

Romania's anti-organized crime prosecutors are investigating 14 suspects in a new criminal case targeting the privatization of the country's biggest oil refinery, Petromidia, which is now part of KazMunayGas International group.

They are trying to recover some EUR 670 million worth of damages to the state budget caused by a whole web of illegal activities carried out by the refinery's former owners with the complicity of high state officials.

The prosecutors have also decided to include KMG International and local companies Oilfield Exploration Business Solutions and Rompetrol Rafinare as civilly responsible parties in this file, according to an official statement issued.

Moreover, the Directorate for Combating Organized Crime and Terrorism, decided on Friday to freeze the three companies' assets as well as their stakes in local companies, to cover for the EUR 670 million damages that the prosecutors have determined in this file. The DIICOT has also seized the bank accounts and future revenues of four individuals whose identities haven't been revealed.

This new investigation is part of an older criminal case in which late Romanian billionaire Dinu Patriciu, former ministers, journalists, brokers, and capital market regulator officials have been tried for embezzlement, money laundering, and stock market manipulation. In October 2014, the Bucharest Court of Appeal ruled jail sentences against several people indicted in this file and ordered that they should pay damages of some USD 58 million to the state.

However, the court closed the case against Dinu Patriciu, who died a few months before the case was judged. The prosecutors went to court after Patriciu's heirs to recover some of the damages and the trial is still ongoing.

The state has only recovered a small part of the damages caused by the crime group's illegal activities. These included the misappropriation of the state's claims from selling oilfield and refining equipment to Libya and Turkmenistan, before 1989, the embezzlement of state money, tax evasion, and other illegal activities. All these illegal operations were meant to withhold money that was supposed to get to the state budget and to direct it to individuals and companies that formed the crime group.

"The crime group's activity culminated with the initiation, promotion, and approval of the Government's emergency ordinance 118 from 2003 through which Rompetrol Rafinare's overdue fiscal obligations worth some USD 603 million have been converted into bonds, which have been subscribed by the Ministry of Finance," DIICOT said in a press release. Briefly, Dinu Patriciu and his associates bought the local oil company Rompetrol SA in 1998. The company had carried out oilfield projects in Libya, Egypt, Jordan, and Yemen before

1989, representing the Romanian state, and had money to collect from these countries. However, some of the money never reached the state's accounts, but instead were used by Rompetrol's new owners to acquire two refineries in Romania: Vega, in 1999, and Petromidia, in 2001.

Thus, Patriciu and his associates may have bought Petromidia from the state with the state's money.

Moreover, when he took over the refinery, Patriciu agreed to pay its historic debt, which he never did. Instead, he convinced the Government led by Adrian Nastase to convert Petromidia's debt into bonds, in September 2003. The state thus got some USD 600 million worth of 7-year convertible bonds, for which Rompetrol Rafinare paid yearly interest.

According to the ordinance, if Rompetrol Rafinare didn't buy back the bonds by September 2010, then the state would get enough shares in the company to take back control.

This scheme allowed Dinu Patriciu to develop an international oil group centered around the Petromidia refinery, which he restarted and modernized. The refinery was closed when the state privatized it while today it's the biggest refinery in Romania. Still, Rompetrol Rafinare has posted losses almost every year.

In 2007, Patriciu sold his business to state-owned Kazakh group KazMunayGas for USD 1.6 billion.

In September 2010, when Rompetrol Rafinare's bonds reached their maturity, the Finance Ministry had to negotiate with KazMunayGas to recover the USD 600 million. The Kazakhs, however, said they couldn't pay and so the state became a shareholder in Rompetrol Rafinare, but only a minority one, as the company's share capital had been increased in the meantime.

Romania's Government then tried to reach a deal with KazMunayGas and top level officials from Kazakhstan to recover at least some of the money while at the same time going to Romanian courts against the group. In 2014, the Government approved a memorandum by which it agreed to sell a 26.7% stake in Rompetrol Rafinare to KMG International for USD 200 million and to keep the remaining 18%. At the same time, KMG promised to set up a EUR 1 billion investment fund that would finance energy projects in Romania, in which the Romanian state would also hold a stake. None of these measures has been implemented so far.

Moreover, KazMunayGas recently sold a 51% stake in KMG International to Chinese group China Energy Company Limited.

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