



To: Interested parties
From: Sphere Consulting, Washington, DC
Date: December 10, 2013
RE: Ion Basgan Case Background Memo: Context in Romania

This background is given in the context of the Ion Basgan inheritance dispute in Romania. Dr. Ion Basgan, a Romanian engineer, revolutionized global oil extraction with two patents in the 1930s. His technology enabled deeper drilling and 30% greater profits for oil companies. It has led to over \$1.2 billion in back-royalties for his heirs. One of the Doctor's sons, former Romanian Senator Ion Basgan, Jr., is attempting to exert his political influence to claim he is the sole heir to the \$1.2 billion in back-royalties. He ignores the existence of the Doctor's wife, Angela, and two other sons, Sorin-Stephan and Constantin, who are listed as heirs in the Doctor's will.

This short memo outlines the basic political, economic, judicial, media, and corruption context in Romania. As this memo describes, despite some recent reforms – often the result of EU pressure – the environment remains extremely difficult with major barriers to transparency and rule of law, as faced in the Basgan case. However, a concerted effort, emphasizing the facts and evidence of the case, may be able to draw scrutiny to the court's handling of it.

Political context:

The communist system fell in December of 1989. New parties were created but influential people from the communist regime (including members of the former Securitate - secret police) infiltrated these parties. Currently, the most important parties are the Social Democrat Party, the National Liberal Party, and the Democrat Liberal Party. The country is led by the government of the coalition of the Social Democrat Party and the National Liberal Party, which has a comfortable majority in the Parliament (about 74%).

Economic situation:

Romania has been hit by the economic crisis (the volume of foreign investments dropped dramatically during the crisis), but is slowly recovering. The gap between rich and poor people has grown in recent years, and the middle class is weak. Many of the rich people have accumulated their fortunes in dubious ways. Several of them own, control, or use media outlets as attack dogs.

Judicial situation in Romania:

Corruption has been a constant issue. The EU membership has improved the situation a little, but Romania is still under constant EU watch. The independence of the judicial system has been one of the most important issues in the last five years. A new generation of younger, more independent, judges has emerged, but there is still a lot of pressure on the system.

Media situation:

Most of the media outlets are privately owned in Romania, although sometimes the ownership situation is not transparent. The three national public service television stations are almost irrelevant, due to their minimal audience.

Media organizations have been hit by the effects of the prolonged drop of advertising revenues and political turmoil, which has increased pressure on the media. The press have been hit by the financial crises and left with huge debts, layoffs, and severe wage cuts. The media market experienced an 80% decline in advertising revenues between 2008 and 2013. Print media has been devastated. The national dailies with the largest circulations (except for two tabloids and a sports newspaper) sell no more than 15,000 copies (for a population of 22 million people), which makes them irrelevant.

Some key figures:

- Active print outlets, radio stations, television stations:
 - Print: 138 publications (according to BRAT);
 - Radio Stations: 598 licenses for terrestrial broadcasting, 26 satellite broadcasting (CNA Annual Report 2010);
 - Television Stations: 45 news stations, 13 music stations, 15 sports-oriented (CNA Annual Report 2011)
- Broadcast ratings: Top three television stations: Pro TV (7.0%), Antena 1 (4.5%), Kanal D (2.8%) (paginademedi.ro, November 2012)
- Annual advertising revenue in media sector: about €303 million, of which €190 million on television, €23 million on radio and €41 million on Internet. (Media Fact Book 2012, Hotnews)
- Internet usage: 3,611,716 number of unique visitors (2012, Internet Audience and Traffic Study SATI)

As a result of the financial crisis and of the hyper-competition (too many media outlets and a weak advertising market), media has become corrupt, exposed to bribery and easy to control. The easiest way to control them is by buying some advertising. It is an unwritten rule that a Romanian media organization will not conduct investigative journalism on a company or a businessman that has purchased advertising with it. We have reasons to believe that Sen. Basgan has been using this strategy.

In addition, media have lost most of their credibility. This is another reason why isolated stories do not produce any reaction within their audiences. Media have also fabricated many stories

either to increase their sales or to distract the attention of the audiences from the real issues (to protect the interests of their owners or funders).

Former Senator Ion Basgan Jr.

Intelligence is not clear on exactly what he did before 1989, but some sources suggested that he had ties with the former Securitate (possibly as an informant).

Immediately after the fall of communism he joined the newly created National Liberal Party (which had existed in Romania until the end of the Second World War, when it was forbidden by the communists). He first became a member of the Lower Chamber of the Parliament and later, between 2004 and 2008, a member of the Senate. As a Senator, he himself drafted the law that gave him the opportunity to claim the royalties.

He is listed among the richest people in Romania, but there are no clear data about his fortune: some say 25 million euros, some say much more. How he made the fortune is hard to say. He had a transportation company and a small construction company and has had connections with dubious businesspeople.

He has never been a very public figure, though once he was interviewed on Pro TV regarding the law on royalty recovery that he initiated as a Senator.

There are good reasons to believe that he has been a funder for the National Liberal Party, and this is why he has been on the list of the party's candidates for Parliament. As mentioned earlier, the National Liberal Party is one of the two members of the ruling coalition.

He also is a top member of the Freemason Lodge in Romania.

There has been some media coverage about him starting in 2009: Two national dailies (Adevarul and Gandul) had stories, one regional daily (published in Iasi, in the northern part of the country), at least one national TV channel (Pro TV), and a couple of news web sites. The coverage focused mostly on the amount of money from the patent dispute than on the legal inheritance issues, though this was also sometimes briefly mentioned.

Strategic Takeaways

There are strong opposed vested interests that are influencing the media coverage and, ultimately, the outcome of this case. However, there are several ways in which a concerted effort, emphasizing the facts and evidence of the case, may be able to draw scrutiny to the court's handling of it. Greater focus on this case could induce heightened transparency and commitment to rule of law, leading to an outcome that is fair and just.

Ion Basgan Jr. is influential and well connected, however, his influence has declined in recent years. Though the National Liberal Party is in the ruling coalition, there are huge tensions within the coalition and attempts on both sides to discredit their partner. The larger and stronger party in the coalition remains the Social Democrat Party.

One or two isolated stories in the media would not have any significant impact. It might be the case that they would be stopped very early, especially if the media outlet has sold ads to Ion Basgan Jr. or have other types of arrangements.

In addition, part of the Romanian public has the perception that the Romanian state would have to pay those royalties, which would mean – in the common public's mind - more poverty and austerity for citizens. This is something that should be clearly and repeatedly addressed.

Due to the domestic media weakness, probably a broader public opinion campaign would be much more successful, which would include press conferences and some TV exposure.

As a parenthesis, in the following days Romania might have another big story that would kill any other story: a new attempt by the Parliament to suspend the President.

The entire story should be framed on Romania's "last chance" to document improvements in its judicial independence. The current Romanian government is sensitive to this issue and to international attention.

This battle is difficult to fight without some honest, knowledgeable and influential people who are there and understand how the system works.