

# THE PRIVATISATION AND THE ECONOMICAL ENVIRONMENT OF ARGES COUNTY

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## **Abstract:**

*The privatisation process has generated over time a lot of controversial opinions of the specialists. The lack of a complete analysis of the privatisation process, even now, after more than 20 years from its beginning, has raised questions regarding the accomplishment of the goals of the macro-economic policy. This paper aims to enclose the analysis and evaluation function of the privatisation process in Arges County. Based on the information gathered, we will analyse individually the privatised companies in Arges County, we will try to estimate the success rate of the privatisation process but also what were the effects of the privatisation process with regards to employment. The purpose of this paper is the improvement of the evaluation frame of the privatisation process by creating an inventory of problems and techniques, establishing the success rate and the percent of failed privatisations. This is a complex subject whose causes and effects are connected in the Romanian context, sometimes in the European and even geopolitical one, as we will try to prove by analysing the most important privatised companies from Arges County: Automobile Dacia SA and ARO SA.*

**Keywords:** privatisation, employment, success rate

## **1. Introduction**

Starting from the premises that the privatisation process has a direct impact on the national economies, it is important to analyse the transition of the Romanian economy from a centralised system to another one based on the private initiative, the process of property restructuring being essential for a healthy development of the Romanian society.

The transition from a planned system to one established on the free competition, the development of the private initiative, has brought in the first line the privatisation process. We can certainly say that the main line in the transition process was represented by the restructuring of the property, and from this point of view we can say that the privatisation process best reflects the flaws of the transition process in Romania.

The efficiency or lack of efficiency of the national economy from the transition period may be analysed also through the degree of employment, the decrease of the unemployment representing one of the conditions of achieving a macro-economic balance to develop healthily so as to generate working places and to concur at the economical evolution.

If we look closely to the success rate of the privatisation process in Romania we can conclude that, The privatisation and the restructuring of the state companies proved to be a special problem with a major impact on all the fields, economic, social, education, environment, etc. The adjustment to the new requirements of the competitive market led in the last two decades to a lot of changes on the labour market".(Chiriac C., Cornescu V., 2014).

This paper aims to enclose the analysis and evaluation function of the privatisation process in Arges County. Based on the information gathered, we will analyse individually the privatised companies from Arges County, we will try to estimate the success rate of the privatisation process but also what were the effects of the privatisation process with regards to employment. By analysing the privatisation process of the most important companies in Arges County we will try to emphasize the main reasons of success / failure, to determine the success rate and the percent of failed privatisations. The results obtained will contribute to the improvement of the evaluation frame of the privatisation process

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## 2. The Analysis of the Privatisation Process in Arges County

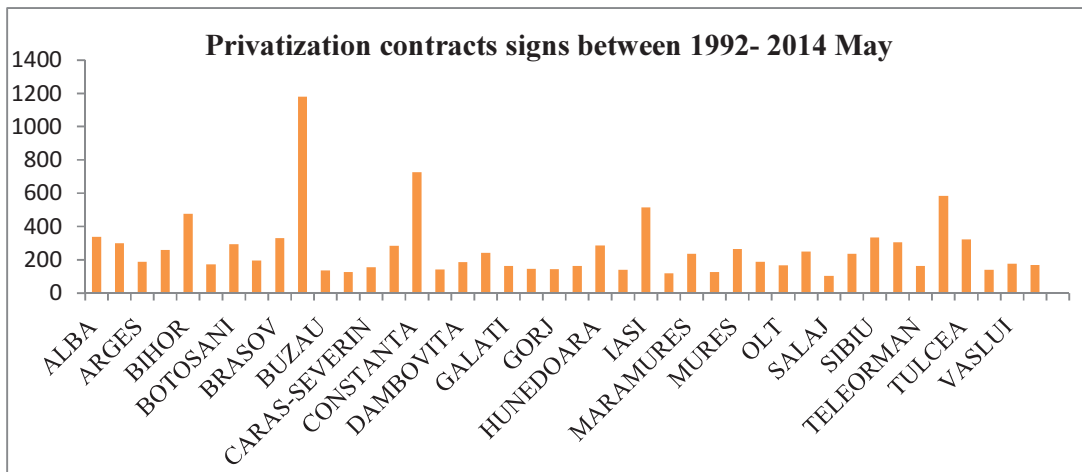
The progress of a country depends in a great extent on the economic policies adopted. A good economic policy is more important than any kind of assistance offered for the encouragement of the economic and social development.

The privatisation process is very complex and needs to be analysed from multiple perspectives. Although it is considered by many specialists as being the most innovator mechanism of the economic policy it has generated a lot of disputes. Most of the countries that chose to apply the privatisation process aimed to increase the economic efficiency and created their own instruments and a method adapted to their economic needs but until now there hasn't been patented a method or a unitary legislation to secure the absolute success.

The popularity of the privatisation process had different origins, mostly reflecting the different hopes of those that contribute to it. Most of the supporters of the privatisation process counted on the increase of the efficiency, the increase of production and the reduction of the unit prices.

We want to analyse among others what was the contribution of the privatisation process to the regional development.

The privatisation process in Romania started in 1992 and it is not even close to its end. More than 11.500 privatisation agreements were concluded for more than 7.500 companies (according to the statistics until May 2014). The documents obtained from AAAS helped us conclude that in Arges county were signed 188 privatisation agreements. In order to determine the success rate of the privatisation process in Arges County it is necessary to present the entire distribution of the privatisation process at national level. (fig.1).

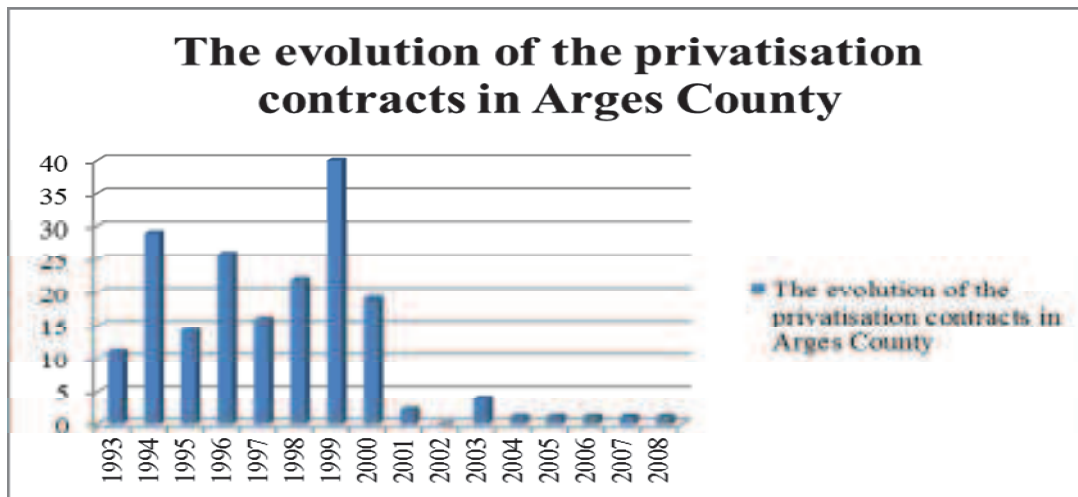


**Fig. 1 The distribution of the privatisation contracts on counties in Romania**

Source: The National Association of Entrepreneurs, data extracted from the website of the Ministry of Public Finances

As you can see from fig. 1, the percent of Arges county from the total of the privatisation contracts is very small, about 0,6 % out of the total. Although the privatisation process started in Romania in 1992, after the preparation of the legal framework and determining the main priorities, the first privatisation contracts were concluded in Arges County in 1993.

In figure 2 we will try to represent the evolution of the privatisation process for Arges County.



**Fig. 2 The evolution of the privatisation contracts in Arges County**

Source: The National Association of Entrepreneurs,  
data extracted from the website of the Ministry of Public Finances

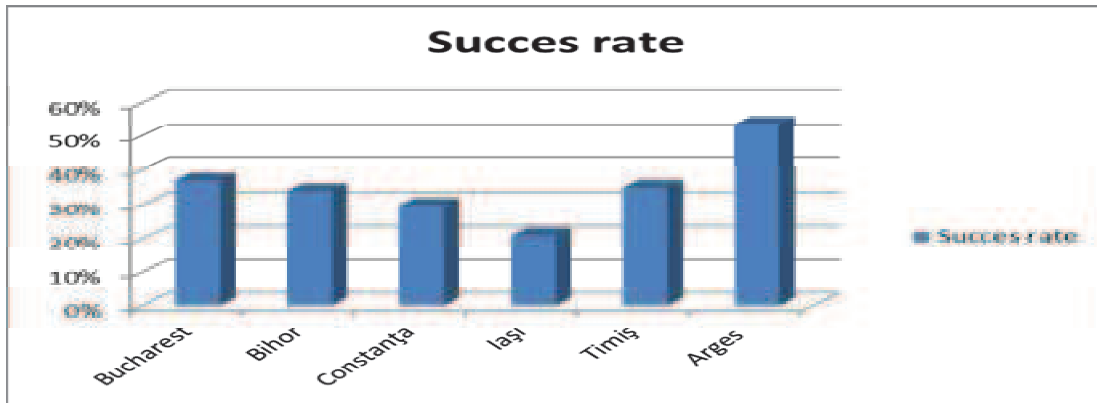
Analysing from this perspective we could say that the impact of the privatisation process on the economic development of Arges County was not that important, but the privatisation is not all the time about volumes.

„The privatisation raises a big problem: On the one hand is a sine-qua-non requirement for making the transfer to a competitive market and on the other hand its progress is conditioned by structures of the competitive market economy – the establishment of the prices based on the ratio between the request and the offer, the existence of financial institutions or the insurance of a legal framework concerning the guarantee of the ownership, the taxes, the social protection of the unemployed” (Ciurlau F. 2012).

In Romania, the beginning of the economic reformation proved that the market economy mechanisms cannot be introduced if the state owned companies own a majority. What can be discussed, that the rhythm and the practical methods of making that change, especially that the privatisation is not a purpose in itself but an essential mean to improve the economic, social and moral life; The purpose of the privatisation can only be considered achieved if it will have a major influence on a new quality of combining and using the production factors.

In order to be able to discuss about successful privatisations we should discuss about serious analysis performed, about the detailed knowledge of each company before the beginning of the privatisation process, about choosing the right moment but also about the transparency of the negotiations. Besides all that it is essential that the company which will be privatised to be prepared for it, the investors to manifest their interest, in order to maximise the price wanted. Unfortunately, the privatisation process in Romania had other main goals, one of them being the decrease of the debts to the state budget. The passing from a transition process to a free market has uncovered serious problems of the Romanian companies, especially those from the industry sector.

A privatisation program based on a vague knowledge of the company will create numerous problems therefore it is essential to know the causes of such a low success rate (fig. 3) of the privatisation process in Romania and what were the economic consequences.



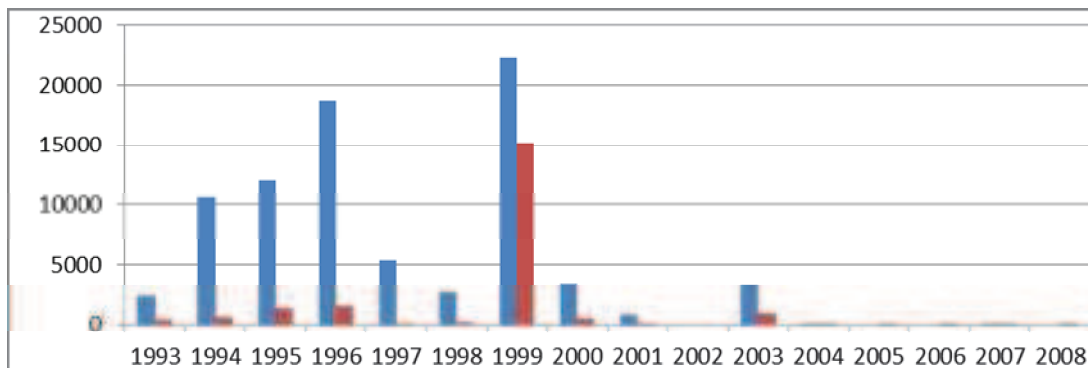
**Fig. 3 Success rate of the privatisation process**  
 Source: National Trade Register, The Ministry of Public Finances

As shown in the above figure 3, the success rate of the privatisation process in Arges County was around 54%, above the rate of Iasi County for example. In order to determine the success rate all the privatised companies have been checked at the National Trade Register and the Ministry of Public Finances.

Another effect of the privatisation process together with the one of the deindustrialization of the national economy was the increase of the unemployment rate as well as the migration of the active population, a phenomenon encountered especially for the privatisations contracts with provisions regarding the social protection (without significant penalties).

The labour force represented and represents a major factor in the economy of any country, being one of the most important resources of any company. The labour market and its evolution is a very present topic in the European Union, existing a set of policies regarding the employment. It is interesting to see the evolution of the employment rate in relation with the privatisation process.

In order to determine the impact of the privatisation process on the active population but also the evolution of the unemployment rate in relation to the rhythmicity of the privatisation process and the success rate, we will analyse for each year the total employed personnel in the companies that were about to be privatised (in blue) versus the total employed personnel in the same companies (in red) in August 2014 (fig.4).



**Fig. 4 The analysis of the evolution of the number of employees in the privatised companies**  
 Source: information from the website of the Ministry of Labour and Ministry of Public Finances

As it results from the graphic representation above, even with a success rate of 54% of the privatisation process, the results envisioned to be obtained by applying the privatisation process regarding the employment have failed to deliver. In my opinion, in order to obtain

an increase of the employment rate and therefore an economic development, it would have been necessary a success rate of the privatisation process over 75%.

### **3. Comparative Analysis of the Privatisation Process (Automobile Dacia SA Versus Aro SA)**

**3.1 Automobile Dacia S.A.** is the most important automotive manufacturer from Romania, belonging since September 1999 to the French group Renault. The main object of activity is the manufacturing and selling of vehicles, spare parts, machines, tools and appliances for the automotive industry.

Automobile Dacia SA was started in 1966 in Colibași (today Mioveni), Argeș County, based on an agreement between the communist authorities and the French automotive producer Renault for producing a Renault model under Dacia brand. The building of the Automotive Plant in Mioveni started in 1966 and ended in a record time of only one and a half year.” ([http://ro.wikipedia.org/wiki/Automobile\\_Dacia\\_S.A.](http://ro.wikipedia.org/wiki/Automobile_Dacia_S.A.))

In 1999 started the procedures for the analysis and evaluation of the company Automobile Dacia SA for the privatisation.

Below is the declaration of Radu Sarbu, the president of the State Property Fund (FPS) at that date regarding the privatisation of Automobile Dacia SA:

„In the autumn of 1998, when F.P.S. launched the privatisation offer for DACIA plant, Hyundai, Volkswagen and Renault manifested their interest. The things were cleared up by the Prime Minister Radu Vasile, who – visiting France in October – declared at Paris, to our surprise, the ones involved in the privatisation process, that "RENAULT will buy Automobile Dacia SA”.

Under these circumstances, being the only one left at the table with FPS, Renault played his card very well. The manoeuvre space of the Romanian side was very small and – despite the efforts of the officials from the State Property Fund and The Ministry of Finances – Renault managed to enforce its terms: a very low price and important tax facilities. The failure of the privatisation meant the collapse of the plant with a devastating impact on the horizontal industries where 100,000 jobs depended on Dacia.

„If in the same year, Renault paid 6 billion dollars for 36,8% of NISSAN, which had huge debts (22 billion USD!), for 51% of DACIA paid less than one hundredth: 50 million dollars. In addition, for five years obtained fiscal and customs facilities equivalent with a credit without an interest of 150 million dollars per year thus waiving 5 laws – therefore required the approval of an emergency government ordinance” ([www.bursa.ro](http://www.bursa.ro)).

Therefore in 1999 it was concluded the contract no. 4072/02.07.1999, between the State Property Fund and Renault SA, having as main object the transfer of 51,005% of the registered capital of Automobile Dacia SA representing 349.754.551 shares with a nominal value of 0,100 RON. The privatisation stipulates a series of term and restrictions of the buyer Renault SA who was supposed to be monitored for 5 years by F.P.S.

The terms regarding the investments and the awarding of the tax facilities were included in the following laws: H.G. 445/1999, H.G. 524/1999, H.G. 898/1999 published in the Official Gazette.

Some of them were:

a) Exemption from the payment of the customs dues and of the VAT for the goods imported as well as the exemption from the VAT for the goods purchased from the national market, which are amortizable assets, defined in accordance with the Law no.15/1994 regarding the amortisement of the fixed capital in tangible and intangible assets with the following additions, as well as of the components that lead to their creation, representing in-kind capital contribution to the share capital or purchased from the in cash contribution to the share capital of the company, from the date of the complete payment of the price for the shares purchased from the State Property Fund;



b) the exemption from the payment of the Customs' dues and VAT for the import of technologies, machines and tools which represent amortizable assets in accordance with Law no.15/1994, with the following changes, starting with the date of the total payment for the shares transferred from the State Property Fund. The assets list presented in the Appendix to the Governments Decision no. 434/1999 for the approval of the List with the commercial name and the codes from the Romanian Customs Tariff corresponding to the assets that comes under art. 3 letter. b) of the Government's Emergency Ordinance no. 67/1999 regarding some measures for the development of the economic activity;

c) exemption from the payment of the profit tax for a period of 5 years starting with the first year with profit provided that this will happen in maximum 3 years from the date of the total payment of the shares bought from the State Property Fund;

d) Award of a 3 years postponement from the VAT payment for the vehicles sold on the internal market from their own production starting from the moment of the total payment of the shares bought from the State Property Fund.

The terms of Renault investment in Automobile Dacia S.A. are the following:

a) Total investment in the first year, including the acquisition price of the shares is of minimum 129,6 million USD, out of which:

- 35 million USD representing investments guaranteed by Renault S.A., made through in cash contribution to the capital of Automobile Dacia S.A., paid within 90 days from the date of the total payment of the shares package bought from the State Property Fund;

- 33,4 million USD, representing investments guaranteed by "Renault" S.A., performed through the increase of the capital within 12 months from the date of the total payment of the shares bought from the State Property Fund ;

- 11,2 million USD., representing investments from other funds, performed within 12 months from the date of the total payment of the shares bought from the State Property Fund .

b) The total investment, including the price of the shares package , for the next 5 years from the date of the total payment of the shares bought from the State Property Fund for "Automobile Dacia" S.A., by "Renault" S.A., is of minimum 269,7 million USD, including the investment mentioned under letter a).

Analysed in detail, the privatisation process concluded by Renault SA raises some questions:

- the price obtained following the surrender of an equity stake of 51% of the shared capital of Automobile Dacia SA, could have been maximised if the signing of the contract would have been made without offering tax facilities and other conditions ?

- Which was the total value of all tax facilities (customs dues, VAT, etc) offered by the Romanian state for the entire monitoring period?

A short analysis of the privatisation contract but also the analysis of the export indicators leads to the conclusion that the evolution of Automobile Dacia SA after the signing of the privatisation contract was a positive one, being in accordance with the obligations undertaken, all the economic indicators following an ascending trend.

### **3.2. S.C. ARO S.A.**

The second big automotive manufacturer in Arges County was Aro SA. As opposed to Automobile Dacia SA (that signed an agreement that the vehicles will be produced under Renault licence), Aro SA represented an entirely Romanian concept.

Marian Bădiță, former design engineer of the 100% Romanian vehicle says: "we designed Aro 24 from scratch. Our inspiration was Fiat Campagnola. In that period our car occupied the 4<sup>th</sup> place in the world for off road vehicles according to the classification of the specialised magazines. The classification was made based on the sales figures and the

area of coverage in the world. Aro was right after the American Jeep, the British Land Rover and Japanese Toyota.

In its 49 years of activity the factory from Câmpulung Muscel produced over 380.000 vehicles. In the '70, Aro was the fourth off-road vehicle in terms of performances in the world.

Aro was sold in Africa, South America (Columbia was the main importer of Aro), in Europe (mostly in Czechoslovakia and Democratic Republic of Germany) in the Arabian countries, USA, Canada. Practically, two cars out of three were being exported.

The cooperation with the United States of America started in the '70. The Americans liked the rough design of Aro and even send Ford engines for the Romanian engineers to learn to produce more efficient engines.” ([www.adevarul.ro](http://www.adevarul.ro))

After more analysis in 2003 appeared the first opportunities to privatise Aro SA; the high level of debts to the state budget and also the lack of the financial resources to invest in the retechnologisation of the company, the low economic productivity were only some of the main reasons. Thus, in 26.09.2003 was signed contract no. 45 with *CROSS LANDER U.S.A. INC. (presently GLOBAL VEHICLES USA INC)* for 74,17% of the shared capital of Aro SA. The signing of the privatisation contract 45/26.09.2003, was followed by the signing of several addendums changing different provisions such as: 1/23.10.2003, 2/23.12.2003, 3/05.01.2004, 4/18.06.2004, 5/29.09.2004, 6/01.11.2004, 7/20.12.2004, 8/18.02.2005, 9/10.03.2005, 10/15.03.2005 and 11/19.05.2005.

A very important aspect and lacking transparency is the selection of the investor *CROSS LANDER U.S.A. Inc*; although the law regarding the privatisation stated strict requirements regarding the reliability check of the investor and also of the selected company, a history of the company and also additional warranties, the evolution of the privatisation process raises a lot of serious questions marks regarding all these aspects. The price the parties agreed on for surrendering the total package of shares of 74,17% of the entire shared capital of Aro SA was of 196.496,21 U.S.D.

The negotiation and signing of the contract no. 45/2003 also implied the buyer to assume some obligations such as:

a) The Buyer, as shareholder of the company has the obligation for a period of 5 years from the date of the ownership transfer of the A.P.A.P.S. shares (**05.01.2004**) not to restrict the activity of the Company as mentioned in the Articles of Incorporation of the company at the date of contract signing, without the written approval of the Seller.

b) The Buyer, as the main shareholder of the Company has the obligation that 70% of the turnover to be obtained from the main object of activity of the Company, as mentioned in the Articles of Incorporation at the date of contract signing, for 5 years from the date of the ownership transfer of the A.P.A.P.S. shares.

c) For 5 years from the date of the ownership transfer the Buyer undertakes to maintain the number of employees after lay-off, employed with continuous labour contract at the date of the ownership transfer of the A.P.A.P.S. shares (05.01.2004);

d) For 5 years from the date of the ownership transfer of the A.P.A.P.S. shares (05.01.2004) the Buyer, as shareholder of the company undertakes not to decide and / or start the procedures for the volunteer dissolution or liquidation of the Company or start the process of legal reorganisation and bankruptcy at debtor's request in accordance with the legal procedures at that time;

e) The buyer undertakes to ensure for free and on its own expense, the know – how, which is the exclusive property of the buyer, in the production field, the technological methods ( except the licenses), marketing data, the access to the retail market, the qualification methods, the design methods (except the licenses), the human resources methods, the information system, the economic and financial instruments, etc. as far as they are not forbidden, without all of that to represent assumed investments;

f) The Buyer undertakes to fulfil its obligations related to the launching of a new model of off road vehicle and to take all the necessary measures for its production in accordance with Appendix 8 to the contract;

g) The Buyer, as shareholder of the Company undertakes to observe the legal provisions regarding the preparation of the national economy and of the territory for defence;

h) For 5 years from the date of the ownership transfer of the A.P.A.P.S. shares (05.01.2004) the Buyer, as shareholder of the company undertakes not to sell under any circumstances the assets of the Company mentioned in the Appendix no. 1 that support the main activity of the company;

i) For 1 year from the date of the ownership transfer of the A.P.A.P.S. shares the Buyer undertakes to perform from any of the financing sources allowed by the law at the date of Contract signing, an investment for the environment protection in order to fulfil its obligations regarding the environment and the measures mentioned in the conformity program of the Environment Certificate for privatisation no.1/16.01.2003, presented in Appendix no. 5, in total amount of 600.000 USD;

j) For the support of the current activity of the Company, the Buyer has the obligation, in 1 year from the date of the ownership transfer of the A.P.A.P.S., to make an infusion of working capital in the Company of 3.000.000 USD;

k) The Buyer, undertakes for a period of 5 years from the date of the ownership transfer of the A.P.A.P.S. shares, to make investments for development from legal sources of 11.900.000 USD ;

l) The Buyer has the obligation for a period of 5 years from the date of the ownership transfer of the A.P.A.P.S. shares (**05.01.2004**) to protect, promote and not to sell the brands of the manufacturer, the licenses and the patents of the company and not to change the name of the company and the logo without the written approval of the seller.

Although the investor paid the price and some provisions were observed, most of them were infringed. The first warning signal should have been the repeated requests of the investor to change or to postpone certain provisions of the agreement. All the undertaken obligations should have protected the company and ensure a successful privatisation. At 26.01.2005, after less than two years from the date of contract signing while the company was under monitoring, it was started the procedure of legal reorganisation and bankruptcy. Therefore all the obligations undertaken don't have support anymore (the state through APAPS calculates penalties), a lot of litigations arise, some assets proved to have been sold therefore the guarantee could not be executed and thousands of employees lost their jobs with important economic consequences on local level.

The value of the penalties the Romanian state was entitled due to the infringement of the contractual obligations should be over 18.000.000 USD!

#### **4. Conclusions**

Is there a success model in the world that can guarantee the positive finality of a privatisation process?

What is the success rate of the privatisation process that ensures a high degree of employment?

Although there is no success model, each country choosing its own method of privatisation, each approach generating different categories of problems, there are essential constraints that lead to a positive result such as: the existence of thorough economic analysis before the privatisation process, each company to be very well known before starting the privatisation process, the choice of the proper moment in time, the transparency in the selection and negotiation with the investors. Besides all that, to be a



request on behalf of the investors in order to maximise the price wanted under competitiveness circumstances but also the decrease of political involvement in the privatisation process

In fact, what is a successful privatisation?

To maintain in time the viability of the privatised company or to maintain the work places, the economical contribution on a certain area of activity or the involvement of other industries and why not even the complexity of a product, all of that concur directly to the success of a privatisation.

The analysis of the privatisation process and economic development of Arges County answers a question regarding the success rate of the privatisation but also to the fulfilment of the goals of the macroeconomic policy. As it comes out from the analysis presented, a success rate of approximately 54% of the privatisation process does not necessarily mean an increase of the employment rate, the effects failed to deliver. In order to increase the employment rate and therefore the economic development we should have more than 75% success rate of the privatisation process in Romania.

The compared analysis of the two big automotive companies in Arges County, Automobile Dacia SA and Aro SA brought up a few essential elements that outline the picture of the privatisation process, as follows:

- both in the first as well as in the second case the political influence played essential part in choosing the investor;
- both privatisation processes lacked transparency and competitiveness;
- both companies had an out of date technology and a lot of debts;
- the privatisation strategies for both companies were based on finding a strategic investor;
- the lack of competition lead to the restriction of the equity stake price;
- the first essential condition for a successful privatisation seems to be the reliability of the investor and a thorough analysis of its financial evolution;

We would have had most certainly other economic indicator today if both privatisation processes would have ended successfully.

We may conclude that the privatisation of Automobile Dacia SA was successful contributing directly to the economic development both horizontally and vertically of Arges County, but also to the development of the automotive industry and other related ones.

A very important consequence of the privatisation process is represented by the percent of the cars export in the Romanian economy:

- the strategic function of the exports which represent a factor of sustainable economic growth, has to be corroborated complementary and compatible with that of the internal intermediary and final consumption of the companies, people and public administration.

- the exports of the automotive industry have substantially contributed to the increase of the gross domestic product GDP and very important, the increase of the life quality and wellbeing of the population, but we have to consider also the fact that an important part or even the entire profits of the Romanian companies with foreign capital can be returned to the country where the company is based, that is why is important to focus more on the development of Romanian companies with Romanian capital;

- The Romanian companies with foreign capital that have a dominant position in most of the economic areas contribute to the economic development through the rate of employment and the salaries and taxes that they generate.

In the light of all the above analysed aspects, but also of the conclusions drawn, we strongly believe that it would have been necessary to make all the possible efforts to prevent the bankruptcy of Aro SA and to maximise the success rate.

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