation has been adopted. This method was preferred for the companies that were in an extreme financial or commercial situation, for which the only viable solution to attract the investors' attention was represented by its liquidation as commercial company and selling its assets to an investor that would resume the activity.



Graphic 2 The percentage of privatization methods in total of privatizations

Source: Kalotay K., Hunya G. „- Privatization and FDI in Central and Eastern Europe”, Transnational Corporations, 2000; Havrylyshyn O., McGettigan D - „Privatization in Transition Countries: A Sampling of the Literature”, in IMF Working Paper, 1999

The privatizations made in this period can be presented from a financial point of view according to the table 3.

During the privatization process, establishing the selling price takes into account more variables that can be identified only after a thorough analysis, both of the financial accounting results and the overall activity. From the accounting value point on view, errors can occur as the investments achieved by the State does not

always respect the effort/results principle while the external environment analysis may show that the activity the company has made is no longer profitable due to the technological advance or legislative (environment) regulations etc., aspects that can lead to the decrease of the privatization price. From a financial point of view it can be observed that following the accomplishment of the privatization, the State obliged the investors to make investments that exceed with 61% the value obtained on privatized entities.

Table 3 Distribution of entities privatized by MEBO based on ranch of activity

	1996	1997	1998	1999	2000	TOTAL
Revenues from privatization (Mil USD)	332,1	597,4	891,7	447,4	276,6	2545,2
The ratio between the sale price and the nominal value of a share	0,86	2,06	2,66	1,08	0,84	
Investment obligations as a result of privatization contracts	287,9	705	1142,1	734,2	1231,2	4100,4

Sources: Data FPS/APAPS/OIPSI; Romanian Centre for Economic Policies – Dragoş Negrescu „Unfulfilled expectations of Romanian privatization”

In the period 2001–2006, the governments have set as objective the ongoing of the privatization process, priority having the big national companies whose privatizations have failed in the previous period. Of the largest and reputable privatized companies in that period, we can mention: SIDEX Galaţi, IUG Craiova, Constanţa Naval Shipyard , ALRO Slatina, ALPROM Slatina, VULCAN Bucureşti, ARGESANA Piteşti, VIROMET Victoria, CORAPET Corabia, UZINELE SODICE Govora, ARO Câmpulung.

Given that from the 1st of January 2007 Romania became a member of the European Union the legislation regarding the privatization has become more restrictive. These restrictions bring fair-play and equal treatment between different privatization processes regardless of the state member that conducts it. The European Committee’s interest is so that in the common market, the companies will conduct their activities in similar conditions, and the privatization procedures that occur must not have hidden a possible help from the state or to include certain conditions that might limit the investors’ interest or the decrease of the selling price. Another important aspect that influenced the privatization process in Romania was represented by the thinning of the state-run companies’ portfolio. Although some of these companies held the monopoly for certain activities, there are companies that hold a series of valuable assets, these usually register losses and in few cases profit. The failure of these procedures can be divided in two categories: the substantial differences between expectations and accomplishments or complete failure of privatization for companies in difficulties for which the only solution is the sale of the company. In the first category we can include: selling on

the stock market of a package of 9,8% from the shares held at PETROM by the Romanian State, based on which incomes of 500-600 mil EUR were expected, but that did not reach the minimum subscription threshold of 80%. In the second category we can include the privatization attempt for OLTCHIM that failed in several occasions due to the minority shareholders' position but also the difficulty situation regarding the raw material supply (Arpechim refinery). The period 2012-2014 was the most dynamic from the point of view of the privatization activity. In 2012 steps were taken toward the sale by auction of the complete package (100% of the social capital) of CFR Marfă as well as the shares resulting from the conversion of debt to the state or CFR S.A. This sale has not been successful and has put pressure on the government because of the difficulty situation CFR S.A. is facing. Another privatization failure is represented by the privatization of Cupru Min, company that holds 60% of the copper national reserve. In 2012, during the sale of the company, an offer of 200 mil EUR has been received, but the procedure has not been finalized because the company that made the offer was newly founded and the offered price was not paid. In this case, the government does not feel a great pressure because the company is working and is registering profit, but the problems generated by the company are in the environmental investment area. The privatization problem has become harder to manage, and the achieved results most of the time are not the ones desired. The lack of cash flow the companies are dealing with makes them to adopt decisions to buy only after long analyses whose results are most of the times not positive. In this regard, we can recall the delay in privatizing the company TAROM because of the lack of serious investors or any investor actually interested in acquiring the Romanian Post National Company. The best moment for conducting privatizations, either by direct sale or stock exchange listing, would have been the year 2007, when the market was invaded by cash flow. With all the difficulties encountered today, there are also examples of good practice, and here is the case of listing ROMGAZ (15% of shares for 391 mil EUR) and Electrica (51% shares for 2 billion lei). Applying IPO does not presume a guaranteed success as well as it is not enough for the company to be active in the energetic domain, because the listing of TRANSGAZ – company that holds the monopoly for gas transport meant selling a package of 15% of shares under the trading price on the stock market. It is necessary to exist in real time an analysis regarding the convenient moment to start the privatization procedure of a certain company and to obtain maximum results by indicating the proper method.

Conclusions

Analyzing the privatizations that took place in Romania and its effects, the following recommendations can be made:

- The process of privatization is mandatory to be made in a transparent way to attract the investors with potential. It has been observed that in the case of governments not characterized with transparency, important investors refuse to

participate in such privatization processes because they do not wish to allocate resources for a procedure that does not equally respect the interested competitors;

- The privatization process must start after a periodic analysis regarding the stability and future development chances, because the delay of the process may reduce the bidder number and the value obtained on the shareholding put up for sale;

- The privatization process must be conducted based on a clear and rapid methodology in order to attract the investors' trust and to maximize the rescue/recovery chances of the company;

- The after privatization conditions must be clear and they must be according to the current legislation (national and European) and the long term strategy of the country;

- One of the biggest mistakes made by the Romanian State was represented by restructuring the activities and personnel of the companies before the privatization, most of the times contradictory to the investor's intentions or privatization of the companies with assets and activities completely different to the main activity object. An example can be the privatization of Petrom through OMV that beside the activity of exploitation of natural resources received a company with important assets in the tourism industry;

- The companies that are going to be privatized must have a clear juridical situation, without litigations and a stable national legislation that will not arouse remodeling or strategy modifications;

The privatizations in Romania led to important layoffs between the employees due to the reorganization of the activity, of investments in automation/technologies with the purpose to increase productivity to levels comparable to the ones from the countries of origin of the investors. The national economy, beside the battle with the inflation rate had to deal also with higher unemployment rates, due to these layoffs given the fact the privatizations were made in mass in certain periods along the year. . At the same time, the effect of privatizations on the performances of companies in Romania (Earle 2001) can be resumed by the increase of productivity between 1% and 1,7% to each 10% of participations transferred to the private sector. These values are corresponding to sales toward foreign investors, while the privatization through the MEBO methods registers lower values.

Rompetrol has privatized through MEBO in 1993. This privatization was not a good omen given the fact the turnover registered an important fall in the following period. Because of the management's incapability to administer this company, in the year 1998 Dinu Patriciu acquires the majority share package and resorts to a capital increase both for a strategic advantage and to put at the company's disposal cash flows without which the activity would not have continued. In the following period Rompetrol acquires the Vega refinery (Ploiești), the Petros company (well services, renamed Rompetrol Well Services SA) and the Petromidia refinery. The year 2014 represents an important year in the company's evolution, being listed in the stock market (Bucharest Stock Exchange), registering

very good financial results and acquiring a share package of 25% held by Petrom as a result of its privatization toward OMV. The development strategy for the following years consisted of acquisitions or construction of new gas stations in other countries. In 2007 the company KazMunaiGaz acquired 75% of the Rompetrol Group shares from Dinu Patriciu and Philip Stevenson. As a result of this transaction, Dinu Patriciu's participation decreased from 75% to 20% and Philip Stevenson's participation from 25% to 5%. The value of this transaction was of 2,7 billion EUR. The amount would have been higher if in that period would not have existed several judiciary actions against the shareholders that have been accused of establishing a cross-border criminal group and the problem of the historical debt of the company toward the Romanian State would have been cleared. Two years later (2009), KazMunaiGaz holds total control of the company through the acquisition of the difference of 25% of shares. The period 2010-2015 was marked by negotiations and modifications in the Rompetrol shareholding due to the conversion of historical debts into shares (2010, the Romanian State reenters in the shareholding with a participation of 44,69%), but also a sale of a package of 26% toward Rompetrol conditioned by the acceptance of the current situation and renouncement of further juridical initiatives. The Rompetrol case represents a clear study regarding the fact that the privatization of the company is not enough to revive the activity, but more important are the aspects that are related to the quality of management and favorable situations in the economy.

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