

Romania's energy sector is characterised by the influence that the state continues to exert. Despite initiating several privatisation processes following the collapse of the Soviet Union, these have consistently been interrupted due to a variety of economic and political factors. Furthermore, despite being an EU member for ten years, Romania's energy sector has not been fully privatised, with the state still owning the majority of the sector's key energy companies.

Most electricity produced in Romania originates from coal (26.89 percent), followed by hydroelectric (27.36 percent) and nuclear (17.83 percent) power; with gas constituting 13.68 percent of all energy production. Despite being an oil and gas producer, and having two nuclear plants, Romania is still a net importer of oil and gas.

Within this context, the political control that the government exerts over the industry is a key factor when assessing potential energy sector opportunities in the country. The major companies involved in the sector - Hidroelectrica, Nuclearelectrica and Romgaz - are all majority owned by the Romanian government, which exerts its influence through the Ministry of Energy.

The state's continued control over these assets makes it vulnerable to the political and personal interests of government elements. The transparency and independence of Romania's energy sector is further undermined by a lack of independent authorities regulating the market, and supervising the government. This reality has triggered several cases of mismanagement and embezzlement, which has been aggravated further by the diminished power of the EU since 2008.

Privatisation Process: Why the Energy Sector is Important?

Successive failed attempts to privatise the energy sector (amongst other sectors in Romania) have contributed to a damaged public sector. According to economic observers, one of the main obstacles to privatisation has been corruption and an unclear legal framework. In the case of the energy sector, chronic public-sector corruption has stood in the way of the government creating the legislation needed to address abuse of political power. Combined with a lack of checks, balances and accountability in state-owned companies, these entities have been open to manipulation for personal profit.

Romania's legal and economic framework ostensibly means that the political power is synonymous with commercial influence - an electoral victory provides the possibility of exerting direct control over energy companies, and provides the capacity for the political elite to appoint loyal figures to the boards of directors of state-owned energy companies. A perfect equation for mismanagement and embezzlement.

A good example of such mismanagement occurred in Hidroelectrica, when in 2009 two

members of parliament took advantage of legal vacuums present in the Romanian energy sector. Through Constructii Hidrotehnice, these two MPs facilitated the sale of Hidroelectrica to their company at a very low price, causing economic losses estimated at €1 billion. This case of mismanagement was not investigated until 2014, with these two MPs still holding their seats in the parliament.

Moreover, state-owned companies in Romania employ 4 percent of the workforce, while energy companies owned by the state employ 77 percent of the energy-related workforce, and provide an estimated 44 percent of turnover of the Romanian energy market. It is therefore easy to see how the social and economic dimensions of these companies can be open to manipulation by the political elite that control it. As has occurred in other emerging markets, the political elite have used employment in state-owned companies as a tool to secure votes.

In the Romanian case, labour unions play a greater role, and their pressure over workers is more effective when maintaining the status quo or the union leaders' interests. In addition, there are several established forms of vote-rigging in Romania, with union leaders known to pressure workers to increase their political and economic influence. Having a certain number of votes would have facilitated the vote of one of the most influential union leaders, Dumitru Costin, at the national congress of the Social Democrat Party, ultimately reinforcing his political influence.

#### Where Does Control Lie?

The most important companies in the Romanian energy sector are Hidroelectrica, Nuclearelectrica and Romgaz. As noted, these companies are majority owned by the Ministry of Energy, who through its minister, appoints the members of the board of directors. The Ministry is a majority stakeholder of 24 energy-related companies, and is a minor stakeholder in 6. 8 of these companies are officially insolvent. The approximate value of all these assets is \$5.4 billion.

In this context, the Romanian system allowed its political elites to draw personal benefit from their political positions. This was the case of the former Prime Minister, Victor Ponta, who in 2006, through other members of his Social Democrat Party, developed a corruption ring that benefited from the political control of one of the largest energy-related companies, Oltenia Energy Complex. Through a law firm owned by another Social Democrat Party member, Dan ?ova, the energy company would pay bills of work never carried out. These actions personally benefited these two politicians, whilst also allegedly involving other local political actors. Ultimately, the energy company ended up with a large amount of debts that were finally paid by the state.

More recently, Romania's Minister of Energy, Toma-Florin Petcu, announced the names of new board members to the largest state-owned energy companies. And although, technically, these appointments should adhere to EU good governance policies, the individuals appointed all have links to the two ruling coalition parties.

Although the proposed names are reportedly temporary, this would not be the first time that a Romanian government perpetuates interim candidates for years. The political control of these companies reinforces the influence of the state structures within the Romanian energy sector and further complicates a future privatisation of the Romanian energy sector.

Moreover, this policy is likely to trigger more political protectionism from high officials in the government, with corrupted elements within the energy sector depending on the state.

High-Regulatory Framework ...but Still Politically Manipulated

There are two leading regulatory agencies in Romania's energy sector, the Romanian Energy Regulatory Authority and the Romanian National Regulatory Authority for Municipal Services. ANRE oversees electricity producers, and it sets energy prices; and, ANRSC oversees energy-related public services at a local level.

Although the Romanian energy sector has improved its situation in regard to bureaucratic and regulatory obstacles to attract local and international investment, this sector is still regarded as over-regulated in comparison to other emerging markets. The power regulatory agencies exert over this market add uncertainty for foreign investors, since there are frequent tax and fiscal modifications. As an example, Romania ranks 133rd of 189 countries in regards to companies receiving electricity services.

The case of the president of ANRE, Niculae Havrile?, provides an ample illustration of how Romania's legal environment can be circumvented in the interest of specific personal agendas. In 2015, Havrile? was found to be holding his position against the law. More specifically, the National Integrity Agency - an agency backed by the EU, but that has no legal impact - found that since June 2012 Havrile? was simultaneously President of ANRE, as well as General Manager of SC Gas and owning 100 percent of energy company Hanigas - a clear conflict of interest. Although this situation was in violation of Romanian law, it has not been addressed, and, as of 2015, Havrile? held both positions.

Furthermore, Havrile? was appointed by the former PM Victor Ponta. His nomination came with the support of the National Liberal Party, where Havrile? was a member. With interests in the energy sector, the nomination of Havrile? makes him a significant power player in the Romanian energy sector. Lastly, when Havrile? was nominated ANRE's director he was the vice-president of the National Union of Employers of Romania, and secretary of the Natural Gas Professional Association.

The case of Havrile? amply demonstrates how Romania's energy sector is more accountable to the interests of specific political and economic groups, than it is to the country's legal framework.

#### Conclusions

The Romanian energy sector is - to a certain degree - held ransom to the interests of the political elite. Despite the efforts of anti-corruption agencies in Romania, such as the work of the ANI and the National Anti-Corruption Strategy, backed by the EU, it seems that the influence extended by the country's political elite over the energy sector is by far more significant.

Political exposure in the energy sector reinforces the idea that many government-controlled companies answer to the whims of the political elite with vested personal interests, rather than to the requirements of the economy and good performance. Furthermore, EU tools for fighting corruption and aligning Romania's energy sector with levels of privatisation reached in other Western European countries has been inefficient. The combination of these factors, plus growing anti-EU populist rhetoric, are likely to alienate EU pro-transparency policies and further stall necessary privatisation of the Romanian energy sector.

In this sense, more independent bodies are needed to regulate and supervise the transition of state-owned companies in this sector to a free-market framework, and avoid further corruption scandals. The current context in Romania does not augur a short-term scenario of further privatisation. The current government faced social discontent when, last February, parliament attempted to pass a law to pardon corrupt officials. Although this law has not been approved by the senate, the initial support that this bill received from the current government indicates the lack of motivation to effectively tackle political corruption in Romania, which ultimately affects its energy sector.

Source: oilprice