

Franklin Templeton starts Romania legal action

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Financial Times

Franklin Templeton, the fund manager, is taking legal action against the Romanian government after Romgaz, the state-controlled natural gas producer, made a 400m lei (\$122m) donation to help reduce the country's budget deficit.

Templeton says the move – agreed at a Romgaz shareholder meeting on Tuesday – could damage investor confidence and harm Romania's ability to attract foreign investment and privatise state assets. Templeton manages Fondul Proprietatea – a fund set up to compensate Romanians whose properties were confiscated by the former Communist government – which holds 15 per cent of Romgaz.

Romania's government owns the other 85 per cent. A government order this year allowed certain state-controlled companies to make donations to the state budget – even though the other companies are 100 per cent state-owned.

Templeton says its fund had been discriminated against by the Romgaz move, adding that the government should have made the energy company contribute via a special dividend paid out to all shareholders.

Mark Möbius, executive chairman of Templeton Emerging Markets Group, said the donation set a “very negative precedent” that would damage foreign investors' perception of the safety of doing business in Romania.

“They have to understand what capital markets are all about,” said Mr Möbius. “Capital markets are about treating all shareholders equally. If they want to make progress in privatising state enterprises, this kind of behaviour is going to make it very difficult.”

The Romanian move is one of a series of tactics being used by central and eastern European countries to curb their deficits. Neighbouring Hungary last week unsettled investors by saying it would shift the assets of 3m citizens from a mandatory private pension pillar into the state pension fund to bolster its public finances.

The Romanian government and Romgaz were not available for comment on Wednesday, a holiday in Romania.

Templeton said the Romgaz move was particularly damaging because the government had said it planned to float 15 per cent of Romgaz next year. It said the donation was the equivalent of 52 per cent of cash on the company's balance sheet and 4.5 per cent of shareholders' equity at the end of 2009.

Romania is struggling to rein in a budget deficit that the European Commission forecast this week at 6.1 per cent of gross domestic product this year, and 3.5 per cent next year. It is one of only a handful of European Union countries whose economy the Commission forecast would continue to contract this year.

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