

# ***Public Policies Process in the Romanian Energy Sector along the Last Years***

**Armenia ANDRONICEANU<sup>1</sup>**

**Abstract:** *The paper contains the results of a special analysis developed by the authors in order to demonstrate how the public policy process in Romania evolved from the ethical perspective. The first part presents the main changes in the Romanian legal framework during the last four years and the key initiatives of the Romanian Government through General Secretariat of the Government and the Parliament related with these. The second part is about the implementation, in especially how the public policy process has been developed in our public sector with the main accent on the ethical dimension of it. The authors set up the main questions about the ethical dimension of the public policy process and received the data for our interpretations. Based on these, the authors identified the positive and negative aspects of the public policy process, the main reasons and their consequences. The last part of the paper contains key recommendations proposed by the authors for increasing the ethical dimension of the public policy process in the Romanian public sector, based on the best practices identified in other developed countries.*

**Keywords:** *public policy, energy sector, energy market.*

**JEL:** *J78; Q47; L38; L94.*

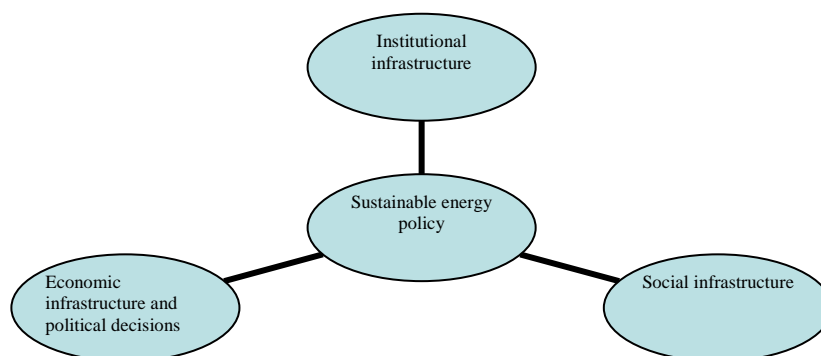
## **Introduction**

Premise of the World Wars and the key point in E.U. foundation, energy is the core of which depend on the competitiveness and economic development, meaning the future of globalization, New World Order and even the future of mankind. The significant decrease of natural resources and the World Crises, reaching Hubbert`s curve of oil in the Middle East and the inability of obtaining energy from renewable sources on a large scale, leading to the need to establish and implement effective and ethical energy policies in each country. Of the community throughout history and subsequently the European Union, the attitude of member states towards power has changed from protectionism to liberalization and competition on the markets and returning to strengthen state power in national and international decisions. Nowadays, the diversification of the supply sources, the energy security, geopolitics and international negotiations and also a good management capacity of the state`s energy infrastructure are issues that should engage ethical dimension in order to encourage the sustainable development. Both nationally and in the European Union, European energy sustainability policy depends on many factors or key catalysts namely: institutional infrastructure, including laws in the matter, economic infrastructure and political decisions and

---

<sup>1</sup> Armenia Androniceanu, Professor PhD, Bucharest Academy of Economic Studies, Bucharest, Romania, e-mail: armenia.androniceanu@man.ase.ro

social infrastructure, as it is shown in the figure one. In all these spheres, following ethical principles, especially at the top level decisions can increase performance or decrease the cost of energy in line with environmental protection. As we can see in figure 1 institutional infrastructure for the energy sector in every country is influencing the development of a sustainable energy sector.



**Figure 1** *Key factors for sustainable energy policies both for Romania and the E.U. at present time*

### **1. Ethics and institutional infrastructure in the Romanian energy policies between 2004 to the present time**

Since 2004 until 2008, the laws from energy sector in Romania still had been encouraged by a high level of corruption, inefficiency through lack of proper institutions; social and economic imbalance. An example would be the lack of external audit conducted by the Court of Auditors in National energy regulator, established in 1999 and who misappropriate funds of around one million euros from Phare funds between 1999 and 2005. In 2004, changing the governance and the superficial control where there is not found any major irregularity, are visible signs that the political decisions go beyond the power of law.

In 2007, the German presidency of the EU adopt new common energy policy and energy package that contains a detailed analysis of the benefits and drawbacks of national energy policies of Member States, an analysis of the EU's external relations in this area, a roadmap for use renewable energy resources, the target year 2020, final report in terms of competitiveness in the markets for gas and electricity in the Member States. Now it was born a new partnership between the EU and Russia and also of an action plan on energy to be adopted at the European Council of March 2007. If the Action Plan will be successful, Europe could save 100 billion a year. Within six years, both as duration of validity, the Act aims to ten priority areas that address the issue of setting standards and energy audit of buildings and future "passive houses", to regulate CO2 emissions of motor vehicles to 120 g / km in 2012, investments in energy efficiency developed by SMEs, awareness campaigns and education, institutional collaboration through the establishment of a Council of Mayors, etc. In 2009, some tensions in Ukraine's

energy relationship with Russia once again shows the need in formulating, according ethical principles, of a single European energy voice, keeping at the same time a certain independence of the decisions in the E.U member states.

As for Romania, immediately after it became one of the 27 of E.U. member states, the energy sector had a trend of legislative relaxation and openness to a competitive market especially in trying to respect the objectives of pre and post the *aquis communautaire*. Important strategic resources of coal, still enough for about 120 years, uranium ore and the possibilities of renewable resources, the cooperation more dynamic between Romanian and international energy bodies reflects a positive in terms of possibilities for energy production and default to increase the degree of independence on massive imports compared to other European countries. Until now, the energy sector in Romania has shown many imbalances in the overall activity in the absence of institutions with clear responsibilities, which exist between interoperability and efficiency through excessive regulations, state monopolies in the electricity sub sector and nuclear or privatizations without the benefit of the table. In this way, the most important laws Romanian's energy sector law are the 56/17 March 2006 to explain the principles of competition, elements of energy audit, encouraging clean energy use, Electric Energy Law no. 13/2007, supplemented and modified by the Emergency Ordinance no. 33 of 04/05/2007, or Law no. 325/2006 on public service thermal power, etc. What is highly important are the steps made by Romania aligning with the E.U. *aquis*. Even if starting with the 2007 energy markets have been liberalized, there is still a lack of competition between producers of energy.

The horizontal and vertical faulty communication between the Parliament and the Government continued even after the integration, even if the liberalization of energy markets was completed in 2007.

Ethics training a "cascade of events" that would be extremely important to take into account when an energy policy is made. Ethics reveal their amazing effects on the institutional frame, investors, and NGOs to perform and to improve energy efficiency and indirect economic status of the country. Ethical decision-making at the central level is like a game: to win you need rules, which require planning time, and trained judges who respect the rules of the game. But, it is also important to have an ethical implementation of the decisions taken. Since 2007, Romania is accelerating efforts to achieve a synoptic picture in the energy domain in accordance with the objectives of other EU states members, because the simple presence of the law was not enough.

Although Romanian energy has the advantage of rich resources such as coal and a high level of nuclear energy productivity, to have a privileged position in geo strategic Black Sea shelf, design strategies and energy policy is recent, in an over centralized planning of industrial policy. Since 2005 is an attempt of a rough energy strategy, and document vision and landmark investments in sewerage and all subsequent actions, being finalized in 2007. Meanwhile, the Romanian Energy Policy in the period 2006-2009, published as the draft and followed in the Energy Strategy 2007-2020 has been made more as a diagnostic analysis of existing resources, with many gaps in formulating objectives and up to a known problem of attracting investments in the field. The level of the energy intensity, which at the

moment in 2004 was 4 times higher than the EU average, is shown as a fact in itself, without the proposal of guidelines for action. Objective of reducing them by 30-50% by 2015 set in the latest Energy Strategy 2007-2020 is unlikely to be fulfilled, because the expected average growth of GDP lower than expected in scenarios about 5.46% year, many problems loss and there is insufficient transparency, which generates losses on the route producer-consumer. The lack of energy efficiency, no matter the level, remains a challenge for governments, because it is very large sphere and circular effect, and the answer comes from both internal measures, and cooperation in international energy relationships. Nowadays, Romania is preparing a mix of energy and its leading position in foreign policy to energy chapter. On external, Romania has assumed the liabilities of the territory and of the planet, as a member or signed agreements and treaties such as Kyoto, Rio, Johannesburg, Baku, etc. In the last 5 years, Romania aware of the situation of foreign markets in energy resources and decided to focus towards encouraging nuclear energy, the hydropower, coal energy , but also of future energy - solar and wind sources, which represents a clear objective to reduce European imports and produce more in domestic resources available for each country. A synopsis shows that in Romania there is a mixed structure of energy production consists of 5 thermal power producers, one hydro producer, one nuclear producer and 14 cogeneration producers, most of them transferred to the local authorities.

Opening the Unit 2 reactor at Cernavoda in 2007 brought an increase of total energy production by approximately. 8%. The opportunity costs of this latter approach is the danger for the population, especially in the production and storage of reactive waste spaces, in the absence of a modern space arranged for reactive waste. The most important type of energy, the electrical one is structured according to the role of transport in the production and distribution, as illustrated in the figure 2.

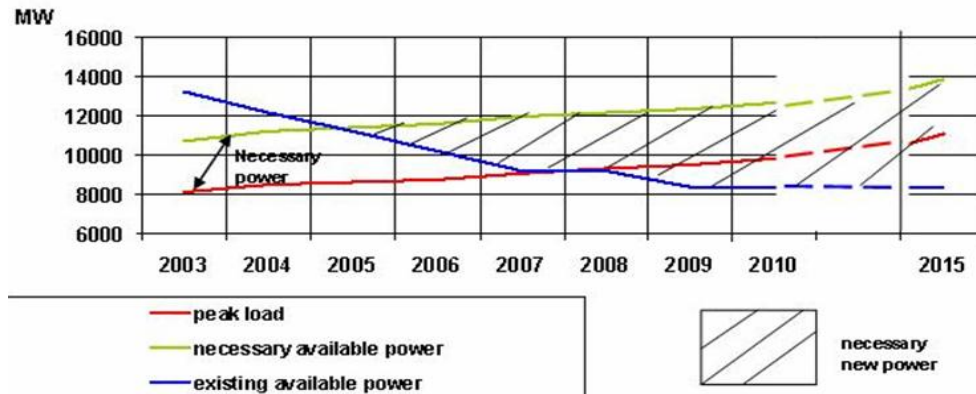
### *Romanian electricity sector structure*



(Source: The Ministry of Economy)

## 2. Major changes in the Romanian energy sector

In the energy segment of exhaustible resources, the dependence on imports growing in recent years, being one of the reasons why the representatives of public administration and political power have decided to encourage the diversification of both internal and external energy supply. In addition to that, Romania, like many other E.U. states will increase the need for energy in coming years, like it could be seen in the figure 3:



**Figure 3 Evolution of the necessary power capacities**  
(Source data: National Institute of Statistics)

A relevant source of supply will be in the future Nabucco project, which will give us the possibility to increase the importance of Romania, as a node between source and destination. The high energy goals achievable for Romania, many of them treated in the Romanian Energy Strategy 2007-2020 or 2006-2009 on energy policy are: having effective legislative institutions, increasing energy efficiency and increasing the competitiveness through investments. All of these stakes are feasible when the driving mechanisms of public institutions and the country in general ethical principles and respect are at a high level of transparency for a market where state intervention is minimal. Unfortunately, there are some legal problems circuit, internal problems of organization and responsibility for segments of energy. In the last ten years, some internal and external causes of a slow process of “energy reconfiguration” were the lack of strict laws in the field of energy, the lack of accountability in uncontrolled privatization of state energy companies, the lack of political and economic stability, but also the effective structural adjustments. A relevant example of the lack of ethics and the phenomenon of corruption is the privatization of the largest energy company Petrom by state in 2004. OMV, the company that acquired Petrom paid 669 billion lei for third of the shares and 830 million euro capital increase in order to obtain the majority, according to public information, a value less than market value.

Between the contractual terms of the privatization of this company are:

- Romanian state have to ensure the environmental unlimited penalties incurred for the period before privatization,
- To accept that the number of employees to decline gradually each year,
- 5 years after the privatization, OMV may sell its shares to anyone it is interested.

The Romanian energy market is a market that combines the principles of competition and regulations in order to establish some rules, the ceiling price, quantity to distributors and end consumers. In recent years there has been real progress in the open market. But one of the most significant weak point is the still the low level of energy transparency in terms of costs during the production to consumption and decisions upon the acquisition rules of resources from import sources. In 2007, on the Ministry of Economy website was posted an explicit example of how is the energy transferred from producers to consumers, as it can be seen in the figure 4.

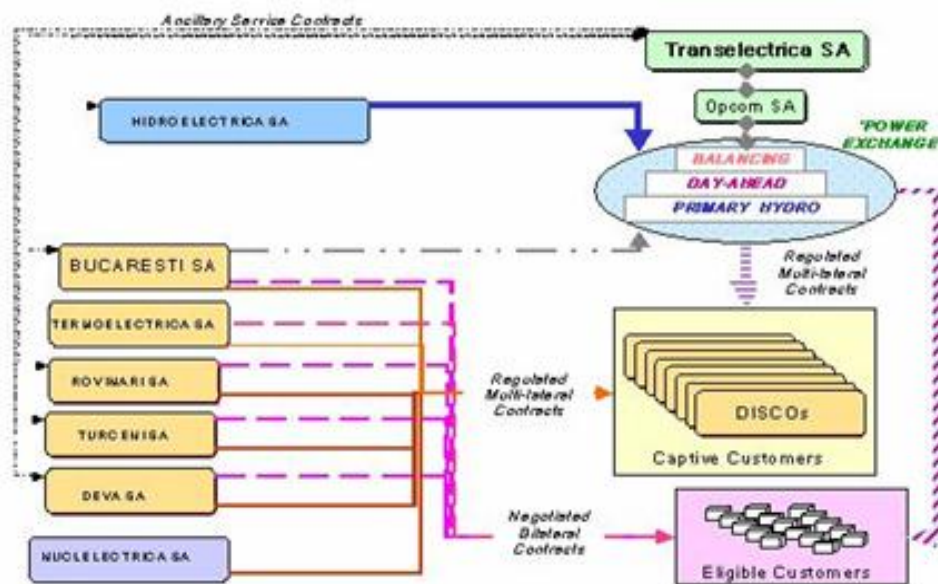


Figure 4 Contractual arrangements in the power market  
(Source: The Ministry of Economy website)

Even before accession in 2007, Romania was prepared for the energy harmonizing the Romanian legislation with the European one. But two years after the integration, the European Commission starts the infringement procedure (violation of European standards) against 20 Member States, including Romania that have not transposed into national law the European directive for energy efficiency. As a response, the Ministry of Economy announced that Romania has partially transposed the Directive 2006/32 on energy efficiency to end users and

energy services, through nr.22/2008 GEO. However, the Ministry expected, some of the provisions of this ordinance requires the application for issuing a decision by the Government. HG Project is developed and is in the analysis and promotion within the Ministry of Economy. During two month, which means, until the end of March 2009 will not adopt the law, financial penalties rather expensive, paid from public money will be another proof of management lacking at the level of central authorities, who have not established strict roles and relationships between them.

Another example of the procedure application for violation of EU rules is that if privatized energy Electrica Moldova and Electrica Oltenia, when Romanian authorities has retained special rights. The state kept unjustified restrictions to the free movement of capital and the right of residence (Articles 56 and 43 of the European Treaty), as happens in 2007 with Petrom company. The authorities response in the matter was bird responsibility between the Ministry of Economy and Finance and AVAS, accepting what penalties were imposed to be paid, an example of lack of ethics and lack of individual and institutional responsibility and morality.

### **3. Selective SWOT analysis of the Romanian energy sector**

To emphasize the main shortcomings in the Romanian energy system and see the importance of ethics in the decisions and in the implementation process, we have developed a SWOT analysis on the basis of information from studies made for the strategy for 2007-2020 and the energy policy between 2006-2009 in Romania.

The main strengths are:

- The presence of various oil, gas, coal and other minerals for years has allowed the improvement of knowledge in industrial
- Romania has resources of coal and uranium for at least another 120 years, according to statistical studies
- A national infrastructure for the transport of electricity, gas, oil, coal diversified
- The production of energy from many sources, including conventional and renewable biomass, wind energy, solar, geothermal, hydroelectric, many of those still in green top
- A tradition in producing nuclear energy, through Units 1 and 2 now, a total of around 10% of total energy produced
- Regulations generally in agreement with the Community aquis based trade rules and principles established, the relevant agreements to which our country is a party (such as those in Rio and Kyoto)
- The green market background and the appearance of white certificates
- The opening of the electricity market up to 100% at the end of 2007 or
- The existence of a Board of Ethics and Honor in the CNR CME.

There are some weaknesses that may have between causes and acts of corruption, traffic of influence, conflicts of interest or preferential policy. They attempt to diminish the visible and competitiveness and energy efficiency:

- The overcoming the technological part of a larger production facilities and transport electricity, the primary reason that causes a level of energy intensity of at least 2.5 times greater than the EU average;
- A low level of energy efficiency to the route of production-transport-distribution, with losses due to the lack of investment in new or improved technologies;
- The existence of distortions in consumer prices;
- A dependence on Russia as the main exporting country of energy raw materials;
- privatization of formerly state-owned companies without being subject to a concrete analysis of impact on employment in general with immediate effect extinguishment of debt to the central budget;
- The lack of institutional and interoperability of databases that would be overcome duplication and to promote entrepreneurship, research and innovation;
- Romania does not have the current specialists in new areas such as implementation and monitoring energy efficiency in buildings;
- Some shortcomings of the companies that produce or distribute energy to meet environmental standards.

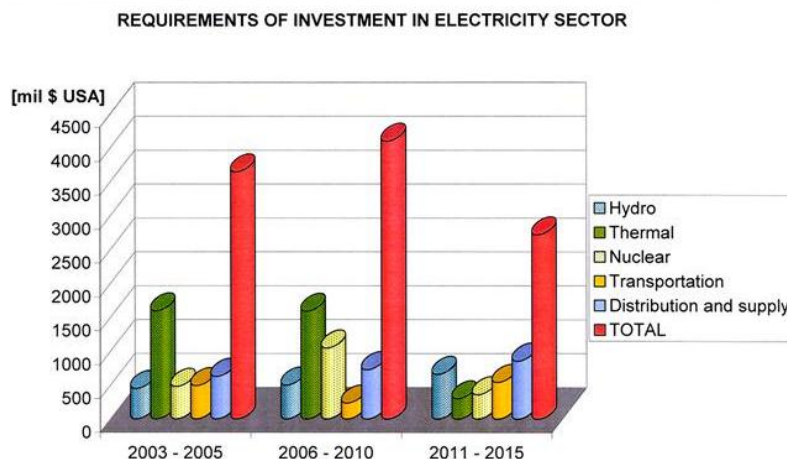
One the other hand, some of the opportunities that Romania may use are:

- A geopolitical position and favorable geo strategically to participate actively in the development of major pan-European oil and gas;
- frequent exchanges of experiences, best practices and partnerships with companies and institutions and EU counterparts from around the world in general
- prospects of investment in renewable energy technologies using the latest generation, which promotes a process of "catching up" quickly;
- The Increasing confidence in the functioning capital market in Romania, which allows the successful listing of companies energy companies and green certificates or
- The availability of accessing European funds default, which is the most important POS: Economic Competitiveness, Axis IV, Energy, and funding through loans from World Bank, EBRD or EIB.



Finally, there are some threats in creating a high level of energy efficiency, named above:

➤ The energy resources of oil and natural gas have reached since the 80 the Hubbert's curve. In Romania, the figure 5 presents the need of investments in electricity field:



➤ The lack of national tax instruments of effective programs to support investment in energy efficiency and renewable development and the use of energy services and

➤ The lack of clear and effective measures to encourage investment in the energy sector in Romania.

To obtain more conclusive evidence of SW: OT will through 2 stages, and the listing of (S and O) on the one hand and (W, T) on the other, but also a stage of analysis in the same order. Next order will be D and A in descending order, from a high importance to the least important.

Here are presented in order of decreasing as importance the following:

S: 2,3,4,6,7,8,1,5  
O: 1,3,5,4,2

W: 2,4,6,7,8,3,1,5  
T: 3,1,5,4,2

The order of quantities W and T in ascending strings, the importance of minimum and maximum importance for each of them:

W:  
1  
5  
3  
8

T:  
2  
4  
5  
1

The energy environment has the potential for development and according to the S.W.O.T. analysis. So it depends of the Romanian Government what kind of strategic option will chose in order to support the energy sector efficiency and effectiveness.

### **Conclusion**

Ethics affect a conglomerate of the decisions and implementation in energy at both central and local levels. But its importance should not be reduced to this, but it must cover ethics on energy markets, especially on relationships, business decisions and regulate prices of imports and exports. In the sphere of production, a relevant example is the decision to encourage the production of nuclear energy to reduce dependence on imports. Ethics in the elaboration and enforcement of laws you all aspect of responsibility and decision makers. To eliminate the direct effects of achievement in ethics, especially the implementation of policy are economic and especially the price paid by the state in purchases of imported raw materials, and indirectly through to final price for example. Concluding, it may be said that in making ethical aspects of energy policy is an issue of major importance that a train can affect the institutional sphere, and the entire population.

### ***Bibliography***

1. **ANDRONICEANU A.**, Noutati in management public, Editura Universitara, Bucuresti, 2008
2. The Directive 2006/32/EC on energy efficiency to end users and energy services
3. [www.eficientaenerg.ro](http://www.eficientaenerg.ro)
4. The Energy Policy of Romania between 2006-2009, Ministry of Economy and Finance
5. Energy Strategy of Romania for the period 2007-2020, Ministry of Economy and Finance